

Guy Donald
Distribution Policy
Ofgem
9 Millbank
London
SW1P 3GE

distributionpolicy@ofgem.gov.uk

5th December 2011

Dear Guy

Consultation on way forward on higher voltage generator charging

The Renewable Energy Association is pleased to submit its comments on Ofgem's consultation on the EDCM methodology for generators. The REA has members who work on all types of renewable power and heat projects including many electricity generation projects that connect to a distribution network at ehv or directly to a primary substation and will therefore be subject to the EDCM DUoS charges. We have been participated extensively in the development of the EDCM methodology for several years.

Our view is that there are really two separate issues raised in the consultation.

1. The effect that exempting a number of generators from the EDCM charges will have on the remaining generators. This is largely a result of the fixed adder used to scale charges to a fixed revenue target. We opposed the use of scaling and the removal of this charge would overcome this effect.
2. The volatility and unpredictability of the charges. This is a completely separate matter and is not as simply resolvable as the matter above without significant reconsideration of the methodologies themselves.

Considering the specific questions that you have asked:

Question 2.1: Option 1 – Do you think that charges more or less appropriately reflect costs imposed by DG, following the removal of (some or all) pre-2005 DG?

We do not believe that option 1 reflects costs adequately and this illustrates the dangers of scaling charges to a target revenue when some of that revenue relates to a group of parties (pre April 2005 connected generators) that will not contribute but are associated with less than the average cost per MW of connected generation.

Question 2.2: Option 2 – Do you think it is appropriate to include a generation-led reinforcement (locational) charge? What are the advantages and disadvantages of removing such a charge?

In our view a generation-led reinforcement charge may be appropriate providing that it is cost reflective and that there is a modification to the connection charging methodology so that the generator that precipitates reinforcement is no longer charged an apportioned amount of the cost of that reinforcement. We think that keeping the current system of connection charging whilst maintaining a generation-led reinforcement charge in many cases amounts to effective double counting the cost of that reinforcement. There are advantages and disadvantages of the current apportionment rules for reinforcement in the connection charging methodology but whilst they are as they presently are there is a good argument for removing the generation-led reinforcement charge.

Question 2.3: Option 2 – This option may result in increased charges for generators currently in demand-dominated areas of the network, compared to those predicted under the EDCM. However, this could be matched by a decrease in potential volatility. What are your views on this potential trade off?

We do not agree with the principle of scaling generator charges to achieve a set revenue target and so do not agree with removing the generator-led reinforcement charge, which has its own merits as discussed above, being accompanied by blunting the remaining cost reflective signals (listed in paragraph 2.27 of the consultation) by scaling to a set revenue target.

Question 2.4: Option 3 – Do you think that the EDCM should continue to calculate charges as if all generators continue to be charged? What is the reasoning behind your response?

This appears to be least disruptive to the "current / previous" expectation and has the good feature that as fewer and fewer generators remain exempt from DUoS charges the amount of the generator target revenue paid by demand decreases, ensuring that effectively it never becomes significant.

The approach does however preserve three disadvantages of the expected methodology:

- Its volatility
- The use of scaling to a target revenue, blunting cost reflectivity
- The potential double counting of costs due to a generator-led reinforcement charge and the reinforcement component of connection charges

Question 2.5: Option 4 – Is it appropriate for EDCM generators to recover their share (based on their capacity relative to CDCM) of the DG incentive revenue (ie 80 per cent of generation-led reinforcement costs plus £1/kW incentive revenue)? If not, how should this incentive revenue be recovered?

The proposal to limit the collection from generators to the actual costs that they their connection incurs rather than something that includes the £1/KW incentive payment is a marginal improvement to the methodology. However it does not address our core objection to any scaling of charges to recover a set revenue target.

The £1/KW price control allowance is meant as an incentive to connect generation rather than a direct recovery of costs actually incurred and recovering this from demand (who of course will have to pay it ultimately anyway) should not cause any problems.

Question 2.6: Option 5 – Do you think it is better to revisit the methodology more fundamentally?

We think that it would be better / less bad to revisit some aspects of the methodology before it is implemented rather than implement a methodology with significant known problems. We would be particularly keen as a priority to look at aspects of the first two bullet points of your list in paragraph 2.46. These are:

- How to calculate generator led reinforcement charges and their relationship and compatibility with the reinforcement component of connection charges
- Whether a revenue target is required at all

We would also support work on improving the stability and predictability of DUoS charges

Question 2.7: Option 5 – What cost signals do you think generators have the ability to respond to?

Generators can only decide whether to proceed with a project in a particular location or not. At a (we hope) much later time they can decide whether to continue operation of that project or close it.

The implication of this is that it is important for the first decision that any charges are predictable at least for a period on which a decision to invest can be justified.

General

Question 2.8: Do you have any other suggested modifications to the proposed methodology?

We believe that we have covered our suggestions comprehensively above. If it is intended to have a fundamental review of the methodology however then we do have other suggestions that we would be happy to share with you. These are along the lines of the methodology now being used for Transmission Charging in Ireland.

Question 2.9: Which of the options (if any, or including a combination) do you think would enable the EDCM for DG charging to fulfil the Relevant Objectives set out in the licence after the removal of exempt generators? Why?

As described above most of the options 1-4 described have some advantages but we think that in addition to the overarching issue of predictability of charges, particularly for the first part of a generator's life, the issues that need to be addressed are:

- The compatibility of generator-led reinforcement charges and the reinforcement component of generator charges.
- The scaling of generator charges.

Question 2.10: What is the most appropriate way of redistributing the unrecovered revenue from exempted generators to other users of the network?

We do not see a difficulty with recovering any revenue shortfall that it is difficult to attribute to a party to demand that will have in any event ultimately to pay all the required revenue.

Question 3.1: Do you think EDCM charges for non-exempted generators should apply from 1 April 2013? Why?

We think that EDCM charges for non-exempted generators should apply from whenever a reasonably fit for purpose EDCM charging methodology is available.

We would of course accept that under open governance incremental improvements to the methodology would continue to be made after implementation but the EDCM should only be introduced when some of the more significant concerns about it have been resolved.

We believe that it should be possible to do this in time for an April 2013 implementation but we would not want a methodology implemented then if there were still significant and material unresolved issues with it.

Question 3.2: Do you agree that the boundary change for generators should be deferred to coincide with the implementation of EDCM generator charging? Why?

Yes. Currently boundary changes will be in the direction of moving parties from the CDCM to the "higher voltages" methodology and this does not seem sensible until a fit for purpose EDCM methodology exists.

Question 3.3: Do you have any comments on the suggested timetable for the reconsideration and subsequent approval of EDCM charges for DG?

So long as a clear decision on the way forward is made in January 2012 it should be possible to obtain a final methodology decision by the late summer of 2012. We would not however want a methodology with significant flaws to be implemented in April 2013 so it is important that whatever effort is necessary is put in by the industry and yourselves in the first half of 2012 in particular to achieve the proposed timetable.

If you would like to discuss any of these comments further please let me know,

Yours sincerely

Gaynor Hartnell
Chief Executive
Renewable Energy Association