Renewable Energy Systems Limited
Beaufort Court, Egg Farm Lane, Kings Langley
Hertfordshire WD4 8LR, United Kingdom
T +44 (0)1923 299 200 F +44 (0)1923 299 299
E info@res-group.com www.res-group.com

Guy Donald
Ofgem
Distribution Policy
9 Millbank London SW1P 3GE

Our Ref: EN01-002747

23 November 2011

Dear Guy,

Re: Way Forward on Higher Voltage Generation Charging

RES welcomes the opportunity to respond to this consultation and will continue to actively engage with Ofgem and the DNOs in order to develop the right approach to EDCM for distributed generation. RES is one of the world's leading independent renewable energy project developers with operations across Europe, North America and Asia-Pacific. RES has been at the forefront of wind energy development since the 1970s and has developed and/or built more than 5GW of wind energy capacity worldwide, including projects in the UK, Ireland, France, Scandinavia and the United States. RES has a large additional portfolio under construction and in development in addition to a significant operating portfolio.

RES understands that operational charges like GDUoS will change over time. However RES considers that the EDCM in its proposed format presents the risk of an unacceptable level of volatility with little means of monitoring or managing that volatility. This volatility will add risk that will reduce availability and increase cost of project finance, ultimately stifling the development of competition in generation. We welcome any and all efforts to address this volatility and would support measures to realise a more stable outcome. We believe that this issue is most relevant to large, typically EHV-connecting customers where project financing is a major issue.

In principle, we believe that the congestion-related charging element of EDCM is inherently flawed, in that one customer's charges may be strongly influenced by DNO investment decisions driven by the needs of third parties. This notwithstanding, Options 2, 3 and 5 presented in the report could potentially smooth and stabilise grid charges overall, reducing this market-entry barrier and better facilitating competition.

Responses to the questions posed in the consultation are set out in the table below.

Question	Response
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?	No. A generator has no means of assessing likely development of generation and / or demand on the section of network into which it is seeking to connect and therefore cannot predict future DNO investment. It is therefore possible that, post-connection, a generator's GDUoS charges could change dramatically. It is this inherent volatility, completely beyond the control of most

	users, which adds risk and in turn presents a barrier to market entry for customers and impedes competition. RES notes and agrees with the comments in the consultation report at 2.14, which states that this option "*would not address the criticism that was raised in the responses… in particular, the volatility of charges and the impact of other customers' behaviour on individual charges..*".For this reason, RES considers that Option 1 fails to satisfy the second and third Relevant Objectives and would therefore not support the adoption of option 1 set out in this consultation.
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?	RES understands that, in order to satisfy both the second and third relevant objectives, it may be necessary to incorporate a degree of compromise in order to realise the optimum outcome. As inferred in the response to question 2.1, cost and availability of project financing is one of the key barriers to development of new generation projects and the current EDCM proposal would be likely to present unacceptable risks to parties offering project finance. RES considers that removal of the generation-led reinforcement charge as set out in Option 2 would realise an outcome that better meets both the second and third Relevant Objectives. RES notes that under present distribution connection charging methodologies, generators pay for new distribution assets up front and make a very significant contribution to any new distribution system reinforcements that may be required. This ensures that a locational charging signal is retained.
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?	As noted in the response to question 2.2, RES considers that, through better supporting the development of competition in generation of electricity, Option 2 represents an approach that better meets the second and third Relevant Objectives.
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?	As described above, RES considers that new generation can best be delivered with a predictable, non-volatile grid charge. This option smoothes the charges in the transition period before exempted DG fall away. RES considers that there is merit in pursuing this option in that it would realise an outcome that is balances the needs of the second and third Relevant Objectives.
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 (i.e. 80 per cent of generation-led reinforcement costs plus £1/kW incentive revenue)? If not, how should this incentive revenue be recovered?	RES supports the use of appropriately targeted and weighted incentives for wires business licensees to ensure that their actions and investment decisions realise the optimum output and performance. RES considers that the connection of EHV connected generation is an activity that should benefit from an incentive.
Question 2.6: Option 5 – Do you think it is better to revisit the methodology more	RES would not seek to undermine the process of agreeing the optimum EDCM solution and subsequent implementation of that

fundamentally?	solution in timeliest manner possible. However, RES would recommend that, in the interest of establishing a charging regime that sends consistent signals to all system Users, that the DNOs should review the proposed methodology in light of the principles underpinning the fundamental review of Transmission Use of System charging (*project TransmiT*). The groundwork undertaken for TransmiT could be of great assistance in confirming the right way forward and hence may facilitate optimum and timely implementation in the long run.
Question 2.7: Option 5 – What cost signals do you think generators have the ability to respond to?	This has been reviewed under the auspices of project TransmiT for transmission charging. It is clear that wind and nuclear in particular, two of the most significant contributors to the long-term energy supply mix, have almost no ability whatsoever to respond to locational charges or year-on-year changes to UoS charges. From this perspective, the justification for sending a locational charging signal as part of EDCM is open to question.
Question 2.8: Do you have any other suggested modifications to the proposed methodology?	RES would make no suggestion other than to review the way forward in light of principles under consideration as part of Project TransmiT as suggested against question 2.6.
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?	RES considers that Option 3 stands alone and should be included alongside either Option 5 or Option 2, hence : a) Options 3 & 5; or b) Options 2 & 3. These combinations offer a balance of cost reflectivity and dampened volatility that would best support competition in electricity generation.
Question 2.10: What is the most appropriate way of redistributing the unrecovered revenue from exempted generators to other users of the network?	RES notes that recovery from non-exempt generation is shown in the report to materially increase charges for this group of customers, potentially leading to a significant restriction on the effective development of competition. The report also notes that, in light of the numbers of CDCM and EDCM demand customers, the effect on charges would be very small or immaterial. For this reason, RES would support redistributing charges for unrecovered revenue from exempted generators to demand customers.
Question 3.1: Do you think EDCM charges for non-exempted generators should apply from 1 April 2013? Why?	RES would only support the delayed implementation of generation EDCM if it was required to ensure that due consideration of all relevant factors, such as consideration of thinking established under project TransmiT, can be undertaken. However RES considers that it is in the best interest of market stability that a solution is agreed in the timeliest manner possible and would support the proposal to introduce the new charges from 1 April 2013. methodology.
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?	No comment.

Question 3.3: Do you have any comments on the suggested timetable for the reconsideration and subsequent approval of EDCM charges for DG?	See response to question 3.1.

I hope you find this response useful. If you wish to discuss or clarify any of the issues raised above please do not hesitate contact me.

Yours sincerely,

Graham Pannell
Grid Engineer
E Graham.Pannell@res-ltd.com
T +44 (0) 1923 299 492