RWE npower renewables

Guy Donald
Distribution Policy
Ofgem
9 Millbank
London
SW1P 3GE
distributionpolicy@ofgem.gov.uk

Name Diana Chklar
Phone 01793 474859
E-Mail Diana.Chklar@rwe.com

Swindon, 5th December 2011

Consultation on: Distribution use of system charging: way forward on higher voltage generation charging

Dear Guy,

Thank you for the opportunity to comment on your proposals in relation to how the EDCM might be modified in the light of your decision to allow a time-limited exemption for pre-2005 connected distribution generation. This response is provided on behalf of the RWE group of companies, including RWE Npower plc, RWE Supply and Trading GmbH and RWE Npower Renewables Limited, a fully owned subsidiary of RWE Innogy GmbH.

We welcome the decision to introduce a time-limited exemption for pre-2005 generators and would urge Ofgem to make a swift and well reasoned decision regarding the changes to Use of System charging under the EDCM. Early and clear communication of the solution will be critical to ensure that generators have sufficient time to understand impacts and ready themselves for application of any new proposals.

In summary

As a result of our assessment of the five options detailed in the consultation paper we have a strong preference for Option 3 i.e. continuing to calculate charges under the EDCM as if exempted generators are charged and levying the remaining revenue from EDCM and CDCM demand customers. Given that this cost would be spread over a large number of customers we agree with Ofgem that the effect is likely to be very small or immaterial. We believe that this is the most appropriate way forward given the upfront charges paid by pre-2005 connected DG and the need to recognise investment decisions up to the point at which the new charging methodology was introduced by Ofgem in 2005. We also believe that this is the simplest way forward in terms of administration, swiftest to introduce and apply and has the benefits of offering a predictable charging regime. A great deal of resource has already been invested in developing the methodology for calculating generation charges and we believe that it would be undesirable to fundamentally re-think the design because of the further uncertainty that this would cause to the industry as a whole.

We have also responded to the questions set out in the consultation document regarding all of the alternative options below.

RWE npower renewables
Auckland House
Lydiard Fields
Great Western Way
Swindon
Wiltshire SN5 8ZT
T +44 (0)8456 720 090
F +44 (0)8456 720 050
I www.npower-renewables.com
Registered office:
RWE Npower Renewables Limited
Auckland House
Lydiard Fields
Great Western Way
Swindon
Wiltshire SN5 8ZT
Registered in England
and Wales no. 2550622

Please feel free to contact me if you wish to discuss this response in more detail.
This response is not confidential.

Yours sincerely,

Diana Chklar
Grid Regulation Manager
RWE Npower Renewables

RWE Group's response to questions in proposal document

Questions

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 believe that now generation assets have been built, it is very difficult for generators to respond to charging cost signals within the lifetime of their original investment decisions. Therefore we believe that the removal of pre-2005 connected DG does reflect costs imposed by DG. The additional cost is attributed to the change in the methodology for calculating EDCM charges. Therefore, we believe that it is appropriate to remove pre-2005 connected DG to reflect the upfront costs that they paid and their associated contractual terms. However, we believe that this requirement could be addressed by a time limited exemption period which recognises ongoing investment decisions rather than a blanket rule to exempt all pre 2005 DGs on an enduring basis.

We do not support the principal of sharing the costs of the revenue forgone from pre-2005 generators by adding a residual cost to non-exempt generators because we believe that this option could lead to a high degree of uncertainty and post-2005 generators would be unable to estimate the impact of the change.

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?*

We are at a stage where we understand the EDCM methodology proposed in April 2011 – our business has evaluated and understands its general impacts. Removing the generation-led reinforcement component would have a large and unpredictable effect. We have no indication of what the impact would be on individual projects or our portfolio and such uncertainty would be damaging. We would not support the removal of the generation-led reinforcement charge across all DGs.

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?*

It is difficult to predict the impact of this proposal and therefore it would be more straightforward to keep the methodology as proposed in April 2011.

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?*

Yes, this is by far the simplest and clearest way forward for all distribution generation. It would mean that the total recovery from non-exempt DGs would not be affected. There would be no ongoing impact on charges as exempted generators' exemptions expire thereby protecting DGs from the extent of volatility that would be introduced by any of the other options. We recognise this advantage as highlighted by Ofgem as a critical benefit that we believe that this makes 'Option 3' the most suitable option overall.

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?*

As a result of intensive analysis of the EDCM proposals which have been developed over the past few years, we are at a stage where we understand the EDCM methodology proposed in April 2011. Revising the generation revenue target would introduce unnecessary uncertainty. We have no means of assessing the impact on our business even if the impact on total recovery from non-exempted generators were reduced. Without a full set of tariffs, we cannot fully consider this option.

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

We do not believe that the methodology should be fundamentally revised, the development of the proposed methodology has taken several years and is now relatively well understood by industry. Any further delay in confirming its final form will create unnecessary uncertainty. In addition, the indicative timeframe outlined in the consultation document would be unlikely to be met.

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

DGs can only react to cost signals prior to developing their generation sites, thereafter there is very little flexibility in being able to respond. Retrospective changes to signals are unfair and would be ineffective in any case. Investors in pre-2005 sites were not able to take future regulatory changes into account when making their original investment decisions.

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

No, in order to reduce further uncertainty in relation to future charging tariffs, we do not believe that it is appropriate to make any further changes to the proposed methodology.

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?*

We believe that ‘Option 3’ is the most efficient and effective way forward. We have a strong preference for continuing to calculate charges by levying non-exempted generators as previously proposed under the EDCM and recovering the remaining DNO revenue by spreading the costs across demand customers. We agree with Ofgem that owing to the large combined number of these customers over which costs would be spread, we expect the effect on their charges to be very small or immaterial. In contrast Option 1 would push the costs onto a much smaller number of generation customers – with a disproportional effect on the individual DGs implicated. Therefore Option 3 we believe that would be a more equitable solution compared to alternatives.

We consider that option 3 is also the simplest in terms of administration, swiftest to introduce and apply and has the benefit of already being able to provide

predictable tariffs. A great deal of resource has already been invested in developing the methodology for calculating generation charges and we believe that it would be undesirable to fundamentally re-think the design because of the further uncertainty that this would cause to the industry as a whole.

This option presents an efficient use of existing infrastructure because it does not force DGs that are technically efficient and economic under current conditions to close before the end of their economic lives because they are hit by new, substantial costs which they were unable to take into account in their original investment decisions.

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

Option 3. As a result of our assessment of the five options proposed by Ofgem, we have a strong preference for continuing to calculate charges by levying non-exempted generators as previously proposed under the EDCM and recovering the remaining DNO revenue by spreading the costs across demand customers. See response to Question 2.9 for detailed reasoning.

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

We believe that it would be preferable to implement the exemption and the new EDCM methodology from April 2015 at the same time as the introduction with the new distribution price control regime. This would help to provide stability in relation to distribution charging by ensuring that there are fewer changes applied to the distribution charging regime in a short space of time. The proposed timetable appears rushed and we would prefer if a robust solution was developed over a slightly longer period of time to avoid unintended consequences.

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 it would be best to do this at the same time as other changes to the distribution charging methodology to provide stability in relation to distribution charging and to ensure that interlinked impacts can be fully considered.

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

We believe that it would be preferable to implement the exemption and the new EDCM methodology from April 2015 at the same time as the introduction with the new distribution price control regime. This would help to provide stability in relation to distribution charging by ensuring that there are fewer changes applied to the distribution charging regime in a short space of time. The proposed timetable appears rushed and we would prefer if a robust solution was developed over a slightly longer period of time to avoid unintended consequences.