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

Guy,

Introduction

SmartestEnergy welcomes the opportunity to respond to Ofgem's consultation on Distribution use of system charging: way forward on higher voltage generation charging.

SmartestEnergy is a HH supplier which has consolidated distributed generation since 2001.

For your convenience we answer Ofgem's specific questions below in the order in which they are presented in the consultation document.

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?

Yes, but the disadvantages are particularly significant i.e. the massive increase in total recovery from non-exempted generators compared to EDCM where all DG is charged and the increase in volatility as fewer generators share the revenue target.

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?

Ordinarily we would say that it is appropriate to include a generation-led reinforcement charge. However, given that the price signal is not particularly influential (and existing generators cannot relocate) and the changes at 2005 create such a fundamental split between generators, we believe cost signals should be of lesser importance when deciding on the methodology for the time-being. In the longer term, the 2005 boundary and proposed 20 year rule leaves a generation-led reinforcement charge a possibility.

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 are a little uncomfortable with this trade-off. Decreased volatility is not much consolation for those facing sustained high prices.

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?

Given that the effect across the customer base is not significant we could live with this.

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?

We have no view on this.

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

Whilst we support the need to protect pre-2005 connected generation customers from charges which they did not expect to be subjected to, we are uncomfortable with options which either increase the costs solely for post 2005 generators or significantly for demand customers. We are therefore not in favour of option 1. We are comfortable with options 2, 3 or 4 and could also accept a "back to the drawing board" approach. However, we believe it is time to implement something! It has taken four years to get this far with revised charging methodologies.

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

Existing generators can only respond to marginal price signals. New generation can respond to connection and other price signals. Regardless of the ability to respond to signals we are generally of the view that charges should be cost reflective and provide the correct signals. In this particular instance, however, given that the price signal is not particularly influential and the changes at 2005 create such a fundamental split between generators, we believe cost signals should be of lesser importance when deciding on the methodology.

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

No

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?

Options 3 and 4.

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

Ideally this should be spread across post 2005 connected generation and demand (i.e. all users). However, if post 2005 is disproportionately affected it should be put just on demand as the effects are minimal and post 2005 are not liable for this as a class.

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

We are supportive of implementing the changes as quickly as possible. The regulatory uncertainty needs to be brought to an end.

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. The industry is expecting this change. However, if it is implemented too soon some generators may find themselves in an interim charging structure for just one year.

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

No

Should you wish to discuss any aspect of this matter, please do not hesitate to contact me.

Yours sincerely,

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