SP ENERGY NETWORKS

Regulation & Commercial

Guy Donald
Ofgem
9 Millbank
London
SW1P 3GE

Your ref

Our Ref

Date:
5th December 2011

Contact / Extension
0141 614 1953

Dear Guy,

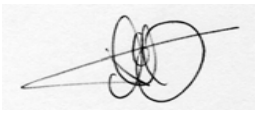
Distribution use of system charging: a time limited exemption for pre-2005 generators (135/11)

Distribution use of system charging: way forward on higher voltage generation charging (134/11)

SP Energy Networks (SPEN) welcomes the opportunity to respond to these consultations, please find our responses to the specific questions attached.

We hope these comments are useful, please do not hesitate to contact me if you require further clarity.

Yours sincerely



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Distribution use of system charging : a time limited exemption for pre-2005 generators (135/11)
Response by SP Energy Networks

CHAPTER: One

Question 1.1: *Do you agree with our proposal that by default eligible CDCM generators should continue to be charged for UoS and that eligible EDCM generators should continue be exempt from charges, unless either party chooses otherwise?*

In general terms we agree with the proposal. We believe that by allowing both eligible CDCM and eligible EDCM generators the option to opt out avoids any challenge of discrimination from parties. In cases where eligible CDCM parties do elect to be exempt from UoS charges, we would ask for clarification as to when the exemption would apply from and whether or not there would be a requirement to pay back any credits received.

CHAPTER: Two

Question 2.1: *Do you agree that a time-limited exemption should be set on an ex ante basis?*

For the reasons set out in the proposal, we agree that a time limited exemption should be set out on an ex-ante basis, i.e. it provides certainty and transparency to eligible parties as to how long an exemption will last and when UoS charges will be introduced.

Question 2.2: *Should an exemption be calculated from the date of a pre-2005 DG's connection, rather than some other date, such as from the date at which EDCM DG charges are introduced? Why?*

We agree with the general principle that the exemption should be calculated from the date of a pre-2005 DG's connection. We consider it important to recognise, however, that in certain circumstances other dates may be more appropriate, e.g. the date upon which a particular generator was replanted and a new agreement with the DNO entered into or the date upon which DNO assets were upgraded and additional connection charges paid. In those limited circumstances where the DNO finds difficulty in sourcing internal evidence of connection dates, we would expect that alternative sources of information could be utilised, e.g. information from public records.

Question 2.3: *Do you agree with our assessment of the options for determining the time limit for an exemption? Are there additional points of analysis we should bear in mind?*

In general terms we agree with the assessment made and whilst we find the omission of hydro technology from Table 2.3 surprising, we consider a time limit for exemption based upon the investment or economic life of generation technology to be inappropriate.

It is our view that the most appropriate basis for setting the duration of the time-limited exemption is one linked to DG expectations of the life of network assets used to provide connections. This should be based on a combination of factors, namely Connection Agreement duration, average network asset lives and periods of capitalised operation and maintenance.

Question 2.4: *Are there better alternative options to those which we set out in this chapter and what would be their rationale?*

We do not believe there are any better alternatives to those set out in Chapter Two.

Question 2.5: *Do you agree with our initial thinking that a 20 year limit is appropriate? If not, what might be a more reasonable period of time that balances the interests of pre-2005 DGs and the DNOs" other customers? Please explain the reasoning behind your answer and provide any associated evidence.*

Whilst a 20-year period is not inappropriate, we would ask for further clarification as to the basis upon which this period has been determined. We consider it vital that the time period applicable is defendable should it be disputed and/or the basis upon which it is applied.

We would suggest that a period of 25 years would align better with the combination of factors identified in our response to Question 2.3.

Question 2.6: *We note that rather than pay a capitalised payment for O&M, some DG customers pay an annual charge for O&M. Where such a DG is eligible for an exemption, should they continue to pay their annual O&M charge?*

Where an eligible DG opts for an exemption, and is as a result not subject to charges under EDCM, we consider it appropriate that they continue to pay annual O&M charges. Payment of O&M charges should stop, however, as soon as EDCM/CDCM charges are levied.

CHAPTER: Three

Question 3.1: *In general are our proposals for implementing the exemption arrangements considered by this consultation appropriate? Is the level of detail we have provided sufficient to make our proposals clear and workable? Please outline any areas where you think more clarity/detail is required and set out your suggestions for what might fill these gaps.*

In general the proposals for implementing the exemption arrangements are appropriate. We would however welcome further clarity and guidance in determining the start date for the time-limited exemption for eligible generators that have phased or modified their connections. As proposed in our response to Question 2.2, we believe that the evidence requirements should be wider than limited to connection agreements and other internal information available to DNOs.

Where contracts with eligible parties are to be renegotiated to give effect to the introduction of UoS charges, we would ask Ofgem to recognise a more appropriate period of time for DNOs to allow this process to complete. We have serious concerns that Ofgem has considerably underestimated the time and resource implications for DNOs to complete this task, especially when we do not yet have certainty as to when the final decision on this matter will be published.

We do not believe the information provided in relation to dispute resolution is adequate and would ask that the Decision Letter provides further clarity on this matter. For example, in the event of a dispute, who will bear the cost? DNOs must also be protected against non-paying DG parties.

Question 3.2: *Is our approach to due process appropriate? Are there additional or alternative steps that should be incorporated? What is a reasonable period of time in which to complete the due process we propose?*

Whilst we do not consider the approach to the due process to be inappropriate, we believe the time period proposed for completion of it to be unachievable due to the volume of generator contracts we will need to renegotiate. We would propose that a minimum timeframe of 12 months will be required to:

1. Allow DNO and DG parties to initially engage, understand default positions, available options (if any), relevant dates and undertake further information gathering (where necessary);
2. Give DG parties the opportunity to consider their position and any options available to them and to communicate this back to the DNO;
3. Enable both parties to consider additional information provided and enter further discussions and agree a final position; and
4. Finally in those circumstances, where agreement is unable to be reached, to commence the dispute resolution process.

Note that this commercial administrative burden will not fall equally across all DNOs. Historically > 1/3rd of DG connected in GB, by capacity, has been connected to SPEN's networks.

Question 3.3: *Do you agree with our proposals for dispute resolution where DNOs and DGs cannot reach a settlement by 1 April 2012?*

The proposals for dispute resolution seem reasonable, however as highlighted in our response to Question 3.1 above, we would welcome further clarity on this matter.

Question 3.4: *Do you agree that the connection date should be the date from which the exemption is calculated, with the energisation date used if the connection date is not available? Or, would it be more straightforward simply to use the energisation date for all eligible DGs?*

We agree that it is appropriate that the connection date should be the date from which the exemption is calculated, however as stated previously, recognition of other key dates where material connection modifications were made may need to be taken into account. We do not consider the date of energisation to be relelvant.

Question 3.5: *Similarly, should a pre-2005 customer with a mix of demand and generation requirements be eligible for an exemption from UoS charges?*

We do not believe the rules applicable to customer with a mix of demand and supply should be any different.

Question 3.6: *Do you agree with our proposal that the introduction of UoS charges should happen from the beginning of the next charging year after the date on which an exemption ends?*

Yes.

Distribution use of system charging: way forward on higher voltage generation charging (134/11)
Response by SP Energy Networks

Chapter 2 – Option specific

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?*

SPEN believe that the differences in the costs imposed on our network between pre and post 2005 DG are marginal, both in terms of connection and ongoing operational costs.

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?*

A clear policy decision is necessary to differentiate between demand and generation customers.

For many renewable generation projects network charges will never be a primary driver for location decisions, however locational charges may be beneficial in encouraging generators to make investment decisions between competing development locations where there is existing and future capacity to connect.

However, this driver is likely to be undermined by the locational component of charges that can result in potential volatility and unpredictability of charges, and that may create specific financing issues for renewable projects.

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 believe this trade off may have merits, however Ofgem should take account of the views of the affected

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?*

SPEN believe that the EDCM should continue to calculate charges as if all generators continue to be charged as this approach will reduce volatility in prices arising from the migration of non-exempted generators in the future.

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?*

SPEN believe that it is appropriate for EDCM generators to recover their share of the incentive revenue and that DNOs should apply the cap and collar when calculating the incentive revenue for the purposes of charging.

If this approach is too complex then the next closest approximation would be to base this component upon actual investment.

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

If Ofgem believe that the principle of DG charging under the EDCM remains consistent with current energy policy then only minor revisions should be made to the methodology, perhaps with the specific purpose of reducing volatility for generators. Any fundamental changes are likely to dictate further delays to implementation.

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

SPEN think that certain generators are potentially more able to respond to price signals than demand customers, i.e. non-intermittent generators receiving credits for generating during super-red periods. However, they would need to balance the consequences with the impacts on their wholesale contracts. Price signals and ability to respond are less strong for intermittent generators, being fixed capacity charge driven, although this may encourage generators to enter generator management contracts DNOs.

Chapter 2 – General questions

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

We would suggest that fixing the locational element of generators charges for a period, perhaps 15 years, should be considered. This, in theory, could mean that the locational price signal that generators have factored into their investment decision is crystalised for the life of their project.

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

Of the options presented SPEN believe a combination of options 3 and 4 best fulfills the Relevant Objectives, although this could be further improved by incorporating a time limited fixed locational element to generator charges. This would reduce volatility for other DG charges when excluded

generators move from exempt to non exempt, more closely match DNOs' incentive revenue, and potentially provide greater certainty for DG investors.

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

SPEN would suggest that unrecovered revenue should be added to the general pot and apportioned to demand customers.

Chapter 3

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

SPEN agree that EDCM charges for non-exempted generators should apply from 1 April 2013 if the approved EDCM DG charging remains consistent with current Energy Policy, but also see merit in further refinements being considered that reduce charging volatility.

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?*

SPEN agree that the boundary change for generators should be deferred to coincide with the implementation of EDCM generator charging as this is the least complex option with minimum disruption for the customers directly affected.

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

If option 5 is the preferred option then the timetable is likely to be challenging, potentially unachievable, for DNOs to submit revised methodology in April/May 2012.