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Guy Donald
Distribution Policy
Ofgem
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Dear Guy

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

Thank you for the opportunity to comment on this consultation. This response should be regarded as a consolidated response on behalf of UK Power Networks distribution licence companies: Eastern Power Networks plc; London Power Networks plc; South Eastern Power Networks plc and UK Power Networks (IDNO) Ltd. For convenience, the four licensees are collectively referred to as UK Power Networks. This letter can be published on the Ofgem website.

UK Power Networks supports the proposal of deferring generation charging for the incoming EDCM. As a consequence of the deferral we wish to highlight the issue of the proposed implementation time scales which could impede a suitable solution for the integrating of generation charging into the EDCM. We also note that your plans are for two consultations within a short time frame, however we feel this maybe an unnecessary burden on stakeholders and suggest it is more appropriate to have one more focused consultation as a part of the process.

Our detailed answers in are in the Appendix to this letter. If you have any questions regarding this response please contact Oliver Day on 01293 657880 in the first instance.

Yours sincerely

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Appendix 1

2. Options for EDCM generation charging

2.1. Regarding 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, the charges reflect the recovery of incentive revenue from users who create it though this could be improved through further development of the EDCM

2.2. Regarding 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 believe that it is important to provide a cost reflective locational charge as not having one does not fit in with the principle that the EDCM was assigned to meet – to provide signals to generators and to improve overall network efficiency. The benefit of the inclusion of the locational charge is that it should provide an illustration of a DG's impact and therefore allowing DNOs to give better cost signals to generators. If such a charge is removed it may be appropriate to re-evaluate the design of the EDCM based on the new policy objective i.e. smearing generation revenue.

2.3. Regarding 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?

Whilst the reduced volatility can be perceived as beneficial, we feel that if the requirement to have location charges is removed then this option should be reviewed based on the new policy objective.

2.4. Regarding 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?

If the purpose is to exempt certain generators it would seem to be counter-intuitive to actually include these generators in the EDCM calculation. We believe that the shortfall of revenue that would have come from the exempt generation should be recovered from all users as part of revenue matching.

2.5. Regarding 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?

We believe that in principle it would be appropriate to recover a share from the incentive revenue. However, we feel that further discussions must be undertaken to fully explore all aspects of this option, for instance it maybe that demand users also benefit from the incentive in the long term.

2.6. Regarding Option 5. Do you think it is better to revisit the methodology more fundamentally?

We do not feel it is necessary to revisit the methodology more fundamentally based on the same reasoning as Ofgem. However, sufficient thought needs to be taken to understand exactly what the methodology is required to achieve especially with respect to the conflict of charging and incentivising increased DG.

2.7. Regarding Option 5. What cost signals do you think generators have the ability to respond to?

We believe that in addition to charges at time of connection generators are more likely to respond to seasonal time of use unit charges as some generators have the control over when it is best to export.

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

We feel that any further modifications should be suggested from the outcome of additional discussion on option 4.

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?

Of the selection proposed we feel Option 4, with the proviso of further development relating to incentive revenue, would better meet the relevant objectives. However, we believe there needs to be a clear steer on the policy direction if locational charges are removed.

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

We believe that the exempt generation revenue should be left as part of revenue matching and recovered from EDCM & CDCM demand users. We believe that the rationale of exempting generators is that the exempted annual revenue is a proxy for the revenue that has been received from the generator through the capitalised O&M payment at the time of connection. It would seem counter intuitive to reapply this revenue solely on un-exempted generators.

3. Implementation and arrangements

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

Assuming that any development can be undertaken in the timeframe then changes should apply from 2013 as this will then provide for more reflective pricing to be applied as soon as possible.

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

We believe that it is appropriate to apply the boundary change at the same time as the EDCM generation charging becomes active, as this means that generators will only need to experience one change process.

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 if due consideration of the options and potential development areas is to be made then the timetable is too optimistic. It should only be necessary to hold one industry consultation and this would free up approximately 9 to 12 weeks of time allowing DNO's more time to integrate with a suitable generation methodology into the EDCM model.