

Guy Donald
Distribution Policy
Ofgem
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Dear Guy

Consultation on Distribution use of system charging: a time-limited exemption for pre-2005 generators

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.

Our initial preference is for option four, providing a time limited exemption based on a standard capitalised operation and maintenance period, however we see the need for clarity and guidance from Ofgem on the process to deal with DG that does not respond to communication on this issue.

Our detailed answers 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

Paul Measday
Regulation Manager
UK Power Networks

Cc Keith Hutton, Head of Regulation, UK Power Networks
Oliver Day, Pricing Development Manager, UK Power Networks

Appendix

1. Our decision to exempt pre-2005 DGs on a time-limited basis

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 to be exempt from charges, unless either party chooses otherwise?

We agree that generators should be charged UoS based on eligibility.

2. Our initial thinking on the duration of a time-limited exemption

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

We agree that the ex ante approach reduces the uncertainties and would allow timeframes for expiry of the exemptions to be predetermined and transparent through the exemption period.

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 that the date of connection of the DG would be the most reasonable arrangement as this would link to any connection charges paid and provide transparency.

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?

Yes. However the number of options considered detracts from the rationale that the exemption should be based on any use of system avoided through connection charges.

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

No, we do not believe there are better alternatives.

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.

We agree that a 20 year limit is appropriate as it gives a transparent date that is linked to the capitalised period and also allows for the EDCM to phase in pre-2005 generation relatively quickly.

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?

Yes, generators eligible for exemption, i.e. where O&M has been capitalised, should not pay until the exemption has expired. Exemptions should not be provided where it is known that O&M is charged annually, as this is effectively a Use of System charge.

3. Implementation and arrangements

3.1. *In general are our proposals for implementing the refund 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.*

We believe your proposals are appropriate, but we are mindful that some generators may choose not to respond to DNO's correspondence. Further clarity is required in this area including the development of a default position and dispute resolution process.

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?*

In general the approach is appropriate although there are a few areas for further development as highlighted in question 3.1, to resolve these possible issues.

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

We believe that the proposals do not allow enough time to resolve disputes that are likely to occur due to the short time frames that have been set.

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 believe either option would be suitable.

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 believe that pre-2005 mixed sites should not be exempted from use of system charges where these sites have not paid a capitalised payment.

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?*

We agree that this would be the most logical setup to apply to exempt generators thus avoiding introduction and change of charges mid-year.