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Our ref: SY

Your ref: GD

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Dear Guy

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

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc.

Thank you for the opportunity to comment on the paper setting out Ofgem's series of proposals for how the method for charging generators (export charges) for use of system under the DNO proposed EDCM might be modified, you will find our responses to the questions set out below.

Chapter: Two

Option-specific

Que 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?

Our response:- If pre 2005 DG costs are uncertain then their removal should imply charges for post 2005 DG are reflecting costs more appropriately.

Que 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?

Our response:- For a variety of reasons such as limiting the exposure of generators to price volatility, a more on-average approach to positive charges rather than individual site approach may be more appropriate. Significant advantages – less price instability; any disadvantages are relatively minor relative to this.

Que 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?

Our response:- This seems to be a good use of the averaging of costs across generators type approach.

Que 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?

Our response:- No, the answer to question 1 means not.

Que 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?

Our response:- If this is deemed to be more cost reflective then it should be applied.

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

Our response:- If option 2 is applied i.e. limiting volatility of positive charges, then the methodology does not require re-visiting; otherwise it possibly does.

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

Our response:- Very few; in practice generators are located where they are for specific operational reasons e.g. on a hill to attract wind, LNG because it is near a deep port for transportation reasons etc.

General questions

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

Our response:- No.

Que 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?

Our response:- A combination of 2 and 4; cost reflective whilst reducing volatility and hence enabling development of generation.

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

Our response:- An average approach across all other users.

Chapter: Three

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

Our response:- Adjusted EDCM charges i.e. using for example option 2 could apply. A choice must be made for April 2013 to reduce uncertainty for generators on how and if they may get charged.

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

Our response:- No; discriminates against demand users.

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

Our response:- Ofgem should endeavour to publish the EDCM for DG decision by the end of August or earlier to allow DNOs/suppliers time to communicate with stakeholders and to reduce uncertainty by as much as possible for generators.

If you would like to discuss this further please contact Simon Yeo on syeo@westernpower.co.uk or telephone 0117 9332349.

I look forward to hearing from you.

Yours sincerely



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager