

**EHV Distribution Charging Methodology (EDCM)
Export (generation) charges**

Appendix 5: Responses to our consultation



Responses to the DNOs' March 2012 consultation on the EDCM for DG

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Introduction

1. This appendix accompanies a report to Ofgem setting out new proposals for an EHV Distribution Charging Methodology to set export use of system charges for Designated EHV properties (the EDCM for generation).
2. The DNOs, through the Common Methodology Group (CMG), have been working to jointly develop these proposals for the EDCM for export charges. The DNOs published a consultation document setting out our draft proposals on 1 March 2012. We also held a workshop on 8 March 2012 to explain our draft proposals to stakeholders.
3. We received several responses to our consultation containing useful feedback and suggestions. We are grateful for these.
4. Our proposals have been revised subsequently to take account of feedback received.
5. This appendix sets out a summary of the responses received and the DNOs' responses to these responses. We present the responses to each question in our consultation in turn. This document concludes with a section focusing on general comments.

Responses to consultation questions

Q.1 Do the proposals contained in this document meet the objectives of the EDCM? If not, please explain why.

Respondent	Response	DNO response
Renewable Energy Association	With the exception of some aspects of credits to intermittent generators which we will expand on under question 3 and our objection to the p/KVA/day export charge to recover a target revenue we think that the methodology does meet the objectives of the EDCM. The latter charge specifically does nothing either to use existing network capacity more efficiently or to avoid prompting inefficient network reinforcement. We therefore reiterate our preference that these costs be recovered from demand customers.	See our response to Q3 for credits to intermittent generation. The revenue target made up of elements from the DG incentive revenue calculation. This includes an allowance for capital expenditure associated with new generation connections, incentive amounts carried forward from the previous price control period and an O&M allowance for both pre-2005 and post-2010 DG. The DNOs continue to believe that it is appropriate to recover this amount through a DNO-specific fixed capacity charge.
SP Renewables	The proposals contained in this current consultation and in the two October 2011 consultations mentioned before, do appear to address to some extent the predictability concerns for other generators. Nevertheless, we are still concerned about the possible volatility of the charges resulting from the methodology as it is difficult to evaluate this ahead of the new arrangements being implemented and before future tariff levels are known.	DNOs will continue to work with stakeholders to improve the transparency and predictability of charges.

British Gas	In terms of the overall level of costs to be recovered by for the EDCM generation pot, we have provided a suggested improvement to the current proposals to ensure that this objective is better meet.	The DNOs agree that the suggested method is an improvement to our own proposed method. We have now incorporated this suggestion into our submission to Ofgem.
Welsh Power	Yes, but STOR plant should be treated differently since they will not receive credits unless called upon by National Grid during the DNO's super-red time band.	The payment of FCP or LRIC credits is based on the extent to which export by the generation helps to offset the need for demand-led reinforcement of the distribution network. Actual export during the DNO's super-red time band is considered to be an indicator of the extent to which each generator helps in this regard.
Smartest Energy	Yes	
E.ON	Yes	
Renewable Energy Systems	Yes	
RWE	The new proposals are closer to meeting the intended objectives of the EDCM.	
Mathematical and Computer Modelling	Yes	
University of Bath	No. They are based on a very specific set of circumstances, namely the inability to manage generation which we do not believe appropriate for EHV connected generators	The removal of FCP and LRIC charges to generation to reflect the costs of generation-led reinforcement was taken following extensive consultation with stakeholders and Ofgem. These charges were viewed by most stakeholders as unnecessary to achieve the objectives of the EDCM, and the DNOs concur with this view.

Q.2 Do you agree with our proposals, in line with Ofgem guidance, to not pay EDCM credits based on FCP and LRIC to generators that remain exempt from use of system charges? If not, please explain why

Respondent	Response	DNO response
Renewable Energy Association	Yes	
SP Renewables	Yes	
British Gas	Yes	
Welsh Power	WPG understands DNO position. DNOs to look at costs and benefits of such plant to ensure non-discrimination	

Smartest Energy	We agree	
E.ON	We agree	
Renewable Energy Systems	Yes	
RWE	Yes	
Mathematical and Computer Modelling	Yes	
University of Bath	Generally all generation should be subjected to the same charging principles. If a generator has made a payment at the time of connection that contractually overrides this obligation then the commercial arrangement should lie without the general methodology	Ofgem has decided that "pre-2005" connected generators should be exempt from the EDCM. The proposed methodology simply implements this decision.

Q.3 Do you agree with these proposals for determining credits to export tariffs? If not, please explain why.

Respondent	Response	DNO response
Renewable Energy Association	We think that it is wrong for all generation not to receive the full credit for generation exported during the super red time band. Clearly over a number of years one would expect intermittent generation to receive proportionately less credit from this than non intermittent generation but given that no generation is 100% reliable and credit is given for generation delivered "when it matters" we see no reason for intermittent generation not to receive the full credit for what it actually delivers during these periods. Classification of generation as intermittent and non intermittent may become problematic in any case.	The proposed EDCM for export charges includes locational credits to generators that reflect the extent to which they are deemed to offset the need for demand-led reinforcement. DNOs consider that "intermittent" generation is more likely to reduce demand-led flow at higher network levels only, rather than at the network level of connection. The DNOs acknowledge the problems surrounding the classification of generation plant as "intermittent" or "non-intermittent", and will work with stakeholders to identify potential improvements to the method.
SP Renewables	Generally yes, particularly as we consider that credits should be allowed to intermittent generators. However, the approach should be consistent between intermittent and non-intermittent generation and reflect the actual extent of intermittency, instead of the binary approach proposed whereby 0 and 1 are the only two possible values for the Network Support Factor.	The binary approach simply reflects the differences in the extent to which different generation types are deemed to contribute towards offsetting the need for demand-led reinforcement.
British Gas	The proposal to pay generation credits to intermittent generation without reference to a network support factor for remote charge 1 is not appropriate since it is inconsistent with the way that charge 1 is calculated in the first instance, resulting in	The argument about the potential inconsistency between the method for calculating the locational charge and applying is reasonable. The method currently in DCUSA to calculate the locational Charge 1 might need to be

	<p>a methodology in which the logic does not hold. It will also mean that the value of the generation credit for remote assets is overstated since remote charge one will have been calculated assuming no intermittent generation support, bringing forward reinforcements and increasing charge 1. This inflated charge 1 will then be applied as a credit to the intermittent generation that was assumed to provide no support in the previous step, over-rewarding generation and penalising EDCM (and CDCM) demand customers. Our view is that generators should only receive credits if it can be demonstrated that they offset the need for network reinforcement.</p>	<p>updated to reflect the new proposed EDCM for export charges.</p> <p>This could be an issue that is investigated and dealt with under the open governance methodology modification process.</p>
Welsh Power	The role of STOR plant may be undervalued.	See response to Q.1.
Smartest Energy	We agree	
E.ON	We agree	
Renewable Energy Systems	<p>RES does not object to this proposal but would suggest that its appropriateness may be prove to be challengeable as intermittent generation proliferates as part of the delivery of renewables necessary to satisfy EU targets and reaches levels that may permit deferment of investment at the voltage of connection. RES would therefore suggest that this aspect of the proposed methodology be revisited and reviewed in the future.</p>	
RWE	<p>Whilst the methodology appears to be fair, we request clarification on what renewable energy technologies are classed as 'intermittent' to ensure that we are completely satisfied with the decision.</p>	<p>The contribution from each generator towards offsetting demand at the time of peak is assessed following guidelines set out in Engineering Recommendation P2/6. The guidelines do not provide a firm classification of generators as intermittent or non-intermittent, but rather provides examples of each type. It is up to each DNO to appropriately account for the likely contribution of each generator in light of this guidance.</p>
Mathematical and Computer Modelling	Yes	
University of Bath	No. Removing charges relating to generation-led reinforcement means there will no longer be forward-looking economic message for generators.	See response to Q.1.

Q.4. Do you agree with our proposal to keep current or new GSM agreements outside the scope of the EDCM for export charges? If not, please explain why.

Respondent	Response	DNO response
Renewable Energy Association	The fact that there is no generation led reinforcement charge does not mean that DNOs cannot defer expenditure by having a GSM agreement i.e. an arrangement whereby generators reduce their output upon request in certain circumstances. In these cases there clearly needs to be some incentive for a generator to enter into such an agreement. We think that such agreements should be encouraged. However we agree that it is probably not now essential to have these agreements as an integral part of the EDCM.	
SP Renewables	We consider that GSM agreements between DNOs and generators may be beneficial to the system and consequently a similar bilateral agreement should be allowed either within or alongside the new methodology.	
British Gas	Yes, this seems sensible since generators will no longer be paying a locational charge.	
Welsh Power	No comment	
Smartest Energy	We agree	
E.ON	We agree	
Renewable Energy Systems	We agree	
RWE	While perhaps the EDCM is not the right avenue for rewarding Generation Side Management arrangements – if and when Generators enter such arrangements in future they should be compensated by the DNO in turn for the benefit that they provide. It would be unfair for the economic benefit they provide not to be recognised and generators would avoid entering such contracts. We request more detail around how the ENA envisage the GSM mechanism would work outside of the EDCM framework. In our view such arrangements should be carried out via the Supplier Hub process since such activities, if large scale, could affect Supplier’s balancing position.	

Mathematical and Computer Modelling	Yes	
University of Bath	A GSM agreement should be the norm for all EHV connected generation. The principles for charges should be common to all agreements but the application of the methodology should be subject to the agreement's conditions. Efficient GSM arrangements should delay the need to reinforce congested networks, and this should be reflected in the export charges (or credits).	

Q.5 Is the proposed method for determining charges for LDNOs reasonable? If not, please explain why.

Respondent	Response	DNO response
Renewable Energy Association	No comment	
SP Renewables	We support the proposed method for determining LDNOs charges being set in way that is consistent and transparent with the approach used to set charges for other users under EDCM.	
British Gas	The proposals seem reasonable however DNOs and LDNOs are best placed to answer this.	
Welsh Power	The proposals are reasonable.	
Smartest Energy	No comment	
E.ON	No comment	
Renewable Energy Systems	The proposals are reasonable.	
RWE	No comment	
Mathematical and Computer Modelling	No comment	
University of Bath		

Other comments

Respondent	Response	DNO response
Renewable Energy	Finally we would like to make a point relating	

Association	<p>to the treatment of pre April 2005 connected generators. In order for them to opt in to DUoS charging for 2013 to 2014 they have to make an election to do this by the end of June 2012. They cannot sensibly do this unless the charging methodology has been approved by Ofgem before then. We acknowledge that actual charges will change from time to time including depending on the number of pre April 2005 connected generators opt in. However making a decision before the actual methodology has been approved introduces a different degree of magnitude of uncertainty as to what you are opting in to. We would therefore urge that the opting in decision deadline should be a few weeks after the methodology itself has been approved.</p>	
SP Renewables	<p>Scottish Power Renewables considers that the network unavailability rebates should reflect user's actual losses (which could include lost energy, ROCs and LECs for renewable generators) rather than being simply a rebate of GDUoS charges. Developed appropriately, this approach would provide a greater incentive on DNOs to deliver and ensure greater reliability. Some offshore generation may be connected to the 132kV distribution system in England and Wales. Consequently, we consider that further consideration may need to be given to if, and how, the proposed EDCM arrangements would be applicable to such offshore OFTO assets.</p>	
British Gas	<p>DNOs receiving a revenue stream of £1.00/kW for DG and only recovering £0.20/kW produces a cross subsidy between demand and generation. DNOs should provide a justification for reducing the O&M rate to £0.20 and if this does indeed represent the true level of costs per kW of generation, we would expect DNOs and Ofgem to work together in a timely fashion to update the DNO revenue allowances to remove the cross subsidy that these proposals are proposing.</p>	<p>The £0.20/kW and £1.00/kW numbers quoted in the response are not comparable. The £0.20/kW estimate in our proposal only relates to O&M costs of "shared" network assets, whereas it appears that in arriving at the £1.00/kW O&M allowance, Ofgem has considered both sole use and shared assets. A separate generation fixed charge will be applied as part of the proposed EDCM to recover the estimated costs associated with generation sole use assets. The £1.00/kW O&M allowance was set by Ofgem as part of its DPCR5 determinations, but the documents published at the time by Ofgem do not explain the calculations that underpin this number. The same £1.00/kW number was used in the previous price control period (DPCR4), and an Ofgem policy document published in March 2004 states that "The total costs of distributed generation – both sole-use and shared costs – have been identified by the DNOs to amount to around £82/kW. Rounding up to £100/kW and providing a 1 per cent allowance for O&M means that each</p>

		DNO will be allowed to recover £1/kW to cover these costs."
Welsh Power	Recommend a single methodology to calculate credits, rather than LRIC and FCP.	
Smartest Energy	No comment	
E.ON	No comment	
Renewable Energy Systems	An alternative method of allocating the GL term in the DG revenue target proposed.	The DNOs have adopted the method proposed by British Gas.
RWE	No comment	
Mathematical and Computer Modelling	Inconsistent units in para 67. Better explanation of the DG revenue target calculation needed. Some of the super red credits p/kWh would seem to be attractive to generators. In this case they would need an indication of whether such rates are likely to prevail for a reasonable period. How will this be given?	<p>The inconsistency in units identified has been corrected. We have also improved our explanation of the generation revenue target. The calculation of the elements of the DG incentive revenue scheme is quite complicated, but they are decided as part of the distribution price control and are outside the scope of this submission.</p> <p>The point about the stability and predictability of credits is valid, and the DNOs will work with stakeholders to address this issue.</p>
University of Bath	Disagree with removal of FCP/LRIC charges to DG. Concerned about different DG revenue targets in different DNO areas.	See response to Q1 on the removal of FCP/LRIC charges to generation.