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Consultation on charging methodology for higher voltage distributed generation

Dear Simon,

Thank you for the opportunity to respond to this consultation. This is a non-confidential response on behalf of the Centrica Group excluding Centrica Storage.

We believe that the DNOs revised proposals for EDCM generation charging are an improvement on the previous proposals, however we continue to believe that generators should only receive credits if it can be demonstrated that they offset the need for network reinforcement. Therefore we are supportive of Ofgem's intention to place a condition on any approval that intermittent generators should not receive credits unless the approaches in the EDCM for export and Engineering Recommendation P 2/6 are reconciled.

We also have concerns with the misalignment between the O&M rate for generation being proposed in the EDCM (£0.20/kW) and the O&M allowance that is provided to DNOs through the price control (£1.00/kW). We note that DNOs have explained that the £0.20/kW excludes O&M relating to sole use assets and therefore it would be useful to understand whether the revenue being recovered from sole use assets in the EDCM is reasonably aligned with the remaining £0.80/kW that DNOs are receiving through the price control. If it is not, then we believe that any O&M allowance for DG provided at RIIO ED1 should be reduced accordingly.

We provide answers to your consultation questions below. We trust these comments are helpful. If you have any questions please do not hesitate to get in touch.

Kind regards
[by e-mail]

Andy Manning

Head of Network Regulation, Forecasting and Settlements
British Gas

CHAPTER: One

Question 1: Have the options available to pre-2005 generators been clearly explained to those generators?

Whilst we are content that the options available to our pre-2005 generators have been clearly explained to us, we have concerns over the level of volatility within the charge illustrations that have been presented to us over the last year. In some cases these illustrations have changed by c. £670k between late 2011 and June 2012 and we are not clear how much of this change is due to the revised methodology (i.e. non-application of location charge) and how much is due to updated data.

Question 2: What information (or guidance) about the EDCM would be of use to industry participants, and what do DNOs and generation customers think could be provided?

It would be useful to receive an annual charge illustration as is currently provided for EDCM demand customers. It would also be helpful to have a five year forecast of charges under the EDCM as part of this illustration. These illustrations should also be provided to pre-2005 generators to illustrate potential charges should they opt into the EDCM.

CHAPTER: Two

Question 1: Do you think that the proposed methodology includes the relevant issues, and has not omitted any relevant issues?

We note that the methodology has not addressed the situation for generators above 100MW connected to the distribution network. These generators are currently liable for TNUoS charges and will also be liable for DUoS charges under the EDCM. This potentially affects the competitiveness of these generators compared to generators above 100MW connected directly to National Grid, which are only charged for TNUoS, and generators below 100MW connected to the distribution network, which are only charged for DUoS.

Question 2: Do you agree with our understanding that the interactions between super-red credits for intermittent generators and Engineering Recommendation P 2/6 could result in demand customers paying for credits when no network benefit is recognised under the planning standard?

Yes, we agree with Ofgem's understanding. Our view is that generators should only receive credits if it can be demonstrated that they offset the need for network reinforcement. We also believe that the derivation of charge 1 should be consistent with the planning procedures of the DNO. Charge 1 should then be applied to demand (and to generation in the form of a credit) in a manner that is consistent with the principles applied in calculating it.

The DNO 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 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.

We are therefore supportive of Ofgem's intention to place a condition on any approval that intermittent generators should not receive credits unless the approaches in the EDCM for export and Engineering Recommendation P 2/6 are reconciled in order to avoid consumers paying for credits where no network benefit is recognised under the planning standard.

Question 3: Is the treatment of sole-use asset costs appropriate?

We believe the treatment of sole-use assets costs is appropriate.

Question 4: Is the calculation of the revenue pot appropriate, in particular the approach to the DPCR4 contribution, and proposed figure for the O&M rate?

We believe that the calculation of the revenue pot is reasonably appropriate, although we note that the proposed O&M rate (£0.20/kW) does not appear to be indexed linked. It would seem appropriate to us to uplift the O&M rate with inflation each year.

We also remain concerned with the significant misalignment between the O&M rate for generation now being proposed by the DNOs (£0.20/kW) and the O&M allowance for generation that is being provided to DNOs through the price control (£1.00/kW). We note that DNOs have explained that the £0.20/kW excludes O&M relating to sole use assets and therefore it would be useful to understand whether the revenue being recovered from sole use assets in the EDCM is reasonably aligned with the remaining £0.80/kW that DNOs are receiving through the price control, noting that the £1.00/kW received through the price control is in 2007/08 prices. If it is not, then we believe that any O&M allowance for DG provided at RIIO ED1 should be reduced accordingly to ensure no cross subsidy between demand and generation.

Question 5: Is the approach to allocation of the revenue pot appropriate?

Yes we believe the allocation of the revenue pot is appropriate.

Question 6: Do you have any views on the calculation of LDNO charges through the extended "Method M" for CDCM-like customers, and through the separate methodology for EDCM-like customers?

No.

Question 7: Do you have any other comments about the issues that we have noted, or about any other points?

No.

Question 8: Is it appropriate for us to approve the methodology?

Yes, subject to the condition that Ofgem has proposed and also potentially subject to the introduction of an inflation adjustment to the O&M rate included in the EDCM.

Question 9: Is it appropriate for us to place the potential condition that we have suggested, and are there any other conditions that respondents feel would help to better meet the Relevant Objectives?

As we explain in our response to question 2, we believe it is appropriate to place the condition that Ofgem has suggested. It would also seem appropriate to us to uplift the proposed O&M rate with inflation each year to help maintain its cost reflectivity.

Question 10: Do you think that we have identified the important impacts in our Impact Assessment?

Yes.