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Dear Simon

**ESBI response to consultation on charging methodology for higher voltage distribution generation**

ESBI own distribution connected generation assets; therefore the introduction of the EHV Distribution Charging Methodology (EDCM) will impact our business. We welcome the opportunity to provide comments on the revised proposals contained in Ofgem's further consultation on "charging methodology for higher voltage distribution generation".

This response provides a brief overview of ESBI, a summary of our views and responses to the questions contained in the consultation document and that affect our operations in the GB market.

**ESB International**

ESB International (ESBI) brings together our worldwide generation, engineering and related services businesses.

ESBI has been a developer and operator of independent Combined Cycle Gas Turbine (CCGT) generation projects in the GB market for almost 20 years. We own, operate and trade Corby power station and developed the 850MW plant at Marchwood, which was commissioned late in 2009. We are also at an advanced stage with our latest 860MW development at Carrington which is intended to become operational early in 2015. Additionally, we own and operate the 406MW Coolkeeragh plant in Northern Ireland. We are also developing further large-scale CCGT projects at other locations across GB, in particular our early-stage 1500MW project at Knottingley, West Yorkshire.

In addition to increasing our conventional generation fleet, we continue to grow our position in the UK wind market. Our operational and development portfolio will be around 165MW, comprising of: the 24MW West Durham Wind Farm in Northern England; the 20MW Hunters Hill; and 15MW Crockagarron projects in Northern Ireland. Additionally, we recently completed commissioning of England's largest

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onshore wind farm, at 66MW, at Fullabrook in Devon and we have started construction of our 38MW Mynydd y Betws Wind Farm in South Wales. We are also active in the ocean energy sector.

With increases in physical interconnection, in particular the commissioning of the East-West interconnector later this year, coupled with the further development of the regional market, our operations in Ireland will become increasingly linked with the GB market.

### **Summary of ESBI views**

We welcome the developments that are being made to the Extra High Voltage Distribution Charging Methodology (EDCM) in response to views raised in response to the previous proposals of the DNOs. We agree with Ofgem's assertion that the methodology should be cost reflective, facilitate competition and respond to and facilitate developments in the network.

In several areas, the changes made to previous iterations of the EDCM that have been proposed in this consultation are a marked improvement. However, there remain a number of changes that need to be made to the methodology for it to be fit for purpose and meet the applicable objectives.

Of particular importance for generators is the ability to accurately forecast charges. A key factor in doing this is an open and transparent methodology that does not contain elements that cannot be accessed or forecast by users. Currently, a fundamental component of the EDCM comprises of DNO forecasts for investments and associated costs. As it stands, this data has been determined commercially confidential and therefore inaccessible to system users. Whilst we recognise the reasons for this being deemed sensitive, we would not welcome a final methodology that contained elements that we are not able to forecast or are not accessible (i.e. "black box"). We would therefore urge Ofgem to ensure that the final EDCM delivers these objectives.

This lack of clarity over charges makes it difficult for generators to respond to the intended locational signals for investment i.e. to locate at the most economic and efficient places on the networks.

We believe that further detail on Generation Side Management (GSM) agreements is needed to fully assess the impact and/or interactions of them on the introduction of the EDCM.

We agree with Ofgem's proposal that intermittent generators should not receive full super-red credits.



However, the DNOs proposal that intermittent generation should be eligible for partial super-red credits should be given further consideration. Where intermittent generation brings such benefits – it should be recognised and rewarded.

### **Responses to consultation questions**

Below are ESBI's responses to a number of the specific questions raised by Ofgem on charging methodology for higher voltage distribution generation.

#### **Chapter One:**

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

The options available to pre-2005 generators appear to have been clearly explained to those generators at a high level in that so far as the proposal states that pre-2005 generators can apply for an exemption from the EDCM for export, or they can choose to opt in which is likely if generators expecting to receive a net benefit from the introduction of the EDCM (i.e. whatever charge arises from the EDCM is less than those currently being paid). However, further details and/or guidance may be required once the EDCM is in place.

*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?*

Clarity over charges through transparency of the underlying cost data used to calculate charges in the EDCM is essential in ensuring comfort is provided that charges are cost-reflective and fair. In particular, transparency of the investment costs incurred by DNOs would better enable generators to forecast future charges and also ensure that charges are cost reflective.

#### **Chapter Two:**

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

The proposed EDCM can be developed to generate cost-reflective and site-specific charges for import and export. Locational site specific charges should provide signals for generators to locate at the most economic and efficient places on the networks, driving overall costs down for consumers. However, we



remain unconvinced that the EDCM will provide the intended locational signals to generators as without complete data and forward-looking charges it will be difficult for them to respond to any signal.

We are pleased to see the removal of FCP and LRIC on export charges for generation-led reinforcement, as outlined in the proposals. However, we believe that more information on the eligibility and criteria for Generation Side Management (GSM) agreements is needed before any decision is made regarding the removal of reduced charges for generators with GSM agreements.

*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?*

Super-red credits should be paid to generators that help to secure local peak demand. Dispatchable generation can be relied upon to secure demand at those critical times and therefore helps to reduce the need for future system reinforcements. Intermittent sources of generation cannot be relied upon to generate when required to help meet demand at peak times. Therefore, we agree with Ofgem's proposal that intermittent generators should not receive full super-red credits.

However, we believe that the DNOs proposal that intermittent generation be eligible for partial super-red credits should be given further consideration. Where intermittent generation brings such benefits – it should be recognised.

We would like to reiterate however, that it is essential for DNOs to provide information on investment costs to allow generators to assess the cost reflections of charges and also to make calculations to gauge if it would be beneficial to opt-in to the EDCM. Further detail on the super-red bands is also needed.

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

We agree with the proposal that the DNO direct operating costs and network rates associated with generation sole use assets should be allocated to the generator, and paid through a fixed charge to cover non-capex costs.

*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 agree that the approach to the calculation of the revenue pot seems reasonable.

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

We agree that the approach to the allocation of the revenue pot seems reasonable.

*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?*

We have no comments to provide on this question.

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

We have no comments to provide on this question

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

We have no comments to provide on this question

*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?*

We agree with Ofgem that intermittent generators should not be entitled to receive full super-red credits unless 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 10: Do you think that we have identified the important impacts in our Impact Assessment?*

Whilst we are supportive of the objectives of the EDCM we are concerned that some of the key analysis and calculations that underpin the impact assessment do not accurately reflect costs or benefits. In



particular, we believe that the scenarios that have been used in the impact assessment are too narrow. The three scenarios (with the use for scenario 3 as the baseline) are not adequately reflective of the likely conditions for generators under the EDCM for export; therefore it is difficult to assess the impacts it is likely to have on generators.

All three scenarios modelled have used the same input data that has been provided by the DNOs. The analysis is primarily based on the illustrative charges for all customers that would be charged under the EDCM for export in each scenario. We believe that the analysis would be more reflective if the data incorporated behavioural changes arising from generators receiving a net benefit (i.e. instances where generators pay lower charges than under the current regime) rather than simply those with a net payment.

### **Conclusion**

Whilst ESBI welcomes the continued development of the EDCM and note that this latest iteration is a further improvement, we remain of the view that there are still a number of significant issues that are as yet unresolved and are key to the introduction and enduring success of the EDCM.

Should you wish to discuss any of the points raised in this response further, please do not hesitate to contact me.

Yours sincerely,

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