Your Ref: 115/12
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Network Policy
The Office of Gas and Electricity Markets
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Date: 1st October 2012

Dear Simon

Ref 115/12 - April Consultation on charging methodology for higher voltage distributed generation.

Northern Powergrid Holdings Company is the UK parent company of Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc.

We welcome the opportunity to respond to the consultation and generally agree with your initial assessment of the revised proposals that were submitted to you on 1 June 2012.

Northern Powergrid have been actively involved in all of the working groups set up to deliver the Structure of Charges project and feel that this is the last key milestone in achieving commonality in the charging methodologies used by Distribution Network Operators (DNOs).

As with the Extra-high Voltage (EHV) Distribution Charging Methodology (EDCM) for demand customers this change introduces significant improvement over the existing methodologies and has undergone several iterations before arriving at the final submission. This is as a result of the extensive consultations and workshops held by the various working groups on behalf of the Common Methodology Group (CMG) and significant interaction between DNOs, Ofgem and other stakeholders.

The challenge to deliver a new methodology alongside resolving the long-standing pre-2005 connected generators issue, has led to further refinements in the model and increased understanding in the end-user, stakeholder and DNO community. We feel that the consultations issued by the DNOs and the options detailed therein , have led to a much greater understanding of the position of the pre-2005 generators and now provides a clearer boundary, ensuring all generators will be subject to the same charging methodology with exemptions being the differentiating factor.

We appreciate that some stakeholders would like to know more about the EDCM models and given the issues of data confidentially, we are more than happy to consider any ways in which we can provide more information but have found that some end-customers are more than happy to discuss their concerns at our workshops which have been very successful in developing those relationships by facilitating both group and one-to-one sessions.

In your consultation you raise four issues:

- Issue 1 - super-red credits for intermittent generation;
- Issue 2 - treatment of sole use assets;
- Issue 3 - generation revenue pot; and
- Issue 4 - LDNO charges.

With the exception of Issue 1, we agree with your overall assessment, that the methodology has delivered significant improvements over current arrangements and has taken into account stakeholders views and concerns since the original submission in April 2011.

We are surprised at the comments Ofgem raise in relation to issue 1 and the link made to Engineering Recommendation P2/6. In developing the EDCM for generation, the working group discussed at length the appropriateness of providing credits to intermittent generators. In the initial submission DNOs proposed no credits at all to intermittent generators. The latest proposal was developed in response to Issue 11 which was raised in the Ofgem Consultation (11/67) - Electricity distribution charging methodologies: DNOs' proposals for the higher voltages, issued in May 2011.

> *Potential conditions in this area relate to credits for intermittent generation (Issue 11) – Ofgem believe that intermittent generation may provide some benefits to the system in terms of reducing reinforcement costs. They suggest that these credits should be calculated differently to non-intermittent generation reflecting the fact that their output cannot be relied upon for network planning;*

The latest thinking seems to contradict this:

> *Super-red credits for intermittent generation: 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.

Ofgem suggests that a condition may be placed on DNOs to address this, however given that the methodology will be under the Distribution Connection and Use of System Agreement (DCUSA) open governance arrangement, we feel that this would be the most appropriate route for driving future developments in this area, rather than imposing a condition.

In summary, we feel that the significant work carried out to date should provide Ofgem and stakeholders with the confidence that the methodology, in the round, provides:

- significant improvement over current methodologies;
- commonality across DNOs; and
- is more cost reflectivity providing rewards to those generators who contribute to reducing the cost of network reinforcement.

We would urge Ofgem to approve the methodology without conditions. Future developments of the methodology could then be facilitated either by via DCUSA open governance or at other industry meetings such as the Distribution Charging Methodology Forum (DCMF).

Yours sincerely

H Jones

Harvey Jones
Head of Network Trading