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02 October 2012

Dear Simon,

**RES Response to Ofgem Consultation on Charging Methodology for Higher Voltage Distributed Generation, published 17 August 2012.**

Thank you for the opportunity to respond to the above consultation concerning the DNOs' revised use of system charging methodology ("EDCM for Export"), ("the August 2012 consultation").

RES is one of the world's leading independent renewable energy project developers with operations across Europe, North America and Asia-Pacific. RES has been at the forefront of wind energy development since the 1970s and has developed and/or built more than 5GW of wind energy capacity worldwide, including projects in the UK, Ireland, France, Scandinavia and the United States.

RES has taken a keen interest in the development of the EDCM process and very much welcomes this consultation document. In its responses to the Ofgem "Distribution use of system charging: way forward on higher voltage generation charging" consultation document of October 2011 ("the October 2011 consultation"), RES raised significant concerns relating to the potential for extreme volatility in EHV connected Generator Distribution Use of System (GDUoS) charges associated with the methodology proposed<sup>1</sup>. The ENA consultation document of March 2012 proposed a revised methodology. RES broadly supported this new approach noting that it addressed the majority of the concerns relating to the original methodology set out in the October 2011 consultation<sup>2</sup>. **RES continues to be of the view that the revised methodology proposed in the August 2012 consultation, which reflects that set out in the ENA March 2012 consultation, has addressed the key elements of its original concerns and would therefore support its implementation.**

Responses to the specific questions posed in the consultation are set out in below.

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<sup>1</sup> RES letter to Guy Donald (Ofgem), "Re: Way Forward on Higher Voltage Generation Charging", 23 November 2011.

<sup>2</sup> RES letter to ENA, "Re: RES response to ENA EHV Distribution Charging Methodology (EDCM) consultation on the methodology for export charges (March 2012)", 12 April 2012.

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**Ch.1 Q1. Have the options available to pre-2005 generators been clearly explained to those generators?**

By way of response, please see below RES' plain English summary of its understanding of the options available to pre-2005 generators. A pre-2005 generator (as defined in the methodology) will either;

- a) (default) remain on a 25-year time-limited exemption before being moved wholly into the EDCM regime. The 25-year period starts from the date of connection.
- b) decide to opt-in to the EDCM regime at any time prior to the end of the time-limited exemption (there is guidance as to precisely when such an opt-in would take effect).

**Ch.1 Q2. 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 see a forecast of future years' export charges for each DNO region, published and updated at least annually, which should be relatively easy for each DNO to estimate. A five to ten year horizon would be most useful to potential generators, in common with transmission charging publications. The same applies to other key parameters in the methodology, including the O&M rate used in the revenue pot calculation (20p/kW is proposed in the consultation) and the sole-use asset charge element % rate.

**Ch.2 Q1. Do you think that the proposed methodology includes the relevant issues, and has not omitted any relevant issues?**

Yes. Most importantly, RES's primary objections in relation to the version of EDCM set out in the October 2011 consultation related to the potential for significant volatility in year on year GDUoS tariffs. The revised proposals initially set out in the ENA's March 2012 consultation document and refined for the Ofgem August 2012 consultation document now represent an approach that will provide an appropriate balance between cost reflectivity and price stability (facilitating stronger development of competition in electricity generation) that will better satisfy the EDCM objectives.

**Ch.2 Q2. Do you agree with our understanding that the interactions between super-red credits for intermittent generators and Engineering Recommendation P2/6 could result in demand customers paying for credits when no network benefit is recognised under the planning standard?**

No. We understand that the DNOs' revised methodology would only have included super-red credits for intermittent generators if the DNOs believed that these generators were contributing to a decision to avoid or defer network investment. It is important to note that DNOs' decisions on network investment (to deliver overall cost-efficient improvements to their networks) do not rely *exclusively* on P2/6. In addition to meeting deterministic minimum security requirements (P2/6 driven), DNOs will also take into account overall system economics when making investment decisions; there may be some parallels here with the ongoing review of transmission charging, which explicitly separates the two<sup>3</sup>. We would welcome responses from network planners to this issue, and believe further consultation on this complicated matter would be appropriate.

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<sup>3</sup> *Project TransmiT: Electricity Transmission Significant Code Review*, Initial Report of the Technical Working Group, September 2011; available from:

<http://www.ofgem.gov.uk/Networks/Trans/PT/WF/Documents1/TransmiT%20WG%20Initial%20Report.pdf>.

However, there is potentially a further issue around discrimination against generators in Scotland, where 132kV is classed as a transmission voltage. As a result, for an electrically similar network arrangement, an EHV-connecting intermittent generator in England & Wales would be eligible for credits based on the DNO's 132kV network, which cannot be applied to the similar generator in Scotland. As a result, Scottish generators would be unfairly discriminated against under the proposed methodology.

In resolution however, we note and commend Ofgem's statement that EDCM will be "common across the DNOs and subject to ongoing open governance". The benefits of the proposed methodology in meeting the EDCM objectives make a very strong case for timely implementation, which may be otherwise held up by this complicated issue. RES strongly supports the timely implementation of EDCM for export and believes this issue could be resolved successfully through a follow-up process, after approval of the DNOs' proposed methodology.

**Ch.2 Q3. Is the treatment of sole-use asset costs appropriate?**

RES has no objections to the proposed treatment of sole-use asset costs. We would request that, to aid the decision-making of future generators, a 5-10 years-ahead forecast of the % rate applied under EDCM is published and updated at least annually, as per our answer to Ch.1 Q2.

**Ch.2 Q4. Is the calculation of the revenue pot appropriate, in particular the approach to the DPCR4 contribution, and proposed figure for the O&M rate?**

RES believes the proposed calculation of the revenue pot is appropriate. We are pleased to note that a potentially inappropriate allocation of designated revenue for 2005-2010 generators which featured in the March 2012 ENA consultation has been corrected in the August 2012 consultation proposal. RES is pleased to note the evidence-based presentation of the O&M rate, and has no objection to this figure.

**Ch.2 Q5. Is the approach to allocation of the revenue pot appropriate?**

RES does not object to the allocation of the revenue pot.

**Ch.2 Q6. 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?**

RES has no objection to this calculation method.

**Ch.2 Q7. Do you have any other comments about the issues that we have noted, or about any other points?**

No.

**Ch.2 Q8. Is it appropriate for us to approve the methodology?**

Noting the uncertainty surrounding super-red time-band credits for intermittent generators, and the potential for this to be subsequently dealt with under open governance (as described in our answer to Ch.2 Q2), RES believes that the proposed methodology meets the EDCM objectives and that it is appropriate for Ofgem to approve the methodology.

**Ch.2 Q9. 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?**

RES is not clear that the potential condition on super-red credits is appropriate (see answer to Ch.2 Q2) and suggests that it will be likely to require further evidence and consultation to resolve. However, the overarching benefits of the proposed common and open-governance charging methodology are such that this issue should not be allowed to delay implementation of EDCM for export. RES suggests that it would be most appropriate to approve the methodology as presented by the DNOs, and for the issue of super-red credits to be consulted upon subsequently.

**Ch.2 Q10. Do you think that we have identified the important impacts in our Impact Assessment?**

RES believes that the important aspects have been addressed.

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RES always seeks to be clear and constructive in consultation responses and I hope you find the above consistent with our objectives. If you wish to discuss this response or any other relevant matter, please don't hesitate to contact me.

Yours sincerely,



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