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Ofgem
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By email to: Simon.Cran-McGreehin@ofgem.gov.uk

2 October 2012

Dear Simon

Consultation on Charging Methodology for Higher Voltage Distributed Generation

Thank you for the opportunity to provide views on the above consultation.

This response should be regarded as a consolidated response on behalf of UK Power Networks' electricity distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, South Eastern Power Networks plc, and UK Power Networks (IDNO) Limited. It is non-confidential and can be published via the Ofgem website.

We have provided detailed answers to Ofgem's specific questions in Appendix One and have also set out the key points below for convenience.

Following our review of the consultation, we agree with Ofgem that the proposed EDCM generation methodology is a substantial improvement on the DNOs' current methodologies. We also agree that issues raised in response to the 1 April 2011 proposals have been addressed and that with the methodology being common across all DNOs it makes it easier for both Suppliers and Licensed Distribution Network Operators (LDNOs) to operate across DNO areas.

When considering the position of paying 'credits' to certain classes of generation customers it should be noted that during development of the methodology it was considered important to provide a signal to encourage user behaviour in the longer term. It was felt that this would create a signal to encourage sufficient diversity of generation that would provide sufficient network support and enable DNOs to recognise this in updates to the planning standard.

We note Ofgem's reference to DNOs producing charges (both indicative and final) which are free from errors, and we support this stance. To support this, we welcome early approval of this methodology (and any changes to existing methodologies) so that we have sufficient time to conduct thorough checking processes in order to successfully achieve this aim.

Finally, we note in two locations – under 'Next steps' on both pages 5 and 24 – that there is a reference to publishing indicative charges for 2012/13. We believe that the indicative charges referred to are in fact for 2013/14 and have considered the consultation on the basis that this is what was intended.

I hope that you will find our response helpful. If any aspect requires further explanation or clarification, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K Hutton', written over a light blue horizontal line.

Keith Hutton
Head of Regulation
UK Power Networks

Appendix One

CHAPTER: One

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

UK Power Networks has put significant effort into contacting all pre-2005 generation customers and explaining the changes as a result of EDCM being introduced. We have set out the impact this could have on their arrangements, providing them with customer specific information should they wish to 'opt in' to EDCM charges (or credits). We believe that we have provided impacted customers with appropriate information about the options available to them, and have had some customers choosing to 'opt in' following this communication.

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?

We believe it is important that all parties understand and use the EDCM (or any common model) in the same way. As such, clear guidance on the population and also on the understanding of the inputs is vital in ensuring that all DNOs populate on a consistent basis and that customers and other parties (e.g. Suppliers or LDNOs) can understand the information they are being presented with.

We have always prided ourselves on providing information and guidance about site specific tariffs and other methodology matters on a one-to-one basis, should the need arise. We feel that this is the best way of providing additional information going forward and of meeting customers' needs. We always welcome suggestions from any party (including customers) who can suggest better or more appropriate methods of communicating future changes of a similar nature.

CHAPTER: Two

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

We believe that the proposed methodology adds to what has already been approved for EDCM demand customers and covers all relevant issues. One of the strengths of the new methodology will be that it is embedded into DCUSA and subject to open governance.

Question 2: 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?

As a general principle, we can see a benefit in a credit being given to a generator for supporting the network and offsetting reinforcement. At first glance we would agree with the view about the relationship between the proposal and Engineering Recommendation P2/6, and that it might not seem appropriate to provide a credit for an intermittent generator that cannot offer network support over sustained periods. However, the methodology is looking to provide a signal to encourage user behaviour in the longer term and as such is creating a signal to encourage sufficient diversity of generation that can, in the future and in aggregate, provide sufficient network support and enable DNOs to recognise this in updates to the planning standard.

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

We believe that the treatment of sole-use asset costs is appropriate as the costs of these assets are being apportioned appropriately to the demand and generation parties who are utilising them.

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 with Ofgem's view that the approach to the calculation of the revenue pot seems reasonable. The allocation of the revenue pot for generation is complex due to the different policies that have been in place over time. The proposed methodology makes a reasonable attempt at calculating the revenue pot in an understandable manner and we feel that it would be difficult to implement a more sophisticated approach without adding significant additional complexity.

The proposed figure for the O&M rate will differ from the DG incentive rate as the proposed value is only looking at shared-use assets and not total connection assets. We therefore feel that the proposed figure is appropriate.

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

We agree that the allocation of the revenue pot is appropriate. The approach to the revenue pot was revised following the EDCM DG consultation in the spring of 2012, with the aim of being more cost reflective, which we believe this proposal now successfully achieves.

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?

It is important that a customer pays the costs that are relevant in relation to where they connect onto the network. As a result we would agree that at the current time the suggested approaches in the submission are the most appropriate when calculating charges for LDNOs.

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

We have nothing further to add at this time.

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

We believe that the methodology is appropriate to be approved. We consider that the additional changes to the EDCM methodology to include the DG elements of the charge are in line with the discussions over the last 12 months and have been developed following feedback from parties and guidance following industry discussions.

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 believe that paying 'credits' to certain classes of generation customers needs to be understood in the context of current planning standards, as a reduced level of network support may be provided by diversified sources of intermittent generation.

During development of the methodology it was felt important that we provide a signal to encourage user behaviour in the longer term and as such create a signal that will stimulate aggregate diversified network support by intermittent generation, and enable DNOs to recognise this in meeting its planning requirements. We believe that placing a condition on DNOs in relation to this or any other area of this proposal would go against the 'long term' principles of the methodology, and consequently we do not support its introduction.

We do not believe that there are any other conditions that should be placed on the methodology.

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

Yes, we believe that Ofgem have identified the important impacts. We have not identified any impacts beyond those specified within Ofgem's assessment.

UK Power Networks
2 October 2012