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Dear Cemil,

Electricity Distribution Price Control Review
Response of the British Wind Energy Association

BWEA welcomes the opportunity to respond to this consultation. The majority of our response, in the form of specific comments and proposals, is focused on the treatment and incentivisation of distributed generation (DG).

On a more general note for the overall design of the next price control, BWEA favours proposals which adhere to the following criteria:

- **Transparency:** to ensure that DNO customers (including generators) understand the financial incentives acting on the DNO businesses.
- **Consistency:** with government objectives for renewable energy and energy efficiency.
- **Efficient implementation**
- **Fair implementation:**

We also make the following broad observations:

- From experience, and in the context of the need to engage the considerable technical expertise within the DNO community, BWEA favours measures which incentivise DNOs to further the development of distributed generation. This is a more desirable approach than, for instance, implementing rules which, when broken, necessitate a lengthy and costly determination.
- There is a disparity between DNOs on treatment of DG, which is in the context of identical price control frameworks acting on each business. There are obviously more factors at work, but some form of benchmarking, or "best practice" promotion, would assist in evening this out.

The remainder of this response comments on specific proposals for incentivising distributed generation.

There is currently, through the Distributed Generation Co-ordinating Group (DGCG), Ofgem, academic pursuit, DNOs and the DTI R&D programme, a growing momentum for realising DG. Co-ordination between these groups is very welcome as it will hopefully ensure efficient and timely solutions. BWEA is fully supportive of Ofgem's involvement in this process, and in particular very much welcomes some of its recent pro-active proposals. It is only through the willing participation of all interested parties that the best solutions will be found.

Review of the DNO price control through the present price control was identified early on in this process as an essential step in promoting distributed generation. BWEA agrees that it is vital to ensure that DNO's are appropriately incentivised, and is therefore pleased that Ofgem has highlighted DG in this consultation as a core area for price control reform.

Competition in connections

BWEA's members benefit from choice offered by competition in connections, and considers that there is room for improvement in extending the scope of contestable works, and improving the administration of the process by the DNOs. For any remaining non-contestable works, BWEA strongly supports, at the very least, the proposed option of "*introducing standards of performance in certain areas such as the timeliness and quality of information provision.*" Quality and timeliness of information provision in connections is very important to our members, but there is no effective recourse for generators at present to ensure this is achieved.

Duration of price control

This very much depends on the level of flexibility which is built into the price control itself. BWEA is concerned with ensuring that DNO's are able to respond to developments in technology, connection requests and other matters. Within an agreed framework of calculating allowable returns, BWEA believes it should be possible to build in flexibility in accounting for unexpected expenditure. There is precedence for this within the existing price controls.

Revenue Driver

BWEA considers that it would be appropriate to incorporate a revenue driver linked to the connection of distributed generation. In general, BWEA would hope that this, with other mechanisms, would engender a customer-oriented approach to DG – that is, that DG are valued customers of DNO's, on the same footing as demand customers.

While BWEA accepts that it will not be possible to accurately predict future DG growth, the uncertainty of predicting demand has also been highlighted in the consultation. Thus BWEA considers that it would be appropriate for DNO's to anticipate DG growth, and plan accordingly, in the same way as it does for demand. BWEA would be happy to assist DNO's in the identification of hot spots for distributed wind energy generation, and notes that at least one network operator – Scottish and Southern – is already planning for an increased growth in wind energy on the strength of the number of connection requests it has received. Of course DNO's require clarity on the treatment of any advance expenditure, which could be provided as part of the price control review process.

Alternative to network investment

It is important that DG is recognised, and can be used as, an alternative to network reinforcement where appropriate. BWEA would support an approach which incentivised DNO's to consider the best environmental option, which would also include for instance Demand Side Management (DSM) as an alternative to re-inforcement. Where savings are accrued by DNO's, it would be appropriate to share these with the relevant parties.

Registered Power Zones

BWEA strongly supports the concept of RPZ's. The work of the DGCG and others has highlighted the requirement for a wide range of solutions for the different categories of DG. At the same time, innovative applications are being developed in the academic and private sectors, and would benefit enormously from demonstration. Furthermore, the particulars of any one system are often cited as a barrier to replicating solutions which are proven in other countries. All this points to the urgent need for application in the UK, through a concept such as RPZs.

The DNO's themselves hold a wealth of expertise which is and will continue to benefit the DG community. BWEA is thus very keen to see mechanisms which promote and reward the active participation of DNO's in furthering DG. There

are examples from Denmark and elsewhere of the enormous benefits which can be gained by the active participation of network companies in the development and management of DG in networks. For instance the network company Elsam in Denmark has been actively involved in the Horns Rev offshore wind park, and will build on its experience in its ongoing pursuit of efficient integration of wind energy into its network.

In terms of rewarding DNO's for innovation, BWEA agrees that it is important to get the right regulatory treatment of revenue, and welcomes the suggestion of a funding mechanism. The proposals are at an early stage, and to assist in their development, BWEA would make the following suggestions:

There are already mechanisms, through EPSERC and others, for evaluating, monitoring and awarding funds as described in the proposals. Rather than Ofgem moving into this arena, BWEA would suggest utilising and adapting these existing mechanisms, ensuring that there is commercial input in the evaluation process.

BWEA considers it would be inappropriate to incentivise innovation on the basis of MW installed, as this will not be the measure of an effective solution. If an appropriate body has approved a project as furthering the prospects of DG, then DNO's should be rewarded commensurate with the risk profile it is taking in the proposal.

We also note, as does Ofgem, that DNO's have, through the existing price control, been incentivised to find alternatives to capital expenditure on new reinforcement. Incentivisation of DG should act in the same way and so the RPZ concept is a complement, rather than a supplement, to this.

Finally, some customers may wish to opt out of certain supply standards, as part of an RPZ project. For instance, a customer installing microgeneration, who stands to gain financially, or who has an interest in promoting new technology, may be willing to forgo compensation for the remote possibility of a reduction in the quality of supply, in return for active participation in a demonstration project.

Treatment of additional investment

It is important to recognise that additional investment will be required to accommodate significant increases in DG, compared to a "business as usual" scenario. However, BWEA does not accept that it is appropriate to single out DG to the extent suggested – for instance a levy for any DG-related expenditure or stranded investment. There are similar issues raised in the every day business of DNOs – for instance a stranded investment in providing for a new business park that in the event is not occupied to anticipated levels.

BWEA accepts the principle of allocating costs accordingly, but with two main caveats: that this is in the context of equal cost allocation to other network users; and any "promotion" of these attributable costs is in the context of the rationale for renewables, which includes wider cost savings to the economy. While the latter is not necessarily Ofgem's remit, it does have a duty to act in accordance with the government's wider objectives. For instance, the higher costs of supplying rural customers are recognised by Ofgem, but are not publicised to customers. Once some initial costings are available, BWEA will be pleased to engage with Ofgem on the appropriate allocation of those costs.

BWEA would also stress the importance of "socialising" any additional costs arising from significant increases in renewables DG. That is, we believe it would not be appropriate for any one DG to be put at a competitive disadvantage, or for customers to be disproportionately affected.

BWEA would be pleased to clarify any issues raised and offer any further information which may be required.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. Glennie', with a stylized flourish at the end.

James Glennie
Head of Offshore
Chair BWEA Grid Panel