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Dear Colin,

BWEA Response: Structure of Electricity Distribution Charges

BWEA welcomes the opportunity to respond to this consultation. In doing so we note that this is one of many consultations, to which, unfortunately, we have a limited capacity to respond. Consequently our comments are brief nonetheless if there are any issues that you wish to discuss further, please do not hesitate to contact us.

BWEA has a number of over-arching observations, after which we address some specific questions raised in the consultation.

In developing distribution charging, the key criteria for BWEA members are:

- **Predictability or certainty:** this is a general theme for a number of Ofgem consultation responses. It relates to both the uncertainty attached to arrangements which are not yet in place, and uncertainty attached to governance which allows ongoing, unpredictable changes. At best, uncertainty impacts on renewables generators through increasing the cost of capital, and general project development costs. At worst, it prevents projects from being realised.

In the present context, uncertainty on costs which will be borne by generators, and costs incurred at different stages of the project, will negatively impact on generators seeking finance and power purchase contracts. Where ambiguity in charges leads to delay through dispute resolution, there is similarly a negative impact on generation projects.

BWEA would seek to minimise the extent to which uncertainty artificially raises project costs.



- **Equitable cost allocation:** This is a theme to which we return throughout this response.
- **Interaction with transmission charging:** again, a similar theme running through a number of consultations is the lack of co-ordination with other developments. In this case, the most obvious is the development of separate arrangements for transmission access and charging. In the experience of BWEA members seeking connections, there is often interaction with the transmission provider, which can extend to payment of transmission-related charges for distribution-connected generators (as in the north of Scotland for example). BWEA would like to see a co-ordinated approach in taking these proposals forward.
- **Scotland:** BETTA and the ramifications for 132kV assets is relevant here, in so far as it is important to be clear what charging structure will prevail for 132kV in Scotland. The document reaches different conclusions for different voltages, but provides very little explanation as to the rationale behind these conclusions. This makes it difficult to predict what Ofgem considers to be appropriate for Scotland.

Existing generators: One of Ofgem’s options for existing generators, who have paid a deep reinforcement charge, appears to be to levy additional UoS charges over the lifetime of the project – the BWEA considers this to be unacceptable.

Our response to specific issues raised as follows:

Charging Principles

BWEA strongly supports the proposals for common charging principles, transparency and consultation with users. BWEA also notes ongoing activities of the DGCG, especially Work Stream 1, which is collating data on applications and developing an interactive connection process.

Connection Boundary

Here, Ofgem is proposing a strictly shallow connection for 33 kV and above, and “shallowish” for the lower voltages. The implication is that there will be some form of entry DUoS chargeable to all users in both instances, although this is not explicit.

The rationale for the shallow charge for 33 kV and above seems to be solely based on the current existence of locationally-varying use of system charges for demand connections. The assumption therefore seems to be that it is easier to apply the existing arrangement for demand customers to generators, than vice versa. Is there any analysis to support this assumption?

BWEA agrees that it is important to balance cost-reflectivity against complexity.

BWEA members’ experience is that any preference for deep or shallow connections is less important than the general principles of certainty, fairness, and ease of implementation. Problems arise where there is delay or where quoted costs appear unreasonable and/or are opaque.

The connection boundary appears to determine the total costs borne by the connecting generator, and those borne by all users. There is often a grey area surrounding the extent to which reinforcement benefits the connectee and all other users, and so some ‘rule of thumb’ would assist in preventing lengthy disputes. It is impossible to state a preferred connection boundary out of context, as it depends on factors such as:

the particular network and whether reinforcement is likely to benefit more or less users

whether other generators and demand customers are also seeking connection
the extent to which UoS is spread across all, or a subsection of, other users.

BWEA would welcome DNO proposals that carefully consider these factors.

Workability: there is some confusion surrounding the exact nature of the proposed changes, and many unanswered questions remain. Some of these questions, on which BWEA would be happy to work with Ofgem in order to find a solution, are contained in the Appendix of this letter.

Other comments and suggestions

Where charges need to vary, some form of regulatory upper limit over the lifetime of a project might be helpful

BWEA would welcome exploration of generator choice between fixed or varying charges

There is a large body of work and analysis being undertaken through the DGCG, but which is not mentioned in the consultation.

Please feel free to contact me at any time if you have questions.

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

Appendix.

Charging Regime

- DNO DNUoS income currently stems entirely from Exit Charges. BWEA believes that it is vital that charges are split between both Entry and Exit in order to avoid discrimination.
- Are the current DNO charging models optimum for a situation where there is no embedded generation? If not – what are the imperfections? The answer would help to resolve whether or not there are any matters, other than generation connection issues, that need to be addressed.
- Will Ofgem clarify the use of the term “Generator DUoS” and will you replace its use with “Entry DUoS”?
- How do the proposals minimise the perverse, but somewhat inevitable, incentives that currently exist e.g. to connect at one voltage rather than another or to connect at distribution or transmission, bearing in mind that Scotland currently has a different voltage boundary to England and Wales?
- Deep charging is widely recognised as having a strong locational message that minimises costs, how far do these proposals minimise this incentive and what are the resulting costs?
- Will Ofgem clearly identify the difference between a) paying a deep connection charge, but on an annualised basis, and b) paying DUoS to fund reinforcement of the system in general?
- Does Ofgem expect lower cost generator connections to subsidise higher cost generator connections through Entry DUoS? If so – to what extent?
- How will the new charging structure interact with the incentives on DNOs to connect new generation?
- Will the structure allow negative charges to be used for DG?

Finance

- Do you expect that the changes as promised will result in the total revenue recovered from all load customers, increasing, decreasing or staying the same?
- How will the new charging structure affect the cash flows of DNOs under different scenarios?

Technical

- What connection and operational features of normal export connections are different to the features of import connections? Do the proposed changes increase equity between load and generation in both connection and operation?
- Reinforcement that is triggered by “larger centralised generators” (e.g. GSP reinforcement) is spread across all users. Is this fair in comparison to the treatment of embedded generators under deep charging?
- Does the 25% load reinforcement rule apply also to generation? If so – how is it to be applied for voltage rise and fault level in addition to thermal limits?

Performance evaluation

- How will Ofgem measure the success of the proposed changes once they are implemented? What are Ofgem’s targets and goals for achieving success?

- What action will Ofgem take against DNOs if, under a shallowish charging regime, connections are delayed by DNOs not undertaking the necessary deep reinforcements in a timely manner?
- Do the proposals encourage DNOs to be innovative in the efficient connection and operation of new DG and new load?
- How robust are the different DG development scenarios in different DNOs over time e.g.
 - Very little to no DG development
 - Significant DG development
 - Major DG development leading to exports from GSPs and Group GSP
 - All DG is micro LV connected
 - All DG is intermittent RE
- Ofgem has mentioned flexibility and predictability as two requirements for the structure of charges – how do you reconcile these two conflicting requirements?
- There are three different categories of reinforcement requirements:
 1. Site specific
 2. Deep, where use and benefit is or is likely to be, shared
 3. Strategic to accommodate to multiple new generation or demand, sites: for instance
 - Mid Wales. How does the new charging structure change the incentives on the parties to undertake each of these reinforcements?
- Does the new structure accommodate constraints and encourage the role of active network management?
- Does the new structure encourage the optimal use of existing assets?
- Does the new structure facilitate the development and operation of a market for Ancillary Services?