

Mark Cox
Distribution Policy
Office of Gas and Electricity Markets
9 Millbank
London SW1P 3GE

distributionpolicy@ofgem.gov.uk

18th January 2007

Dear Mark

Consultation on WPD's modification to their DUoS methodology

The Renewable Energy Association is pleased to give its views on WPD's proposed modification to its Use of System charging methodology. The Renewable Energy Association is a trade association representing producers of renewable energy. It is pan-technology – its members are involved in all forms of renewable energy, including biomass, wind energy, solar, biogas, energy-from-waste, landfill gas, hydropower, wave, tidal stream and sewage gas. Its membership also includes producers of heat and biofuels and those working in the field of hydrogen, fuel cells and recovery of waste heat, which, when combined with renewables, have the potential to offer a totally sustainable package. Legal, accounting and energy trading businesses are also represented.

The REA has participated in the Structure of Charges Implementation Steering Group, since this group's creation in 2003.

The REA has been consistently pro cost reflective charging for networks and has strongly supported the work of Ofgem and the DNOs in developing charges that are forward looking. The current WPD proposal to modify its charging methodology marks a watershed in this process as it is the first methodology that is intended to be "enduring" that has been submitted to Ofgem for consideration. As such how it is dealt with will set a precedent on how the other DUoS methodology proposals will be treated. These are due to be submitted over the next couple of years.

General comments

Ideally the REA would like the best possible methodology to be developed, and for this to be adopted consistently across all DNOs at the same time.

While the WPD proposal is undoubtedly an improvement on the existing methodology, further improvements can be made.

We believe that time should be taken to make these improvements, as it is more important to achieve an optimum solution than it is to implement a new methodology quickly.

It may therefore be better to delay making the change until there is more certainty that the methodology cannot be further improved upon.

From a power station developer's perspective there is a premium attached to as much commonality between methodologies amongst DNOs as possible. Although it may be the case that different methodologies are inevitable (leaving aside the possibility of new license conditions to require a common approach). Hopefully, by delaying the start of any radical new methodology by WPD for one or two years whilst other DNOs progress their methodologies, more consistency may be achieved overall, which would benefit competition.

The implementation of different methodologies in different DNO areas, and also the possibility of further significant changes to the proposed methodology as more knowledge becomes available, is not conducive to the development of competition.

We therefore feel that whilst WPD should be commended for having put so much effort into developing the proposed methodology, it would not be in the interest of competition to introduce it without further development. We therefore feel that Ofgem should veto its application.

Specific Comments on the proposed WPD methodology

We are pleased that the methodology proposed to calculate charges for EHV connected generators takes account of the effect of the generation in both summer and winter. The method of combining these seasons by taking the maximum generation capacity in summer and 0 or the P2/6 contribution in winter takes a pessimistic view of generator availability. Whilst this may be in line with how the system is planned there may be considerable merit in basing charges on actual generation over a number of half hours in both summer and winter, thus providing an incentive to generate when of most benefit to the system. In the long term, data built up from such figures may aid the revision of P2/6 and thus feed back into the way that the system is planned. The lack of incentive to generate when it would be beneficial to the distribution network is an area where the methodology could be relatively easily improved.

We do not support the fixed £/KVA reconciliation method, as we feel that this distorts price signals to an unjustified extent. The need for reconciling generator charges (which is not felt to be a good thing given the elasticity of where new development may take place) may be a function of the current price control arrangements with a separate pot of money for generator related expenditure. If it is this that is driving the need for this distorting reconciliation then this is another argument for deferring the introduction of this methodology until the price control arrangements can also be modified.

Our most fundamental criticism of the methodology is its lack of a forward looking approach to the HV/LV networks. It is appreciated that there would

be a significant data requirement for the application of the same methodology as is proposed for the EHV system.

In view of the recent acknowledgement that small distributed generators are unlikely to require new investment in the network and the fact that flows on the network are still overwhelmingly from EHV to HV to LV, it should be possible to derive a simple generation tariff for application at HV and LV that gives credit for the deferral of reinforcement. The negative of whatever tariff is used for demand may be a place to start.

The opportunity should not be lost to encourage distributed generation at the places where it is most valuable in terms of reducing the need for network reinforcement (or allowing cheaper replacement) and reducing losses i.e. close to the majority of demand which is connected to the low voltage and HV systems.

Does the proposed methodology better meet the relevant objectives?

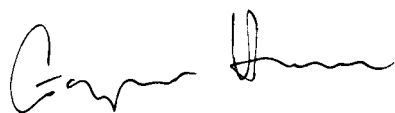
It is acknowledged that as far as EHV connectees are concerned the proposed methodology is more cost reflective than the current one. However it does not appear to be an improvement in any respect of LV and HV connectees and in particular has no method of giving credit to generation connected at these voltages that reduce the flow in the dominant direction from EHV to HV to LV. This is a major failing.

The methodology also misses the opportunity for providing incentives for generators to generate (or not generate) at particular times that would be beneficial to the network.

Introducing the methodology from next April would not allow further development in the areas described, nor would it allow a better comparison with other methodologies being developed.

Please feel free to contact the REA if you would like to discuss any of the matters further.

Yours sincerely

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

Gaynor Hartnell
Head of Power, Renewable Energy Association.