





Possible reduction/removal of export credits from 1 April 2015: consultation on electricity industry proposals

<p>Domestic customers</p>  <p>Small reduction in network charges</p>	<p>Non half hourly business customers</p>  <p>Small reduction in network charges</p>	<p>Half hourly CDCM business customers</p>  <p>Main effect on sites exporting at HV Direct loss for some, increased risk for all</p>	<p>Site-specific EDCM business customers</p>  <p>No direct impact Dangerous precedent for sites with non-intermittent export</p>
---------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

1. This alert is about a proposal of the electricity industry to remove or reduce some of the CDCM export credits currently paid to generators which export to the distribution network. An industry consultation closes on 30 June 2014.

Who is affected?

2. Distribution Network Operators (DNOs) are distinct from electricity generators and suppliers. DNOs charge for the use of their networks and pay credits in respect of some export to the network by distributed generation. This proposed change affects these export credits. It also has a small knock-on effect on charges for demand.

What is the practical impact?

3. Export credits represent additional income for generators, on top of revenues from energy sales and any revenues from the renewable obligation, feed-in tariff or other support schemes. For generators exporting to the distribution network at high voltage (at least 1 kV but less than 22 kV), the credits are worth something of the order of £3/MWh to £7/MWh, depending on the DNO area.
4. There is no discernible pattern in which areas have higher or lower figures. For generation classified as non-intermittent (i.e. where the underlying energy source is controllable by the plant operator; for example diesel or gas-powered machines) then the value might be more if export is concentrated in the red time band and less if it is concentrated at other times.
5. The proposal is to reduce these credits for some generators within each DNO area. The generators affected would be those connected to a primary substation which the DNO has classified as “generation dominated”. The effect would vary from substation to substation, between eliminating the credit, reducing the credit by two thirds, or reducing it by one third.

Why is the electricity industry making these proposals now?

6. A long time ago, Ofgem asked DNOs to develop their charging methodology so that it would recognise the possibility that some parts of their networks are dominated by generation. The idea seemed to be dormant for a few years but has now been revived.

Is there anything objectionable about the proposal?

7. The assumption underpinning the proposal is that, in “generation dominated areas”, the presence of generators may trigger network reinforcement rather than prevent it. A primary substation is generation dominated if the installed generation, net of minimum local demand, exceeds both the summer capacity of the substation and the maximum local demand net of minimum local generation. This seems coherent with looking for cases where capacity is driven by net generation rather than net demand.
8. However, there are some aspects of the proposal which are open to criticism:
 - (a) Generators served by generation-dominated primary substations are wrongly denied credits in respect of 132kV and 33kV network levels, when the relevant assets at these network levels might not be generation dominated.
 - (b) The approach seems to assume that net generation in excess of firm substation capacity would trigger network reinforcement. But it might be more efficient to manage the network by constraining off generation in fault conditions, and therefore non-firm reverse flow capacity would be the more relevant measure.
 - (c) The proposed approach to setting credits depends heavily on speculation by DNOs about future levels of demand and generation over the next 10 years.
9. The appendix to this alert gives some more detail of these possible criticisms and maps them to relevant questions in the consultation.

How to make your voice heard

10. The proposed change is under DCUSA, a governance regime overseen by Ofgem. This change will only be implemented if Ofgem approves it. The fact that Ofgem originated the underlying idea does not affect Ofgem’s duty to examine the merits of the specific change put forward before deciding whether to approve it.
11. The immediate opportunity is to respond to an industry consultation organised by the DCUSA secretariat. The consultation documents are in the form of a 6.9M ZIP archive at <http://www.dcusa.co.uk/Public/ViewDocument.aspx?id=9301> which contains 23 different files (10 PDF, six Microsoft Word, six Microsoft Excel).

For more information about this alert



Franck Latrémolière
Reckon LLP

Telephone: 020 7841 5858
Email: f20@reckon.co.uk

12. There is nothing confidential in this alert. Feel free to pass it on to others who might be interested or to include it with any consultation response you make. Microsoft Word and PDF versions of this alert, and of any further updates on this topic or other areas of interest to electricity customers, can be found at <http://dcmf.co.uk/alerts>.

Appendix — How the defects can be mapped to the questions in the consultation

13. The consultation document contains a large number of disparate questions. If you wish to highlight the defects of the proposal identified in this alert, the questions discussed below might be most relevant.

Are you supportive of the principles established by this proposal?

14. The proposal reduces credits based solely on whether the primary substation is generation dominated. This is the wrong test in most of England and Wales, where the distribution network has separate 132kV and 33kV distribution network levels, since in that case the load pattern at the 33kV/HV primary substation is not representative of conditions on the 132kV infrastructure and on the 33kV network; these higher network levels are the basis of most of the generation credits.
15. The proposed test for generation domination relates to hypothetical future electricity flows in up to 10 years time. Speculation about the distant future is an inappropriate basis to set today's payments to today's generators.
16. The approach seems to assume that net generation in excess of firm substation capacity would trigger network reinforcement. In reality, it might be more economic and efficient to manage the capacity limit by constraining off generation in fault conditions. Thus, the non-firm reverse flow capacity of the substation might be more relevant than its firm capacity.

Do you agree with the ten year time horizon and how it has been split? If not, please provide additional details.

17. This is a long period, beyond the reasonable forecasting horizon in today's energy markets. Very little reliance should be placed on a DNO's speculation about generation growth over the next 10 years. It is wrong to reduce today's payments to today's generators on the basis of such speculation about the distant future.

The generation growth was previously based on the DCPR5 Forecast Business Planning Questionnaire assumptions. The Working Group is now proposing to update the generation growth using RII0-ED1 business plan growth forecasts used to calculate the timescales for generation dominance of each substation. Do you believe that there are any alternative sources for this information that would be preferable?

18. The DNOs' proposal to use their own price control bids as the basis for these forecasts is self-centred and inappropriate. There is no alternative source that would be sufficiently reliable. The error that needs to be corrected is in the principle of basing today's credits on speculation about generation in 10 years time.

The current methodology uses the size of the installed generation plant. The Working Group has identified that in some circumstances this can trigger a generation dominated area even though there is not HV export capacity at that primary. It is felt that the methodology would be improved by using the observed maximum generation output. Do you agree with the change to the legal text (paragraph 146B of the legal text) to enable this?

19. The consultation document says "the Working Group decided that it would be appropriate to allow some flexibility so that DNOs could conduct the test using the "Total Installed Generation Capacity" or where appropriate the "Observed Maximum

Generation Output”, of the HV and LV generators connected to the primary substation”. It is inappropriate to leave this question to the untrammelled discretion of each DNO. That the Working Group has reached such a conclusion is a further indication of the inappropriateness and unreliability of the methodology underpinning the proposed test for generation domination.

Do you agree that the demand growth rate of 1% should continue to be used? If not, how should this value be forecast?

20. This arbitrary figure does not seem to reflect either energy efficiency improvements or the potential adoption of new technologies such as electric vehicles. It is another example of unwarranted speculation. This is not suitable to form the basis of any respectable methodology.

Do you consider that the proposal better facilitates the DCUSA objectives?

21. The most relevant objectives are those that relate to competition (promoting effective competition in generation) and to cost-reflectivity (that payments to generators should reflect the network investment that generation helps prevent or defer).
22. The proposal reduces cost-reflectivity because it arbitrarily reduces some generators’ credits on the basis of an analysis which is wrongly focused on primary substations (instead of the more relevant 132kV and 33kV network levels) and is dependent on baseless speculation about future changes in generation and demand.
23. The proposal impairs competition by increasing undue discrimination between different generators:
 - (a) It increases the (already large) discrepancy between the credits paid to exporting sites and the savings in import distribution use of system charges available to sites where generation is on the customer side of the settlement meter.
 - (b) It introduces undue discrimination between a generator on a generation-dominated primary substation and a generator on a non-generation-dominated primary substation in cases where the two generators are within the same 132kV network group and most of the credit payable to the second generator relates to 132kV and 132kV/33kV network assets or costs.