fuel cells UK

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Response by email only as requested
To: distributionpolicy@ofgem.gov.uk

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Dear Mr Richardson

Fuel Cells UK response to Initial Decision Document on Structure of Electricity Distribution Charges (published November 2003)

Fuel Cells UK works to foster the development of the UK fuel cell industry[1] . We welcome the opportunity to comment on the above document on behalf of the UK fuel cell community.

We support many of the underlying principles presented in the document. There are, however, a number of concerns about the implications of the proposals, particularly for micro-generation. These are presented below together with details of the potential benefits which micro-generation based on fuel cells could bring.

This letter has the support of a number of UK fuel cell stakeholders. These are listed below.

Welcome developments

We welcome a number of proposals in the document, specifically:

- A system for regulatory approval of Distribution Network Operator (DNO) charging methodologies - By ensuring regulatory supervision of the methods used to derive charges, this will give users of the system greater confidence in the charging regime.

- The proposal that Distribution Use of System (DUoS) charges should be based on forward looking long run incremental costs (LRIC) - Charges calculated on this basis will send appropriate signals to users of the system, and contribute to the overall efficiency of the network, generation and supply markets.

- The suggestion that DUoS charges could be negative – A properly working charging structure must include negative charges if it is to give the correct signals to users, and encourage efficient development of the system.

- Greater overall clarity on and predictability of connection charges.

[1] Fuel Cells UK is coordinated by Synnogy Ltd.

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Benefits of Fuel Cells in Micro-Generation

- Fuel cells in micro-generation applications offer the potential for combined heat and power, and associated efficiency and CO_2 reduction benefits.

- Like other micro-generation technologies, by generating electricity at point of use, fuel cells reduce the need for additional generating and network capacity (due to lower peak demand from micro-generation customers and lower peak loading on the distribution network).

- The introduction of large scale micro-generation based on fuel cells and other technologies represents a much lower risk approach to infrastructure development than one based around a small number of large generators.

- As with other micro-generation technologies, electricity exported from a site with an on-site fuel cells system is likely to be consumed by adjoining premises. This avoids the need for the use of the high-capital elements of the distribution network being used.

Issues of concern

- The indicative generator Distribution Use of System charging system outlined in paragraphs 5.13 to 5.22 of the document is of particular concern. Annual charges on the scale proposed in paragraph 5.18 could form a serious barrier to fuel cells and other micro-generation technologies, potentially preventing the UK from deriving the benefits outlined above.

- The charging regime should reflect the attributes of different generation types. Thus, charges for fuel cell based micro-generation should be lower than those for other technologies which do not offer benefits such as lower capacity requirements. We propose that generation below a certain level (e.g. 20 or 50kW) should be excluded from the proposed annual charge.

- There is no reference to micro-generation, its attributes or benefits, throughout the document. Furthermore, we understand that there is no micro-generation representation on the Implementation Steering Group and this is clearly a shortcoming.

Looking ahead

There are clearly many issues yet to be resolved and we would welcome the opportunity to participate in the discussion, debate and decision making necessary to deliver the optimal long-term outcome. The representation of all stakeholder groups affecting by Distribution Use of System and Connection Charges will be critical to achieving a balanced solution.

In the short term, we would be happy to discuss any of the points above in more detail at your convenience.

Yours sincerely

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For Fuel Cells UK

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