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Dear Min

Date: 22 April 03

Distribution Price Control Review – Draft Business Plan Questionnaire Relating to Distributed Generation

I refer to Martin Crouch's letter of 21 March enclosing the draft business plan questionnaire on the above. I will firstly comment on the structure of the questionnaire and then provide the specific information you have requested.

Historic Information (1 April 2000 to 31 March 2003)

We are very concerned at the amount and detail of historic information requested in the first part of the draft questionnaire. It will require considerable resources to compile much of the detail requested and we question how detailed scheme by scheme information can assist in developing incentives for distribution network operators (DNOs) going forward. The level of detail put forward in tables 1.1a, 1.1b, 1.1c, 1.2a (where references to "refurbished" should perhaps also refer to "reinforced") and 1.2b is not held centrally and would require significant effort to extract. For example, the average annual output of schemes is not generally available particularly for smaller sites whose output is not settled. In any case, distribution system reinforcement is driven by MW capacity requirements rather than MWh output. We do, however, support the intention of table 1.3 which would allow costs relating to distributed generation (DG) but not attributable to individual DG projects to be specified.

Callum McCarthy's January letter on developing network regulation to accommodate distributed generation recognised the "very considerable uncertainty" surrounding the development of DG and in particular around "the amount of generation that will connect to distribution networks in future". Against this background, it is clear that the type, size and location of future DG connections could be very different from those of the recent past and that the past is no guide to the future costs of such connections. Our proposal for this part of the questionnaire is for Ofgem to request aggregate connection cost figures. Such figures for total connection cost could, perhaps, be broken down into major technology type or size bands.

Interim Information

The second series of tables requests similar information to that requested in the first set but for the period 1 April 2003 to 31 March 2005. While some detail on larger sites could now be captured going forward for the purposes of the questionnaire, much will still be speculative by the time the questionnaire has to be completed. The same comments on the level of detail requested in tables 2.1a, 2.1b, 2.1c, 2.2a and 2.2b as are made for the equivalent tables in section 1 apply equally here, particularly for smaller expected schemes. Our proposal here is again for total expected connection costs to be requested rather than such specific details of timing, network location, connection charging details and shared asset information as are contained in the draft tables on a connection by connection basis. For larger schemes which are far enough advanced for size and location to be more confidently forecast, the information in table 2.1a and the first part of table 2.1b could be provided on an individual basis. For smaller schemes, forecasts could be provided for technology and aggregate capacity.

Future Baseline Information

The third series of tables requests similar information to the earlier tables for the period of the next price control review. Again, our view is that the information requested is at too detailed a level. For the larger anticipated schemes, the information requested in table 3.1 could be estimated but for such schemes, the details of the breakdown of costs between sole-use and shared assets is not likely to yet be available and any contractual or operational arrangements merely speculative. We question the value of such speculative data and propose instead that, where known for the larger projects, the information in table 3.1 and the first part of table 3.1b could be provided on an individual basis. For smaller schemes, forecasts could be provided for technology and aggregate capacity.

Future Incremental Information

More aggregated information is requested in tables 4a and 4b in relation to scenarios that will be characterised by Ofgem. The information requested in these tables seems appropriate for analysing the impact of different scenarios, but we expect the impact on losses and quality of supply performance to be a more qualitative discussion than the table headings and notes imply. We also consider that a table similar to 1.3, 2.3 and 3.3 would be appropriate in this section to highlight the expected costs involved in the scenario that would not normally be attributed to individual DG projects.

We would not expect that there would be more than 3 scenarios for DNOs to construct. Different DG technologies will have different impacts in different DNO areas: for example, the resource for wind generation is largely located in a few specific geographical areas. In other areas, the potential take-up of domestic-level DG would affect existing networks. In the Southern Electric area, for example, the system is heavily loaded which means that, in some locations, any additional generation would require system reinforcement. Thus the key characteristics that Ofgem might provide for scenario planning could identify the technology or technologies that might be favoured and allow DNOs to construct “high” and “low” scenarios relating to the penetration of such technology in their areas.

We are firmly of the view that network “capacity headroom” information is best provided in DNOs’ Long Term Development Statements, which are required under the licence and

which can provide appropriate context for such information. We do not consider that it would be practicable to attempt to capture this sort of information in a questionnaire.

Information Requested

The letter requested an indication of total number and capacity of DG projects which commissioned in the following two time-periods:

- Between 1 April 2000 and 31 March 2003 – period A; and
- Between 1 April 1995 and 31 March 2000 – period B.

For the Scottish Hydro-Electric DNO area, the figures are:

- Period A: 144MW comprising approximately 14 schemes – 8 wind schemes totaling 92MW; 3 hydro schemes totaling 40MW; 2 waste incineration schemes with a combined output of about 10MW; and a biomass scheme around 2MW.
- Period B: 7 schemes providing a total of about 31MW capacity.

For the Southern Electric DNO area, the figures are:

- Period A: about 20 schemes above 1MW were commissioned with a total output of about 70MW with 10s of smaller schemes (mainly CHP) producing about another 5 MW or so.
- Period B: 3 large schemes provided about 137MW capacity with a further 26 schemes above 1MW providing another 100MW of DG capacity. As above, 10s of smaller schemes were connected, adding another 10MW or so to these figures.

A further query in the letter related to appropriate cost categorisation for table 1.3 and others like it in the draft questionnaire, which refer to costs not normally attributed to any individual DG project. These tables allow costs like the potential future Orkney cable that we have discussed with Ofgem to be itemised separately from expected DG projects. Our suggested headings for these tables are:

- Infrastructure;
- Research and Development;
- Planning and Design; and
- Operational and Control Room costs.

I hope this information is helpful and that you will be able to revise the draft DG business plan questionnaire to take into account our comments above.

Yours sincerely

Rob McDonald
Group Regulation Manager