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

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0141 568 4469

Dear Mark,

Structure of electricity distribution charges
Consultation paper: Proposed DNO charging methodology statements
October 2004

Thank you for the opportunity to respond to this consultation. This response is submitted on behalf of ScottishPower UK Division, which includes the UK energy businesses of ScottishPower, namely ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Energy Retail Ltd.

I hope that you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours sincerely,

Mike Harrison
Commercial Manager, Trading Arrangements
ScottishPower Energy Management Limited

STRUCTURE OF ELECTRICITY DISTRIBUTION CHARGES:

PROPOSED DNO CHARGING METHODOLOGY STATEMENTS

SCOTTISHPOWER UK DIVISION COMMENTS

1 General comments

1.1 The need for transparent, consistent approaches to distribution connection and use of system charging is clear and recognised and we welcome the move to achieve this. However we have a number of concerns about the approaches proposed by the DNOs and we explain these in more detail below.

1.2 The introduction of generator distribution use of system charges (GDUoS) and a move to 'shallowish' distribution connection charging marks a significant change in the industry and market, as such charges and charging policy are entirely new. We would question the need to make this change at this time when the industry and market are already moving towards the biggest change they will have experienced in recent years - the introduction of BETTA. Deferring the introduction of GDUoS charging would enable more time and effort to be allocated to it following the introduction of BETTA such that inconsistencies and uncertainties can be removed prior to the introduction of such new charges and policies.

1.3 In a market which is trying to encourage and support the development of distributed generation - and not just from renewable energy sources - uncertainty, lack of transparency and inconsistency presents risk - and therefore adds cost - to projects. Increased risk and cost will threaten the growth in distributed generation and will particularly affect the growth in renewable generation and the achievement of Government climate change reduction targets. We also believe that inconsistent market signals will skew the market thus hindering the growth in competition.

1.4 Such lack of consistency and increased uncertainty is displayed by the approaches of the various DNOs to issues such as:

i. Charging on the basis of installed or export capacity;
ii. Some having different statements for different areas;
iii. The possibility of locational GDUoS charges being introduced;
iv. The assessment of O&M costs;
v. The publication of EHV charges.

Everything possible should be done to minimise uncertainty and risk in the implementation of new charging approaches.

1.5 We believe there is a perception that the move to a shallowish connection boundary for distributed generators and the introduction of GDUoS is cost neutral to users. However, especially in the case of renewable distributed generation, we do not believe this is the case. Much of the new renewable generation will be connected in remote areas where the nature of the system and local market conditions mean that much (if not all) of the total capital cost of the connection will still be charged as a connection charge. The generator will though now be liable for GDUoS charges for which he is not currently charged. As a result, the generators will be subject to a significant increase in costs (which will be subject to largely

unpredictable price reviews and volatility) without much (if any) reduction in capital costs. This increase in cost will threaten the viability of many distributed generation projects - including renewables - and, as a result, threaten the achievement of Government climate change reduction targets.

2 Transmission charges

2.1 Although some mention is made of transmission exit charges and recovery of transmission costs arising from distributed generation that spills, it is not clear how the appropriate transmission charges will be recovered, e.g., whether they will be allocated directly to the parties responsible or be spread and recovered by GDUoS charges. This is a particular issue for renewable generation in Scotland, where the transmission system also includes 132kV. Much of the growth in distributed generation will come from such generation connecting at 33kV in remote (i.e., low system demand) areas where spill is likely. Without clarity and certainty on this many projects will be unable to secure project finance, thus threatening the achievement of the Government emissions targets.

3 Interim period and 2005 review

3.1 The proposed 'interim' approach should avoid existing distributed generation being penalised and we also note that the 'initial simple' GDUoS methodologies and tariffs will be reviewed during 2005. The uncertainty over the length of this interim period, and the outcome of the 2005 review, once again present project risk. Competition in generation will be hindered unless the generation market can grow and this will be hindered by uncertainty such as this. As most generation projects are financed over periods of 25 years, the proposed interim period should be at least 10 years to allow the market in distributed generation to grow and stabilise, after which system costs can be accurately assessed and apportioned via appropriate charges.

4 Volatility

4.1 To create stability in the market and allow developers to assess and manage risk properly, volatility of prices should be avoided, especially in the early days of their introduction. Price increases should be capped in line with a predictable, transparent and stable index such that developers can manage risk effectively. If this approach is not viable, then, especially in the case of new GDUoS charges, step changes should be smoothed in a transparent way to minimise year on year volatility.

4.2 In the absence of a transparent methodology for the treatment of disconnection within capacity 'lock in' periods, we support the proposal that a developer should only be locked in to a capacity commitment for 5 years.

5 Transitional Arrangements

5.1 Some DNOs suggest that generators connected prior to the introduction of the new methodologies should be able to opt in to them, presumably realising a refund of previous capital connection charges. In this event, the DNOs should provide a clear statement of how the refund of capital connection charges will be calculated

and paid, together with an assessment how any cost recovery deducted from the refund has been calculated.

6 EHV charges

6.1 Many (but not all) DNOs are proposing site specific EHV charges. Much of the growth in distributed generation will be seen at this voltage level, especially in the renewable market. Site specific charges may well be predictable once set but generally are not easily assessed in advance. We believe that they should be avoided unless clear and transparent methodologies are publicised setting out exactly how such charges will be calculated and unless a means of confirming these costs well in advance - and at little or no cost to the developer - is established.