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Our Ref: JS/GE/mc/06-0180
Direct Dial: 020 7901 7366
Email: john.scott@ofgem.gov.uk

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Dear Colleague

Decision in relation to the introduction of Engineering Recommendation P2/6 and the consequential Distribution Code amendments

Following an extended period of consultation, the Chair of the Distribution Code Review Panel (DCRP) wrote to us on 6 June 2005, on behalf of the ex-PES¹ distribution licensees² ("DNOs") seeking approval to amend the Distribution Code so that Engineering Recommendation P2/5 ("ER P2/5"), cited in Annex 1 of the Distribution Code, would be replaced by Engineering Recommendation P2/6 ("ER P2/6"). This letter sets out our decision in relation to this request.

Background to the proposed change to the Distribution Code

ER P2/5 is the standard that specifies the minimum level of supply security that electricity distribution networks must achieve. It does this by specifying the maximum restoration times for load disconnected as a result of defined network contingencies. It was introduced in 1978 and at privatisation compliance with ER P2/5 became a condition of the PES licence. It is now referenced in the distribution licence³ and the Distribution Code.

ER P2/5 does allow generation to be taken into account when assessing supply security but the methodology used to do this is only appropriate for the types of generating station that were connected to distribution networks in the 1970s. These were almost exclusively multi-unit, fossil fired, CEGB⁴ stations (100-300MW) that were centrally despatched. Most of these were closed in the 1980s.

During the year 2000, a joint Government/Industry working group was established to review network access issues for distributed generation (the Embedded Generation Working Group (EGWG)). In its final report of January 2001 it identified a wide range of

¹ The Public Electricity Supply licensees established at vesting

² All references to "distribution licensees" in this letter relate solely to the ex-PES distribution licensees. All other holders of a distribution licence are referred to as Independent Distribution Network Operators (IDNO).

³ Standard Licence Condition 5

⁴ Central Electricity Generating Board

design, operational, charging and disclosure issues where changes might be appropriate to enable the greater integration of distributed generation. One of the proposed changes⁵ related to the security contribution from distributed generation.

The Distributed Generation Co-ordinating Group (DGCG) took over the work of the EGWG in late 2001 and via its Technical Steering Group (TSG) initiated a project to review ER P2/5. The terms of reference for this project were very clear. The basic philosophy of ER P2/5 and its provisions relating to demand were to be retained. Only those parts of ER P2/5 that related to generation were to be reviewed. The initial review was carried out by selected consultants and academics reporting to a project working group. Public consultations and open seminars were arranged to allow all stakeholders to express their views as the project developed. The reports of this work were published via the DGCG's website⁶

The Energy Networks Association (ENA), on behalf of the DCRP, carried out public consultations in September 2004 and March 2005. As part of this process, responsibility for the development of ER P2/6 passed from the TSG to the DCRP. On 26 May 2005, the DCRP gave its support for the submission of ER P2/6, the associated documents and the proposed Distribution Code amendments to us for approval.

After due consideration of the DCRP's report to us, we responded to the Chair of the DCRP on 12 July 2005. In this letter it was stated that we held the view that the primary objective of the review of ER P2/5 had been met. However, two concerns were raised. Firstly, we considered that the drafting of ER P2/6 could be improved to enhance its readability, particularly for non-technical readers. Secondly, we expressed the view that the key lessons learnt during our investigation into ER P2/5 compliance⁷, which was completed early in 2005, should be taken account of as part of this decision process. We sought greater assurance from the DNOs that they were complying with ER P2/5 (and ER P2/6 if approved) and that the clarity and consistency of its application at the interface with the GB transmission system was improved. These issues are discussed later in this letter.

On 18 October 2005, the Chair of the DCRP wrote to us to submit a revised version of ER P2/6 and its associated documents that took account of the drafting issues raised by us. This letter also responded to the additional concerns raised by us. The DCRP has been kept informed of these developments. This decision letter relates to the documents submitted to Ofgem on 18 October 2005.

In December of 2005, the DNOs expressed the view that if ER P2/6 was to replace ER P2/5 in the Distribution Code then standard condition 5 of the distribution licence should be modified to refer explicitly to ER P2/6. We took the view that, though not essential, this would enhance the consistency of the licence and the Distribution Code and agreed to initiate the licence change. An Open Letter⁸ consultation was published on 28 February 2006 in relation to this licence change. This was followed by a statutory

⁵ Paragraph 3.3 of the Report into Network Access Issues (Volume 1, Main Report and Appendices) of the Embedded Generation Working Group – January 2001.

⁶ www.distributed-generation.gov.uk

⁷ Ofgem Press release R/10 of 16 February 2005 refers.

⁸

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14035_3706.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/licensing/licensingproposals

consultation published on 27 April 2006⁹. We have today made our decision¹⁰ in relation to the licence change consultation.

The DNOs' recommendation

The DNOs are represented by the Chair of the DCRP in matters relating to the Distribution Code. The Chair of the DCRP, supported by the members of the DCRP, has proposed that the Distribution Code should be amended so that the reference to ER P2/5 is replaced by ER P2/6, its associated documents (Engineering Technical Reports 130 and 131) in the form sent to Ofgem on 10 June 2005. Further, the DNOs are supportive of the minor drafting changes made in the version submitted to us on 18 October 2005. The members of the DCRP have been kept informed by the Chair of the DCRP of these drafting changes and have raised no objection to them.

Ofgem's Consideration of the Report to the Authority

The changes proposed by the DNOs are set out in the report to the Authority by the Chair of the DCRP as required by standard condition 9(2) of the distribution licence. Approval of these changes by the Authority is required by standard condition 9(3).

We have taken a close interest in the process to review ER P2/5 at all stages. We are therefore aware of the considerable amount of effort that has been invested in this project. We are also aware that public consultation has been made a priority at all the key milestones in the review process.

We consider that, having regard to the DNOs' obligations set out in standard condition 9(1)(b) of the distribution licence ("the obligations") and our wider statutory duties, the proposed changes to the Distribution Code should be approved by the Authority. Our consideration of the report to the Authority and the reasons for reaching its decision are summarised here.

i) ER P2/6

Concern has been raised by one party that the approach set out in ER P2/6 for assessing the security contribution of distributed generation is more complex as compared with ER P2/5. This could be problematic in the context of providing evidence at a public inquiry to consider an application for consent to build new distribution assets where clarity of need is important. We acknowledge this concern. It is one reason why we suggested some redrafting of ER P2/6. However, we also acknowledge that, taking account of the issues involved, the ER P2/6 methodology is appropriate.

Concern has also been raised about the governance of ER P2/6 and of the data assumptions supporting it. We addressed the generic issue of the governance of electrical standards in 2002 and consider that the measures put in place as a result by the DCRP should be appropriate to address this concern.

A number of comments were made about the demand provisions of ER P2/6. We accept that these aspects of ER P2/5 were out-of-scope of the review initiated by the DGCG/TSG. Our view of the further development of ER P2/6 is discussed later in this letter.

⁹ Available at www.ofem.gov.uk

¹⁰ Available at www.ofem.gov.uk

The application of ER P2/6 in Scotland was also raised. It was clarified by the Chair of the DCRP that the 132kV system in Scotland is classified as “transmission” and that the Security and Quality of Supply Standard (SQSS) defined in the transmission licences was the relevant standard rather than ER P2/6.

ii) Engineering Technical Report 130

ETR 130 is an application guide to support ER P2/6. A number of technical comments were received relating to ETR 130. We are satisfied that the DCRP working group gave these comments proper attention and modified the document in response where appropriate.

iii) The Distribution Code

In addition to the consequential changes needed to replace ER P2/5 with ER P2/6, a change has been made to Distribution Data Registration Code. This change will allow a DNO to request operational and outage data from generators of 1MW and above. This has been reduced from 5MW and above. Some concern was raised by DCRP members on the basis of the increased reporting burden. However, no comments were raised in relation to the Distribution Code drafting in response to the final public consultation in April 2005.

Ofgem’s view

i) ER P2/6

We consider that ER P2/6 and its associated documents properly meet the original objective set by the EGWG. Further, we consider that the TSG and DCRP working groups have developed ER P2/6 in a logical way, consistent with their agreed terms of reference and fully involving affected stakeholders in public consultation. The DCRP has given proper consideration to the comments received during the September 2004 and March 2005 consultations. ER P2/6 is a clear step forward from ER P2/5 in its ability to allow the security value of modern forms of distributed generation to be taken account of. The introduction of ER P2/6 will therefore better enable the DNOs to meet section 9(1)(a) of the Electricity Act 1989 and standard condition 9 of their distribution licences.

ii) Issues related to ER P2/6

As referred to above, the final stages of the ER P2/6 project coincided with our investigation into ER P2/5 compliance¹¹. We decided that the lessons learnt from this investigation should, where appropriate, be taken account of in its consideration of ER P2/6.

The compliance investigation focused particularly on the joint assessment of system security at interfaces between the transmission and distribution systems. A Grid Code Review Panel working group has been established to address this issue. It has reached broad agreement on the principles of the requirement for data exchange about peak demand conditions and forecast demand information. NGET hopes to be able to issue a consultation on phase 1 Grid Code change proposals this summer.

¹¹ Ofgem Press release R/10 of 16 February 2005 refers.

iv) The further development of ER P2/6

We are aware that the review of ER P2/5 has raised questions from a number of parties about the fundamental basis of this standard. ER P2/5 is based on work carried out in the 1970s. It has proved to be an effective standard, evidenced by the high reliability performance achieved by GB distribution systems. However, there is concern that some of the basic assumptions supporting ER P2/5 may require review in response to changes in the way that the distribution systems operate today. We take the view that these concerns should be addressed to establish whether there is a case for a more fundamental review of the standard.

Of particular interest to us is the relationship between ER P2/5, an input design standard, and our Quality of Service Incentive Scheme, an output performance standard. These standards are both intended to ensure a minimum level of system reliability performance and therefore should be developed in a coherent way. We are therefore pleased to see that the Distribution Working Group, successor to the TSG, is intending to examine the further development of ER P2/6. In addition, Ofgem is considering commissioning its own study of the benefits of the further development of this standard.

The Authority's decision

Based on the reasons set out above the Authority has therefore decided to approve the changes to the Distribution Code, in accordance with standard condition 9(2) and (3) of the distribution licence. The implementation date of these changes will be 1 July 2006.

It should be noted that an additional unrelated change will be made to the Distribution Code as of 1 July 2006 relating to ER G5/4. This is explained in our decision letter of today's date titled, "Decision and direction in relation to the introduction of Engineering Recommendation G5/4-1 and the consequential Distribution Code amendments".

We consider that these changes are appropriate in the context of the DNOs' objectives set out in standard condition 9(1)(b) of the distribution licence and our principal objective and wider general duties.

Please do not hesitate to contact me on the above number if you have any queries in relation to the issues raised in this letter or alternatively contact Gareth Evans on 020 7901 7347.

Yours sincerely



John Scott
Technical Director

Signed on behalf of the Authority and authorised for that purpose by the Authority