

cc M. Crouch



CE Electric UK

Your ref

Our ref

Colin Green
Ofgem
9 Millbank
LONDON
SW1P 3GE

98 Aketon Road
Castleford
West Yorkshire
WF10 5DS
tel (01977) 605 635
fax (01977) 605 811

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Dear Colin,

Long-Term Electricity Network Scenarios

Thank you for the opportunity to contribute to your development of long-term scenarios for electricity networks, outlined in Robert Hull's letter of 15 June. I write here on behalf of both Northern Electric Distribution Ltd (NEDL) and Yorkshire Electricity Distribution plc (YEDL), the licensed electricity distributors of CE Electric UK Funding Co Ltd (CE).

We agree with the view expressed in the parallel open letter from Martin Crouch of 17 May on 'DPCR 5 – looking ahead' that:

- a five-year duration for the price control remains appropriate; and
- networks and network operators need to change better to meet the challenges we face

Therefore, we strongly support the development of a range of long-term scenarios, to ensure that the forthcoming five-year control is set firmly in the context of the long-run development of long-lived assets to meet long-term social and environmental objectives.

We submit that a key question that these long-term scenarios can help answer is that of the role and responsibilities of the distribution business. For example, we can conceive of a range of possible roles for an electricity distributor, including:

- primarily to support demand. This is essentially a reactive role, with:
 - network development led by standards established primarily to protect demand customers, in response to changes in usage;
 - generation accommodated as a marginal flow; and
 - other enhancements (e.g. to visual amenity or QoS performance) made as investments marginal to the main demand-centred activity.

This is, broadly speaking, the approach taken in the existing work referred to in Robert Hull's letter; and

- primarily to support a low-carbon economy. This becomes a more proactive role, with:
 - network development led by the need to facilitate flows of low-carbon energy, driving changes in usage; and
 - some compromise of users' existing rights, e.g. through distributor dispatch of both generation and demand, to maintain reasonable levels of quality and continuity of supply.

These different aims will result in different outcomes. For example, the latter option creates the potential for distributors to provide energy services to end-users, releasing benefits to the local distribution system and/or aggregating services for the national market.

CE ELECTRIC UK FUNDING COMPANY

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You will see that these scenarios involve changes to commercial arrangements as well as engineering standards. They will likely require changes to regulation, at least where expressed as incentives.

We see a key output of the long-term scenarios work as being a high-level cost-benefit analysis of the more radical solutions, to see whether evolutionary or revolutionary approaches will better meet social and environmental objectives within acceptable timescales (it seems that the current approach is not bringing forward enough distributed energy). This analysis will allow us to lay the foundations for the regulatory framework during the forthcoming periodic review.

Following from this, we suggest some changes to Ofgem's approach, specifically that:

- the project explicitly includes (likely in phase 2) the fundamental issue of what the primary role of distribution networks in supporting low-carbon economies should be. This would change the focus on drivers from the set proposed in the 15 June letter, which are perhaps secondary to wider social and environmental issues;
- the outputs of the scenarios be constructed around reasonably detailed network architectures (commercial and engineering) that would support those roles;
- the final report be delivered in February 2008 rather than May, as it could then inform the DPCR 5 initial consultation. This would in turn allow the more viable scenarios to be reflected in the FBPQ questionnaire and companies' submissions; and
- to facilitate this more aggressive timetable, the analysis of the 2025 'waymarks' be dropped. Instead, we suggest that the radical '2050' forward view be back-cast directly to the 2010-15 period.

Please could you reserve us a place at your forthcoming workshop on this issue: we apologise for being late in responding to your call on this. We shall be represented by Dave Miller, (0191 387 7140; david.miller@ce-electricuk.com).

We look forward to continuing to develop this project with you. Should you wish to discuss the issues raised in this letter, please contact either me or Dave Miller.

Given the strong overlap we see with DPCR 5, I am sending a copy of this letter to Martin Crouch.

Yours sincerely



Mark Drye
Director of Asset Management