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Dear John

### **Engineering Recommendation P2/6**

Thank you for the opportunity to comment on P2/6 issues, and to participate in the debate at Millbank on 14 September.

We believe there are two fundamental issues: is P2/6 conceptually still fit for purpose, and secondly if so, is it appropriately drafted and implemented. In addressing the first point, we believe it is necessary to consider over what timescale this question is posed. We are aware that the standard was redrafted from P2/5 essentially as a stop gap to allow the contribution of DG to be recognized. Given that P2/6 was only introduced in July 2006, we feel it is premature to comment on its effectiveness in this regard. We agree with KEMA/IC's conclusions that a standard is important for networks that are automatic firm, and where the effect of a single fault or planned outage has no direct customer effect. Similarly we agree that IIS is now a far stronger driver of system operation and design than P2/6 is for radial systems. We are comfortable with these arrangements in general, assuming we retain the right to agree with Ofgem the parameters of the IIS scheme as part of the Price Control Review. We are not comfortable with the operation of IIS and Guaranteed Standards for outages on automatic firm systems, generally operating at 33kV and 132kV, and will elaborate on this disquiet below.

At the 14 September workshop we think we detected a belief amongst the Ofgem members that DNOs should be exposed to the full cost of outages on customers, and that that would lead DNOs to invest appropriately to reduce this level of risk. This aspect was not fully debated, and was also discussed in relation to whether NGET exit charges should remain pass-through or not for the same reason. We have grave concerns about this line of thought. Continuity of supply cannot ever be completely guaranteed, and customers are best placed to mitigate the particular costs to them individually of loss of supply. On the other hand we recognize that appropriate incentives on us are important for events over which we have significant control.

If a DNO is exposed to significant costs as a result of a loss of supply incident, the DNO will naturally be incentivized to seek lower risk approaches; lower risk approaches invariably mean more cost and this will put upward pressure on prices to customers. We are already seeing this tension in our own investment planning when considering the operation of the current incentive scheme and Guaranteed Standards for unplanned outages associated with investment projects; ie the realization of the DNO's exposure to IIS and GS costs is driving risk-averse capex intensive 33kV and 132kV schemes. This is not necessarily wrong, as there should be an appropriate trade off between cost and risk. However this needs to be done carefully if inappropriate incentives are to be avoided, and the wrong balance between risk and cost struck. Arguably getting this balance right is precisely what P2/5 set out to achieve in 1978, and whilst we accept that the cost benefit analysis done then cannot be appropriate now, that is not the same as saying the DNO should simply be exposed to the downside cost instead.

To summarize this point, we believe the focus on developing the IIS was on consumer effects largely emanating from the HV and LV systems. We are concerned now that operating experience is demonstrating an increasing risk for DNOs from long term 33kV and 132kV construction projects, and that the rational DNO response could be to decrease DNO and customer risk, but at the same time increase unit costs of capital intensive jobs. It is not clear to us that customers would necessarily want us to make this cost/risk trade off, or if they did, to what extent there should be movement from the historic status quo.

In the 14 September meeting the point was made that there was a notional democratic legitimacy to the effects of P2/5; it was completely blind to individual customer type, and simply tried to secure Demand to a particular standard, rather than securing supplies to customers. We continue to believe that in general this remains correct; to do otherwise is either discriminatory, or will inflict mitigation costs on some customers over and above those which they would choose, if they were able so to do. Of course, though, we support customers' rights to try to contract for higher levels of security on individual bases should they so choose, and to the extent that it is practicable.

We believe that your letter and workshop did usefully explore two related issues, the effect of long construction outages, and High Impact, Low Probability (HILP) events. We note from the opening tenor of the discussion around HILP from DBERR that the focus is on events affecting customers who have an unusually high contribution to GDP. Whilst agreeing this point, we also believe that any prolonged outage of a significant number of customers for a protracted period deserves more consideration than the current industry arrangements allow for. In terms of mitigation we agree that there needs to be an effect threshold, but this needs to be based on a wide consideration of the effect of supply loss. For example, the loss of 50 000 customers fed from any BSP for a fault overlapping construction work might mean that some of these customers could be supplied only by rota disconnection for a week or more, or even be without supplies for this time; or a similar loss of a GSP might affect 5 times this number, but for, say, three months. Any loss of supply for 24 hours could be considered high impact, but we know that such effects in the UK are almost completely unknown (unless

associated with other disruption caused by severe weather) and are therefore very low probability. We believe that the risk, although low probability, does require more consideration than it has received in the past, and we look forward to contributing to the industry work on HILP events that the ENA has volunteered to run, and where we will be looking to test that the threshold for consideration of HILP is drawn appropriately. In advance of this work being undertaken we do not currently have a view as to whether this suggests an amendment to P2/6 in this regard, or whether any such consideration is better made outside of P2/6.

Turning finally to the drafting issues in the short term, we continue to believe that there is little deficiency in the current drafting of the licence, of P2/6, and critically of the associated ETR 130. You will recall that on 14 September we drew your attention to ETR130 as supplying some of the additional clarity of interpretation that the KEMA/IC work claims is missing from P2/6 itself. We would agree that P2/6 definitions in themselves are rather terse, but we are aware of the significant drafting effort that went into reviewing the interrelation of the terms and documents and we are not optimistic that it will be easy to make worthwhile improvements. We also believe that there are no practical deficiencies with the licence drafting. To us, the licence and P2/6 (and the D Code) compel us to work to P2/6; we believe that to do otherwise leads straight to the probability of an investigation by Ofgem. We believe the Ofgem investigation of EDF in 2004 demonstrates the power of the licence drafting. Since we already believe the licence to be effectively binding on us, we would have no objection in principle to the licence drafting being amended to make it more precise in this regard.

In relation to some of the challenges made at the 14 September meeting, we do recognize that applying P2/6 (and GBSQSS) to complex networks requires care, attention to detail, and a deal of network information in relation to loadings and ratings. We do recognize two places where we see some issues of interpretation. The first is how to deal with the demand associated with single large customers who have non firm connexions. In the network close to their installation there is usually no problem of compliance interpretation, but moving away further away from their locality, the effect of their demand will sometimes need to be included and sometimes not. We note that the logic for such an approach is not codified.

The other area is the demand to be supported under second circuit outage in class E. P2/6 allows for debate about whether this is just two thirds of the Group Demand (which is the simple interpretation of P2/6 drafting) or if it is actually the maximum demand in a season that is not the season of the peak demand. Although this does seem to be a serious interpretation point, we believe that its practical effects are very limited because the consideration mainly occurs at the interface with NGET occurs, and where GB SQSS applies. SQSS requires the off-peak season MD to be supported, and as this is more onerous than P2/6, will be the operative design. We note that this understanding is only really just emerging as part of the Grid Code Review Panel work on interface data exchanges for compliance. We note that relying on G Code requirements and GBSQSS drafting to force

an interpretation of P2/6 is far from ideal, but we can see that it is at least a practical solution that should serve in the short/medium term.

Finally, as the question of regulatory enforceability, we note the discussion on this on 14 September and do tend to the view that Ofgem's decision to investigate EDFE in 2004 does indicate that the regime probably does have sufficient teeth.

As always, we will be very happy to discuss any aspect of our response or the wider debate with you. Please feel completely free to contact us.

Yours sincerely,

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