



Scottish and Southern
Energy

Options for Competition in Connections
23rd May 2008
Malcolm Burns, Regulation Manager

Options for Competition in Connections

Agenda

- Competition in Connections
- Facilitating Distributed Generation

Competition in Connections

- Concerns have been expressed around two broad areas:
- The **pace** of development of competition and
- the **service** provided to customers

Development of Competition

- Although the pace of development of competition has been slow, there are indications that it is picking up. The 2006/07 CIR indicated that:
 - Whilst ICP activity at LV was static;
at HV it has more than doubled
 - IDNO activity at LV has tripled
- The 2007/08 CIR and the new LC4F reporting will provide further information on how competition is developing

Development of Competition

- LC4F is new. It is too early to judge whether further obligations are required
- Licence obligations should only be introduced where the existing provisions are not working
- For the new housing and I&C sectors, IDNOs and 'out of area' DNOs are very active
- SSE are active as an 'out of area' connections provider under our National Networks banner

Development of Competition

- Many developers opt to place their work with the DNO. In SSE, in area and out of area
 - We are proud of our service
 - We are proud of our delivery
- The measure of success should be more than simply assessing market share
- Where sectors are demonstrably competitive the DNO should be allowed to make a margin

Development of Competition: The Domestic Market

- Competition at the lower end of the domestic market has not been successful to date
- It may be uneconomic to develop further measures to 'stimulate' competition
- These connections could continue to be offered as a regulated product of the DNOs

But

- A standard price would not be appropriate

Service Provided to Customers

- All DNOs should now be working to the best practice guidelines
 - More transparent costs
 - More information to customers
- But, we could still do more on customer service
 - More could be done in the area of delivery
 - Consider standardised processes
- Willing to explore what incentives would be appropriate

Facilitating Distributed Generation

- It has been suggested that DNOs could do more to facilitate the connection of distributed generation (DG)
- There are three areas to consider
 - Is the cost of connection a barrier to entry?
 - Are the current charging structures appropriate?
 - Are the current incentives adequate?

Facilitating Distributed Generation: Barriers to Entry

- Ofgem have noted that there appears to be no evidence that DG has been unable to connect
- COG are considering the use of a standardised connection agreement for generation
- From our experience, the barriers appear to be
 - Obtaining planning consent; and
 - Transmission access (in the north of Scotland)

Facilitating Distributed Generation: Structure of Charges

- Incremental pricing models give unstable and volatile charges
- In the north of Scotland, most **renewable** generation is normally connecting in areas of low demand
 - Locational use of system will be positive and could deter this generation
 - This acts counter to government and European policy that is seeking to encourage DG

Facilitating Distributed Generation: Incentives

- The current DG incentive is relatively new and needs time to bed in
 - Any changes should be incremental
- We believe that the RPZ incentive has been positive and should be continued
 - We anticipate developing further DG schemes
 - We believe that RPZ could be extended to demand situations

Options for Competition in Connections: Summary

- The pace at which competition is developing has been slow, but it is picking up
- ‘Success’ should be measured by more than market share
- Improved customer service will help everyone

- DNOs are keen to facilitate the connection of DG
- Barriers to entry centre around planning consent (and transmission access in the north of Scotland)
- RPZ should be developed further
 - for both generation and demand