Your ref

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Dear Erik

Long Term Electricity Network Scenarios (LENS) project

I am writing on behalf of Northern Electric Distribution Limited (NEDL) and Yorkshire Electricity Distribution plc (YEDL), the licensed electricity distributors of CE Electric UK Funding Company Ltd, (CE Electric UK), in response to your LENS consultation letter dated 14 May 2008.

As I indicated in my letter dated 15 January, we are supportive of the LENS project and believe the progress made in the latest stage of the project has been helpful.

The key challenge for the project team going forwards is to ensure that the project delivers tangible benefits so that the results can be used by all stakeholders to guide their future direction. In order to do this it will be necessary to be able to demonstrate that the scenarios are more than just plausible scenarios, by confirming that they are economically viable and would provide an economic and efficient means of meeting our energy requirements in a sustainable way.

I have provided responses to the specific questions raised in the consultation letter as an appendix to this letter.

I hope you find these comments helpful. If you have any questions or would like further discussions about any issues in this letter, please do not hesitate to contact me or Alan Creighton on 01977 605920.

Yours sincerely

Mark Drye
Director of Asset Management

Appendix

Response to Consultation Questions

Question 1. *Do you have any comments on the energy and network scenarios for 2050 set out in the interim report, or on the method used to derive them? In particular*:

Question 1(a). *Do you agree that all of the network scenarios are plausible? If not, please explain why you think that one or more of the scenarios are not plausible*.

The five network scenarios all seem plausible, although there appears to be little distinction between some of the scenarios e.g. the networks themselves described in 9.3 and 9.4 appear to be very similar, with the main difference relating to the way in which the network is managed and the party responsible for managing it. Similarly the networks described in 9.1 and 9.5 appear to be very similar. There may be merit in clarifying the differences between the primary network assets, secondary network assets and the way in which power supplies are managed in the various scenarios, as this will make them more meaningful for each stakeholder.

Given the range of the scenarios, it would be helpful if there was a view expressed in the report, as to which scenario(s) seems to be the *most* plausible or at least the one that the government believes illustrates the direction appropriate for the UK to take. I can appreciate that this could be considered to be out of scope of the work, but if the work is to help shape the future of the electricity network, there is a need for some thinking in this area. The identification of the most plausible network scenario(s) should be based on a full economic assessment, taking into account the costs of implementing new technology, constructing new primary and secondary infrastructure etc. in addition to the energy related implications.

Question 1(b). *Do you agree that the interim report demonstrates that the network scenarios, between them, span a suitably wide range of plausible outcomes for GB electricity networks in 2050? If not, what essential features do you think are missing and could these potentially be accommodated within the existing scenarios?*

The five scenarios cover a wide spectrum ranging from a multipurpose network (which appears to be a 'natural' development of the present network) to a very lean network where consumers largely take responsibility for their own energy requirements. It is difficult to envisage other future network scenarios that would not be covered by one of the five scenarios.

Question 2. *What are your initial views on transitional issues and 'way-markers' for 2025, in light of the scenarios for 2050 set out in the interim report?*

In order to make sure that the LENS study can materially influence the development of the networks, there is a clear need to consider how the report will actually be used by all the stakeholders. Developing a transition plans towards 2050 is essential, and it would probably be beneficial if such plans included additional interim waymarkers before and after 2025.

Question 3. *What are your initial views on the most important issues for networks and for the regulation of networks that arise in light of the scenarios for 2050 set out in the interim report?*

Some of the scenarios represent a material change in the way networks are designed and operated; moving in the direction of some of the scenarios could create some major issues for networks. Those scenarios that seem to require the most immediate change are those in which there is a potential requirement not to replace time expired assets and those requiring new regulatory / commercial environments which facilitate energy to be managed at a local level.

Given that the life of primary network assets is in excess of 40 years, and the configuration of networks can last much longer, in order to economically deliver 'lean' networks by 2050 there would need to be a decision taken relatively shortly to reduce investment in primary assets. This would be

a high risk strategy given that other scenarios require primary network assets to be at least maintained at their present level.

Scenarios described in 9.2, 9.3 and 9.4 require distribution networks to be managed more proactively than at present and for consumers to actively manage their energy requirements. It is unclear at the moment whether such changes would be market led i.e. driven by consumer demand for more environmentally friendly energy, regulatory led e.g. by the need to accommodate wide scale penetration of microgeneration units as part of a drive to meet building regulations and create zero carbon homes, or whether network operators / service providers would be expected to drive change, potentially by investing in facilitating infrastructure and systems ahead of a well defined need. Presumably these issues will be considered as part of the transitional analysis in the next stage of the project.

The most important issue for networks therefore remains one of uncertainty.

Question 4. *Do you see benefit in a fourth (and final) stakeholder event for the LENS project, following publication of the June draft scenarios report?*

On the basis that the work aims to shape the way in which networks develop in the future, it would seem to be essential to raise the profile of the work and maintain stakeholder engagement. It would seem reasonable to hold a final event to facilitate discussion of the work carried out in the final stage of the project and clarify the next steps.

Question 5. *Do you have any other comments or views about the LENS project that you wish to raise at this stage of the scenario development process?*

The role of an ESCO in the scenario described in 9.2 is described in a great level of detail and perhaps paints a picture that their role and interface with the DSO is complex. There is a view, supported by the work of Ofgem and BERR in their distributed energy working group, that ESCOs could operate over public licensed networks as well as over private wires and that the DSO may be the most appropriate party to act in this capacity.