



Rachel Fletcher  
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Dear Rachel,

**Response to the Consultation on the Next Steps in Delivering the Electricity Distribution Structure of Charges Project**

Thank you for the opportunity to respond to the Consultation on the next steps in delivering the electricity distribution structure of charges project. This response is submitted on behalf of ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Renewable Energy Ltd and represents our views as both the owner of existing distribution connected generation plant and a developer of future distributed generation in support of the Government's environmental targets.

ScottishPower supports the development of a single cost reflective charging regime for distribution charges supported by a common charging methodology. However the pursuit of this goal should not lose sight of the need to develop an appropriate methodology and we do not consider that the application of a Long Run Investment Cost (LRIC) methodology to Extra High Voltage (EHV) users is appropriate particularly for distribution connected generators.

Under the existing transmission charging Investment Cost Replacement Pricing (ICRP) methodology, transmission system users are subject to extreme, volatile and unpredictable charges and introduction of the LRIC methodology would impose a similar regime on distribution system users. This would act as a major disincentive to investment in generation at a time when major investment is required (a large proportion of which will be connecting to the distribution system) both to meet the Government's environmental targets and ensure security of supply.

In the consultation document, Ofgem recognises that the pros and cons of the LRIC and Forward Cost Pricing (FCP) models "were finely balanced" and acknowledges that the LRIC model "can yield very high or low prices depending on how close to full capacity the network is" and "it can also result in charging volatility if, for example, a new large load changes the capacity loading in a particular part of the network". The effect on distribution charging from these two flaws is sufficient to act as major disincentive to invest in distributed generation.

**The Way Forward**

ScottishPower does not consider that it would be appropriate for the Authority to refer the whole package of measures to the Competition Commission for a ruling as the industry has already agreed a common methodology for all but the EHV connected customers. We believe that a

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collective licence modification could be introduced for HV/LV connections which would leave only the LRIC / FCP issue to be resolved for EHV connections.

We do not believe that the status quo (Option 2A) is acceptable as it prevents realisation of the full benefits of a common methodology for connections at all voltages. Referring the EHV issue to the Competition Commission (Option 2B) would allow resolution of the issue, however we still believe that the issue should be resolved through an industry-wide working group involving the participation of the DNOs, their EHV customers (both demand and generation) and other interested parties. Should this fail to achieve resolution of the issue, then a Competition Commission referral remains a final option.

I hope these comments are helpful. If you wish to discuss or clarify any of the points we have raised then please do not hesitate to get in touch.

Yours sincerely,

**James Anderson**  
**Commercial and Regulation Manager**