Lewis Hodgart
Distribution Policy response
Networks – Distribution
Ofgem
9 Millbank
London
SW1P 3GE

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0141 568 3209

Dear Lewis

Next Steps in delivering the electricity structure of charges project

Thank you for giving ScottishPower Energy Retail the opportunity to respond to the above Consultation document. As requested we have provided responses to the specific questions raised within the Consultation document.

This response is non-confidential and ScottishPower are happy for this to be posted on your website.

Chapter 2 – Drivers for the structure of charges project

Question 1: In this chapter we highlight the key objectives for the structure of charges project and explain why these objectives are policy priorities for Ofgem. Do you consider that Ofgem is right to prioritise delivery of these objectives?

We understand the requirement for appropriate cost reflective pricing signals to ensure efficient use of distribution assets, to influence future investment to enable network development and to facilitate competition. ScottishPower believe that Ofgem are right to prioritise delivery of these objectives and to ensure that network users are provided with sufficient detail on network pricing policy to enable them to make fully informed connection decisions.

Question 2: Given the potential benefits of delivering the project for electricity customers, generators, distributors and suppliers, do you agree that it would be appropriate for Ofgem to continue to pursue delivery of the project?

We believe that the Structure of Charges Project should continue, as we believe that the project presents a clear opportunity to deliver distribution use of system charges that not only encourages network investment but ensures specific customers groups are not disproportionately disadvantaged by their geographical connection location on the

network Delivery of the project objectives should therefore take into account the full nature of locational network characteristics and future load growth requirements. We believe that there are clear advantages of DNOs adopting a common charging methodology at HV/LV level. Benefits can be gained by the application of consistent charging principles coupled with consistent charging components will result in charges that are transparent and offer longer term stability. However, when adopting a common charging methodology clear consideration requires to be given to the benefits brought to the overall network by the connection of embedded generators. We need to ensure that these generators are not unjustifiably disadvantaged by the application of a charging model that introduces further uncertainty in terms of use of system charges and in some instances penalises exporting activities.

ScottishPower Energy Retail, for example, has a number of HV/EHV embedded generation customers who experience continued unpredictability in use of system charges. The number of embedded generation sites that we service has increaseddue to environmental initiates and increased climate change awareness. DUoS charging of capacity and reactive consumption by suppliers in such sites is fundamentally impaired in generation mode as the export power not only increments the active export channel of the quadrant meters used to derive HH data, but may also increment the reactive import channel through coupling of the reactive import energy to the active export energy, affecting customers' DUoS charged units for both availability and reactive power. One solution would be to inhibit DUoS charges within customer bills when the site is generating, thus leaving only Generator DUoS charges; however, the active export channel data is not available to suppliers therefore an appropriate strategy for DUoS charging within customer bills needs to be agreed between the DNOs or by Ofgem. This problem has been discussed by the DNOs for several years under the auspices of Elexon, without resolution as yet.

For small generators the levels of use of systems charges that are applied as a result of this are often minimal, however for larger generators the values can be substantial. While this issue may not be directly related to the application of an LRIC costing model, inhibiting the application of use of system charges to when a site is generating, for example, would assist in partially overcoming this problem. From our understanding of the LRIC costing model, which would be applied at EHV level, further unpredictability of charges could exist as the LRIC model can produce very high or very low use of system prices depending on how close to full capacity the network is, or depending on the rate of underlying load growth. If competition is to be encouraged in generator connections, predictability and stability in use of system charging are key considerations. We would be concerned if a particular charging model was to discouraged connections or had the potential to commercially disadvantage embedded generators.

Chapter 3 – Next steps in delivering the structure of charges project

Question 1: Do you consider that it would be appropriate for the Authority to refer the package of measures consulted on in our October proposal for a ruling by the CC?

ScottishPower Energy Retail does not believe that the Authority should refer the package of measures to the Competition Commission. This view takes into consideration the recognition of the potential risks of applying the LRIC at EHV level and that the perceived benefits to consumers may be achieved through other options. Of the suite of Options outlined within the consultation agreement, we would state a preference for Option 2A. Our reasons for this approach are detailed below.

Question 2: Do you consider that it would be more appropriate for the Authority to modify the October proposal by excluding the requirement for a common charging

methodology at EHV level, and opening a CLM statutory consultation on a modified proposal to deliver commonality at HV/LV level only?

It is our view that Ofgem should consult with DNOs on a Common Methodology for HV/LV levels excluding EHV. This would bring a common structure of charges that would apply to the largest majority of customers supplied. If individual DNOs can develop and demonstrate a more appropriate cost reflective charging methodology for EHV taking into account specifics of individual network design, this should be allowed. Each DNO has developed preferred analytical models that allow them to plan efficient and economic network reinforcement. We are of the opinion that commonality can still be achieved at EHV level by agreeing charging components that are consistent across networks while utilizing individual costing models.

As mentioned previously consideration requires to be given to the benefits brought to the overall network by the connection of embedded generators. This methodology should not only introduce appropriate pricing signals to encourage network investment but ensure that specific customers groups are not unduly disadvantaged by instability in charging brought about by small changes to projected growth in network connections. Delivery of the project objectives should therefore take into account the full nature of locational network characteristics together with future load growth requirements.

Question 3: If you agree that it would be appropriate to consult again on a modified CLM proposal at HV/LV level, do you consider that it would be appropriate for the Authority to refer our October decision to implement a common LRIC methodology at EHV level for a ruling by the CC?

We do not believe that it would be appropriate for the Authority to refer the matter to the Competition Commission.

Question 4: Are there options we have not considered for ensuring delivery of the structure of charges project, if so what are they?

No comment.

Please do not hesitate to contact me at the above telephone number should you wish to discuss this response in more detail.

Yours sincerely

Marie Clark
Energy Commercial Manager
ScottishPower