

Inveralmond House 200 Dunkeld Road Perth PH1 3AQ

Rachel Fletcher Director, Distribution The Office of Gas and Electricity Markets 9 Millbank London SW1P 3GE

> Tel: 0118 9534673 Fax: 01738 456415

> > 10 December 2009

Dear Rachel,

Consultation on IDNO/DNO boundary equipment and which parties should fund this equipment

SSE welcomes the opportunity to respond to Ofgem's consultation on IDNO/DNO boundary equipment and which parties should fund this equipment. Our general views on this issue are set out in this letter; we have addressed the specific questions asked by Ofgem in Appendix I.

As a DNO and an owner and operator of out-of-area networks, we are in a unique position to be able to take a balanced view of the requirement for IDNO/DNO boundary equipment and the benefits associated with this measurement to both parties.

As Ofgem states in the consultation, there are several benefits provided by measuring electrical flows at the boundary. We believe that not only are boundary meters beneficial to both the IDNO and the DNO, they are necessary to ensure compliance with the Electricity Act (1989) and the Electricity Distribution Licence, i.e. to develop and maintain an efficient, coordinated and economical system of electricity distribution.

The benefits of boundary metering include the control and identification of losses to ensure accurate loss reporting, thereby allowing the IDNO and the DNO to efficiently operate their networks; ensure accurate billing of IDNOs with minimum time and effort on the part of the IDNO; allowing the identification of unmetered supplies on the network, again allowing the IDNO and DNO to increase the efficiency of their network; and, identification of theft on the network.

In addition to this, from a customer service perspective, in the event of a system overload, for example, boundary meters allow the identification of the section that is overloaded, thereby reducing the number of disputes over liability for customer interruptions, customer minutes lost, compensation payments and the allocation of repair costs. This is beneficial to customers connected to both the IDNO and DNO's network.



It is clear from the above that the benefits of measuring electrical flows across the IDNO/DNO boundary fall to both the IDNO and the DNO. We therefore disagree with Ofgem's view that the majority of the benefits that arise from boundary metering fall to the DNO and that DNOs should therefore bear the full cost of boundary metering.

We understand the importance of IDNOs in promoting competition and providing innovative services, particularly as we own and operate out-of-area networks. Moreover, we recognise the concerns expressed by some IDNOs that the cost associated with boundary meters can be disproportionate, particularly for embedded LV networks. As such, and as detailed in our letter of 2 March 2009, we are keen to ensure a suitable and proportionate approach to measuring/estimating electrical flows at the boundary. Specifically, for embedded networks with a capacity below 70 kVA, the point of isolation could be fitted with 100 ampere fuses which would provide adequate protection from overloading whilst still meeting the requirements of the embedded network load characteristics. However, we would need clear rules on how distributed units and losses would be estimated and accounted for.

We believe that an industry wide approach to minimise boundary meter costs to IDNOs by considering the other options available, particularly for embedded LV networks, would be the most effective way to address this issue. We would be happy to work with Ofgem and the industry to develop and progress appropriate solutions.

A further option, which could be combined with the above approach, would be for the DNOs and IDNOs to share the costs associated with boundary metering (or such means to measure electrical flow as are deemed to be suitable and proportionate). This could provide a balanced solution to the issue of cost apportionment and is consistent with the evidence provided above which demonstrates that both IDNOs and DNOs benefit from the provision of boundary meters.

Notwithstanding the above, if Ofgem's minded to position that DNOs should bear the full cost of boundary metering equipment persists, given the timing of this consultation, we would fully expect that costs incurred in measuring electrical flows at the boundaries in a proportionate measure would be allowed as efficient costs and logged up through DPCR5.

If you have any questions please do not hesitate to contact me.

Yours sincerely,

Paul Hemsley

Regulation Manager



Appendix I – Consultation Response

CHAPTER 2

Question 1: Have we accurately understood the annual charges for boundary metering levied by DNOs in Table 1.1?

Yes, these charges look to be in the correct order of magnitude.

Question 2: Why are there such large variations in the charges levied by DNOs for boundary metering?

There is no common technical specification available for the meters to be used for boundary metering. Individual DNOs or IDNOs select what they believe to be the most appropriate type of meter. This leads to variation in meter type and hence the large variations in charges.

Question 3: To what extent do IDNOs provide the boundary meter and data retrieval services themselves and what barriers prevent them from doing so on a wider scale, given the evidence we have that this may reduce their costs?

From our own experience of being an operator of out-of-area networks, we provide the boundary meter and data retrieval services in two DNOs' areas; in all other areas the DNO has been the provider of the boundary meter and data retrieval services.

As a DNO, we have experience of IDNOs agreeing to provide meters and subsequently failing to do so. This is potentially a high risk option for the DNO, as we are reliant on the IDNO providing the required data.

Question 4: Are we correct in assessing the level of additional costs required to accommodate the necessary technical and isolation equipment required at the ownership boundary between networks?

Although paragraph 2.9 confirms the need for technical and isolation equipment at the ownership boundary between networks to comply with ESQCR, we cannot find reference to the level of additional costs associated with this in the consultation document.

For HV and EVH connected networks, subject to accreditation tests, we allow IDNOs to use our existing equipment for isolation, thereby minimising the cost to the IDNO.

Question 5: Have we correctly understood the additional costs associated with accommodating boundary metering at sites?

The additional costs to accommodate boundary metering at an LV substation and LV pillar are in the correct order of magnitude. However, there are other examples of additional costs being involved in accommodating boundary meters at LV level at an LV link box and at HV and EHV levels.

Paragraph 2.10 states that Ofgem's understanding is that the additional costs for accommodating the boundary metering over and above the costs required for the necessary isolation equipment could be substantial. This would be better clarified if the costs for both the necessary isolation equipment and additional cost for accommodating the boundary metering equipment were assessed separately for examples at all voltages.



CHAPTER 3

Question 1: Have we captured all the arguments for and against boundary metering, and the reasons why flows should be measured across the boundary?

We believe there is an argument for boundary metering that is not included in the consultation document. As detailed in our covering letter, in the event of a system overload, for example, boundary meters allow the identification of the section that is overloaded, thereby reducing the number of disputes over liability for customer interruptions, customer minutes lost, compensation payments and the allocation of repair costs. This is beneficial to customers connected to both the IDNO and DNO's networks.

Question 2: Have we identified all the reasonable alternatives to uniform half hourly boundary metering which can measure flows of electricity between DNO and IDNO networks?

One other alternative that has not been identified in this consultation would be to make use of boundary metering to bill portfolio data. The risk attached to this option is that the DNO is reliant on the IDNOs to provide settlement data for customers and tariff groups.

Question 3: We welcome views on whether our illustrative analysis is an accurate picture of the costs and benefits of boundary metering.

See answer for Question 4 below.

Question 4: Why would IDNO networks incur losses which are 7-10% higher than those on similar DNO networks?

It is unlikely that IDNO networks would incur losses which are 7-10% higher than those on similar DNO networks. However, without boundary meters we would not be in a position to verify the losses on the IDNO network. Also, to give an accurate picture, we believe that other factors should also be included in the cost/benefit analysis such as accurate billing of IDNOs and the customer service benefits associated with being able to identify overloaded sections of the network.

Question 5: We welcome respondents' views on the conclusions which should be drawn from this analysis.

As detailed in our covering letter, we believe that both IDNOs and DNOs benefit from the measurement of electrical flows across the IDNO/DNO boundary. We believe there are other options to full Half Hourly metering for less than 70 kVA LV networks, and progression of these options by DNOs would allow IDNOs to minimise costs.

CHAPTER 4

Question 1: Do you agree with our minded to view that DNOs are best placed to decide the most appropriate arrangements for measuring electrical flows between DNOs and IDNOs, and that by bearing the costs of the arrangements they choose, more economical arrangements will be chosen?

We agree that DNOs are best placed to decide the most appropriate arrangements for measuring electrical flows between DNOs and IDNOs. However, as both IDNOs and DNOs benefit from this measurement of electrical flows, we do not believe it is appropriate for DNOs to bear the full costs. Nevertheless, we do understand that, particularly for embedded networks connected to LV, boundary metering can account for a large proportion of the cost.



We would therefore consider looking at progressing alternative options to full HH metering at LV with Ofgem and the industry.

Question 2: Are there any practical difficulties that respondents can identify with implementing our minded to position?

If Ofgem's minded to position is to be implemented, due to the timing of this consultation (i.e. subsequent to the DPCR5 Final Proposals being published), the practical issue of how the costs borne by the DNOs could be recovered would need to be considered. We propose that the costs should be allowed as efficient costs and logged up through DPCR5.

Question 3: We welcome views on the proposed ways forward for the development, procurement and governance of a portfolio billing system.

For this to be effective, an industry wide solution must be developed that all parties have signed on to.