

Chris Chow
Ofgem
9 Millbank
London
SW1P 3GE

Your ref

Our Ref

Jim McOmish

Date

23 August 2010

Contact / Extension

01698 413 407

Dear Chris,

Collective Licence Modification proposal ref 92/10

Proposed modification of standard licence conditions 1.3, 50.10, 50A.11, and introduction of new SCL13A.5 and SLC13B.6

In response to the statutory notice date 23 July 2010 in respect of the above proposed modification, I am writing to accept these proposed changes upon behalf of SP Distribution Ltd and SP Manweb plc.

This acceptance is provided in the interests of pragmatism, in an effort to deliver the EDCM project, and in the light of specific assurances that were sought from Ofgem and provided in the decision document Electricity distribution charging boundary between higher (EDCM) and lower (CDCM) voltages reference 90/10.

As previously communicated, SP Energy Networks (SPEN) strongly disagreed with these on a basis which whilst achieving commonality among DNOs, it is not technically consistent and will create anomalies among customer groups connected to/close to primary substations.

For example:

- a) An individual customer who is sole customer connected to a primary substation. This customer has paid the capital costs of the primary substation and all the upstream EHV connection assets through their connections charges, and the probability of the EHV assets being shared use at a future point is negligible, due to the location of the substation in the customers site and the customers demand requirements. Under the Licence changes this customer will transfer to EHV charging, we believe this is consistent with the intent of the proposals and customers will find this intuitively correct.
- b) Two customers supplied from the same primary substation with similar capacity requirements and each supplied by 2 dedicated HV circuits, approximately 50% of the primary substation capacity is used by other HV/LV customers. One customer is metered at the circuit breakers in the primary substation, one is metered around 100m away at the circuit breakers in a separate customer substation. Whilst neither of these customers has any sole use EHV assets, under the Licence changes the first of these customers will transfer to EHV charges, whilst the other would remain HV and face distinctly different charges. We believe it is not appropriate for either of these customers to be charged as an EHV customer.

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- c) A customer who has a dedicated EHV assets including a primary transformer, as a result of the motor start currents arising from the customer's industrial process causing unacceptable voltage deviations for other customers. This customer is metered at 11kV at the customers site (around 1km from the primary substation) with an alternative 11kV standby supply from the 11kV network which can only be used in emergencies and under strictly controlled circumstances. It would seem appropriate that a customer who has a sole use 33kV circuit breaker, 33kV cable and 33/11kV transformer would be charged as an EHV customer, however the Licence change requires that this customer continues to be charged as HV.

We have tried to influence Ofgem's decision on this, providing evidence and real examples that we believe clearly demonstrate that a more appropriate solution would be to extend the existing EHV customer definition to include customers who are the sole users of primary substations (this would affect around 50 of our customers), but not to mandate inclusion of customers who are supplied from a primary substation shared with other customers (e.g. the first customer under example b above).

We have also explained to Ofgem that this Licence change will result in up to 300 of our customers transferring from HV to EHV tariffs, this appears to affect our customers disproportionately as Ofgem quote a UK total of around 400 customers affected. This is particularly as a result of the highly utilised SP Manweb network design which uses smaller primary transformers and HV cables, and consequently connects smaller HV customers at primary substations than typical for other DNOs. The precise list of customers will only be able to established following site visits to each of these, and subsequent liaison with suppliers and meter operators. These significant logistical challenges dictate that the price disturbances resulting from this boundary change are not yet fully understood. Only a small subset of this customer group has been considered by EDCM project consultations and communications to date (>10MVA).

In assessing how to respond to this proposed Licence change, SPEN sought and was provided assurances from Ofgem, some of these are detailed in the decision document Electricity distribution charging boundary between higher (EDCM) and lower (CDCM) voltages reference 90/10 as follows:

Extract from summary:

'We note that this new boundary will require DNOs to conduct further work to identify the customers captured by the EDCM and to model the charges that arise when these customers are included in this charging methodology. Particularly where DNOs have a large number of customers migrating to the EDCM, we recognise that this may have an impact on the timescale within which it is possible for the DNO to apply EDCM charges on customers affected by the boundary decision. We will take this factor into consideration when reviewing the DNOs' EDCM submissions later this year.'

Section 4.4

'DNOs are affected differently by this decision. Some have very few additional customers to model in EDCM as a result of lowering the boundary whilst others may have more than 200. DNOs who may find it difficult to comply with our decision or proposed licence conditions on the boundary within the required timescales for submitting their EDCM proposals should discuss this with us promptly. We are prepared to explore transitional arrangements where this is the case as it is not our intention to put DNOs potentially in breach of their licence should they be unable to

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complete all work on this for September. We will continue to work with DNOs to ensure an implementation issues are resolved, particularly around the treatment of line loss factors.'

These assurances give confidence that Ofgem will adopt a pragmatic approach to the migration of customers from HV to EHV. Further pragmatism will be dictated if the proposal in Ofgem's latest EHV charging consultation is adopted. Published on the 20th August 2010, **Electricity distribution consultation on revised submission and implementation dates for the EHV Distribution Charging Methodology (EDCM)** communicates that Ofgem is minded to delay EDCM implementation to October 2011.

We will write separately with our views on the proposed EDCM implementation delay, however this raises a new implementation issue.

Any delay to EDCM implementation in conjunction with the Licence changes for EDCM boundary could require HV customers to be transferred to our existing EHV charging methodology for a short period, before then transferring to the EDCM methodology. This will lead to further uncertainty for these customers and significant additional efforts by DNOs during a period when the focus should be on the EDCM implementation.

We understand from discussion with Ofgem that the intention of these Licence changes were to align the EHV boundary change to the EDCM implementation, and that any delay to implementation of the EDCM would also lead to delay in the implementation of the EHV boundary change, however the Licence changes as drafted do not appear to work in that manner.

Specifically:

- a) Changes to SLC 13B.6 and 50A.11 define which customers are EHV for the purposes of the EDCM, and only take effect when the EDCM is implemented; however
- b) Changes to SLCs 13A.5 and 50.10 define which customers are captured, or excluded, by the EDCM methodology and will take immediate effect.

We seek an assurance from Ofgem that the customers who will transfer from CDCM to EDCM will not require to transfer to our existing EHV methodology from 1 April 2011, but will transfer with EDCM implementation. We would welcome an early confirmation of this from Ofgem including the proposed derogation if necessary.

Further, within the summary of the EHV boundary decision document we note that Ofgem state:

'Without the time constraints associated with introducing the EDCM, we would have been keen to see the industry explore more sophisticated approaches....'

If the EDCM implementation is delayed as proposed, the opportunity will have presented for the industry to explore and implement a more sophisticated approach. Ofgem could facilitate this opportunity through derogating to align the EHV boundary Licence changes with EDCM implementation.

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I hope that this clearly communicates the implementation issues on which we will continue to need Ofgem's support, and also demonstrates that we are keen to work with Ofgem to take the opportunity to refine and enhance the EHV boundary definition. Should you require further information or evidence in relation to this please do not hesitate to contact me.

Yours sincerely,

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Distribution Policy Manager

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