

LCNF Full Submission

Supplementary Answer Form

DNO Name:	SHEPD	Question Number:	SSE46
Question Date:	09/11/2010	Answer Date:	17/11/2010
Question Topic:		Charging derogation	

Original Question No:	SSE45	Original Answer Date:	22/10/2010
Original Question:	<p>In your response to SSE033 & SSE034 you stated that both trials would seek to encourage large customers to shift their demand patterns. You commented that this will require new commercial arrangements and that as part of the trial you will make <i>ex gratia</i> payments to I&C customers to facilitate this shift in demand. However, you state that these payments will be developed into ancillary services only in the longer term.</p> <p>Can you please clarify whether these <i>ex gratia</i> payments will be designed to reward these customers for providing flexible demand or be made purely in recognition of participation in the trial and regardless of whether or not customers provide any flexible demand.</p> <p>Futhermore, if the payments are in return for flexible demand, will they be made by yourselves or via an ESCO who you contract with?</p>		
Original Answer:	<p>As stated previously it is our intention to initially use <i>ex gratia</i> payments to facilitate I + C customers participation in the project, with the long term intention that the payments will be developed into ancillary services. The rationale for this is based on the following:-</p> <p>There is currently no clear method of providing balancing and ancillary services payments to this group of customers at present.</p> <p>If a customer is to participate in the scheme then they will obviously need to either invest in new equipment or alter there process in order to be able to flex their demand. Therefore, it was essential to try and provide some indication to the level of payment that could be anticipated.</p> <p>Obviously, DSR schemes will have an impact on the customers energy profile. Within the current market arrangements suppliers may view this as an additional risk (given that the supplier will be purchasing its power to balance its position from the GB-wide market) and this may result in the customer being charged an additional premium to reflect this added uncertainty. These payments will also be necessary in the short term to provide "temporary adjustment" to offset any additional costs faced by the customer as a result of this.</p>		

	<p>The level of payment should be reflective of the extent to which the customer can control their demand i.e. response time, duration, control range etc</p> <p>For project costing purposes we have estimated the level of customers payment that we feel is required to encourage their participation.</p> <p>Any <i>ex gratia</i> payments will be made directly from SHEPD to the customer or their agent.</p> <p>The learning from the project will provide information on the commercial and regulatory regimes required in order to establish a functioning market place for the deployment of both DSM and the large scale provision of ancillary services.</p> <p>This will allow both Network Operators, Suppliers and potentially others to develop new charging mechanisms, tariffs and associated products and services to allow customers to participate.</p>
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<p>Question:</p>	<p>We note that within box 4 of both your Northern Isles new energy solutions (NINES) and the Thames Valley Vision (TVV) state that you do not consider that you require derogations from your licence conditions to undertake the projects.</p> <p>We are aware that as part of both projects you plan to offer ancillary payments to customers to encourage them to flex their demand. In your response to question SSE033 you commented that for the TVV project payments to Industrial & Commercial customers would initially be <i>ex gratia</i> and that in the long term it is your intention to develop them into Ancillary services. A similar answer was provided in response to SSE034 on your NINES project.</p> <p>In addition your answer to SSE045 stated that for NINES, payments to customers will depend on the extent to which that customer can offer demand response. You also commented that these payments will be made directly from SHEPD to the customer or their agent. Similarly, on the TVV project you commented that the payments made will only reward customers for behavioural change . You explained that the trial will assess who is the most appropriate party to make those payments – ESCO, SEPD or other parties.</p> <p>As part of your responses to the questions you have consistently stated that should Ofgem consider that these arrangements require a derogation then you will be happy to work with us. With this in mind we wanted to share our legal advice on the issue of such ancillary payments.</p> <p>Legal advice</p> <p>Under the licence, 'Use of System Charging Methodology' is defined as</p>
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	<p>meaning “complete and documented explanation, presented in a coherent and consistent manner, of the methods, principles and assumptions that apply for determining the Licensee’s Use of System charges”.</p> <p>Use of system charges are defined as “charges made or levied, or to be made or levied, by the licensee for provision of Use of System”.</p> <p>Our view is that if ancillary payments reward customers for changes in behaviour, then this behavioural change can only relate to the manner in which they use the network i.e. the timing of that use. As such, these payments would be so intimately connected with the customers’ use of the distribution system as to be properly construed as conditional discounts on the normal use of system charges levied under your charging methodology. Consequently, our view is that either the payments need to be detailed in your use of system charging methodology, or a derogation against that methodology would be required in order to allow you to make the payments.</p> <p>We would stress that this advice is based on the premise that the payments are made by you as the licensee directly to the customer. If payments are made by third parties (i.e. an ESCO) then they would fall outside the scope of the Charging Methodology required by your licence.</p> <p>We would appreciate your views in response to this advice asap and in particular whether it impacts any part of your project submissions.</p>
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<p>Answer:</p>	<p>Thank you for sharing the legal advice you have obtained on this issue.</p> <p>However, in this instance, we do not believe it is relevant to seek a derogation from the common use of system obligations under our licence. The proposed payments to customers under our low carbon bid do not relate to use of system, but are aimed at compensating specific customers for the inconvenience caused to them through being involved in the trial. We liken this to the <i>ex gratia</i> payments made under the guaranteed standards, which are made directly from the distributor to specific customers that are affected (rather than DUoS which is common to all and charged through the supplier).</p> <p>Not only do we believe this is the right approach, we also believe this is the cleanest and simplest approach for the purposes of the trial.</p> <p>However, should it become apparent that this approach is inappropriate during the project development stage or implementation stage then we will be happy to discuss the matter further with OFGEM to identify a mutually acceptable solution.</p>
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Attachments:	
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