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Your ref

Our Ref

Date:  
4<sup>th</sup> July 2011

Contact / Extension  
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Dear Ynon

**Electricity Distribution Charging Methodologies: DNOs' proposals for the higher voltages**

SP Energy Networks (SPEN) welcomes the opportunity to respond to this consultation, we support the Common Methodology Group (CMG) joint response and our comments below, on specific questions, should be read in addition to their response.

**Question 2.1. What are your views on the key issues with the methodology we have highlighted? Are there any other issues or concerns with the methodology as a whole that we should consider?**

As Ofgem have been involved throughout EDCM and have been active in the working group they have been able to raise new detailed and specific issues with the EDCM in their consultation document. The CMG Workstream A are looking at a number of technical questions raised by Ofgem and we will respond jointly on these issues, for example, the DNOs are performing a joint impact assessment of the issues raised by Ofgem under questions, 3.3, 4.1, 5.1 and 5.2. Given the amount of involvement from Ofgem and other stakeholders, and the scope for stakeholders to further influence the methodology via open governance, we believe the submission should be approved without conditions if they cannot be met prior to implementation.

**Question 2.2. Should we approve the methodology, do you agree with our proposal to implement it in full from 1 April 2012? If not, why is phasing-in charges or delaying implementation appropriate?**

We agree to the proposal to implement in full from 1<sup>st</sup> April 2012, Ofgem have already delayed the implementation by 12 months, during this time significant work has been undertaken by DNOs to improve the methodology.

As the EDCM will improve the cost reflectivity of EHV charges we believe that this should be introduced in April 2012 unless there are clear representations from stakeholders justifying a delay.

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SPEN have already given considerable notice to our customers of the charging impact, and provided information on how customers can influence their charges. We continue to have concerns about the rights of DNOs to be able to communicate sufficient price information to customers in order that they are fully informed, and can respond to the price signals that the EDCM pricing methodology provides. This issue has been long standing and is expected to be resolved by a DCUSA change later this year prior to EDCM implementation, however customers may argue that this has acted as barrier to transparency to date and that as a consequence a further delay to implementation is necessary.

A further argument for delayed implementation may arise if Ofgem qualify non-veto of the EDCM with changes to the methodology that in turn make a material difference to customer's charges.

### **Chapter 3 – Demand Issues**

**Question 3.7. Are there any other demand specific issues that you think we should consider as part of our decision?**

Capitalised O&M paid by EHV demand customers historically needs to be recognised. If no refund arrangement is put in place by Ofgem, as for generators, then we will seek a derogation for these specific customers to avoid them being double charged.

In addition, some DNO's have utilised the UOS charging mechanism to recover historic EHV connections charges that are paid annually rather than as an upfront payment by the customer. These charges are in addition to the UoS charges that these customers pay. If the EDCM arrangements prohibit the recovery of these annual connections charges via the UOS charging mechanism DNO's may need to seek derogations in this regard.

### **Chapter 4 – Generation Issues**

**Question 4.4. Do you agree with our proposal that intermittent DG should be eligible for credits as they are deemed to provide network benefits under ER P2/6? If they do become eligible for credits, should the credits only relate to units exported during the super-red time band or is a single credit rate to all units exported more appropriate?**

In our April submission our proposal was only to pay credits to non-intermittent generation, as we believed that output from intermittent generation would not be taken into account for network planning purposes, in accordance with ER P2/6 guidance. Following Ofgem's consultation we have reviewed our proposals and still believe they remain valid.

It is likely that in the future, as more intermittent generation connects to the distribution networks, the guidance on security of supply (ER P2/6) will evolve and change. At that time appropriate credits to intermittent generators can be implemented via open governance that reflect the charges to the technical design standards.

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**Question 4.6. Are there any other generation specific issues that you think we should consider as part of our decision?**

SPEN do not believe that there are any other generation specific issues that Ofgem should consider as part of their decision.

**Chapter 5 – LDNO issues**

**Question 5.3. Do you think that varying LDNO discounts only with the point of connection will better achieve a balance between reflecting upstream and downstream costs?**

Paragraphs 5.19 to 5.22 of the document argue that LDNO discounts should only vary with the point of connection of the LDNO and should not take into account the network levels used by the host DNO up to the point of connection (upstream network levels). SPEN believe that the level of granularity in our proposed method is more cost-reflective than the alternative proposed by Ofgem in paragraph 5.22. For example, consider an EHV boundary LDNO with CDCM demand end users. In the first case, the DNO supplies this connection through 132kV circuits, a 132kV/EHV transformation and EHV circuits. In the second case, the connection is supplied through a 275kV/EHV direct transformation.

Our proposals would result in a higher LDNO discount in the second case. We think that this is entirely appropriate and cost-reflective. We recognise the point in paragraph 5.21 about increase in LLFCs as a result of this proposal. We seek further clarification from Ofgem on this issue.

**Question 5.4. Do you agree that it may be appropriate in some circumstances for the DNO to pay LDNOs use of system credits?**

This specific possibility of DNOs paying IDNOs credits in relation to demand Use of System charges is an anomaly of the CDCM discount model that arises from timing impacts of incentive mechanisms affecting DNOs allowed revenues from year to year.

It is entirely inconsistent with EU and UK Energy Policy & all other network demand usage charges (e.g. TNUOS charges in the North of Scotland) that any network user should be presented with charges that positively encourage increased customer energy consumption and increased network losses. This would create a unintended and perverse incentive for IDNOs who currently have no regulatory incentive to manage their network losses.

Government Energy Policy and Ofgem policies other areas must dictate that the EDCM mechanism should be capped at no more than 100% discount. If this is not incorporated into the EDCM then DNOs will need to seek derogations on an ad hoc basis if and when price control incentives create this perverse outcome.

## **Chapter 6 – Common Issues**

**Question 6.2. Do you agree with our view that the arrangements for demand and generation side management agreements are appropriate? Do you think such agreements should be available to all customers?**

SPEN supports the view that these types of agreements are consistent with the goals of the EDCM project and low carbon networks initiatives. We would seek to extend the use of these agreements where they can be used to optimise network usage and avoid unnecessary network reinforcements.

**Question 6.5. Do you think the EDCM should include a mechanism to mitigate the potential volatility from network use factors? We welcome views on measures to mitigate volatility and help customers manage volatility.**

In principle SPEN supports measures to address volatility within customers' charges, however, this is currently under the remit of CMG Workstream C and until these issues have been fully consulted on and full regulatory arrangement have been developed have been detailed we believe it is inappropriate for a requirement to be placed upon DNOs.

We hope these comments are useful, please do not hesitate to contact me if you require further clarity.

Yours sincerely



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