



**Distribution licence holders**  
**Electricity supply licence holders**  
**Electricity consumers**  
**Related stakeholders**

*Promoting choice and value for  
all gas and electricity customers*

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Dear Colleagues,

## **Decision Letter on a proposed request for derogation under Standard Licence Condition 24 (SLC24) of the Electricity Distribution Licence**

### **Introduction**

On 17 August, ENW Limited (ENW) submitted a bid for funding under the Second Tier of the Low Carbon Networks (LCN) Fund for its "Capacity to Customers" (C2C) project. Outline details of this project were set out in ENW's Screening Submission<sup>1</sup>. The C2C project is designed to explore the potential for using the network capacity headroom that is currently required to meet obligations under SLC24 in a more efficient manner. The related design requirements are set out in Engineering Recommendation P2/6 ("ER P2/6"). ENW's project envisages breaching the requirements of SLC24 but in a controlled way that will only directly affect those customers that have elected to have a managed connection. In the event that ENW's LCN Fund project does receive funding, ENW intends to seek derogation under SLC24 for the parts of its network that would be affected.

We decided that it would be appropriate to explore this issue in advance of the LCN Fund process so that both the Expert Panel and the Authority were aware of industry's views. Therefore, on 19 August 2011, we published a consultation<sup>2</sup> on ENW's proposed derogation request under SLC24 for ER P2/6 which would facilitate their C2C project. We received six responses to the consultation from the following network companies: Western Power Distribution, UK Power Networks, Scottish Power Energy Networks, CE Electric UK, Scottish and Southern Energy and ENW. We are publishing these responses with this letter.

### **Summary of Responses**

The purpose of the consultation was to provide the industry with an opportunity to comment on the proposed derogation request by ENW for its C2C project. Therefore, industry's comments and observations were invited in order to consider the issues raised by the C2C project and to lay the initial foundations for a wider debate about the future of network design and operation.

All of the parties were supportive of our initial view that it would be appropriate to grant the derogation to facilitate ENW's C2C project in the event that it receives funding.

However, half of the respondents considered that there might not be a need for derogation from ER P2/6 for the C2C project. They stated that in their view the requirements set out in

<sup>1</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=113&refer=Networks/ElecDist/lcnf/stlcnf>

<sup>2</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=46&refer=Networks/Techn/TechStandds>

ER P2/6 could be met under the C2C project proposals assuming that customers had agreed to reduce their demand in specified situations. This highlighted the fact that ER P2/6 does not explicitly address how demand side management/response should be treated within Group Demands. We acknowledge the parties' request for a further review of ER P2/6 and ETR 130 in order to clarify the role of responsive/controllable demand. We note that ENW intends to develop recommendations, with wider industry engagement, to potentially change ER P2/6 if the project is successful. We consider that regardless of the outcome of ENW's LCN Fund bid, there is a need to initiate this discussion, given the vital role that demand side response will play in the future smart grid.

Additionally, one of the respondents highlighted the importance of effectively engaging with all affected customers and ensuring that they fully understand the implications of agreeing managed connection terms. They believe a customer engagement plan must be in place to address this requirement. We agree with the respondent's view on the need for a customer engagement plan for customers that could be materially affected, particularly those who have agreed to accept a managed connection and other connected customers in the trial area. We are aware that in the event of ENW securing funding for the project, a comprehensive customer engagement plan will be put in place to ensure that customers could not agree to such a connection without being made fully aware of the implications.

### **Our 'minded to' position**

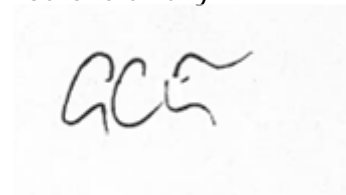
In the event of the project being awarded funding under the LCN Fund, we expect ENW to seek derogation under SLC24. Based on the consultation responses we would be minded to grant derogation, where required, in the event that approval was granted for the project and ENW proceeds with this project and seeks the necessary derogation.

Furthermore, ENW's derogation request will need to include evidence that the following conditions are met:

1. No adverse economic impacts on ENW or other relevant licensees or connected customers;
2. Robust operational mitigation measures would be in place which could be rapidly deployed in the event that the control measures failed to perform as intended;
3. The project plans were clearly and widely communicated so that there was no risk of anti-competitive behaviour;
4. Plans are put in place to restore compliance in the project area, in an agreed timescale, at the end of the derogation period.

We thank all respondents for their views which will inform any future decision regarding ER P2/6 and its application to demand side management/response.

Yours faithfully



Gareth Evans  
**Head of Profession – Engineering**