



SCOTTISHPOWER RENEWABLES

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Ofgem
9 Millbank
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20 December 2011

Your ref: 135/11

Our ref: 01/01/03/10059

Sent by email only to Guy.Donald@Ofgem.gov.uk

Dear Guy,

DISTRIBUTED USE OF SYSTEM CHARGING: WAY FORWARD ON HIGHER VOLTAGE GENERATION CHARGING

Thank you for the opportunity to respond to the above consultation of 21st October 2011 and we are grateful for your flexibility in submitting our response. I am pleased to submit this response on behalf of ScottishPower Renewables (SPR).

As the UK's leading developer and operator of wind generation projects, we have considerable experience of working within the current arrangements for distributed generation. Onshore wind remains a key element of achieving the Government's energy policy objectives in respect of moving to a low carbon, secure electricity market. With much of onshore wind – and other forms of low carbon generation – being connected to distribution networks it is therefore vitally important that these arrangements support the growth in embedded generation that will be required to achieve these policy objectives.

We note that Ofgem previously deferred the implementation of the EDCM for EHV generators as a result of users' concerns about volatility and predictability and about the interaction with the treatment of pre-2005 generators. It appears that some of the proposals contained in this current consultation go some way to addressing the former concern but while conclusions are awaited on the latter concern it is difficult to offer firm views on the proposals included in this current consultation. In addition, we consider that insufficient tariff and charges information has been made available to date to allow users to respond fully to this consultation. Therefore, we offer the following comments on this basis and await the further information and consultations proposed to which we expect we will be better placed to respond.

The objectives for the proposed EHV Distribution Charging Methodology (EDCM) are strongly based on cost reflectivity, to signal the cost to users of using the network at their particular point of connection. Thus users connecting in areas of low demand and/or low network capacity are likely to face higher charges than those connecting in other areas. Much of the existing and potential onshore wind sites are located in remote areas of low demand but where the realisable wind resource is at its greatest.

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In addition, depending on the form that EDCM takes, generators connecting after April 2005 may face significant increases in their use of system charges. Notwithstanding the location of realisable maximum wind resource, not all of these generators are able to respond to these increased locational signals, other than to close their generation project. Thus business investment cases are unlikely to have been satisfied and a key part of achieving Government's low carbon and renewable energy policy targets could be adversely affected. This Regulatory uncertainty is also likely to reduce investor confidence further with a subsequent adverse impact on future deployment of low carbon and renewable generation.

Therefore a move to greater cost reflectivity in distribution charging is likely to impact adversely on the deployment of onshore wind and on achievement of the Government's wider energy policy objectives.

In developing our views on this subject, we are keen to ensure that tariffs and user charges are predictable, stable and transparent and that appropriate recognition is given to wider Government energy policy objectives which extend beyond economic efficiency and consumer protection. In particular that a switch to a distributed, low carbon and renewable generation mix is key to helping achieve wider policy objectives and at the same time improve security and diversity of energy supplies. On this basis, our initial view is that option 3 (*"Continue to calculate charges as if non-exempted generators are charged"*) combined with option 4 (*"Revised generation revenue target"*) offer the greatest potential of meeting these policy objectives.

The consultation notes that Ofgem is not inclined to support reassessing more fundamentally the methodology for charging non-exempted generators, as it is unsure if a significantly better methodology can be developed in a reasonable timeframe. Whilst we believe that approaches to charging should always be kept under review, the need for regulatory certainty, stability and predictability of charges are of key importance to investors and so we support Ofgem's view on this.

Provided the pre-2005 generator aspects are concluded satisfactorily and that appropriately developed and clear implementation and transitional arrangements are in place we see no reason why the proposed EDCM for EHV generators should not be implemented from April 2013. In order to help achieve this DNOs should be encouraged to publish as soon as possible indicative tariffs and charges for users in order that appropriate provisions can be made to business plans and the implications for business cases can be understood as soon as possible.

We hope you find our comments clear and helpful but we would be happy to discuss them more fully with you. If you would like to do so, please contact me on 0141 568 4748 or at allan.kelly@scottishpower.com.

Yours sincerely,

Allan Kelly
Regulatory Policy Manager
ScottishPower Renewables