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Your ref

Our Ref

Date

30 December 2011

Contact / Extension

Jim McOmish
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Dear Rachel

Initial follow up to Distributed Generation (DG) Forum

I am writing in response to your open letter to DNOs dated 27 October.

SP Energy Networks has connected over one third of the renewable generation capacity in the United Kingdom. We are also continuing to see very high volumes of generator applications and connections and I would assure you that we are responding proactively to the needs of those customer groups. We recognise the critical role we play in delivery of energy policy through connection of Renewable energy, consideration of this group of customers has dominated our recent RIOT1 submissions and we share Ofgem's frustrations in relation to the bottlenecks arising from the current combination of statutory, regulatory and energy policy arrangements affecting connections to both the transmission and distribution network.

SPEN actively seeks to listen and respond to stakeholders' concerns to ensure that our connections process is as smooth as possible, while at the same time meeting our Licence and statutory obligations. We participated fully in the industry DG forums and have commenced a programme of our own DG focused stakeholder events that will become an integral part of our ongoing stakeholder engagement activities. The first of these was held on 14th December 2012 with 22 participants attending representing smaller generation project stakeholders including small wind, solar and CHP developers and consultants. Some of the feedback we received included:

- *"Quite informative, good to see steps are being taken to streamline processes and improve communication";* and
- *"Good insight with progress already seen in recent applications"*

There was also a general consensus that our event was useful and should be repeated. We would be happy to share the output from this session and the others that we plan with your team and it may even be a positive step for a member of Ofgem's team to attend these events and hear first hand the feedback we receive.

The DNO plays an important role in providing information to customers and consultants. In this role, our System Design teams must balance the increasing demands for access to our networks

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at a time that they are increasingly constrained given demands for access from Renewable Generators, micro generation exporting onto the distribution network and at some point ensuring there is headroom to accommodate infrastructure to support electric vehicles. Our Business must therefore balance and maximize the available capacity across sections of our network. This is a challenging role given the volume of applications that I have highlighted earlier and the difficulties can sometimes be compounded by unrealistic expectations regarding the cost and feasibility of a connection.

We are working hard with our customers to manage their expectations, for example explaining why the nearest overhead line is often not suitable for a direct connection, and to help them understand what they can do in order to assist us to manage the extremely high levels of applications for DG connections. Additionally we have published technical and other information which is readily available, either on our website or if requested – for free – to support customers in making complete applications, to help them through the application process.

Our plans for improving service and information:

In answer to your request for our plans to improve the service and information that DG customers receive, these include the following steps:

1. Refocusing of resources for DG connections

Within our SP Manweb area alone, G59 enquiries (Large embedded generators > 16A per phase) have more than tripled in the 12 months to November 2011 compared with a year previously (from 243 to 790). In SP Distribution we have received in excess of 1400 G59 enquiries this year. Because of the high level of DG enquiries we have increased the number of staff within our connections design team dealing with DG applications. For example in Scotland 3 design staff managed small DG applications in 2010, in 2011 some 18 design staff are dealing with the same activity.

Design engineers are a scarce resource and take time to develop. Consequently DNOs cannot simply flex the volumes of staff in the short term to match the peaks and troughs of applications received. These current changes have been possible as a result of the economic downturn impacting demand connection applications, also impacted by loss of market share to IDNOs and ICPs, but may also result in longer lead times for quotations for demand customers whilst still satisfying our statutory obligations.

2. Review of connection procedures

One of the key messages that came out of the DG forum is that customers want to know what DG capacity is available on the network without triggering reinforcement; however customers do not want to pay for a feasibility study, so we often get multiple enquiries for the same site for different turbine sizes. This distracts engineering resource from those projects that might progress, leads to longer quotation times than might otherwise be delivered, and increases our connections business overheads. This is unsatisfactory for all parties.

We are currently looking at a number of areas where service or information improvements could be made to address this problem. In addition we are looking at developing a suite of information about known turbine providers, with technical detail that could be included in applications in order to assist generators to more consistently achieve competent applications. We are also working with other DNOs to help develop an ENA DG application pack.

One further area we would like to discuss is the possibility of provision of feasibility studies and other information for DG customers without charge, the costs of which might be met through the DG incentive. This would potentially allow DNOs to effectively meet customer needs beyond those envisaged by the Electricity Act connections provisions, which lay out tightly specified requirements for provision of quotations, rather than broader feasibility studies that generators would prefer that we provide.

3. Indicative quotations

In order to help manage the volume of enquiries we are receiving we are asking customers, where appropriate, to clarify if they actually require a formal connection offer, or if an indicative quotation that does not amount to a formal offer but is more detailed than a budget estimate would satisfy their requirements. This saves time and resources on our part in preparing a formal offer, while providing the customer with information that he can use to help in deciding on the location and size of this project.

4. Quotation letters

A review of our quotation letters is underway, including consideration of improvements in detail of DNO Works and breakdown of charges provided. This will be completed and implemented for all our generation and demand customer types in the first quarter of 2012.

5. Provision of Information

We have taken a number of measures over the last year to improve the information available and the level of service provided to connection applicants, particular in relation to DG. Our dedicated DG microsite (<http://www.spenergynetworks.com/dgis>) provides a wealth of information for DG customers, including maps showing opportunities for connection, giving an indication of available capacity on the network, indicative cost calculators, contact points and links to relevant documentation.

You may recall that our introduction of this site was commended by Ofgem in April this year for the 'lead taken' and 'facilities already available'.

We are reviewing feedback received during the first 9 months of operation of our DG microsite, and will be taking decisions on development of content early in 2012.

6. DNO consistency

The DNOs have worked well through various ENA forums to develop information provision for DG on the ENA website, common application forms, and common connections charging methodologies.

We believe there is more than can be done through these forums, both technical and commercial, to introduce greater consistency and we will proactively support these activities.

Our comments on the other issues raised in your letter are set below:

Anticipation of network reinforcement

We would support a meeting to consider what can be done within current price control arrangements to enable more proactive anticipation of network reinforcement. We think that subject to appropriate criteria, cost recovery through the DG incentive should be available where strategic investment in prospective generation rich or network poor areas takes place.

Socialisation of connection costs

We would welcome a discussion of possibilities in this area and would be happy to work with Ofgem to review the current rules governing the apportionment of reinforcement charges, and consideration of shallower connection boundary. As a result of the lower transmission voltages in Scotland there are occasions when relatively small generators may choose to connect to either the transmission or distribution networks, which may deliver less than optimal decisions as a result of the much shallower transmission connections charging boundary relative to the distribution equivalent. As a consequence we see merit in moving towards greater consistency between connections charging boundaries for the transmission and distribution networks.

We believe there is merit in considering the introduction of asset value payments by DNOs to ICPs as we feel this would help stimulate competition in the delivery of both generation and demand connections. This is an issue that we have raised consistently since the removal of tariff support in 2005 as a barrier to competition for independent connections providers.

We understand that the Ofgem Electricity Distribution Policy team is fully aware of the current anomaly between the legislative framework and the competitive arrangements that have been implemented. We believe that payment of asset values by DNOs could be introduced without the need to change primary legislation or the Electricity (Connections Charging) Regulations, and would be happy to discuss this further with the Ofgem team with a view to developing a solution.

Upfront A&D fees

We are currently compiling evidence of (demand and) generation application activity for onward submission to DECC. It is not possible to quantify precisely the impact that upfront A&D fees would have, however a high proportion of quotations that we issue (> 80%) are not accepted.

This has a number of effects:

- a) Our scarce design resource is tied up providing formal quotations that will never progress;
- b) Customers receive quotations as soon as reasonably practicable but not as soon as would be delivered if customers reasonable limited their volume of applications;
- c) Our business overheads in relation to jobs that do progress are significant, and we are faced with absorbing that overhead or passing it onto customers whose projects progress.

We will collate evidence to provide to DECC to support the need for A&D fees to be implemented and will copy this to you early in 2012.

World Bank Survey

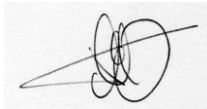
It is not clear to us that the information in the survey is comparable. For example, we cannot tell the extent to which the time taken for the customer to consider and accept the quotation, to carry out his own internal works, to appoint a supplier, and a meter operator installing metering is included in each case. We have difficulty in accepting that the time given for Germany (17 days) and the UK (111 days) for the connection concerned is on the same basis. Nevertheless, as outlined above we are continuing to look at improvements that can be made to deliver a better service to all connection customers including DG.

NGET Statement of Work & Modification Application Process

Finally, I would like to draw your attention to the recent joint work we have done with SSE (SHETL & SHEPD) and NGET to agree much reduced charges and a simplified process for DG applications that might have an impact upon the transmission system. We are continuing to work with SSE and NGET to identify further opportunities to reduce the barrier that DG faces through the CUSC processes and will provide updates on these to your team as they are developed and implemented.

I hope that this update is helpful and we look forward to working with your team in the areas that you mention. We will also write to your team early in 2012 to provide you with a progress update on each of the areas outlined above.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Jim McOmish', written over a light grey rectangular background.

Jim McOmish
Distribution Policy Manager

cc.

James Veaney, Distribution Policy Manager, Ofgem
Stakeholders via publication on SPEN website