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Dear Rachel,

Distributed Generation

In your letter of 27 October you asked me to outline our plans to improve the service and information that DG customers receive. I would like to begin by assuring you that we do take these concerns seriously and have done a number of things in the short term to address them.

We have already responded to issues raised with us directly by DG customers by training up additional engineers to carry out system studies. In response to a substantial rise in PV applications we have created a dedicated generation team to focus on improving customer service to small and larger scale DG customers alike. We have engaged with DG developers, Local Authorities and suppliers to understand their specific needs and have utilized this understanding in reviewing our operating practices and making a number of targeted process improvements. We support the work of Envirolink, the business support organisation for the low carbon and environmental goods and services sector in the North West. This includes delivering training courses in connection targeted at SME developers entering the solar PV market and attending events focused on supporting large wind generation developers. To our website, we have added:

- “heat maps”, which indicate the relative attractiveness for DG of different areas across our area;
- a “DG ready reckoner”, which gives an indicative costs based on only three parameters (capacity of the DG, circuit type and distance from network); and,
- an interactive flowchart which points customers to the appropriate DG Connections Guide.

In terms of our more strategic approaches, we are taking different approaches for different categories of DG customers. For the volume PV customers, we have undertaken a fundamental review of our approach. Essentially we concluded that we do not have adequate data on usage patterns. We found that we could convince ourselves through our modeling that there were

situations that could, for example, cause voltage problems on our network. Previously this would have led us down an approach to instigate a reinforcement solution and charge the customer their proportion of the costs. Our revised approach has been to take a network “snapshot” of voltage, harmonics etc before the PV is installed and then to install monitoring equipment to understand the actual impact on the network. If reinforcement is identified at a later stage then this will be completed without charging the customer. We believe this investment is consistent with the DG Incentive. This has had a significant bearing on our timescales to progress the high number of multiple PV applications we have received.

For larger DG customers, we have arranged a meeting on 16 December with six-eight customers to act as a focus group and for us to present some of our thoughts and proposed approaches covering many of the aspects raised in your letter, including Assessment and Design fees. It is our intention to solicit the views of this selection of stakeholders before sharing these more widely. We will be more than happy to share those that are supported by the stakeholders with you and your team in the new year.

We are also thinking more widely and innovatively about whole industry changes to address the more fundamental issues that are the root causes of many of the issues raised by DG customers. We therefore welcome your proposals to look at what can be done within the existing price control arrangements. We believe that the effectiveness of the DG Incentive could be greatly enhanced by more regulatory certainty about how proactive reinforcement will be treated. Our experience is that the Ofgem cost team scrutinize any investment in DG related reinforcement in great detail, despite the automatic control built into the mechanism limiting over-investment by remuneration at the cost of debt. Specifically, we and other DNOs had to work very hard to convince your team that investment in support of connections made under the G83 regime should be allowed into the DG Incentive. This had led to considerable caution on the part of ourselves, and I suspect other DNOs, in considering whether investments to support DG can be evaluated using the DG Incentive scheme.

In some circumstances, we may be seen to hesitate in proactively and unilaterally funding reinforcement by utilising the DG Incentive. Where this happens the opportunity is often lost as a result of the completely rational behavior of DG customers. In our experience, larger DG developers often need formal connections offers in order to progress both the raising of investment and planning permission. This results in them applying for, and accepting connection offers, far earlier than they would otherwise need. In addition, their question to us is usually *“how much DG can I connect in this area”*. We find that where the capacity of generation that they would like to connect triggers reinforcement, DG customers will flex their installed capacity downwards to avoid any reinforcement costs and will re-submit a formal request for a connection. The consequence of this is that few DG projects that go ahead require reinforcement. We need to agree clearer ex-ante criteria about what pre-investment will be allowed in the DG Incentive rather than recovered through connection charges to enable us to engage more proactively with potential DG developers.

We do not consider any of these issues to be insurmountable and are extremely keen to discuss with you improvements that can be made. This can be done within DPCR5 without any changes to the overall framework. Simply providing clarity on where proactive investment made will not be subsequently ruled as “uneconomic” by your team would greatly assist.

Finally, as consistency was one of the themes emerging from the DG Forum meetings, I have asked Brian Hoy to instigate some cross-DNO discussions to consider which aspects need to be taken forward across all DNOs. An initial dialogue is being set up for early in the new year.

Brian will also act as our representative at the meetings you indicated that you would be organising in due course.

I trust that meets your requirements but if you need any further information, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'S Johnson', written in a cursive style.

Steve Johnson
Chief Executive Officer