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07 March 2013

Dear Tim

## **Clarification on the Capacity to Customers December 2012 Project Progress Report**

Further to your recent enquiry regarding our December 2012 Project Progress Report I am pleased to provide the additional information below.

### **Ofgem Comment 1:**

*'Table 2.1 - 2nd activity - we have some concerns regarding the negotiations with customers - will different customers get different deals? And is there a contingency plan if the negotiations fail ?.'*

### **Our response:**

There will be two types of customer agreement namely, an existing customer agreement and a new connection customer agreement. The templates for these agreements have been saved to our key documents page of the C<sub>2</sub>C website.

Each type of customer will have access to a common commercial framework. Actual end contracts will contain a combination of the variables available within the framework such as size of demand contracted, exercise duration, reserved days etc.

Existing customers are contracting to provide a prescribed response under agreed conditions for an agreed fee. They will be able to specify contract variables such as protected days, maximum number of managed days per annum and maximum interruption duration (in hours) during outage conditions. The value of the agreement will be based on these variables and the capacity (kVA) that is being 'managed'.

New customers are contracting to provide a prescribed response under agreed conditions in exchange for a reduced connection reinforcement charge. This discount will be related to the scope of works avoided by agreeing the managed contract. There will be less flexibility for new customers in terms of contract variables as the engineering solution provided to make the connection will have a limited number of contract variables (constraints) regarding the management of the customer's connection in the event of an outage condition.

The scope of the commercial phase of the project is to test the market acceptability of various commercial offerings and to establish a market price for C<sub>2</sub>C contracts. The marketing activities for existing customers have been the subject of extensive customer engagement and we believe that the required number of contracts is attainable.

For new connection customers the value of incentive is directly dependent upon their location within the network, the size of their demand or generation connection request and the available network headroom. Given the continuing poor economic climate in the North West we highlighted the risk that we may not receive sufficient quantity of potential customer connections eligible for inclusion in the C<sub>2</sub>C trials To manage the risk profile, we have carried out a series of mitigation actions such as;

1. Trial circuits with higher volumes of connections activity have been chosen in order to maximise the opportunities to purchase managed contracts.
2. We have reviewed anticipated volumes and are expecting sufficient volumes of applications to allow us to secure 10 agreements. We estimate 45 eligible demand applications during the trial period.
3. In December 2012 we conducted a major developer engagement event at the Reebok Stadium in Bolton, where we invited key developers and other market stakeholders such as IDNO and ICPs including some generation developers.
4. We have briefed PowerCon UK Limited, Rockfield Energy, Dalestone Energy the Bruntwood Group and Empirica Investments on C<sub>2</sub>C and other DG development opportunities.

We also plan to carry out the following risk mitigation actions;

5. We plan to specifically target generation developers, stakeholders and influencers such as RenewablesUK and provide them with comprehensive briefing on the C<sub>2</sub>C concept and its opportunities.
6. We plan to hold further stakeholder engagement events in April for 'Renewable Generation' stakeholders who are active within our region and will continue throughout the project.

#### **Ofgem Comment 2:**

*'Page 11 – R022 – it would be useful to know what power quality parameters will be monitored.'*

#### **Our response:**

Two monitoring devices will be deployed on each of 36 rings with one further ring being more comprehensively monitored by the deployment of eight to ten monitoring devices. Voltage, current, power factor, frequency and total harmonic distortion will be monitored and recorded by each device.

We plan to run a variety of test regimes on the circuits where monitoring equipment is to be deployed such as recording, for example, one second of data every 30 minutes at 10kHz sampling frequency. We also plan to take longer "snapshots" if possible e.g. continuous data over one hour or 24 hours. The monitoring will be conducted with HV circuits operating in both 'open' and 'closed' ring configuration in order to measure the changes to power quality by running rings closed. We will select some of the HV rings that include locations with harmonic distortion, such as inverter-connected distributed generation and/or areas where "disturbing" loads are known to exist.

**Ofgem Comment 3:**

*'Page 11 – R023 – are generator connections good substitutes for demand connections? Generators tend to de-load local circuits.'*

**Our response:** We do not see generation trial participants as a 'substitute' for load trial participants. Demand and generator customers have equal representation within the Full Submission and indeed two of the project's hypotheses are directly related to load and generation customers, these being;

Hypothesis 5: 'The C<sub>2</sub>C method will facilitate lower reinforcement costs for customers for the connections of new loads and generation'.

Hypothesis 6: 'The C<sub>2</sub>C Method will effectively engage customers in a new form of demand and/or generation side response thereby stimulating the market and promoting the future use of commercial solutions to address the problem'

We therefore aim to secure a sensible 'balance' of generation and load managed agreements associated with new connections customers. However, we will continuously monitor the types of trial participants secured and once our SDRC targets of ten existing and ten new connections have been met we will review the situation and if additional learning can be obtained by purchasing additional agreements from a particular customer type, we will discuss the matter with Ofgem. This may involve seeking permission to exceed the 'Payments to Users' project budget if necessary as defined by the LCN Fund Governance Document.

**Ofgem Comment 4:**

*'Page 12 – R025 – could manual data collection be a false economy? Is any data granularity lost?'*

**Our response:**

There will be no loss of granularity of data with the proposed collection methodology. The monitoring is being conducted to obtain data in order to validate the hypothesis that the 'C<sub>2</sub>C method will improve power quality' and hence the equipment has been specified in conjunction with our academic partners to take measurements as the system runs in 'steady state'. The cost of continuous data streaming would be significant and would not add additional learning or other value to the project. As such we do not believe it is either necessary or desirable for the project to incur such additional costs. This position aligns with our assumed planned costs in our submission.

**Ofgem Comment 5:**

*'Page 12 – R026 – it is worrying that aggregators that were presented as partners are a risk (i.e. still not contractually committed to the project). This issue appears to be repeated in Risk 8 on page 20.'*

**Our response:**

The role of our Partner aggregators on the project is primarily to support the commercial and customer engagement work packages. All Partners have contributed to date and are continuing in this valuable role.

The project contains a specific contract marketing phase and following discussion with our Partners and to ensure maximum value for customers we have competitively tendered provision

of this service. The tender process which is in line with Ofgem's recent comments on ensuring value for customers has now concluded and we received proposals from five potential service providers including our partners Flexitricity and npower. Enernoc whilst wishing to remain a Project Partner chose not to submit a proposal as a result of their strategic decision to scale back their UK based operations. We have now appointed npower as our agent to market contracts, however all Partners remain committed to the project.

We acknowledge the Full Submission indicated that all three aggregator Partners would be involved in the purchase of demand response contracts from customers in order to test the difference between direct customer contact and contact via a supplier relationship. Whilst we considered this when developing request for proposals for the contract marketing activity it became clear that the value of work associated with the purchase of ten agreements from existing customers was not sufficient to incentivise more than one aggregator. The tender process itself delivered valuable learning and enabled us understand the costs to serve by type of agent. As previously outlined we have decided to purchase a small number of agreements directly with customers to understand the purchase and process costs. We feel these actions meet the original intent of the Full Submission of 'testing the difference between direct customer contact and contact via a supplier'.

If you require any further information please do not hesitate to ask.

Yours sincerely,

Craig McNicol  
Capacity to Customers Programme Manager