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Tim Aldridge
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Dear Tim

Subject: Extension of Capacity to Customers project in order to secure ten new connection managed agreements

Further our letter dated 28 July 2014 regarding a possible extension to the Capacity to Customers project I am writing to update you on the current position and to formally request an extension to the Project for the following SDRCs.

Milestone	Planned date	Requested revised date
9.7.1.i C ₂ C managed connections contracts in place	Sep-14	March-15
9.3.8 Various engagement programs continued through until Dec 2014, using various channels including website and e-mail.	Dec-14	March-15
9.6.3 Present to industry conference number five (Electricity North West knowledge sharing event)	Dec-14	March-15
9.4 Demand response capability test completed	Dec-14	March-15
9.6.6 Closedown report submitted to Ofgem	Dec-14	March-15

The position at the end of September is that we have secured six managed agreements with customers seeking new connections or additional load/ export capacity compared with the SDRC target of ten.

An extension request is not being made on the following SDRC due to the fact that the final white paper to be published is not effected by the extension request of the SDRC's above.

Milestone	Planned date	Requested revised date
9.6.5 Published (or had accepted for publication) six white papers for magazines or journals for industry or academic audiences, as per Project Plan, throughout C ₂ C Project.	Dec-14	Dec-14

Further to your response to our letter dated 28 July regarding an extension to the Capacity to Customers project, please find below our response to the points you raised in your email dated 29/10/2014

Reassurances from your academic Project Partners

We have sought the views of our academic Partners namely the University of Manchester and University of Strathclyde. In addition we have sought the independent view of Professor Ken Willis director of the Centre for Research in Environmental Appraisal & Management. We have published their views on our website and the link to the materials is :

<http://www.enwl.co.uk/c2c/news-and-views/c2c-change-request-consultation#>

In summary, both our academic Partners confirm the issue relating to securing ten managed agreements will have no detrimental impact on their work and will have a positive impact on the learning generated by the Capacity to Customers project. This view is also supported by Professor Ken Willis of the University of Newcastle upon Tyne.

Consultation with other DNOs

We have consulted with other DNOs who have been supportive of the need to submit a change request. In our consultation letter we outlined two potential options of:

1. To deliver fewer new connection managed agreements than the SDRC target of ten and finish the project on time; or
2. To request a time extension to the project in order to deliver the SDRC target of ten connection managed agreements thus enabling the project to deliver the original objectives and learning outcomes.

All DNOs supported option 2, to request a time extension.

Our consultation letter and the DNO responses can be found at:

<http://www.enwl.co.uk/c2c/news-and-views/c2c-change-request-consultation#>

Explain and justify the change in circumstances that necessitates this variation

Capacity to Customers utilises network automation, an innovative load flow analysis software tool and new commercial arrangements for Industrial and Commercial customers to allow Electricity North West to manage part or whole of customer's load and/ or generation during a system abnormal event (ie an n-1 event). Approximately 10% (360 circuits) of Electricity North West's HV system and all of its EHV system has been designated as the 'trial network'.

The Successful Delivery Reward Criteria (SDRC 9.7) of the Capacity to Customers Full Submission is shown in the table below with the relevant section highlighted in red text.

9.7 Demand Response Contracts – Evidence

1. New managed contracts entered into with demand and/ or generation customers or their agents, including:

- i) At least ten C₂C managed connection agreements by September 2014; and
- ii) At least ten C₂C managed contracts for demand and/ or generation response with existing customers, either directly and/ or via an agent by September 2014.

The Project achieved the target of ten agreements with existing customers within the first six months of the eighteen month Trial period, but it has encountered difficulties securing ten agreements with new connection customers or existing customers seeking additional import or export capacity. The primary reason for this difficulty is a reduction in maximum demand on our Trial circuits. Since the Project was planned some three years ago there has been an average reduction of 6.6% in maximum demand across the Trial circuits thereby increasing the amount of demand / generation that can be connected without needing reinforcement. This is a significant change resulting in a lower need for reinforcement and hence less benefit offered to customers for accepting one of the trial contracts in the trial period. This issue has been documented in our last two Project Progress Reports¹.

Explain and justify how this change is in the best interests of customers

Securing the ten agreements provides tangible evidence to all DNOs of the acceptability to customers of such agreements when used to manage point load or generation growth. Such evidence is a key learning outcome from the project and likely to encourage the utilisation of the C₂C contracting methodology by DNOs on a business-as-usual basis.

In response to our consultation one DNO made the observation that extending the project in order to secure ten agreements will result in more customers directly benefiting from the Trial by obtaining a connection agreement that avoids the cost of reinforcement. We can confirm that by extending the Trial in order to secure the remaining four contracts will result in direct benefit to customers that exceeds the additional £108k that we forecast will be required to extend the project. The table below shows possible C₂C customers and the approximate benefit they will receive for signing a C₂C agreement.

Customers	Standard Connection cost (£)	C₂C Connection cost (£)	C₂C customer benefit (£)
Customer A	20000	0	20000
Customer B	110000	5000	105000
Customer C	650000	67000	583000
Customer D	45000	35000	10000
Customer E	1400000	330000	1070000

Explain how delaying this aspect of the Project affects the overall learning outcomes (will they be delayed, are other parts of the Project relying on this learning?)

The impact on learning from the Project is summarised in the table below. There are essentially four knowledge areas that our academic and commercial activities will generate learning from. These can be broadly divided into 'general growth' or 'point growth' scenarios. All but one of these activities is unaffected by this issue.

¹ www.enwl.co.uk/c2c/keydocs.

Knowledge area	General load/ generation growth	Point load/ generation growth
Capacity release	✓	✓
Losses	✓	✓
Economic / carbon benefits	✓	✓
Customer acceptability	✓	x

Assessment of capacity release, losses and economic and carbon benefits are being successfully undertaken by our academic Partners namely, University of Strathclyde, University of Manchester and the Tyndall Centre. Their academic research and findings is not dependent on signing managed agreements.

Customer acceptability is being proven by the purchase of managed agreements and the successful purchase of ten agreements from existing customers has proven the effective use of the C₂C contracts to mitigate the 'general load growth' scenario. The element of learning that is affected by the issue outlined above is customer acceptability associated with the 'point growth' scenario. Our view is that we are in the final stages of negotiations with customers that are likely to result in successfully securing ten agreements this financial year. This is why we sought a Project extension.

Provide further information on how the cost changes relate to the cost categories of the budget in the Project Direction

The table below indicates the estimated impact on project cost categories. We estimate the impact on project costs will be an increase of £108k as a result of the project extension.

Ofgem cost category	Budget, £k	Current forecast, £k	Cost impact, £k	Revised forecast, £k
Labour - Connections - Customer Relationship Management	241	147	18	165
Labour – Project Management	790	792	39	831
Labour – Connection design	303	217	38	255
Contingency - Connections	102	0	13	13
Sub-total	1436	1156	108	1265

In our June 2014 Project Progress Report we forecast an 'at completion cost' of £8,741k against a budget of £10,275k. We now estimate that the revised 'at completion cost' would be £8,833k. This would mean that the Project will have successfully delivered all of its SDRC and associated learning and outperformed Project budget by £1.4m.

The costs due to the extension of the engagement programs, using various channels including website and e-mail have not been included as these are expected to have minimal costs e.g. the website will be updated internally.

Explain what contingency is in place should you fail to secure the ten connections agreements within the proposed extended window. How would this affect the learning and the budget?

We have been closely monitoring opportunities from the start of the Trial period. We have now secured six agreements and we have a further five opportunities that are we categorise as 'likely to sign' by the end of March 2015. Most of the connections offers that are in this category were made a number of months ago and are in the final stages of negotiations.

If the Project fails to secure ten agreements by the extended deadline it would still generate valuable learning from concluding the negotiations that will have taken place. As part of the Trial, we conduct 'post acceptance / rejection' surveys to establish why a potential Trial participant either signed or declined to sign. So whilst we would not have generated ten managed agreements that support the customer acceptability knowledge area, we will still generate knowledge on levels of potential savings and the reasons for acceptance/ rejection.

Should you require any further clarification, please do not hesitate to contact me.

Yours sincerely,

Steve Cox
Future Networks Manager