

98 Aketon Road
Castleford
WF10 5DS

chris.allanson@northernpowergrid.com

Olivia Powis
OFGEM
9 Millbank
LONDON
SW1P 3GE

Our Ref:CJA

Your Ref:

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Dear Olivia

Ofgem's view, subject to consultation, on whether the voltage rule should take precedence over the High Cost Cap for Distributed Generation connections

Northern Powergrid is the electricity distribution (DNO) business for the Northeast, Yorkshire and parts of northern Lincolnshire, operating through its two licensed subsidiaries, Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc.

We are grateful to Ofgem for the opportunity to comment on this subject in advance of Ofgem's planned consultation and we have some observations for your consideration.

The voltage rule and the High Cost Cap (HCC) (acting in conjunction) will only apply to certain generation projects and we believe that both these rules are clearly explained in the common connection charging methodology.

In considering Ofgem's initial view we have a concern that a review of the interaction of these rules could lead to a revised application with possible unintended consequences. For example, if a generation scheme requires reinforcement at the appropriate EHV level then, subject to the voltage of connection, the application of the voltage rule means that the customer does not bear any reinforcement costs; consequently, unless there is further reinforcement within one voltage level, the HCC cannot be applied as there are no applicable costs for it to be applied to.

In the Electricity Distribution Price Control Review Final Proposals dated November 2004 Ofgem recognised that there will be certain projects which, because they are of such unusually high cost, or have requirements significantly in excess of the DNOs' design standards would mean that the generator seeking the connection (and giving rise to the costs) would need to fund the required additional investment through connection charges. If the voltage rule is applied first then this will reduce the instances where the HCC is applied, potentially not provide an appropriate pricing signal to customers and potentially increase the Distribution Use of System (DUoS) burden on the average customer in the long term. For the HCC to remain valid it may be more appropriate to apply it first and then consider the voltage rule.

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We note Ofgem's comments that the voltage rule should take precedence over the HCC and that that this position allows for more consistent treatment between different types of customers and a fairer allocation of costs. However, the HCC only applies to generation schemes and a potential reduction in the application of this rule may increase the burden on DUoS customers with the vast majority being demand customers rather than generators. In retaining an appropriate cost signal effect from the HCC it may be also worth considering that assets to connect large generation projects, especially those large enough to trigger both the voltage rule and the HCC, tend to be constructed at higher voltages and in more remote areas rather than in urban areas, potentially resulting in limited reinforcement benefit for the generality of customers. The interaction of the rules therefore needs to take into account appropriate outcomes for connections to large new customers and potential resulting long terms effects on DUOS for customers in general.

We look forward to contributing proactively to Ofgem's consultation on this topic and please contact me if you require any further information.

Yours faithfully

Chris Allanson

Chris Allanson
Market Strategy Manager