SCOTTISHPOWER

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Dear Alena,

CONSULTATION ON PRINCIPLES TO BE CONSIDERED WHEN RECOVERING THE COSTS OF PROVIDING "FLEXIBLE CONNECTIONS"

We are pleased to respond to your consultation on policy issues brought to light by SSEN's proposals for recovering the costs of providing flexible connections. Our Networks business has responded separately to this consultation via the ENA.

We are pleased that SSEN is taking steps to provide a route for funding active network management (ANM) schemes and other types of flexible connection. The continued timely delivery of these types of scheme is extremely important for delivering additional low carbon renewable generation, particularly in the Highlands and Islands region.

Our responses to the consultation questions are in Annex 1 attached. As a general principle, we would note that the benefits of introducing flexible connections, for example avoided reinforcement costs and earlier connection of renewable generation, will often extend beyond the parties using those connections. It may therefore be appropriate to socialise a greater proportion of the costs associated with the flexible connection than is implied by SSEN's proposed approach, and this will be an important consideration for wider reviews of network charging that are currently under way.

Given the wider policy issues raised by these proposals, we think it would be helpful for SSEN to undertake a more thorough impact assessment than has been provided so far as part of this consultation process. In particular we would like to understand better the scale of impact of the different charging options on connecting customers, at least in relation to spend expected over the remainder of the RIIO-ED1 period. We would encourage SSEN to undertake such an analysis before moving forward with this change in charging methodology.

We would also encourage Ofgem to ensure that in making its decision on SSEN's modification process, it does not constrain the outcomes of either the ENA Open Networks project or Ofgem's Charging Futures work. Given these wider policy initiatives, there may be merit in delaying significant changes to the charging statement.

Yours sincerely

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Annex 1

CONSULTATION ON PRINCIPLES TO BE CONSIDERED WHEN RECOVERING THE COSTS OF PROVIDING "FLEXIBLE CONNETIONS" – SCOTTISHPOWER RESPONSE

1. Do you agree with SSEN's approach to classify the costs relating to operating 'flexible connections' as 'Operation and Maintenance' (O&M)? Please explain your reasoning.

If costs relating to the operation of flexible connections are classified as O&M, that means that the costs will be recovered directly from the connecting party rather than being socialised across a wider group of users. As a general principle, we do not consider it is appropriate for the costs of operating active network management (ANM) and other flexible connections to be targeted solely at the connecting party. The introduction of more flexibility in connections will have wider system benefits, including avoided reinforcement costs, and this should be reflected in socialisation of costs across a wider group of parties.

We understand that in the present case, some of the costs which SSEN propose to classify as O&M relate to third party provision of communications services and application support which relate solely to the connecting party and are not part of a wider platform or system to support flexible connections. If this is the case, we can see that it may be appropriate to classify such costs as O&M. However, this should be seen as a temporary position, pending a wider review of charging arrangements for flexibility. As noted above, if provision of flexible connections offers wider benefits, it may be appropriate to socialise a greater proportion of the costs of flexible connections, even those costs which relate to distinct connections or capacity.

At a more detailed level, it is not clear how the O&M cost estimates have been derived. Ofgem may wish to request further substantiation from SSEN as to the nature and amount of the costs and, where applicable, the period over which O&M charges are proposed to be capitalised.

2. Do you agree with SSEN's proposed principle that a 'flexible connection' cannot be a 'Minimum Scheme'? Please explain your answer.

We also disagree that as a general principle a 'flexible connection' cannot be a 'Minimum Scheme'. If classifying flexible connections as non-minimum schemes restricts the ability to socialise costs across other users (where such socialisation is appropriate), this would be inefficient.

We suspect that part of the problem may be the definition of 'Minimum Scheme', which will have been conceived from the perspective of traditional design, in accordance with distribution standards for a passive distribution system. If so, this will need to be updated in due course. In the meantime, we see no reason why a flexible connection should not be regarded as a 'Minimum Scheme' if it is less expensive than the standard connection offer.

More generally, the industry is proposing movement towards an environment that encourages DSO type model interfaces which are dependent on greater network data collection to reduce the need for traditional network reinforcement.[1] In such a world, systems are dynamic, meaning that flexible and active networks should be the norm.

[1] For example: ENA Open Networks project in particular supported by DNOs across the industry and Ofgem's Charging Futures Forum

Arguably, the design standards are out of date – a point which has been a positive topic of discussion at the Access Task Force that forms part of the Charging Futures Forum. Essentially, the expectation of active network management is to reduce overall connection costs to consumers.

In summary, if 'flexible schemes' are central to ensure lowest overall cost[2] to consumers, the definition of 'minimum scheme' and associated charging arrangements should be reflective of such a principle.

3. Under the Common Connections Charging Methodology ('the CCCM'), the ongoing costs of operation and maintenance relating to additional assets requested by the connecting customer (over and above those associated with the Minimum Scheme) will be payable in full by that customer (not supported through the Use of System Tariff).

Based on

- **SSEN's interpretation of the 'Minimum Scheme',**
- **SSEN's proposed classification of flexible connections' costs as 'O&M', and**
- **the CCCM,**

under SSENs proposed methodology, the entirety of costs of 'flexible connections' will be borne by the connecting customer.

Do you agree with SSEN's proposed apportionment of costs of 'flexible connections' and stated rationale (that all of these costs are bespoke and specific to the connection, do not provide any value to wider use-of-system customers and should not be recovered from the wider customer base)? Please explain your reasoning.

Again, and in line with our arguments above, if ANM solutions contribute to reducing overall costs to consumers, the assets associated with the ANM scheme are providing a shared benefit.

We believe that better network measurement and control will become a critical aspect of distribution network operation in the future – particularly in the context of the DSO model, where better data management is likely to be used to deliver more efficient use of existing and future network assets. ANM schemes are effectively a set of network measurement, analysis and control protocols to allow more energy to use the network infrastructure for more of the time. Therefore, we do not agree it is appropriate to recover ANM operational costs from specific customers, given that this is likely to be a fundamental part of DNO /DSO business models moving forward, as is being discussed within the Open Networks project.

4. Are there any relevant differences between types of flexible connections (eg timed, ANM, etc.) which should be considered in determining the approach to classifying and allocating associated costs? Please explain your answer.

There are a wide variety of ANM solutions available that expose connected customers to different levels of "flexibility", causing different levels of wear and tear in connected equipment and impacting the way that generators operate and maintain them. Where developers access the network using flexible connections, they expect their O&M to be increased and the lifetime of the asset to be impacted. Less "flexible" ANM systems (based on trips rather than curtailments or export limitations) may need to be differentiated in the

[2] SSEN's assessment of 'minimum scheme' only evaluates the cost of the connection.

way that associated costs are classified and allocated as they do not require the same level of engagement from DNOs.

5.
a) The following is primarily addressed to the Distributors. How do you currently classify and recover the costs of 'flexible connections'? What are the reasons for your approach? Does your approach differ depending on the type of scheme? How do you expect your current approach to evolve (if at all) over the medium term (next 3-7 years)?

Our Networks business has responded to this question via the ENA.

b) The following is primarily addressed to the connecting customers. We note that 'flexible connections' is not defined anywhere in the Charging Statement. SSEN is also proposing to remove paragraph 6.32 which details the 'operation, repair and maintenance' services they provide. What are your views on the clarity and internal consistency of the Statement?

We would encourage SSEN and Ofgem to do more to clarify the meaning of 'flexible connection' in this context. There are already a wide variety of products available in the market and we would expect the scope of 'flexibility' could evolve from a binary approach (on/off) to a wide monitoring system analysing the network 24/7.

c) The following is primarily addressed to the connecting customers. What are your views on SSEN's proposal - that where there are annual third party costs incurred in operating the 'flexible connections', SSEN will pass these charges onto the customer on an annual basis?

Pending a wider review of charging arrangements, the reasonableness of SSEN's proposal turns on whether the criteria for classifying these costs as O&M and for charging them to connecting customers are met.

6. Do you believe the modifications made in SSEN's Statement are reasonable and are in line with the Relevant Objectives? Please provide reasons for your response.

We consider SSEN is taking a rather short term view in its assessment against the Relevant Objectives and would encourage it to develop and justify models that consider longer term cost benefits taking into account network trends.

ScottishPower
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