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Our Reference:
Your Reference:

Date: 16th December 2009
If telephoning or calling please ask for:
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Dear Customer

Electricity Distribution Charges – Information for Generators

We are writing to you as you are on our records as an operator of electricity generation plant which is connected to export electricity to the Scottish Hydro Electric Power Distribution plc ("SHEPD") network.

Important developments are currently taking place within the electricity industry and these will have a significant impact on the form, structure, application and level of electricity Distribution Use of System ("DUoS") charges. The impact of these developments will start to take effect from 1st April 2010. As part of our commitment to communicate with our customers and stakeholders, we feel it is important to advise you of the particular developments which may financially affect the operators of exporting generation plant.

Under current industry arrangements, these DUoS charges are invoiced to the electricity supplier who purchases your exported electricity, but the changes to these charges could potentially affect the commercial terms and arrangements between you and your supplier.

Distribution Price Control Review Proposals

The regulator of the GB electricity industry, Ofgem, has just published its Final Distribution Price Control Review Proposals ("DPCR5") in relation to the GB Distribution Network Operators ("DNOs"). The primary purpose of this Review is to determine the revenue required to operate and maintain each DNO electricity distribution network, including the SHEPD network, over a five year period starting from April 2010.

The existing Price Control expires on 31st March 2010 and this contained an exemption from DUoS charges in relation to the export connections for all generation plant connected² prior to 1st April 2005. As part of the incoming Price Control, this exemption is to be withdrawn, with the effect that all exporting generation will become liable for DUoS charges. However, our current view of the initial application date for DUoS charges to such pre-April 2005 generation depends on the voltage of connection and this is discussed in further detail below.

The Ofgem document which covers the application of DUoS to pre-April 2005 generation is available to view or download from the Ofgem website¹ and we would encourage interested or affected parties to review this document.

Low Voltage³ and High Voltage⁴ Generation Connections: DUoS Charges

As part of DPCR5, development work has been undertaken industry-wide over the last two years to create a Common Distribution Charging Methodology (“CDCM”) for adoption by all DNOs as the basis for the calculation of their DUoS charges relating to Low Voltage (“LV”) and High Voltage (“HV”) connections. Ofgem have approved the CDCM (with some conditions) and SHEPD will shortly be submitting to Ofgem its indicative DUoS charges proposals based on the CDCM, for application from 1st April 2010.

The DUoS charges which we propose to apply to all LV or HV connected exporting generators from April 2010 would in most cases result in a negative overall charge, in recognition of the support such generation typically provides to the distribution network. Where such charges are negative, SHEPD would apply a credit to your appointed electricity supplier, as our use of system contract is with that party rather than directly with you.

Extra High Voltage⁵ Generation Connections : DUoS Charges

Development has recently commenced on a common Extra High Voltage Distribution Charging Methodology (“EDCM”) for the calculation of DUoS charges relating to EHV connections, with a target date for implementation of 1st April 2011. For the interim period our EHV DUoS charges, including those applicable to exporting generators, will continue to be calculated on the current basis.

In relation to exporting generation plant which connected² at EHV prior to 1st April 2005, we are currently engaging with Ofgem to clarify the date from which DUoS charges will apply to such connections for the first time. Our current view is that it would be more appropriate to apply these charges with effect from the implementation of the EDCM in 2011, rather than at April 2010. However, this is the subject of further discussions with Ofgem and we will provide further updates in relation to this in the New Year.

The EDCM represents a significant change from current EHV charging methodologies and the DNOs will consult industry stakeholders during the development phase. You will be able to keep updated with this process from our website⁶ and the Energy Networks Association website⁷.

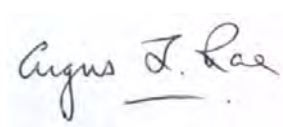
Communications

We publish our standard DUoS charges on our website⁶, along with updates and information on matters which we believe are of interest and value to our customers and stakeholders. We encourage you to visit our website and we will publish further updates on the matters within this letter and other developments as they arise.

Whilst our website will be the primary means of publishing this information to customers and stakeholders, we recognise that interested parties may wish to be advised of the publication of new information when it becomes available. Therefore if you wish to receive communication updates from us by e-mail, please register your interest⁸ with us.

Should you have questions or comments in relation to the matters covered in this letter, please get in touch.

Yours sincerely,



Angus Rae
Commercial Policy Manager
Scottish Hydro Electric Power Distribution plc

- 1 http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/FP_2_Incentives%20and%20Obligations%20FINAL.pdf
- 2 This exemption also covers generation plant where the connection application was received prior to 1st January 2005
- 3 Low Voltage means less than 1,000 volts
- 4 High Voltage means greater than 1,000 volts but less than 22,000 volts
- 5 Extra High Voltage means 22,000 volts and above
- 6 www.ssepd.co.uk
- 7 <http://2009.energynetworks.org/>
- 8 To register for future communication updates by e-mail, please e-mail angus.rae@scottish-southern.co.uk indicating your name, company, position and contact information.