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Dear Olivia,

Quicker and more efficient distribution connections

We welcome the opportunity to respond to this consultation and believe it is right to ask the question what can be done to provide customers with quicker and more efficient connections in an effort to bring about continued improvements in service.

Importantly, we are already actively managing connection applications to minimise the amount of capacity that is sterilised by applicants with no or little intention of connecting. We include clear milestones within our connection offers to customers to ensure that they understand how long their connection offer is valid for and we actively manage the queue to reduce as far as possible the capacity that is 'tied up' in the queue.

We have also facilitated consortia on a number of occasions. These include the shared rebuilding of HV and EHV networks as well as shared new assets. To encourage more of these, this year, as part of our ICE initiatives, we are providing a Consortia Hub on our web site where customers can register their interest in an area of network to assist them in making contact with others, so forming consortia.

Notwithstanding the above, we are keen to explore the options presented in the consultation (and indeed others) and believe that there is merit in elements of all of the scenarios presented. We concur that the proposals being put forward in this consultation should not be looked at in isolation: one size will not fit all and it is likely that different approaches would work better in different circumstances.

However, as a general rule, providing something quicker will cost more. We understand that there are cost efficiencies in being able to accurately forecast reinforcement ahead of need and combining jobs and resource to deliver the optimum outcome. However, this is

contingent on making the right judgement call every time. Inaccurate forecasts, either in terms of future volumes to connect or location, will erode the efficiencies of anticipating correctly.

As such, we are concerned that where anticipatory reinforcement is to be funded by DUoS customers, this runs the risk of being counter to Ofgem's duty to protect the interests of both existing and future customers, especially where the benefits of quicker and more efficient connections are less clear / more borderline, or where there is substantial risk that the future connections may not materialise. There is a difference in risk between reinforcing the network for demand versus generation. For the most part, anticipatory reinforcement will be to allow commercial-scale renewable generation to connect at HV and EHV. In our experience, we do not believe that the generality of DUoS customers would support taking on more risk in order to allow these commercial customers to access quicker and more efficient connections.

Even Scenario 3, which appears to be low risk to DUoS customers, raises concerns for us. As presented, Scenario 3 reduces the risk for existing DUoS customers, but raises the risk for future connecting customers, who may be charged a premium to connect. We question whether this is what connecting customers want. We believe the mechanisms governing any 'DevCos' would need to address how they could make an application under the current Section 16 of the Electricity Act and how they would be treated in relation to existing headroom and DUoS funding via cost apportionment. We have a concern that Scenario 3 paves the way for DevCos to acquire headroom capacity on the network, possibly with little or no investment on their part, leaving DUoS customers to pick up future reinforcement costs to connect customers that are not prepared to pay the DevCo's premium. Importantly, even where a third party has funded the reinforcement, through cost apportionment rules DUoS customers will pick up some of this cost and are therefore not immune from risk. Notwithstanding this, for the most part, we are not confident as to who would form DevCos in many areas as we do not believe that local authorities or other public bodies will have the funds or ability to adopt this approach.

Our final concern is that some of the proposals may have the potential to discriminate between customers looking to connect. This is counter to our own obligations under standard licence condition 12, which requires us to offer terms for connection to any customer and Section 16 of the Electricity Act, which requires us to make a connection when required by the owner or occupier of premises, or a supplier acting with their consent.

We believe the real benefits to all customers will come from an increased focus on queue management and encouragement of consortia of developers who are best able to assess their own risk profiles and level of commitment.

I hope this is useful input to the process. Should you wish to discuss any of the above, please do not hesitate to get in touch.

Yours sincerely,

Gillian Hilton

Regulation, Networks

ANNEX

Scenario 1: DNO funds (via DUoS) cost of anticipatory reinforcement (costs are socialised as no initial connection customer)

Q1. Would a DNO be sufficiently confident about future connections demand and the benefits to DUoS customers to justify this approach? If so, in which circumstances?

We expect the degree of confidence that the DNOs are likely to have with regards to anticipatory investment to be specific to each service area, i.e. the likely demand for future connections based on the number of customers, resources, geography of the area and how easy it is to accurately forecast where future connections are likely to be required. Changes to the wider energy policy framework and global energy markets may also have an impact on the accuracy of forecasts, for example energy efficiency initiatives and the relative costs of different energy sources will affect demand forecasts.

Q2. What other barriers are there to DNOs taking this approach? How might these be overcome?

We are required to develop and maintain an efficient, co-ordinated and economical system. In the absence of an actual connecting customer, we cannot be certain that anticipatory investment / reinforcement will be consistent with developing and maintaining an efficient, co-ordinated and economical system. Whilst anticipatory investment / reinforcement might prove to be efficient and economical 'in the round' where there is considerable demand for connections, i.e. the main population centres, the likelihood of inefficient or uneconomic investment is increased where demand for connections is lower. This approach is undoubtedly lower risk where there is demand, especially for demand connections. Our concern is that the main driver for reinforcement is commercial-scale generation, often sited in more rural areas where this capacity is less likely to be utilised by others and often more volatile and speculative because it is dependent on external factors such as planning permissions and energy policy, such as renewable subsidies.

Scenario 2: DNO funds (via DUoS) cost of anticipatory reinforcement when initial connection takes place (to be reimbursed by subsequent connection customers)

Q3. What are your views on this type of approach and the RAV Buyback Model? Are there any elements which are essential, not required or should be changed – and why?

We would expect the costs of 'additional reinforcement' to be lower if done in conjunction with an initial connection. Therefore, providing the additional reinforcement is subsequently utilised, it can reasonably be assumed that there would be cost benefits with this approach. However, again, the success / efficiency of this approach is contingent upon accurate forecasting of future connections – both in terms of volume and location.

In terms of the RAV buyback model, we welcome the assurances that this would give us in terms of the recovery of incurred costs that were made in good faith on the basis of future connections. However, we believe that an initiative not dissimilar to the Strategic Wider Works arrangement in transmission would result in an overly onerous arrangement, which could discourage the DNOs and, given the timescales involved, may not prove compatible with Ofgem's quicker, more efficient objective.

We also have concerns over the requirement that this would place on future customers to connect only to the enhanced part of the network. This seems to be at odds with the overriding objective of better serving connecting customers. We question whether customers really want quicker and more efficient connections, but with reduced choice as to where on the network they are able to connect and, in the event that a 'premium' is added to the charge paid by second comers, at increased cost.

It may be that an initiative more akin to NGET's incremental wider works is more appropriate.

Q4. Please give details of any projects or schemes this type of arrangement could have helped progress which would have not otherwise gone ahead?

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Q5. What would justify requiring subsequent connection customers to only be able to connect to the new, enhanced part of the network?

As per our response to Q3, we question whether this is what customers really want or whether it is in line with our current obligation to provide 'minimum cost' connections.

Q6. What would justify a DNO charging a premium to subsequent connection customers to reimburse DUoS customers for the risk they bear in funding this work? What might be the impact of this? How should the premium be calculated?

As with any 'loan', we accept that the party taking the borrowing risk will need to charge a premium for this service. However, again, we would question whether customers (certainly all customers) are prepared to be charged a premium for a quicker and more efficient distribution connection. Indeed, there is a risk that a premium could discourage certain customers from connecting to already reinforced parts of the network. However, given that some may wish to progress on this basis, the premium would require to reflect both the cost of reinforcement and the time saved in its delivery, both of which would be known by the time the reinforcement had been completed.

Q7. Over what time period would it be reasonable to expect DUoS customers to be reimbursed for their initial funding?

We are mindful of guarding against future customers picking up the costs of customers connecting today. For this reason, we believe DUoS customers should be reimbursed over a relatively short timeframe, i.e. no more than 5 years. This time period aligns with the period

over which the Electricity (Connection Charges) Regulations 2002 apply, which is an existing mechanism to manage the reimbursement of connection customers.

Q8. When might it be appropriate for a DNO to have an upfront revenue adjustment to cover this type of scheme? Or should existing mechanisms be used?

We believe existing mechanisms should be used.

Q9. Do you consider that this approach would have any implications on competition in connections?

Under the current arrangements, anticipatory investment during reinforcement of existing assets should have no implications for competition in connections.

However, anticipatory investment as part of network extensions, which are commonly contestable, could potentially have an impact on competition in connections should a DNO include for future capacity, providing the connecting customer with an efficiency that an ICP could not.

Scenario 3: Connection customer funds cost of anticipatory reinforcement when initial connection takes place (to be reimbursed by subsequent connection customers)

Q10. What are your views on the DevCo model and process set out in Appendix 2? Are there any elements which are essential, not required or should be changed – and why?

There may be circumstances where the DevCo model provides customers (or a group of customers) with a means to a quicker and more efficient connection. However, we are concerned that, despite de-risking existing DUoS customers in the short- to near-term from the costs of anticipatory reinforcement, it increases the costs for customers seeking a connection to the network and, in the event that it 'removes' / sterilises any capacity that was spare on the network, it increases the costs to future customers (both DUoS and connection customers) where further reinforcement is needed.

Separately, whilst recognising that this approach might be attractive for select areas of the network, most notably London, we don't believe there is widespread appetite or ability amongst local authorities and public bodies to fund and facilitate this type of approach.

Q11. Please give details of any projects or schemes this type of arrangement could have helped progress which would not have otherwise gone ahead?

We are not currently aware of any.

Q12. What would justify requiring subsequent connection customers to only be able to connect to the new, enhanced part of the network?

As per our response to Q3, we question whether this is what customers really want.

Q13. What would justify a DNO charging a premium to second-comers to reimburse the customer? What might be the impact of this? How should the premium be calculated?

As per our response to Q6.

Q14. Over what time period would it be reasonable to expect the customer to be reimbursed for their initial funding?

As per our response to Q7.

Q15. What would justify the initial investor being permitted to restrict the type of schemes that would connect using the infrastructure it has paid for? For which type of schemes might this be appropriate?

Whilst this scenario suggests that both the cost of connection and any anticipatory investment is picked up by the connection customer(s) and / or a third party investor, i.e. that no costs are picked up by the DNO and therefore DUoS customers, this ignores the rules around cost apportionment, which means that some costs will be picked up by DUoS customers.

The DNO has a duty to make a connection when asked by any person. It therefore cannot discriminate.

Given both of the above, we do not believe that the initial investor should be permitted to restrict the type of schemes that can connect to the infrastructure.

Even in the event that the infrastructure has been entirely paid for by the investor, we believe that they should not be able to discriminate.

Q16. Do you have any comments on the recommendations proposed in Appendix 3 to enhance consortium arrangements? What would justify these recommendations? Are there any other changes which would support consortium arrangements?

We are very supportive of consortia arrangements and would encourage the adoption of all the recommendations in this area, with the exception of the suggestion that the DNO (i.e. DUoS customers) should share the investment risk in order to put a cap on reinforcement costs. We refer you to our Consortia registration, which forms part of our Incentive on Connections Engagement (ICE) initiatives this year.

We assess the potential of all connection requests for any joint connection opportunity and have facilitated discussions for 12 potential consortia across our licence areas in recent years, typically involving 2-7 developers, but up to as many as 25. Several have progressed to share joint costs.

However, it is important to understand that while this is an excellent approach for suitable connections projects, a relatively small number are likely to be able to benefit from such an arrangement. This is because projects need to be co-located in order to share common new or reinforcement assets. In our experience, the main types of projects likely to benefit are those that are very large (usually involving HV assets and more than 100 domestic

connections or more than 1 MV of industrial / commercial load) and generation projects (which by their nature are more likely to drive reinforcement to existing assets and are also impacted by high costs), which involve works that could be carried out more efficiently in conjunction with other ongoing projects.

Scenario 4: Other ways of making it easier to connect

Q17. What role, if any, could changes to engineering standards play in helping to accelerate the connections process without damaging reliability levels? In what circumstances would this be appropriate?

We are concerned that reduction in any engineering standards would risk reducing reliability levels, an area where, if anything, our existing connected customers have an expectation of continuous improvement.

Q18. Which particular standards might most benefit the connections process if changed?

Clearly a reduction in security and reliability standards would reduce costs for initial connections. However, our experience with new and existing customers is that they wish for more (not less) security.

4.2. Reducing the need for reinforcement by managing connection offers

Q19. What benefits might the introduction of assessment and design fees bring?

Fees in this area would improve efficiency by ensuring a more realistic view of the capacity that is accounted for in connection applications by discouraging the more speculative applications. This in turn would result in lower DUoS costs.

Q20. Could more flexibility in the way assumed available capacity is calculated help accelerate the connections process? Are there any other improvements to be made in how DNOs manage interactivity between schemes looking to connect to the same part of the network?

We already apply diversity in capacity to our calculations wherever practicable.

Q21. When might it be reasonable to withdraw capacity it has previously offered to customers?

We believe it is important that customers applying for capacity are, at the time of being issued with a connection offer, made aware of the time limits that apply. Providing this is set out in the initial connection offer, we believe it is more than reasonable to apply limits to ensure that capacity is not sterilised indefinitely.

Q22. Are there any other changes which could be made to reduce the need for reinforcement?

We believe there are a number of options that could be explored. We certainly believe there is merit in building on the initial work around consortium models. We also believe there is more that could be done around constrained connections and exploring improvements in the commercial framework to facilitate this. Finally, whilst this would not necessarily reduce the need for reinforcement, we believe there is merit in exploring whether there is any potential to make capacity that is available, available to those that need it most quickly (rather than in the order of when their application was received).

4.3. Flexible terms for the recovery of connection charges

Q23. What would justify a DNO offering more flexible terms for connection charges? What might be the impact of this?

We do not believe it is for DUoS customers to take on the additional risk of providing flexible terms for connection charges.

Q24. What type of schemes would most benefit from this arrangement?

Potentially any scheme, but for the reasons set out above, we do not believe this is for the DNOs to offer.

Q25. What could be done to protect other customers from picking up any costs which cannot be recovered from the original connection customer?

Ofgem has a duty to protect all customers and we are very mindful of putting additional costs on the generality of customers, particularly where only a select group stand to benefit as a result.

Q26. Are there any other measures that would reduce the cost impact of connecting to the network?

We believe cost caps, such as the High Cost Cap currently applied to generation driven reinforcement, are a useful tool in capping the cost impact of connections for DUoS customers. A review of where a similar mechanism could be applied to other investments may be a way of reducing the cost impact of connections on the network.

Summary and next steps

Q27. Which of the arrangements described above would deliver the greatest benefit to the connections process without placing additional risk or cost on the generality of customers, and why?

Notwithstanding the concerns raised earlier in this response, Scenario 3 is the scenario that offers the most risk-free approach for the generality of existing customers. However, as a result, it is not clear that the generality of customers or connecting customers would actually benefit from this approach. Indeed, we have concerns that it has the potential to be discriminatory from the perspective of who can connect to the reinforced network and, given the likely increased costs of connecting, we do not believe this is what most connecting customers want.

We accept that there is scope to deliver more efficient connections for customers through scenarios 1 and 2, but this is contingent on accurately forecasting forward need in all cases – both in terms of volume and location.

Q28. Should wider benefits beyond energy system benefits (such as those provided by NTBMs) be taken account of in DNOs' or third parties' considerations of any of the measures or mechanisms described in this paper?

We do not believe it is necessary for electricity customers to take on the additional costs for these. This would reduce any meaningful financial signal from these.

Q29. Do you have any other suggestions for delivering quicker and more efficient connections?

All our suggestions are include in our above responses.