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The Renewable Energy Company Ltd (Ecotricity)
Feedback on the Quicker and More Efficient Distribution Connections Open Letter

Dear Olivia Powis,

Ecotricity is an independent renewable energy generator and supplier, with over 155,000 gas and electricity customers; 59 wind turbines and the country's first large scale solar park.

As a generator, we welcomed Ofgem's review of the electricity connections market, and the continued focus on networks and connections that this open letter represents. Connecting to a network is a substantial part of all generating projects, both in terms of time and cost, and we support all work done to create quicker and more efficient processes and a fairer market system.

We offer our responses to the questions below:

- 1. Would a DNO be sufficiently confident about future connections demand and the benefits to DUoS customers to justify this approach (DNO funds the cost of anticipatory reinforcement and recoups the money through DUoS charges)? If so, in which circumstances?**

Under the current network operating arrangements, it is unlikely that a DNO would ever be fully confident about future connections demand. Whilst area development and assurances from local authorities may go some way to lessening risk, only a complete overhaul of the DNO operating structure will create an environment conducive to true anticipatory reinforcement.

We suggest, instead, the following:

If a national renewables target were set, this could then be translated into regional objectives for DNOs. This would mean that they would no longer be passively reacting to increased need, but rather actively making capacity available for potential projects. Large-scale work of this nature would ensure that the network is upgraded and reinforced at the lowest investment cost possible. This would mean lower DUoS charges, and lower customer energy bills.

Alternatively, if the distribution network lines (132kV) were taken over by the National Grid they would become national assets, and the costs of reinforcement would no longer fall on generators and other connection customers. The costs would instead come from a central Government fund for the creation and upgrades of national infrastructure.

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

As it stands, the greatest barrier is that DNOs are required by law to always be cash positive. This means that they can never undertake truly large-scale network upgrades in anticipation of future capacity needs. This barrier could be easily overcome by a simple rule change; however, we need to ensure that the right incentives for large-scale investment exist for DNOs, which currently do not. To combat this, we suggest the use of regional objectives as described in our answer to Question 1.

3. What are your views on this type of approach (DNO funds costs of anticipatory reinforcement when initial connection takes place) and the RAV Buyback Model? Are there any elements which are essential, not required or should be changed – and why?

Whilst we agree that this type of model may be helpful in certain circumstances, we do not feel that it combats what we see as the central problem in distribution connections at this time. In our view, the main problem is that projects are being blocked by the fact that the connecting customer cannot afford the initial costs. In this model, although the inclusion of anticipatory reinforcement is a positive step, nothing is being done to try and lower costs for the initial connecting customer.

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

We cannot imagine that this scheme would have helped any projects that had not gone ahead due to high initial costs, as those remain unchanged. However, we recognise that it may have a positive impact on any second-comer connections, where the second-comer fees may be less than initial connections.

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

As long as connecting to the enhanced part of the network were cheaper for the connecting customer, we do not see why this would need justification. DNOs are duty bound to provide the cheapest connection to their customers. If connecting to the new enhanced part of the network is not cheaper, then we would suggest that there would be little point in implementing this particular scenario.

6. 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?

We feel that as long as connection costs (including the premium) are cheaper than putting in a sole asset line to connect to the network, this is not something that would require justification, as it would still be the cheapest option available. However, if the premium made it more expensive, it would go against a DNO's duty to provide the cheapest option to customers, and we would not support it.

We suggest that the premium be calculated on a pro-rata basis based on the amount of capacity requested. This would be the fairest way of calculating what each connecting customer should be paying as a premium.

We do not have any evidence regarding what impact this may have on different customers.

We offer our responses to Questions 7 and 8 together, below:

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

8. 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 do not feel able to answer this question without some indication of the amount that would have been paid by each customer through DUoS initially. We also wish to question how the initial funding would be paid to the DNO through DUoS, and what exactly is meant by an upfront revenue adjustment as opposed to the existing mechanisms. The answers to these questions have the potential to have a major impact on a number of people and parties.

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

We do not think that this approach would have any new implications on competition in connections; however, we do feel that it would exacerbate the main existing problem of Permitted Development Rights. By this we are referring to the fact that Independent Connection Providers (ICPs) do not have the Permitted Development Rights that DNOs have, putting them at a continual disadvantage. This is especially relevant for any wider reinforcement work, where they would need access to third party land.

10. What are your views on the DevCo model and process set out in Appendix 2 (Connection Customer/third party investors fund costs of anticipatory reinforcement when the initial connection takes place)? Are there any elements which are essential, not required or should be changed – and why?

We support the introduction of this scenario as far as in that it provides an alternative means of financing network reinforcements. However, we still do not feel that it goes far enough in creating capacity for future use rather than just being reactionary. We also suggest that giving the investors the ability to stipulate what types of projects could connect to the enhanced part of the network could be detrimental to certain connection customers.

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

We do not have any evidence to provide an answer to this question.

We offer our responses to Questions 12 and 13 together, below:

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

13. 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 previously stated in response to Question 6, we feel that as long as connection costs (including the risk premium) are cheaper than putting in a sole asset line to connect to the network, this is not something that would require justification, as it would still be the cheapest option available. However, if connecting to the enhanced network (including the risk premium) was more expensive, it would go against a DNO's duty to provide the cheapest option to customers, and we would not support it.

We suggest that the premium is calculated on a pro-rata basis based on the amount of capacity requested. This would be the fairest way of calculating what each connecting customer should be paying as a premium.

We do not have any evidence regarding what impact this may have on different customers.

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

We do not feel able to answer this question without some indication of the amount that would have been paid initially. However, as this scenario is based upon the idea of investment for a specific purpose, we would suggest that the initial investor be paid back as they acquire new connections for their enhanced part of the network. This means that the DevCo carries the risk of lack of connections, rather than the DNO or DUoS customers.

15. 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?

There are many schemes this type of scenario would benefit; however, it also has the potential (whether or not it is used) to disadvantage certain connection customers. If a customer is prohibited from connecting to the enhanced network, the costs of putting in a single asset line or reinforcing more of the network could put an end to their project. This would mean that the scenario could work against everything it is setting out to achieve.

16. 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?

The greatest risk when deciding to become part of a consortium of this nature is the possibility of greater cost if a fellow member were to drop out, thereby increasing the costs faced by others. We agree that members should all have planning permission before coming to any firm arrangement in order to minimise this risk, but suggest this be taken further. A penalty system for any member that drops out after an agreement has been reached will ensure that the others do not face a greater financial burden than initially agreed upon. In addition, a ceiling on the cost of connection work per MW will give security to the members of the consortium, although it may increase risk for the DNO.

We offer our response to Questions 17 and 18 together, below:

17. 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?

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

We do not have the evidence to suggest which engineering standards could be changed in order to help the connections process. However, there are technical changes that could be made to ease Grid constraints. One example of this would be to require all embedded generators to have the capacity to both produce and absorb reactive capacity. Whilst this could ease the network and make additional capacity available, it does have a financial impact on the generators. Generators would need to use stronger inverters, which would be doing more work than at present. This would mean that the inverters would burn out/become defunct more quickly, creating an extra cost. Although most inverters commonly used have the ability to produce and absorb reactive capacity, manufacturers would still charge a premium to enable that ability. There would have to be a thorough cost benefit analysis done before a suggestion such as this is taken any further.

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

We do not have any evidence to provide an answer to this question.

20. 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 have previously made suggestions regarding the upgrading of DNOs heat maps to ensure that they are live-update enabled. If this were the case, then any customer looking to connect would be able to consider the capacity available, and also look to see if there were other customers with whom they could share a connection. Although the information provided on the heat map would be confidential, interested parties could submit their information to the DNO to have it passed on to the relevant connection customers. This would provide opportunities for more consortiums as outlined in scenario 4.

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

We agree with current DNO practices that require connection customers to have met certain milestones within agreed time periods in order to maintain the validity of their connection offer. We do not think it would be appropriate to withdraw offered capacity under any other circumstances. However, we do think that these milestone dates need to be reconsidered in light of Contracts for Difference and the timeframes and constraints those place on generators.

We have no evidence to be able to respond to Questions 22 to 26.

27. 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?

We feel that Scenario 1 provides the greatest benefit to the connections process. With only minor changes it could present a meaningful opportunity to move away from purely reactionary network reinforcement. We feel that a move from reactionary to active network reinforcements would be the single most beneficial step the energy industry could make in terms of the distribution networks. It also offers the prospect of least cost optimisation regarding the financial investment in network upgrades.

28. 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 have any evidence to provide an answer to this question.

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

We would like to reiterate our suggestions from Question 1:

If a national renewables target were set, this could then be translated into regional objectives for DNOs. This would mean that they would no longer be passively reacting to increased need, but rather actively making capacity available for future projects. Large-scale work of this nature would ensure that the network is upgraded and reinforced at the lowest cost investment possible. This would mean lower DUoS charges, and lower customer energy bills.

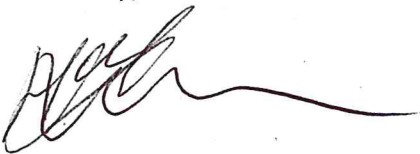
Alternatively, if the distribution network lines (132kV) were taken over by the National Grid they would become national assets, and the costs of reinforcement would no longer fall so heavily on generators and demand customers. The majority of the costs would come from the Government, and each connection customer would pay a proportion of the costs based on their Statement of Works analysis.

Conclusion:

Although we welcome the interest in creating quicker and more efficient distribution connections this letter represents, we do not feel that the scenarios presented will go any real length in combating the underlying problem with distribution connections. As mentioned previously, these measures; whilst providing some measure of relief; continue to be reactionary, based merely on meeting the demand for capacity. In order to have a distribution network that fully supports embedded generation, the network should be pro-actively reinforced in line with national and regional renewable targets, ensuring that capacity is always available for new projects.

Ecotricity welcomes the opportunity to respond and hope you take our comments on board. We also welcome any further contact in response to this submission. Please contact Tecla Spiller on 01453 769391 or Tecla.Spiller@Ecotricity.co.uk.

Yours sincerely,


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