

**City of London Corporation response to Ofgem consultation: “Quicker and more efficient distribution connections”**

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

<b>Q1.</b>	<b>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?</b>
	<ul style="list-style-type: none"> <li>• No – but, in many cases, they should be confident. One reason why DNOs have been able to assert that they are uncertain about whether anticipatory reinforcement is required is because they have refused to accept data about development schemes.</li> <li>• DNOs should do more to ensure that they have adequate knowledge of forthcoming development schemes particularly in high growth dense urban areas with cyclical development such as the City of London. The City and, separately, the GLA produce highly sophisticated and robust data that models demand in their areas and DNOs should use this data to model their funding of anticipatory works. DNOs should work closely with Authorities who can provide regular development completion forecasts.</li> <li>• DNOs are particularly poor in sharing demand modelling information with stakeholders and should adopt the approach used by Consolidated Edison, the electricity distribution network for New York, who proactively seek discussions with developers to understand timescales and required load to enable more efficient demand modelling. Such an approach allows investment to be timed so that it delivers infrastructure at the time it is required. As a result Consolidated Edison has a lower risk threshold. While, in theory, customers would bear the cost of stranded assets this rarely ever happens due to their extensive load profiling. In New York City, the upgrading of new substations is not linked to individual new developments and is instead viewed as part of their overall on going network upgrade plans, which is informed by continuous load profiling allowing effective and accurate planning of future connections.</li> </ul>
<b>Q2.</b>	<b>What other barriers are there to DNOs taking this approach? How might these be overcome?</b>
	<ul style="list-style-type: none"> <li>• The existing Ofgem regulatory regime remains the principal constraint. DNOs are forbidden from investing ahead of need under Ofgem’s current regime, the existing system promotes a “just in time” approach in terms of electricity connections, causing significant risks to developers and businesses looking to make strategic property decisions.</li> <li>• The GLA’s recently commissioned “London Electricity Infrastructure Review” has outlined that Ofgem’s existing price control review allows an annual amount of capital investment. Ofgem has allowed only low levels of annual capital investment into electricity networks, in order to keep system charges for consumers at a low level. Very few regulatory performance measures exist, and there are no incentives for DNOs to invest in network expansion and development. Since UKPN took over London’s distribution licence (from EDF Energy) in 2011, there has been a significant underspend on their allowed annual investment showing that £130m more should have been spent on upgrading London’s network. The GLA’s review demonstrated that 1 in 5</li> </ul>

	<p>substations in central London has less than 2 Megawatts of spare capacity available<sub>2</sub> (City developments can require up to 15 Megawatts each), with substations in denser areas such as the Square Mile having almost no spare capacity. The review showed that in 2012/13 UKPN could have invested – but did not - a further £30m in London's electricity network. It is important for Ofgem to recognise that if this amount been spent on upgrading London's power network, and the assets had remained unused, this would have led to the average domestic customer of a having to pay a negligible increase of an additional £0.22 on their annual bills. In addition, it is clear from the development industry in the Square Mile and across central London that there are practically no examples of capacity going used.</p> <ul style="list-style-type: none"> <li>• In the City's opinion there is a regulatory failure in that Ofgem and DNOs are adopting an overly cautious approach which is constraining developer's ability to secure network capacity for new developments. This leads to market uncertainty and delays to new development. It is vital to the City's and the UK's economic growth that there is sufficient capacity in the system – investment ahead of need is particularly necessary in the Square Mile given that it has the largest electrical footprint in the UK with some buildings requiring 15 MW each, and that it can take 3 years to upgrade substations / deliver new connections.</li> </ul>
--	--

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

<b>Q3.</b>	<b>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?</b>
	<ul style="list-style-type: none"> <li>• The City broadly supports incentives which could allow DNOs to make investment ahead of need in areas where there is an expected high level of development growth. However, the need for DNOs to seek Ofgem approval and for Ofgem to publically consult on the location and level of investment being made is likely to be a protracted and cumbersome process for developers to manage, (for whom time is key). It is therefore unlikely that any developer would await the outcome of a public consultation to find out whether they have sufficient electricity supplies for their development as it would present too big a risk to their project.</li> <li>• For this reason, the model would only be suitable for developments in areas where there is no spare network capacity in (or plans to upgrade) any of the surrounding substations and no other obvious immediate connecting customers in the surrounding area.</li> <li>• It is highly unlikely that his model would be able to be adopted in the Ci ty of London given the continuous cyclical nature of development and differing timescales of developments which would mean that the need for consultation on investment would be too time consuming and present too many risks to timely investment and delivery of power supplies.</li> </ul>
<b>Q4.</b>	<b>Please give details of any projects or schemes this type of arrangement could have helped to progress which would otherwise have not gone ahead?</b>
	<ul style="list-style-type: none"> <li>• By way of example, the recent Kingsgate House development in Victoria might have benefitted from such an arrangement. In that case, there was no spare capacity in the vicinity and no nearby connecting parties so the developer, Land Securities, was forced to finance and accommodate a primary substation within the development. It was only</li> </ul>

	<p>by taking these extraordinary steps that the development was able to proceed. We understand that it cost Land Securities several million pounds to fund the substation (which will be used to supply other developments in the surrounding area) and which took up over 6000 sq ft over three floors, depriving Land Securities of revenue from a considerable part of their development. The RAV Buyback model would appear to offer developers in similar circumstances to Land Securities, an alternative way of funding reinforcement without creating what amounts to a ransom position for developers.</p>
<b>Q5.</b>	<p><b>What would justify requiring subsequent customers to only be able to connect to the new, enhanced part of the network?</b></p>
	<ul style="list-style-type: none"> <li>• The City understands the rationale behind compelling subsequent customers to only be able to connect to the new enhanced part of the network – it seems likely that it would result in quicker return on reinforcement investment (thus reducing risk of stranding of assets and associated risks to consumers). We would, however, question a proposal to suspend normal connection regimes in a defined area and require new connection customers to connect only to the enhanced part of the network, paying a proportional contribution to the reinforcement costs, plus a risk premium. This would appear to be contrary to Ofgem requirements regarding <a href="#">competition in connections</a>.</li> <li>• Furthermore it is likely that in areas such as the Square Mile (where there are approximately over 120 new developments coming forward in the next 10 years) the spare capacity is likely to be taken up extremely quickly and therefore will do little to provide further security for developers seeking timely electricity supplies for their development sites.</li> <li>• Depending on the geographic location of development sites relative to each other, it may not be technically possible to serve all developments in an area from the proposed substation. This approach could also prohibit developer's ability to secure a resilient supply, given that many tenants request diverse dual supply connections from different substations.</li> </ul>
<b>Q6.</b>	<p><b>What would justify a DNO charging a premium to subsequent connection customers to reimburse DuoS customers for the low risk they bear in funding this work? What might be the impact of this? How should the premium be calculated?</b></p>
	<ul style="list-style-type: none"> <li>• In 2012 the City (with the independent City Property Association) commissioned the <i>"Delivering Power: The Future of Electricity Regulation in London's Central Business District"</i> study, which found that London's development community would be willing to pay more for a faster electricity connection. Thus, the charging of a premium on second comer payments would only be reasonable only if the developer received their connection in a timely manner in line with their development schedule.</li> <li>• Whilst the Second Comer rule is designed to reimburse developers who have paid for initial network reinforcement when subsequent developers ("Second Comers") connect, the City has been informed by major City developers that this rarely happens in practice as DNOs do not offer transparency of when the substation reinforcement is used by the Second Comer and, thus, when a rebate is due. Once a development is completed the developer generally moves on and may have no further active involvement in the development and so may not know which other developers are likely to use the new capacity that the developer has initially paid for. The City has been informed by a leading cost consultant that out of 140 developments completed in central London over the last</li> </ul>

	<p>10 years only 1 has received a rebate under the Second Comer rule. This in our view is unacceptable, and it would appear to be disingenuous for the Second Comer rule to be used as a way of quickly refunding and minimising risks to DuoS customers, when DNO's application of the Second Comer rule is clearly treating connecting customers unfairly.</p> <ul style="list-style-type: none"> <li>Ofgem must review and completely overhaul the Second Comer rule and ensure complete transparency and payment of rebates owed to developers.</li> </ul>
<b>Q7</b>	<b>Over what time period would it be reasonable to expect DuoS customers to be reimbursed for their initial funding?</b>
	<ul style="list-style-type: none"> <li>Given that new substations can take up to three years to build, and the usual construction time for a new development can be between 2-3 years, the City would expect DuoS customers to be reimbursed within a period of 5-8 years, however this could be impacted by the differing timescales of each development connecting to the RAV Buyback model. It is therefore important that DNOs work with Local Authorities to identify developments which have similar timescales for completion to minimise the risk of stranded assets.</li> <li>It is accepted that DNOs would face penalties if the investment is not paid back within their price control review period, as the network reinforcement schemes would be classed as stranded assets. The City would, therefore, support an approach where investment in the RAV Buyback Model was treated as being outside of the usual price control review, given that the RIIO ED-1 period (2015 – 2023) has already started, and alternative timescales of 5-8 years should be allowed with DNOs incurring additional penalties if funding is not repaid within the agreed time.</li> </ul>
<b>Q8</b>	<b>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?</b>
	No comment
<b>Q9</b>	<b>Do you consider that this approach would have any implications on competition in connections?</b>
	<ul style="list-style-type: none"> <li>Given that DNOs under their regional monopoly status are the only parties who can undertake the network reinforcement element of the connection, it is unlikely that there will be any changes to competition (or lack of) in connections.</li> </ul>

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

<b>Q10</b>	<b>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?</b>
	<ul style="list-style-type: none"> <li>The City opposes the suggestion in Appendix 2 that a planning condition could be used to require developer's membership of a DevCo (or partnership of developers, local authority, land-owners) to raise funds for network reinforcement.</li> </ul> <p>Paragraph 206 of the National Planning Policy Framework states "Planning conditions should only be imposed where they are:</p> <ol style="list-style-type: none"> <li>1. necessary;</li> <li>2. relevant to planning and;</li> </ol>

	<p>3. to the development to be permitted;  4. enforceable;  5. precise and;  6. reasonable in all other respects.”</p> <p>Planning practice guidance clarifies point 3 through the following Q &amp; A:  <i>Does the condition fairly and reasonably relate to the development to be permitted?</i>  • <i>It is not sufficient that a condition is related to planning objectives: it must also be justified by the nature or impact of the development permitted.</i>  • <i>A condition cannot be imposed in order to remedy a pre-existing problem or issue not created by the proposed development.</i></p> <p>It would therefore be inappropriate to require membership of a DevCo to be a condition of planning consent in order to remedy the pre-existing problem of lack of electricity capacity in a wider area.</p> <ul style="list-style-type: none"> <li>The City is concerned that any obligation for developers to pay into a DevCo would conflict with the existing Community Infrastructure Levy which developers have been paying since July 2014.</li> </ul>
<b>Q11</b>	<b>Please give details of any projects or schemes this type of arrangement could have helped progress which would not have otherwise gone ahead.</b>
	<ul style="list-style-type: none"> <li>It is unlikely that this type of arrangement would be able to be applied in areas such as the City of London where there is a continuous high level of continuous cyclical development growth, and where the numerous developers each have a different timescale for development completion. It is more likely that DevCo would be more applicable to large brownfield opportunity areas where there is an absence of existing infrastructure and investment in new capacity is cost prohibitive to developers.</li> </ul>
<b>Q12</b>	<b>What would justify requiring subsequent connection customers to only be able to connect to the new enhanced part of the network?</b>
	<ul style="list-style-type: none"> <li>See answers to Q5 regarding competition in connections. Whilst it is unlikely that such an approach could be applied in the City of London, given the close geographical locations of developments, it would be unfair to force developers of smaller buildings (i.e. refurbishments which require less electricity) to connect to the upgraded part of the network (paying a premium), when they are likely to be able to connect more affordably in the usual way.</li> </ul>
<b>Q13</b>	<b>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?</b>
	<ul style="list-style-type: none"> <li>See answers to Q6 regarding the City’s comments surrounding the Second Comer rule.</li> </ul>
<b>Q14</b>	<b>Over what time period would it be reasonable to expect the customer to be reimbursed for their initial funding?</b>
	<ul style="list-style-type: none"> <li>See answers to Q7.</li> </ul>
<b>Q15</b>	<b>What would justify the initial investor being permitted to restrict the type of schemes that</b>

	<b>would connect using the infrastructure it has paid for? For which type of schemes might this be appropriate?</b>
	<ul style="list-style-type: none"> <li>The proposal that the DevCo would stipulate the types of schemes which should benefit from its investment would appear to give the DevCo inappropriate powers and the DNO onerous responsibilities in selection of development types which could benefit from reinforced infrastructure. The proposal would cut across the existing planning regime, which considers a wide range of factors in consideration of the types of schemes which are appropriate in a given location, and would be inappropriate. DNOs in particular could be seen to be acting outside of their remit given that they are bound by existing regulation to not discriminate between those requesting connections.</li> </ul>
<b>Q16</b>	<b>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</b>
	No comment

<b>Q22</b>	<b>Are there any other changes which could be made to reduce the need for reinforcement?</b>
	<ul style="list-style-type: none"> <li>Given the lack of <i>available</i> capacity in UKPN's network in the Square Mile, the City is concerned about the amount of <i>reserved</i> capacity on the network which is presently unused. Some of the larger buildings in the Square Mile require 15MW, enough electricity to power a small town – power that largely supports businesses' trading floors. When speculatively building a development, developers are not sure what type of tenant is likely to occupy the building (banks and financial services use more than other sectors).</li> <li>It is widely known and accepted that many of buildings do not use the amount of electricity which they have reserved – however, City businesses prefer to continue to pay reservation charges as opposed to releasing the capacity, as they are aware of how a difficult it can be procuring new capacity if needed. UKPN's CEO has confirmed to the City that it would consider a scheme where capacity is sold back to UKPN for use elsewhere on the network. UKPN maintains, however, that under the existing regulatory regime the DNO has to provide the customer with the size of connection which they have requested.</li> <li>Given the scarcity of available capacity in substations serving the Square Mile, UKPN should be taking an active role in policing the size of the connections which developers / occupiers are allowed to take.</li> <li>UKPN should adopt the same model used by Consolidated Edison, the electricity network operator for New York City, whereby customers are told what size connection they are allowed based on industry standard formula (10Kilowatts per sq m), and the amount of capacity taken is therefore dictated by the size of the building. Developers are able to reserve extra capacity for future expansion, if they agree to pay the cost of additional power up front. Network capacity is however not reserved, and Consolidated Edison simply agree to invest in the network to create the additional capacity at an agreed point in time, providing the developer exercises the option for additional power at a contracted point in time. If the not then Consolidated Edison keep all monies paid by developer and the capacity is released for use by other customers.</li> </ul>

	<b>General comments</b>
	<ul style="list-style-type: none"> <li>• The City supports efforts made by the GLA, DECC and HM Treasury to progress proposals for investment ahead of need. However, whilst Scenarios 2 &amp; 3 may prove to be successful in bringing new capacity to large opportunity areas where lack of infrastructure prevents redevelopment, none of the proposals put forward are likely to be enable investment ahead of need in dense urban areas such as in the Square Mile and across central London, Manchester and so on.</li> <li>• The City supports an alternative solution - to allow greater flexibility in investing in spare capacity in parts of the UK where there is known to be a high concentration of continuous development and over utilisation of the electricity network. The GLA's "London Electricity Infrastructure Review" is good evidence that the potential risks posed to consumers by investment ahead of need in central London would be negligible. Ofgem should bring forward further proposals to allow some form of ring fenced funding or underwriting of risk outside of the price control review.</li> </ul>