



## **Access & Forward Looking Charges Significant Code Review**

### **OFGEM Consultation**

Date: August 2021

### **The Country Land & Business Association (CLA)**

The CLA is the membership organisation for owners of land, property and businesses in rural England and Wales. We help safeguard the interests of landowners, and those with an economic, social and environmental interest in rural land. Our 28,000 members own or manage around half the rural land in England and Wales and more than 250 different types of businesses.

CLA members utilise the electricity networks as both demand users and as small distributed generators. They are keen to play their part in the net zero and decarbonisation agenda and, as their representative body, the CLA is keen to ensure that the network charging regime facilitates this. This document provides a high level response to the overall 'minded to' proposals in the OFGEM review. We have not provided detailed answers to individual questions but have presented our comments based on the overall structure of the consultation document.

### **Rural areas, power networks and decarbonisation**

As demand users, our members use power for their domestic properties and to run their businesses. Demand varies from modest domestic scale to much larger and diverse business uses like grain stores, vegetable cold stores and processing facilities, business and industrial estates and tourist attractions. Larger rural estates have diverse domestic and non-domestic property portfolios which provide a large proportion of the rural rented housing and let business premises sectors. The vast majority of these properties are connected to the networks.

A growing number of our members are also involved in electricity generation, usually at small 'distribution' scale – typically of a few MW - but with an increasing number at generating several tens of MW. Our members are either hosts - leasing land for ground mounted solar and wind power as well as hydro and anaerobic digestion projects; or operators of such installations - sometimes supplying a specific rural end user like a nearby indoor poultry unit, agri-food premises or an industrial or housing development.

With available land, rural areas are well placed to host more small distributed generation and storage installations over the coming years to help decarbonise power across the UK. Also, just like in urban areas, rural housing and vehicle transport will need to rapidly transition to electric

solutions, requiring large numbers of heat pumps and EV charging points to be connected to the networks.

This is a real challenge for rural businesses. Rural power grids were simply not designed to cope with such heavy demands – meaning grid reinforcement is often necessary for such projects. However the charging regime as currently arranged requires project proposers to pay not only for new infrastructure needed for their project to connect - but also an upfront contribution towards grid reinforcement in the local area. In rural situations, this is often prohibitively expensive due to the relative weakness of rural grids and the fact that reinforcement can be required over several kilometres of grid.

The net result is that upfront charging for grid reinforcement has a limiting effect on the development of low carbon generation and storage projects and the roll out of heat pumps and EV charging infrastructure in rural areas. Without reform, these arrangements will compromise the ability of the UK to meet its net zero ambitions within the required timeframe.

### **Proposals for Distribution Network connection charges**

OFGEM are proposing to remove the upfront contribution to reinforcement for demand connections and reduce it for generation. Overall, the current charging arrangements are not designed around net zero policy objectives, serve to dis-incentivise rural low carbon development and rural economic activity by creating significant upfront cost barriers. This sends the wrong signals to the market given the UK's decarbonisation agenda. We therefore agree with these OFGEM proposals.

We strongly agree with the proposal to remove the requirement to contribute to grid reinforcement costs for demand connections. This is particularly appropriate for rural land-based businesses and would incentivise further economic activity and low carbon development. Our members often need to make infrastructure investments like more efficient grain drying facilities, new poultry units or new diversified activities like a business park in converted agricultural or historic buildings that require new or upgraded power connections (eg. to install multiple EV charge-points or heat pumps).

The business seeking the demand connection is often investing heavily in relation to size and turnover - but being in a rural area, the weak grids require extensive reinforcement adding significantly to the cost. For a proposed new poultry shed development, a CLA member was recently quoted c. £87,000 by the Distribution Network Operator (DNO) to provide an import only capacity of 60kVA. Upfront grid reinforcement comprised £19,000 of this. These sums are in addition to construction and other costs associated with such a development and can easily render an otherwise sound rural development project unviable.

The requirement to contribute to reinforcement for demand connections discourages rural low carbon and economic development at a time when it should be encouraged as part of the green recovery. Land-based businesses are unable respond to current charging 'signals' and choose to connect at another location where need for reinforcement is less, because unlike the majority of their urban counterparts, their operation by its very nature has a fixed location. The current charging regime therefore has a differential (negative) effect in rural areas, and on growth and

sustainability in the rural economy. Ofgem's proposals would address this, and in effect help to 'rural proof' charging policy.

Generation connections in rural areas also involve extensive grid reinforcement – the high costs of which serves to dis-incentivise growth of low carbon generation. Larger developer-led generation is less fixed in location than rural demand connections, and can to an extent respond to current charging 'signals' and connect where reinforcement requirements are lower and recover costs from the sale of power. But in most cases the rural grid will require reinforcement wherever generation is proposed. In addition, other locational constraints – likelihood of planning success, road infrastructure, access to neighbouring land etc – mean that suitable locational choices for generation are in reality restricted.

Grid connection costs remain a significant barrier to rural low carbon generation with upfront reinforcement contributions often taking the development capital required well above what can be securely raised, leading to project abandonment. In their 'Lighting the Way' report <https://solarenergyuk.org/wp-content/uploads/2021/06/Lighting-the-way-report.pdf>, Solar Energy UK, cited three different 50MW solar sites which were each issued with total reinforcement costs of £15m - six times the capex allowances that developers generally include for all grid and connection costs for the average 50MW solar development. These three otherwise viable and proceed-able projects were unfortunately abandoned, meaning 150MW of new low carbon generation was lost.

These are not isolated occurrences. Solar Energy UK go on to conservatively estimate that on average 100-300MW of additional potential capacity is being lost each year due to high grid reinforcement costs preventing otherwise viable projects from even coming forward in the first instance.

Reduction of upfront grid reinforcement charges would lower what is clearly a prohibitive cost barrier and encourage the significant growth of renewables required to meet net zero objectives.

## **Proposals for improved definition and choice of access rights**

OFGEM are also proposing to improve the definition and choice of rights of access to the networks, governing how much power users can import or export, its timing, duration and 'interruptibility', issues over which there has been limited choice so far. Greater choice is proposed on 'Level of firmness' – whether a user's access to the network can be restricted and how restriction is compensated; and 'Time-profiled access' – allowing choice other than continuous year round network access.

The CLA very much support the introduction of such flexibilities and choices in when and how users access the network. Along with reductions and removals of upfront contributions to grid reinforcement costs, greater choice and definition of access rights would encourage greater deployment of low carbon generation generally and help DNOs actively manage their networks. It would help both demand and generation users design their connections around their specific business needs, objectives and financial constraints and lessen the extent to which the local grid requires reinforcement.

Choice of time of access such as peak or off peak access could suit electric vehicle charging developments for example, where fleet vehicles or heavy electric agricultural machinery could be charged at off peak times. Designing a demand connection around seasonal business needs would be another welcome change that could be of great help to farm businesses. Farms with grain driers could elect to have increased capacity in late summer months (July, August and September) when they use most of their electricity and then reduce their demand for capacity over the winter months. This seasonal demand pattern could help network operators to smooth out overall demands on their network across the whole year.

### **Ongoing transmission network charges**

We note OFGEM's minded to decision to introduce ongoing transmission network charges for small distributed generation pending the outcome of wider work involving a holistic review of network charges to ensure that they are fit for purpose over the medium to long term. Given the positive signals sent to the market by the OFGEM proposals elsewhere in this review, the CLA would not wish to see the benefit of these cancelled out by the introduction of new transmission network charges. We very much agree that proportionality should be used and that as part of OFGEM's review of charges, thresholds should be considered for smaller generators below which transmission network charges may not apply and also transitional arrangements giving time for operators above the threshold to adjust to new charges.

### **Other comments**

The overall process for project proposers in applying to DNOs for connections could also be improved. It is too opaque, 'arms-length' and uncertain. Greater connection 'success rate' – and therefore more rapid deployment of low carbon development – would result if DNOs were obligated and resourced to provide a limited 'facilitation' role to connection applicants.

For example, while DNOs are currently obligated to provide a competitive quote for whatever connection has been proposed, they are not obliged to suggest any alternative connection configuration or reduced connection capacity which, if observed, could substantially lower the reinforcement costs. Clearly it should not be the remit of DNOs to provide extensive design advice to project proposers. However, applicants would benefit greatly from being able to discuss directly with DNO's any changes to the connection proposal that DNOs can suggest – eg. a 25MW export capacity rather than a 30MW - that could make a significant difference to the reinforcement costs involved given the available network capacity at the requested location.

The CLA would request that OFGEM consider requiring DNOs to be more pro-active with grid connection applicants and to adopt a more facilitative and solutions-focussed role - working with project proposers to negotiate workable, affordable and mutually beneficial connections based on the local network constraints and possibilities.

Together with OFGEM's proposals to reduce and remove upfront grid reinforcement contributions and provide greater choice of access rights, the CLA suggests that these changes would result in greater levels of low carbon development and more rapid progress towards achievement of the UK's net zero goals.



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