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25 August 2021

Dear Patrick

## **Response to Ofgem's Access and Forward Looking Consultation Document**

### **Introduction**

The Flexible Generators Group (FGG) represents the owners of and investors in small scale, flexible generation. These power stations are embedded in distribution networks and provide a variety of vital services to the system operator to help it deliver secure, economic supplies to electricity customers. We also participate in the Capacity Market (CM) and have made significant investment in new capacity on the back of CM agreements. The Flexible Generation Group is happy to submit its views to Ofgem's consultation document.

Ofgem is consulting on 3 areas of the Access Reform, and we take them in the same order as the Consultation Document.

### **Proposals for distribution connection charging**

#### *The proposal*

Ofgem is proposing to remove the upfront connection charge from demand completely, and partially for generation. Either proposal is a move towards a shallower definition of connection charges than is currently being used.

#### *Discussion*

FGG generally supports the proposed reforms. Our members find that the DNOs' approach to connection charging is one of the ways in which the DNOs do not make it easy to connect. Of course, there are other disincentives to connect. These include the poor information on the state of the distribution systems and where there might be capacity; the interactivity process; the interaction between the DNOs and NGESO; the fact that NGESO has been interposed into this relationship; and Ofgem's increasing failure to process modifications in a timely way, including Ofgem's repeated absence from modification meetings, many of which have been directed by Ofgem! Nevertheless, the proposal to change distribution connection charging arrangements is a step in the right directions.

One of the benefits of this change is that it will force the DNOs to take a more holistic view of the distribution system. Currently, some generators are being kept off the system due to the upfront charge being too high. Alternatively, if a generator does pay for new capacity, it is possible that a subsequent party can free-ride on the created capacity. Alternatively, a generator might have to settle for a constrained connection for a number of years due to the DNO not investing in a timely

way. By imposing more costs on the DNOs and less on connectees, DNOs would have to become more strategic in the way that they developed the system.

A change in the connection boundary raises the question as to how to treat contributions from existing generators when the policy was a voltage level above the connecting voltage. We recommend that where a generator has paid up front for a connection asset, it is unreasonable if a revised charging regime means that a generator is charged again for this asset via Use of System Charges. Thus, such a change should be accompanied with a refund of any upfront contributions.

A new policy might even include allowing the DNOs to invest in speculative capacity thereby encouraging generators to seek to develop in that location. Indeed, the FGG is not averse to encouraging our members to locate where it is better for the system, be that distribution or transmission. Given that there have been a number of flexibility studies, we find it strange that more effort is not made to attract generators to locate in the “right” location. To be clear, once a generator has constructed, there will be little further to be added in terms of locational signals. It will be possible to influence the operation of that plant, but not its location. Even then, we believe Ofgem over-estimates the impact of connection charges on a generator’s decision to locate as there are many other factors, such as planning, or land availability, together with the issues raised above, that will be more determinative as to where a generator locates.

The consultation document raises the issue of generators being charged consequential work on the transmission system (e.g. by upgrading a Grid Supply Point). We agree that this can make an upfront connection charge prohibitively expensive and we agree that this may adversely affect influence decisions. It is also completely at odds with the proposal to reduce the upfront connection cost for generators. We strongly oppose the continuation of this policy.

Finally, we have considered whether the contribution of generators should be zero, as it is for customers. While this has a superficial attraction, we are concerned that this could encourage an over-supply of generation. This could affect the economics of existing as well as new plant. There could also be other consequential impacts on e.g. the capacity market which is already delivering relatively low prices.

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

### *The proposal*

It is proposed that better non-firm and new time-profiled access choices should be introduced at distribution.

### *Discussion*

In principle, the FGG would support this. Economic theory would indicate that commercial companies would welcome flexibility to own and trade capacity. However, in fact, we are not sure that this will result in much improvement in the utilisation of the system. Parties, particularly generators that have secured capacity will not, we believe, start to give it up. As an example, a flexible generator could have several commercial arrangements with NGESO (as system balancer), NGESO (as capacity market manager) and the relevant DNO, where this could help the DSO in avoiding investment. We would have no incentive to give up any capacity at any time.

The only circumstance where such flexibility to trade might be useful would be where a generator was taking an outage for refurbishment. It might then be possible to trade capacity for a year or two. This might allow a generator with non-firm capacity to get to firm status, perhaps while they were waiting for the DNO to reinforce its system.

An area which would have useful to take forward here is co-located sites, which are increasingly common. Some review as to how and when 2 generators behind a same metered point could access the system would have been useful. We note that the CUSC modification that was seeking to address this issue<sup>1</sup> seems to be stalled. Indeed, we have been in contact with NGESO's charging team as failure to resolve this issue is holding up the construction of a co-located site that would bring significant flexibility to the system. NGESO have confirmed that they do not currently know how to charge the site in question. It is this type of real-life issue that we consider Ofgem should spend more time on, rather than the development of an access trading regime that we are not sure will be that heavily used. As we explained above, building more capacity, rather than more efficiently rationing existing capacity, would be a quicker way to achieving the flexibility that this proposal is seeking to achieve.

We also note that it is possible, in theory, to trade capacity on the transmission network, but in reality is impossible to achieve. Plants that can be very close physically can not get permission to trade capacity due to the nature of the network configuration. Also the time taken to get approval may mean a trade cannot be done fast enough to achieve commercial goals. The use of non-firm and short term TEC has been seen, but not trading. It seems even less likely to therefore be used in the DNO networks.

As a final point, we note that many of Ofgem's proposals are to remove differences (perceived or actual) between transmission and distribution. Yet, the proposal to reject "connect and manage", which is a major difference between transmission and distribution is dismissed with very little analysis.

### **Proposals for TNUoS charging for Small Distributed Generation**

#### *The proposal*

It is proposed that the charges for generators under 100MW are no longer fit for purpose, given the growth in small distributed generators. Ofgem is minded to charge all users over 1MW TNUoS charges.

#### *Discussion*

This proposal seems to be a continuation of Ofgem's concerns about the impact of small distributed generators on the system. Yet it is these same small distributed generators that will bring the flexibility that is considered so important as we move towards Net Zero.

The concern is expressed that all generators make a similar contribution to system flows. We are not sure that this is correct and might be an over simplistic summary of system flows. Clearly, if an embedded generator is sitting behind a system constraint, and it is within a GSP that is exporting, then it is adding to transmission system flows. There may be some case here for considering a

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<sup>1</sup> CMP316: TNUoS arrangements for co-located sites

charge on embedded generation. But at least, it would need to be demonstrated that, for most of the time, that generator or group of generators was adding to overall system flows.

In contrast, an embedded generator could be reducing overall system flows. This could be the case where an embedded generator is sitting within an importing GSP. In that light, that embedded generator would be reducing transmission system flows. Under the current transmission charging regime, there would be a negative embedded export charge, which would be payable for exports made during the triad. The alternative would be a capacity charge that is paid as a £/kW charge, dependent on the type of generation. In general, according to table 5.2 in the CEPA/TNEI report, this would reduce the payment to embedded generators who provide a benefit the system. It is also the case that the incentive to operate at peak would be removed.

Ofgem seems concerned that embedded generation is treated as inverse demand for the purposes of charging. However, in an importing GSP that is exactly what it represents. Demand onto the distribution system is met by generation on that part of the distribution system. Costs of the transmission system are therefore avoided. In some areas, there will be a case for paying embedded generators since they are backing off transmission investment. We note that some of the tariffs proposed by CEPA / TNEI recognise this as the charges are negative.

We note that table 5.3 in the report dramatically increases the charges to low carbon generators in Scotland (zones 1 and 2). It is not clear how encouragement of conventional generation, while introducing a heavy discouragement of low carbon generators is consistent with Net Zero.

### **General**

There are 3 points of generality that we wish to make.

First, it is very difficult to come to a definitive conclusion on these issues without knowing the outcome of the DUoS review, in which a minded to decision has been further delayed. The charges (negative or positive) that might be attributable to an embedded generator have to be seen alongside changes in the distribution charges. So, if the concept of “super red” credits was removed, this would have an impact on the overall charges / credits faced by an embedded generator. We are unclear as to how Ofgem can come to a partial conclusion over the future of connection charges, and transmission charges for embedded generators, without also understanding the future of distribution charges.

Second, Ofgem continues to under-estimate the time required to implement the changes proposed. The access and forward looking charges review is already a year late, and the distribution charges element has not even reached minded to. We suggest that Ofgem consider a much more plausible timetable, including consideration of grandfathering, than is currently suggested. Consultation fatigue, while being a cliché, is however true.

Third, Ofgem seems to be edging towards a full-scale review of transmission charges. If this is to be the case, and we suspect that this will happen, we urge Ofgem to make this decision promptly so that all transmission issues, including transmission charges / credits for embedded generation, can be considered in a holistic way. If this implies a delay in elements of Ofgem’s proposals, then so be it. It is better to be right in the longer term, than wrong in the shorter term.

Short answers to the questions posed by Ofgem are included in the Annex and we are of course happy to provide more detail on any aspect of this response.

Yours sincerely



pp Mark Draper  
Chairman

## **Annex: Answers to Ofgem's questions**

### **Connection boundary**

**Question 3a: Do you agree with our proposals to remove the contribution to reinforcement for demand connections and reduce it for generation? Do you think there are any arguments for going further for generation under the current DUoS arrangements? Please explain why.**

We agree with this proposal. Reducing the contribution of demand and generation to the development of the distribution system will encourage DNOs to take a more strategic approach to system development. While reducing further the contribution to system reinforcement by generation is superficially appealing, we believe that there should be some element of cost-reflectivity that is faced by generators.

Where a capital contribution has been paid for an existing connection, but the cost of this asset is now to be recovered via a Use of System charge, the capital contribution should be refunded for the residual life of the asset.

**Question 3b: What evidence do you have on the effectiveness of the current connection charging arrangements in being able to send a signal to users and what do you think will be the effect of our proposed changes? How does this vary between demand and generation connections?**

The current connection charging regime is one of many elements that seeks to dissuade generation from connecting. The effect of the proposed changes should encourage more flexible generation to connect to the system. In general, we believe that Ofgem vastly over-estimates the “signal” that is given to generation when considering a connection point.

**Question 3c: What are your views on the effectiveness of the current arrangements in facilitating the efficient development and investment in distribution networks? How might this change under our proposals where network companies are required to fund more of this work?**

We consider that the current arrangements do not lead to an efficient development of the distribution systems. Making the DNOs responsible for a greater proportion of system costs should lead to better strategic decisions by the DNOs. However, the case for “over investment” should also be considered. Ofgem is continually seeking to divine the most “efficient” investment. There is a case to allow more capacity onto the distribution system, thereby encouraging more generation to seek to connect. We look forward to a world in which capacity was advertised to encourage generation to connect, rather than the painful processes that currently seek to deter flexible generation.

**Question 3d: Do you agree whether the need to provide connection customers with certainty of price reduces the potential for capacity to be provided through other means such as flexibility procurement? How might this change under our proposals?**

No, we do not agree with this. We see no link between certainty of connection prices and the ability to offer further services.

**Question 3e: What are your views on whether we should retain the High Cost Cap? Is there a case for reviewing its interaction with the voltage rule if customers no longer contribute to reinforcement at the voltage level above the point of connection?**

We have no views on this point.

**Question 3f: What are your views on the recovery of the costs associated with transmission that are triggered by a distribution connection? Does this need to be considered alongside wider charging reforms or could a change be made independently?**

We oppose charging transmission costs to embedded generators. This is a matter between the DNOs and the TOs. Charging embedded generators transmission costs is completely at odds with the move to shallower connection charges. If such a change is to be considered, it must be assessed with any wider transmission charging review. If such a review is on the horizon, it is imperative that Ofgem makes this clear urgently. However, TNUoS charges recover costs placed on the system by any demand or generation, albeit on a smoothed and continuous basis. Therefore, all generation (transmission and distribution) along with demand already pay for the incremental costs of any investment “triggered”.

**Question 3g: What are your views on the likelihood of inefficient investment under our proposals (e.g., an increase in project cancellations after some investment has been made)? Are there good arguments for further considering introducing liabilities and securities to mitigate this risk?**

We believe that likelihood of inefficient investment is not that affected by the change in the connection boundary. There are many, more important, elements that impact a decision not to proceed. We do not support liabilities or securities to mitigate this risk. The DNOs are given an adequate return to carry this risk.

**Question 3h: What are your views on whether the interactions between our connection reforms and the ECCR must be resolved before we are able to implement our proposed reforms? How do you factor in the effects of the ECCR (if at all) into decision making, given the levels of uncertainty around subsequent connectee(s)? What suggestions do you have to make our policy and the ECCR work together most efficiently?**

We have no views on this point.

#### **Access rights**

**Question 4a: Do you agree with our proposal to introduce better defined non-firm access choices at distribution? Do you have comments on their proposed design?**

In principle, we agree with this. We are not convinced however that there will be much appetite for these rights. There may be more useful things for Ofgem to be working on. Without any example of

a workable model for tradable transmission rights it is difficult to see this as anything other than theoretically economically correct but undeliverable in practice.

**Question 4b: Do you agree with our proposal to introduce new time-profiled access choices at distribution? Do you have any comments on their proposed design?**

Yes, in principle.

**Question 4c: Can you identify any benefits to shared access rights, which would indicate we have underestimated the likely take-up?**

We think you have missed the opportunity to develop charging arrangements for co-located sites.

**Question 4d: Do you have any comment on our proposed choice about how to reflect access rights in charges (i.e. connection and/or distribution use of system charges)?**

No.

**Question 4e: Do you agree with our proposal to not prioritise the introduction of new transmission access choices as part of this Significant Code Review?**

Yes. The existing transferrable transmission rights are hardly used. However, if there is to be a transmission SCR, we urge Ofgem to announce this imminently.

**Question 4f: Do you have views on how access rights should be standardised across DNOs?**  
**Question 4g: Do you have any views on our proposed timescale of 1 April 2023 implementation?**

Access rights should be standardised, as should charging methodologies.

## **5. TNUoS charges for SDG**

**Question 5a: Do you have any evidence that SDG does not contribute to flows in the same way as large generation and, therefore, should not be charged on a consistent basis?**

Yes – where generation is alleviating flows in an importing GSP, it is influencing flows differently to large generation. Thus, if a zone had 100MW demand and 50MW embedded generation, the GSP would show an import of 50MW. If the embedded generation did not export, import measured at the GSP would be 100MW. Thus, flows are different.

**Question 5b: Do you agree with our threshold for applying TNUoS generation charges of 1MW? If not, what would be a better threshold and why?**

Introducing a threshold will influence behaviour. If there is a transmission charge, generators will be encouraged to build sub 1MW components which, depending on metering, will avoid a charge. If there are transmission credits, generators will be encouraged to size above 1MW.



**Question 5c: Do you have any evidence that distribution connected generation at a grid supply point has a different impact than directly connected generation?**

No.

**Question 5d: Do you have a preference for one of our options for addressing the local charging distortion? If so, please indicate which option and provide your reasons. Are there any options we have missed?**

We do not support any of these options. There should be a distinction between importing and exporting GSPs, which is not listed as an option.

**Question 5e: Do you support our position that we should consider transitional arrangements? If so, do you have a preferred option and evidence to support the benefits or risks associated with each option?**

Yes to transitional arrangements. Combined with a later implementation date (April 2023 is totally unrealistic), this should give a degree of foreseeability for generators.

**Question 5f: Have we identified all the options for administering TNUoS generation charges for SDG? If not, what options have we missed, and why would they be preferable to those we have identified? Can you provide any evidence regarding the implications of the different administrative options for your business?**

Are we talking about 5.27? If so, we support options 3 or 4. This should be a matter between DNO and TO. Establishing contractual relations between all embedded generation above 1MW seems overly burdensome – particularly since we know that the ESO does not have proper contractual arrangements with all transmission connected plant.

**Question 5g: Are there any specific issues you think we need to consider, as part of our work on the future role of network charges? Why are these important to consider?**

Only that if you are to launch a transmission SCR, then this should be communicated sooner rather than later.

[There is no question 6]

## **7. General question**

**Question 7: Do you have any other information relevant to the subject matter of this consultation that we should consider in developing our proposals?**

Only that there should be a realistic timetable. Also, Ofgem should either decide not to attend mod meetings, or to attend regularly. It is not satisfactory that month after month Ofgem does not attend meetings.