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**Access and Forward-looking Charges Significant Code Review: Consultation on  
Minded to Positions**  
24 August, 2021

Dear Patrick,

Thank you for the opportunity to respond on the above consultation. Uniper is generally supportive of the proposals in the document and believes that appropriate complementary changes should be made to use of system charging and other associated provisions, such as user commitment arrangements.

As we move towards a zero carbon electricity system, it is important that the provision of access rights, and the charging arrangements which go with that, act in a fair and non-discriminatory manner to ensure fair competition in the provision of energy and network services.

At a time when intensive investment is needed in new energy production, consumption, storage and network infrastructure, it is more important than ever that effective locational signals are provided to the market to ensure that the most efficient decisions are taken for the benefit of customers.

Charges should reflect the impact that different types of user have on the networks. However, deeper connection charges can create disproportionate costs for some parties who trigger large investments which are used by other users too. A more proportionate approach to charging users, similar to that used for transmission charging, would help avoid such cost shocks.

Where possible, more flexible access rights may be of benefit to some users in order to provide earlier or less costly access to the network. However, there will need to be changes to charging and user commitment arrangements, to ensure that obligations are adjusted accordingly.

Our responses to the specific questions raised in the consultation are as follows:

***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.***

This appears to be a sensible approach, subject to the following three additional issues being addressed.

Firstly, we believe that it would be right to explore whether the locational signal lost from the connection charge should be replaced to some extent by a stronger locational DUoS signal. This does not mean of course that the same signal is simply moved to a different charge. A stronger DUoS signal could introduce a more proportionate cost, which reflects the marginal impact that a MW has on investment at that location, in a similar manner to how the TNUoS locational charge is calculated.

Secondly, in the longer term, as more demand side response competes with generation for the provision of wholesale energy and balancing services, consideration should be given to whether signals should be made more consistent between demand and generation. For instance, the proposals for the treatment of distribution connection charges are different for generation and demand. Whilst understanding the reason for this, in the longer term this may in itself favour demand based solutions on distribution networks over generation ones.

Thirdly, in competitive markets cost signals are used to prioritise the use of limited resources. In this context, existing cost signals may be acting to suppress demand for connections which, when those signals are reduced, could increase significantly. This may be the right outcome that we need to achieve to meet decarbonisation commitments, but it will also presumably put DNOs under additional pressure to manage the queue of new connection and modification requests. Therefore, arrangements will need to be put in place to prioritise these requests in a fair and efficient manner and to avoid overly speculative connection applications.

***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?***

Presumably, if stakeholders have provided evidence that this has affected investment decisions, then this does provide a noticeable signal. However, the issue is whether lumpy investments in the distribution network which will benefit other users should be charged to those parties that trigger them alone or whether they should be shared more equitably. We believe the latter seems appropriate and would produce a more effective signal to support the market.

However, we continue to believe that locational signals are important to the market and perhaps more so in a period of significant investment, to ensure that every pound is spent most effectively so as to limit the impact on customers. The aim of the proposals should therefore be to achieve more equitable charges and not to fully lose the locational signal itself.

**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?**

Allowing companies more flexibility in planning and making investments may be beneficial, as long as they respond to accurate information on where this investment is likely to be needed and when. This will need effective arrangements around network planning, perhaps including appropriate incentive regimes, to ensure that such investment is not inefficiently incurred.

**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?**

We can see that the current connection charging arrangements could act as a barrier to DNOs procuring flexibility services as an alternative to local reinforcement. If DNOs are able to manage the risk around this more effectively on behalf of customers then this could open up more options. However, any use of flexibility to manage local congestion on DNO networks has to be coordinated with national requirements for balancing to ensure that the total overall system cost is minimised for the benefit of customers.

**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?**

It would seem to be a reasonable proposal to ensure that those who trigger very expensive connection options are exposed to some of the cost of this. More effective DUoS locational signals could replace this mechanism in the longer.

**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 are not fully convinced that the arrangements for the treatment of transmission costs are that different between transmission and distribution connected generators. We have experience of new and modified transmission connections and generators have been exposed to relatively high levels of upfront costs even for very low MW connections or alterations. This would seem to be an area which needs further consideration.

**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?**

As we mention above in our response to question 3a, there is a risk of increased inefficient investment with these reforms. This could be mitigated through improved locational signals in DUoS and user commitment arrangements for DNO connections similar to those used for transmission connections.

***Question 3h: What are your views on whether the interactions between our connection reforms and the ECCRs must be resolved before we are able to implement our proposed reforms? How do you factor in the effects of the ECCRs (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 ECCRs work together most efficiently?***

We believe that this should be addressed to ensure parties are treated consistently, regardless of the order in which they connect to the network.

***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?***

It seems sensible to explore the options for this. A key consideration will be how options are priced. Would there be a discount for the DUoS charges that the site would pay compared with those for a firm connection? Also, how will the DNO enforce these arrangements? Will the site be remotely switched by the DNO when the rights are to be curtailed, or will this be carried out through an instruction that the customer is expected to comply with? If the latter, then what provisions would be made for the eventuality that the customer fails to do so? Will there be an overrun charge, for instance, set at a level to discourage non-compliance?

No connection is ever fully firm of course and customers can be disconnected for emergency reasons or due to faults on the network. It is not clear how curtailments which occur under these circumstances will interact with the non-firm connection curtailment provisions. That is, what will constitute circumstances for curtailment under the non-firm contract, as compared with the circumstances under which all agreements may be interrupted? This will need to be defined and set out in the relevant connection agreement.

We note that these issues have been covered to some extent in the consultation document and agree with Ofgem that DNOs should develop the detail of these further.

***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?***

It seems sensible to explore the options for this. Again, as with non-firm access rights, a key consideration will be how these rights are priced and how compliance with network usage limitations can be assured.

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

Networks are designed on the basis that there is inevitably some sharing between users. That is, the network is not built to accommodate all users' maximum requirements simultaneously. Therefore, it is difficult to understand how to define additional sharing over and above this in specific shared access contracts, particularly in how such rights should be charged and enforced. We do not think this is a priority area for users and agree with Ofgem that this option should not be pursued further.

***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)?***

It seems right that any discount to charges to reflect non-firm or time limited access is applied to that part of the charge which reflects the costs saved as a result of the user's choice to opt for such restricted rights. We agree that this will be most significant in the parts of the network closest to the user concerned. Therefore, reflecting this in the connection charge seems appropriate.

We note Ofgem's point that as a result of the proposals to reduce the strength of locational signals in connection charges, this will effectively limit the charging benefit to be gained from such a choice. However, we also agree that the proposed access products could help users to connect sooner than would otherwise be the case. Also, assuming that DUoS charges are enhanced the return some of the locational signal lost from the connection charge, then a more meaningful and effective discount regime could be created that new and existing users could opt into, with a view to freeing up network for others to use.

***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, we agree that this is unnecessary at this point.

***Question 4f: Do you have views on how access rights should be standardised across DNOs?***

If charging for connections becomes less specific to each user's connection decision, by the removal of deeper connection charging arrangements as proposed earlier in the consultation, then it is to be expected that access rights should become more standardised across all users on that network. That is, if charges become more generic then access rights should do so too, to be consistent.

Bespoke access right arrangements coupled with standardised charges increase the potential for undue discrimination to arise and for some users to unfairly cross subsidise others. This is because differences in access rights are unlikely to be reflected in differences in charges. This is less of a risk when a user is exposed to a greater proportion of the financial consequences of their decision (ie in a deeper charging regime. This does not mean that there cannot be any flexibility in the choices which are offered to customers, but these should be based on standardised set of rights, obligations and charges.

In order to avoid unnecessary confusion for users, which will increase the burden of applying and managing new connections, these arrangements should be standardised as much as possible across all DNOs. Thereby, users will know what to expect from the connection process regardless of where in the country they are seeking to connect.

***Question 4g: Do you have any views on our proposed timescale of 1 April 2023 implementation?***

This does seem ambitious. However, we believe that it is sensible to aim for this date whilst recognising that there is the possibility that this may slip.

***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?***

No we are not aware of why the same capacity connecting in the same location should have a different impact if it connects directly to the transmission network compared with connecting to the distribution system, other than due to losses on the distribution network between the user and the transmission system. However, DNOs calculate and publish loss factors to reflect this, so any access rights for which distributed generation is charged TNUoS could be adjusted accordingly.

***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?***

A threshold of 1MW seems appropriate in order to be consistent with other thresholds such as those for the Balancing Mechanism and the Capacity Market.

***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. Grid Supply Points (GSPs) are connections to the transmission system like any other. The only difference is that there is a licensed distribution system attached to a GSP. If a distributed generator is connected close to or at a GSP, then there are even fewer distribution losses experienced delivering generation to the transmission system. However, even if power from a generator does not get onto the transmission system, it can still have a similar marginal effect on the transmission system as a directly connected generator in the same area. Adding 1MW to a GSP will have a similar effect on the flows on the transmission system even if the result is a reduction of GSP demand.

***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 believe that if a generator is connected to a GSP which is not categorised as part of the MITS, then it should be exposed to whatever local TNUoS charge exists at that node, in the same manner that a directly connected generator would be. It should also be exposed to a distribution charge, where relevant, constructed in the same way as the local TNUoS charge. This would ensure that the correct total local charge is applied. That is, the generator would be charged in a similar manner to how it would be treated if it had chosen a transmission connection which required an extension of the local transmission network to its location.

***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?***

Transitional arrangements could be considered, but any decision on their adoption should be consistent with previous decisions that Ofgem has made in this respect. For instance, transitional arrangements in the form of phasing were adopted by Ofgem for CMP264/265 which removed part of the TNUoS embedded benefit, whereas they were rejected for the removal of the transmission generation residual charge under CMP317.



We do not believe full grandfathering of charges is likely to be appropriate, not least as this would undermine the point of making changes to locational signals in order to make them more effective. Locational signals affect closure and investment decisions alike, so are important for both existing and new connections.

***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?***

We believe that the solution should focus on billing the lead parties (as defined under the BSC) responsible for the generators concerned, which ordinarily will be a supplier, but could be another party such as the generator itself. Most of these parties should already have a relationship with NGENSO through being signatories to the CUSC but there may be instances where this relationship will need to be established, perhaps through a requirement in the BSC or DCUSA.

Information on the maximum capacity of the affected generators will presumably be needed too. This process will require the input of the DNOs who should have agreed and recorded a maximum export capacity against each relevant site.

***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?***

As mentioned above, locational charges will continue to be important, indeed more so in order to meet net zero commitments efficiently for customers. However, these signals will also need to be applied consistently for different types of participant including demand and generation users.

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

No thank you.

I hope that the above proves helpful. Please contact me if you would like to discuss this further.

Yours sincerely

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