

Stratford-on-Avon District Council's Response to OFGEM's Access and Forward-looking Charges Significant Code Review: Consultation on Minded to Positions

August 2021

Background

Customers connecting to electricity distribution networks currently face an upfront charge made up of the cost of new assets needed to connect to the existing network, and a contribution towards the reinforcement of existing shared network assets. This approach was originally intended to provide a signal to customers to avoid constrained parts of the network where expensive reinforcement is required.

OFGEM has been reviewing whether current connection charging arrangements are continuing to work in the best interests of consumers – especially in light of increased investment needed as heat and transport are electrified.

OFGEM believes there are good arguments that the charging arrangements no longer provide an effective signal for network users and may actually slow down the roll-out of low carbon technologies across the energy system. They are therefore minded to change the connection charging arrangements.

OFGEM propose reducing the contribution to reinforcement within the upfront connection charge for generation and removing it completely for demand. This comes at a cost, but OFGEM think this is the right balance between maximising benefits such as removing barriers (particularly for those where we think their ability to relocate in response to a connection charge signal is limited), and doing so at least cost to consumers generally.

In June 2021, OFGEM published its Access and Forward-looking Charges Significant Code Review: Consultation on Minded to Positions consultation. This is a highly technical consultation comprising detailed questions set out in Chapters 3 to 7. The deadline for responses is 25th August 2021.

Stratford-on-Avon District Council (SDC) Response

Given the technical and highly specialised nature of the consultation, SDC has been selective in which questions it has responded to. In many cases, SDC's comments are generalised, seeking to alert OFGEM to the ramifications of the power industry's inability (for whatever reason) to future-proof its networks to facilitate economic growth and secure inward investment.

Chapter 3. 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.

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?

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?

The current arrangements are manifestly ineffective and inefficient. They are based on a system that reacts to demand from a consumer for more energy. In theory, this approach is not necessarily problematic providing that such demands can be met quickly and cost effectively. However, this is clearly and not unsurprisingly the case given that upgrading energy networks, will by definition, be both costly and technically challenging. The time-lag between additional energy being requested and the additional energy being available is stymying economic growth and investment. As such, the current system is ineffective.

The alternative proposal for network companies to fund network investments is supported but only if such investments will be made upfront and in advance. Otherwise the outcome will most likely remain the same.

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?

Not sure. Certainty of price is a very important consideration in development (i.e. land and building) economics. Bringing a site forward for development will take a number of years. Central to this process are assumptions about development costs including power supply and connection charges. Developers and investors need certainty (allowing for some contingency) about likely costs and – just as importantly – timescales in order to progress sites for development. Increases in energy costs will often result in reductions in contributions / site benefits elsewhere or the risk that development is stalled. Excluding inflation, costs need to be fixed for a number of years.

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?

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?

Cost recovery is both sensible and pragmatic and the correct approach for statutory infrastructure providers. SDC's concern is with the apparent lack of long-term provision when undertaking any upgrade.

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?

In most parts of the country these risks are considered minimal. In the context of a growing economy and a growing demand for electricity, alternative users will never be far away. The risks of not adequately future proofing the network far outweigh and fears about project cancellations.

Question 3h: What are your views on whether the interactions between our connection reforms and the Electricity Connection Charge Regulations (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?

Chapter 4. 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?

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?

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

Allowing shared access could address many of the concerns raised by SDC. Indeed, SDC considers that the cited "uncertainty fears" are just that; and are not borne out in practice. This risk-adverse approach is stymying investment. Investment in infrastructure ahead of development is common-sense and necessary.

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)?

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?

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?

Reforms of the power industry should be implemented with immediate effect.

Chapter 5. TNUoS charges for SDG

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

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

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

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?

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?

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?

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?

Chapter 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?

There is an identified shortage of energy across Coventry and Warwickshire. It is unclear whether this is a shortage of generation or distribution. However, there does appear to be a lack of spare capacity within the network to satisfy growing energy demands. It is unclear to what extent the industry is future-proofing its networks to accommodate expected growth in electricity demand arising from:

- Increased numbers of homes arising from household growth*
- Increased number of commercial premises arising from economic growth*
- Increased demand from existing users (e.g. heating and cooling, broadband etc)*
- Increased demand from new users (e.g. electric vehicle charging points)*

It is also unclear as to what extent regard is had to Local Plans that set up spatially where development will be accommodated. Allocations in Local Plans will be built and it is unwise not to pre-empt and re-enforce the network in advance of these allocations coming forward. Indeed, doing so will positively encourage such sites being built. Currently the biggest risk is of a self-defeating circle of energy not being provided because the site is not coming forward but the site not coming forward because the energy is not available!

SDC is currently working with Warwick District Council on a new Local Plan for South Warwickshire. The two Councils are taking a proactive approach to infrastructure and are seeking to engage proactively and productively with providers early on in the plan-making process.

Ensuring that the energy networks can be future proofed to accommodate likely energy demands up to 2050 is critical in rebuilding the local economy post-COVID and adapting to the climate change emergency both Councils have declared.