

## 1. Introduction

### [No consultation questions]

Overall, we are supportive of the proposals put forward for distribution connection charging and access rights as well as the clarifications. However, as a general theme we are worried about the uncertainty which remains or has been created by some of the proposals. At a time when large investment is needed to reach net zero, the uncertainty over Transmission Charges for Smaller Embedded Generation and the locational aspect of DUoS charges cannot be ignored.

For example; is the expectation that the up-front deep connection charges be replaced with a locational use of system charge similar to Local Circuit Charges as seen in TNUoS?, or will the charges be pushed into the residuals? As there is a set amount of revenue to be recovered a drop in one side will mean that another charging element will have to increase elsewhere. It's important that Industry is made aware of this. It is also important to consider that it may be counterproductive, by increasing uncertainty for generators, if fixed and certain connection charges are replaced by annual use of system charges that are variable and uncertain at the point of investment decision.

CMP308 is looking to create a level playing field between dispatchable generation with regards to the BSUoS charge. There is the danger that this set of work again creates similar unintended consequences which then have to be removed over time by similar types of modifications. The end consumer ultimately pays for the inefficiencies or delays in implementation.

Although a detailed DUoS methodology will take time to create and implement it will be very useful to create some overall principles for DUoS charging (and potentially TNUoS) and this could be done relatively quickly. This worked well for the TCR, where although it has taken a long time to implement, Industry could predict with relative certainty the direction of travel.

There is a fine balance between trying to seek the optimum cost reflective solution which is overly complicated; or instead to focus on usefulness of that signal by trying to aim for stability and predictability. As seen recently the costs of delays in investment or no investment, far outweigh the costs saved to the end consumer from Generation not locating in the perfect position especially if other factors prevent this. In addition, unpredictable locational charges could be the cause of network assets becoming inefficiently stranded or left with unused spare capacity because locational tariffs may make circuits too expensive to be used, after they have been built.

## 2. Distribution connection charging boundary

### Question 2a:

#### **i. Do you believe that it is necessary to introduce a High Cost Cap (HCC) for demand, and to retain one for generation?**

Locational signals should only be provided when it is useful to do so and, if done correctly, should protect the end consumer from high unnecessary reinforcement costs. Some schemes may require high amounts of reinforcement but the benefits they provide to the Whole System (including Transmission) may far outweigh those costs and provide a substantial benefit end consumers overall.

**ii. Do you believe that our proposals to do so represent sufficient and proportionate protection for DUoS billpayers against excessively expensive connections driven reinforcement?**

Ultimately this should be seen as an interim stop gap until locational charges are finalised and this should be highlighted to Industry to allow the proper financial assessment of schemes to be undertaken and not result in stranded assets later on down the line. It would be helpful if Ofgem could provide guidance to reduce industry uncertainty by explaining whether, by moving the connection boundary, it may cause the cost of assets to move into the locational use of system charge. In particular, how future locational DUoS charges will be treated in a consistent way compared with connection charges to reduce the risk of regulatory arbitrage between different types of user facing different depths of connection at the same location. .

What protection will there be for Generators who have paid large connection charges up front then have to pay large locational charges later on? There are ways of means to prevent this ,e.g. CMP203

**iii. What are your views on retaining the current ‘voltage rule’ to determine whether the HCC is breached (i.e. considering the cost of reinforcement at the voltage level at point of connection and the voltage level above)?**

No particular views.

**iv. What are your views on the principles we have proposed to determine an appropriate HCC level for demand, including the potential for this to be set at a different level to generation under these principles?**

Demand arguably may be less able to locate according to price signals as Generation so a different level may be merited. Also, it is more likely that there will be wider societal externality benefits from locating new demand in particular locations which may justify socialising the cost of connecting demand in a different way compared with generation. Where there is a case for socialising network cost based on broader society externality benefits, this same principle should also be applied where it would be beneficial to socialise elements of locational TNUoS costs.

**Question 2b: What are your views on our proposals to maintain the requirement for threephase connection requests to pay the full costs of reinforcement, in excess of Minimum Scheme (ie lowest overall capital cost)?**

Agree with proposal

**Question 2c:**

**i. Do you agree with our proposals to maintain the current treatment of speculative connections and is there a need for further clarification on the definition of speculative connections?**

Do speculative connections occur due to the uncertainty and lack of clarity over costs in the current charging methodology? Going through the connections process may be the only way developers can get a reasonable assessment of costs. Will locational DUoS and a simplified connection methodology deal with this better, rather than having varying charging and connection methodologies based on whether a scheme is speculative or not. In this regard, the EDCM is unhelpful for developers because it is not possible for them to accurately forecast a site-specific DUoS charge, or compare the cost of different potential sites without applying to the DNO. This highlights how locational charges fail to

provide a useful price signal where investors cannot accurately forecast what the value of the signal is going to be.

This could also be dealt with via Securities, Application fees and Queue management.

**ii. Do you agree that our wider connection boundary proposals broaden the disparity between connections deemed to be speculative versus non-speculative? If so, do you believe this needs to be addressed and how?**

Yes

**Question 2d: Do you consider that our proposed DUoS mitigations (a demand HCC, and retaining reinforcement payments for three phase and speculative connection contributions) present a cohesive package of protections for DUoS billpayers? Do you consider these proposals to interact in any way that could counter their effectiveness, and if so, how?**

Yes for the time being as a stop gap until forward looking DUoS reform.

**Question 2e: Do our updated proposals to treat storage in line with generation for the purposes of connection charging simplify charging arrangements for these sites and better align with the broader regulatory and legislative framework?**

Storage was classed as Generation to avoid paying final consumption levies. Storage however exhibits characteristics different from regular thermal, or low carbon generation, notably its ability to provide responsive flexible firm services on both the demand side and generation side. This means connection and charging methodologies should evolve to recognise the uniqueness of Storage assets as they can help reduce the cost of network reinforcement and reduce Whole System costs.

For example Storage may wish to connect in a highly constrained area, and based on its export capacity, the planning standards may trigger additional reinforcement, despite the operational characteristics of storage in practice actually reducing the need for network reinforcement. Flexible connections may deal with this if done properly.

**Question 2f: Do you agree with our proposals regarding the treatment of in-flight projects (ie that they should not be permitted to reset their connection agreement and retain their position in the queue), noting they retain the right to terminate and reapply from 1 April 2023 should they wish to be treated under the proposed connection charging boundary?**

The end consumer pays for the discrepancy through wholesale costs and inefficient dispatch between Generators having vastly different costs but located very close to each other simply based on when they applied. If this is to be enforced then Ofgem should provide assurance that projects will not pay for the same reinforcement through connection charges pre April 2023 and later through DUoS charges.

**Question 2g: Do you agree with our proposals to retain the existing arrangements for managing interactive applications? Do you agree with our proposals on the treatment of unsuccessful applicants (that the connection charges at original application date will continue to apply if queue position is retained)?**

Yes

**Question 2h: Do you agree with continuing with the definition of the Minimum Scheme as currently set out in the CCCM? Do you believe this definition requires any further clarification or amendment, and if so, why?**

We agree with continuing the definition of the Minimum scheme

**Question 2i: Are there any risks associated with our proposals to allow current non-firm connected customers to seek a firm connection following the changes proposed by our SCR? Do you agree that existing non-firm connected customers that do seek a firm connection should be processed through existing queue management processes as determined by DNOs?**

Yes, as they are putting on new capacity requirements onto the DNO so should be treated and charged as new connections.

**Question 2j: How necessary do you consider Ofgem intervention in Electricity Distribution Standard Licence Conditions 12, 15 and 15A? What duration might such measures be needed, or acceptable, following 1 April 2023? What value do you place on certainty of connection timeframes compared with time to connect?**

No comment

### **3. Access rights**

**Question 3a: Do you agree with our proposal to exclude customer interruptions and transmission constraints from the definition of curtailment with respect to distribution network access arrangements?**

Yes, but this will need to be looked at again if Transmission Charges are applied to Small Distributed Generation

**Question 3b: Do you agree that the curtailment limit should be offered by the network based on maximum network benefit and agreed with the connecting customer?**

Yes

**Question 3c: Do you have any views on the principles that should be applied to ensure curtailment limits are set in a consistent manner?**

There is a fine balance between ensuring consistency, whilst allowing innovation and bespoke offers and each DNO may have unique conditions on their network. Developers should be able to expect consistent terms and contractual arrangements between DNO areas to reduce the risk of unnecessary administrative burden, or the risk of regulatory arbitrage between DNO areas. Customers should know at the time they make their investment decisions when they are likely to be curtailed. It should never come as a shock.

**Question 3d: Do you agree with our proposal not to introduce a cap for flexibility payments made should any curtailment in excess of agreed limits be required?**

Yes. This should incentivise the DNO's to seek out additional Flexibility options in the area, improve forecasting and build sufficient network capacity, i.e. start to become DSO's. As shown by the NOA process there is a balance to be had between constraints and new capacity

The flexibility payments should not flow fully through to the end consumer. There should be an incentive built around payments made when curtailment limits are exceeded.

**Question 3e: Do you agree with our proposal to introduce explicit end-dates for non-firm arrangements? Are there any mitigations for DUoS billpayers we should consider?**

Yes. If sufficient capacity is not provided to allow the transition from non firm to firm is it right that flexibility payments fully flow through to the end consumer or should the DNO's bear some of this risk?

**Question 3f: Do you have views on whether the end-dates should take into account only current known or likely works, or if it should allow time for wider developments to take place?**

There is merit in allowing wider developments to be taken into account. The customer moving from Non Firm to Firm should be compensated in some way if the end date is not met. If the DNO's cannot accurately forecast these wider developments it does not bode well for Anticipatory investment.

However, it would be better to move all distribution connected users to become financially firm. In this way, users could continue to be curtailed according to economic merit in order to optimise the balance between network reinforcement versus the cost of ongoing congestion management.

**Question 3g: Do you have any comment on our proposal not to further define or standardise time-profiled access arrangements?**

It is the correct approach as each DNO will have unique conditions, i.e. a DNO may have large amounts of solar so constraints happen during the day or summer months which will be far different to the traditional constrained times of Peak.

## **4. Transmission Network Use of System Charges**

We are noting that the Minded to decision mentions that TNUoS for Small Embedded Generation will be looked at as part of any Wider Review of TNUoS. However, no official announcement has yet been made about whether a Wider review will definitely take place, when it may start, what form it will take, or any length of time when changes may begin to be implemented. This therefore adds considerable regulatory uncertainty for developers at a time when investment is required. Ultimately the end consumer will pay for this unnecessary extra risk, either through the cost of financing, inefficient investment, or hiatus leading to a lack of investment.

If the ultimate aim is to create a level playing field then this can easily be created by removing locational signals from all Generation, including transmission connected generators.

Ofgem have stated that they plan to make a decision on CMP343 in the near future and are minded to accept flooring forward looking charges at £zero. As noted in the consultation responses and voting statements for CMP343 many Industry Users voted based on the assumption that the Access and Forward Looking Charges work was considering how best to deal with negative locational charges in parts of England and Scotland, therefore implementing a complicated and short term solution which would quickly be superseded was not efficient.

However, it is now clear that a long term solution is being pushed into a potential Wider Review of TNUoS. This means it is now appropriate for Ofgem to reconsider the minded to decision and instead approve an alternative that does retain a northern demand credit in the meantime while a wider review is carried out. With numerous schemes being planned and built which will draw significant amounts of demand from the system outside of Peak periods (which was the main rationale for flooring at 0 to avoid perverse incentives), benefitting the ESO and the Transmission System as well as allowing Renewables to connect earlier by delaying or preventing the need for Transmission Investment, this is an area of TNUoS which cannot wait for any review. Investment decisions are being made now including the Transmission Owners. TNUoS demand tariffs are already set up to potentially deal with this by splitting the Peak and Year Round locational elements. Therefore, as part of any CMP343 decision if Industry should be directed to create a permanent solution for the defect of flooring demand at 0, as opposed to one which disincentivises key investment for net zero, which the minded to decision would do.

## **5. General questions**

**Question 5a: Has the additional information in this consultation affected any of the views your previously submitted in response to our June 2021 consultation (if so, in what way)?**

No, we are supportive of the proposals but it is only one side of the equation

**Question 5b: Do you have any other information relevant to the subject matter of this consultation that we should consider in developing our proposals?**

Although broader reform of DUoS charging has been pushed into a separate SCR, it would be very useful for existing Users to have certainty that they will not be double charged for the same infrastructure. I.e. pay for connection charge, then once the boundary moves they pay through DUoS charges. A modification similar to CMP203 could provide some assurance. Without this, the changes will not improve on a key charging objective which is maintaining competition as, Generators located very close but connecting at the at slightly different times will have vastly different costs. The end consumer would ultimately pay a higher cost for this inefficiency