



Access SCR - Updated minded to positions

Northern Powergrid's response

Key Points

We are supportive of the changes proposed by Ofgem as we think they are nearer to an appropriate balance between promoting decarbonisation and protecting the generality of DUoS customers from excessive costs of connections in expensive locations. However, in designing the high cost caps, we consider that Ofgem needs to calibrate appropriately and more tightly than it is currently envisaging.

- Ofgem remains minded to deviate from the current charging arrangements, which provide more protection for DUoS customers. It should only do so with caution and must be cognisant of the potential unintended consequences in terms of inefficient development of the network and increased costs for all existing customers.
- Ofgem needs to be clear and transparent in its final decision in respect of exactly how any new mechanisms (e.g. the introduction of a HCC for demand) are to be calculated. This will allow any methodology and code changes to be raised in a timely fashion and the working groups to run efficiently. Any ambiguity in the final decision is likely to result in avoidable delays in implementation as the current timelines are already compressed and extremely challenging.

Connection Boundary

- We agree that the introduction of a HCC for demand – and maintaining it for generation – is one way of mitigating against the risk of additional reinforcement costs falling on DUoS customers.
- It is essential that the HCC is not just a short-term mitigation measure and is set at an appropriate level so that it provides the necessary protection for DUoS customers. We would question Ofgem's proposed mechanism for calculating the HCC as it may not provide enough protection against spiralling costs (e.g. using the 75th percentile may be more appropriate than the 95th).
- It is right to maintain the current 'voltage rule' in calculating the HCC, as well as the requirement for three-phase connection requests and 'speculative connections' to pay the full costs of reinforcement. These measures mitigate against wider cost socialisation whilst striking an appropriate balance with costs driven by the connectee's requirements. Definitions should be reviewed to provide greater clarity where necessary.
- We agree with the proposal to treat storage in line with generation connection charging. This is in line with its treatment in use of system charging. Not doing so could lead to perverse incentives for storage to connect in areas of the network where import reinforcement exceeds that of export.
- It is also right that 'in flight' connections should continue to be treated under the existing rules (i.e. as at the date of application). Changes requested to an existing application should be treated as a new application and go to the back of the queue. Any costs already incurred by the DNO will not be refunded in such cases.

Access Arrangements

- We agree with Ofgem's proposed definition of curtailment. However, a backstop arrangement should define a price where curtailment exceeds an agreed limit to also mitigate against the risk of uncapped liabilities and customers naming their price to provide backstop flexibility. The process to define curtailment and remedial measures needs to be defined before Ofgem's final decision.
- We agree with Ofgem's proposal to introduce explicit end-dates for non-firm arrangements, where appropriate, which can be discussed as part of the application and detailed in the connection offer. Any end-dates should be flexible to allow for known or likely works and wider developments, which will naturally be captured subject to the individual application.
- We agree with the proposal not to further define or standardise time-profiled access rights at this time but we expect that this will be addressed in the anticipated DUoS SCR.

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1. Responses to specific questions on Ofgem proposals for 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?

1. We agree that the introduction of a HCC for demand – and maintaining it for generation – is one way of mitigating against excessive risk and additional costs for existing distribution use of system (DUoS) customers. Ofgem remains minded to deviate from the current arrangements, which currently provide more protection for DUoS customers, but it should do so with caution and be cognisant of the potential unintended consequences that the proposed arrangements might bring in terms of inefficient development of the network and increases in costs for all customers.
2. In the consultation, Ofgem refers to the need for a HCC for demand due to the “*absence of DUoS signals*” and subject to a “*further opportunity to review this proposal when DUoS reform proposals are clear*”. Ofgem should clarify if its intent is that the HCC for demand is either:
 - a temporary arrangement (e.g. until a replacement locational DUoS cost signal is introduced); or
 - an enduring arrangement that may be supplemented by locational DUoS cost signals in the future, once it has been debated as part of the anticipated DUoS significant code review (SCR).

Our view remains that the locational cost signal in a connection charge remains the most cost-reflective approach, as opposed to the introduction of locational DUoS cost signals which are subject to significant assumptions/generalisation. If locational signals are required post-connection, then flexibility services are likely to be the best way of sending a focused cost signal to customers in specific constrained areas of the network.

3. Whilst the introduction of a HCC for both demand and generation does provide some protection for DUoS customers its benefit reduces if it will only be applied on a temporary basis as it risks introducing unnecessary complexities and disturbance (i.e. current arrangements to 31 March 2023, the updated minded to position from 1 April 2023 and then, potentially, the original minded to position in, say 2025).

Question 2a(ii): Do you believe that our proposals to do so represent sufficient and proportionate protection for DUoS billpayers against excessively expensive connections driven reinforcement?

4. Cost-reflective charging is a complex policy area which needs careful consideration in the context of avoiding undue cross-subsidy, reducing opportunities for capacity hoarding, and other valid charging objectives such as the ability of DUoS customers to respond to signals and price stability/predictability. As stated in our response to question 2a(i), there needs to be protection for DUoS customers against funding excessively expensive demand and generation connections.
5. Given the fact that there are no imminent changes to DUoS charging arrangements and the uncertainty around the embryonic flexibility procurement market, the proposals to implement a HCC for both demand and generation provides some protection for DUoS customers against undue increases in costs. The mechanism for calculating the HCC for both demand and generation needs to be easy to understand, practical and proportionate to implement. Setting an appropriate level for the HCC will be key to its effectiveness in sending appropriate cost signals.

Question 2a(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)?

6. We are supportive of Ofgem’s proposal to set the HCC at the point of connection plus one voltage level above for the calculation of both the demand and generation HCCs (i.e. to maintain the current ‘voltage rule’). Any movement away from this position risks existing DUoS customers funding a disproportionate amount of reinforcement costs with very little, if any, benefit. Again, the level at which the HCC is set will be key to its effectiveness in sending appropriate cost signals and providing the necessary protections, as well as reducing opportunities for capacity hoarding.

Question 2a(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?

7. We agree that DUoS customers need to be protected against funding projects with a very large associated reinforcement cost that provide very little, if any, benefit for the wider network. Existing DUoS customers will incur a significant proportion of additional reinforcement costs due the proposed change in the connection boundary, particularly for new demand connections. With this in mind and to mitigate against existing DUoS customer’s cross-subsiding future new connections, consideration should be given to reducing the percentile in which the HCC is set (e.g. using the 75th percentile instead of the proposed 95th). An appropriate HCC level for demand is subject to how much protection Ofgem wants to provide for existing DUoS customers compared to the average cost of reinforcement and the ability of other connectees and the wider customer base to benefit.
8. Ofgem needs to be extremely clear in its final decision on exactly how the HCC for demand is to be calculated in order for essential methodology and code changes to be progressed in a timely fashion. If any ambiguity exists (e.g. where a code working group is required to define the scope of potential options) then this is likely to result in proposals outside of the intent of Ofgem’s final decision that may result in avoidable delays in implementation. Such loose drafting of the final decision is not a luxury that can be afforded as the implementation timeline is already compressed and extremely challenging.
9. We believe that it is appropriate for generation and demand connections to face different HCC levels given generation arguably has more flexibility in where it locates and, based on current DUoS charging arrangements, generators generally receive credits once connected, whereas demand customers will face charges.

Question 2b: What are your views on our proposals to maintain the requirement for three-phase connection requests to pay the full costs of reinforcement, in excess of Minimum Scheme (i.e. lowest overall capital cost)?

10. We support the proposal that the existing arrangements should remain in place such that customers requesting a three-phase connection and/or a supply voltage that is not necessary to meet their required capacity continue to pay the additional full cost of modifying the distribution system to meet their requirements. This ensures that DUoS customers are not unduly burdened, and it strikes an appropriate balance with the connection costs driven by the customer’s connection requirements. The proposal also incentivises the latter to find the most efficient solution to their power needs.

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?

11. We support the minded to position to retain the current treatment of speculative developments and we agree there is a need to review the Common Connection Charging Methodology (CCCM) definitions to provide further clarity. A clearer definition of speculative developments is even more important with a move to a shallower connection boundary as that increases the likelihood of such schemes being considered.

Question 2c(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?

12. We agree that Ofgem's wider connection boundary proposals broaden the disparity between speculative versus non-speculative developments due to the introduction of the 'shallower' connection boundaries. This also supports the need for a clear definition of speculative developments.
13. A future review of the definition of speculative developments will provide a clearer understanding and incentivise both Distribution Network Operators (DNOs) and customers to find the most efficient solution provided that the scope of what is included is correct.

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?

14. We support the proposed DUoS mitigations and the retention of the generation HCC and believe they provide some protection for DUoS customers, provided that the HCCs are set at the right level.
15. We do not believe that these proposals interact in any way since they deal with bespoke situations. For example, the demand HCC targets a limited number of projects and protects DUoS customers from excessive costs. If the projects are speculative, they would pay the full cost of any reinforcement and not be subject to a HCC. Customers that request a three-phase connection and/or a supply voltage that is not necessary to meet their requirements are asking for a non-standard connection arrangement and not a specific capacity level. These DUoS mitigations could be drafted as being mutually exclusive as part of the work to update the CCCM following Ofgem's final decision.

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?

16. The minded to proposals to treat storage in line with generation for the purposes of connection charging will simplify charging arrangements for all parties. We agree that maintaining dual charging treatment under Ofgem's proposed reforms could lead to perverse incentives for storage to connect where import reinforcement exceeds that of export. Unlike a demand only connection, storage requires an import and export capability and the design of the Minimum Scheme will need to take both of these impacts into account.

Question 2f: Do you agree with our proposals regarding the treatment of in-flight projects (i.e. 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?

17. We agree with Ofgem's minded to proposal that connection applications that are currently in process, or that are completed prior to the implementation date of the new arrangements, will continue to be treated and charged under the existing rules. We also support the position that customers should retain the right to terminate their application or contract and make a new application for their connection under the new rules on or after 1 April 2023. However, if customers choose to do so and so take advantage of a cheaper shallower connection charging boundary, they will be treated like any other new applicant and, therefore, assume a position at the back of any queue that may exist at the time the new application is received. Customers with in-flight projects will also need to be aware that any costs already incurred in respect of their connections will not be refunded.

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)?

18. We agree with Ofgem's proposals to retain the existing arrangements for managing interactive applications which are covered in the ENA's Open Networks Interactivity Guide. This document may need to be reviewed depending on Ofgem's final decision to make sure that it accurately reflects the final decision.

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?

19. We support Ofgem's minded to position that the existing Minimum Scheme definition should continue to apply for both demand and generation connections. This ensures that DUoS customers are not unduly burdened and it will also deliver the most efficient solution.

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?

20. We do not believe that it is within Ofgem's remit to disallow current non-firm connected customers from seeking a firm connection because they are entitled to make such an application under the Electricity Act 1989 (the Act). We believe that the risks associated with any non-firm to firm connection applications are:
- Non-firm demand connections will not incur any reinforcement costs (subject to the HCC) to remove any agreed curtailment arrangements, so there could be a significant burden on DUoS customers; and
 - Any existing non-firm generation connections will need to consider the effect of the proposed shallower connection charging boundary. Where any necessary reinforcement required to facilitate the firm connection is one voltage level above the point of connection (POC) then there is less risk to

the generation applicant compared to reinforcement at the POC where the generator will need to consider if it is economically viable to proceed (subject to the HCC).

21. If the customer applies for a firm connection under section 16A of the Act, then the queue would be managed according to the legal and regulatory obligations prevailing at the date of the application, which are not at the discretion of the DNOs.

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?

22. We would propose that the temporary derogations remain in place for at least a year with the potential to extend depending on the impact of the reforms on the volume of connection applications received. However, the proposed temporary derogations with respect to these licence obligations do not change the Connections Guaranteed Standards¹ themselves so the DNOs will still be exposed to a potentially significant increase in failures and having to make the associated payments due to the anticipated surge in applications. Consequently, Ofgem should also resolve that issue.
23. Ofgem is minded to consider temporary licence derogations which may take the form of extensions to time to connect. We believe it is important that stakeholders understand the potential impact of these minded to proposals with respect to pre- and post-acceptance timelines within the overall connections process.
 - Pre-acceptance: this part of the process covers from application received to provision of a quotation and the proposed shallower connection boundaries are highly likely to result in greater volumes of applications which will put pressure on DNOs' resources to provide quotations in line with the current regulatory and licence timescales.
 - Post-acceptance: this part of the process covers quotation acceptance to connection delivery. It is highly likely that the shallower connection boundaries will result in a larger volume of acceptances. The boundary change will not, in isolation, change the time to connect as Ofgem's updated minded to position only changes who contributes towards reinforcement and does not affect how long it takes to deliver a connection following acceptance. However, projects may be delayed overall if due to the anticipated, increased volumes (i.e. the start time may be delayed as part of the proposed licence derogations and it will take longer to complete higher volumes of work). The connection boundary change proposals are essentially about who funds necessary reinforcement and this has no effect on how long it takes to complete that reinforcement. Wider strategic investment to future proof the network will also take time and will not mitigate the anticipated post-1 April 2023 surge.

¹ The Electricity (Connection Standards of Performance) Regulations 2015

2. Responses to specific questions on Ofgem's proposals for definition and choice of 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?

24. We agree with Ofgem's proposal to exclude customer interruptions and transmission constraints from the definition of curtailment with respect to distribution network access arrangements. Curtailment limits agreed between a DNO and a customer should only reflect constraints on the DNO's network and those that the DNO can control. There are existing regulatory incentives that provide protection for the other circumstances (e.g. those relating to customer interruptions). Existing Guaranteed Standards already require DNOs to pay customers for failures to restore supplies within the relevant prescribed periods such that there is a risk of costs being incurred twice in relation to the same outage if they were to be included in the definition of curtailment.

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?

25. We agree with Ofgem's proposal. However, the "defined process" for agreeing the curtailment limit should not be an item for prolonged debate in code modification working groups. The process should be clearly set out in Ofgem's final decision to ensure a standard process is implemented that can be easily codified. The existing work in Open Networks Workstream 1A, specifically Product 8 'ANM - Curtailment Information', is key to establishing this standard methodology. Part of the scope of this product is provide technical support to the Access SCR implementation working group(s), as necessary, to support the development of the curtailment caps approach for facilitating customer connection choices.

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

26. We agree with Ofgem's proposal that DNOs should define and agree how curtailment limits are defined in a consistent manner across networks, and that this should be developed through further Ofgem-led working group activity as part of the SCR to ensure a standardised approach and implementation, and where possible ahead of Ofgem's final decision. This may include defined milestones that are triggered (DNO obligations) when a customer has been curtailed up to a certain level e.g. when curtailment levels are at 80% the DNO seeks to procure flexibility services, and if procurement has been unsuccessful, at say 90%, the DNO triggers a backstop agreement to procure flexibility direct from the customer. It may be appropriate to apply such milestones over a rolling 12-month period.

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?

27. It is our view that a backstop arrangement with the customer is in the interests of both the customer and the DNO, providing clarity to all parties whilst protecting DNOs and, therefore, DUoS customers from uncapped liabilities (i.e. preventing a party from 'naming their price' to provide a backstop flexibility service).

28. A backstop agreement i.e. a pre-arranged price paid to the customer if the agreed curtailment limit is exceeded could be updated periodically to ensure that it is reflective of current market conditions. It would not be the intent that such an arrangement should be the default curtailment 'remedy', but rather to ensure that a cost-reflective backstop price is implemented to mitigate the risks. We agree with Ofgem that the DNO should procure flexibility from the market where it is reasonably possible to do so at the best price for customers, and DNOs will continue to work with Ofgem in advance of the final decision to propose a suitable framework. It is our expectation that the ongoing connection agreement would include the initial backstop price and confirmation that it will be revised periodically to reflect future costs. Ofgem should, therefore, consider whether DNOs should publish the backstop price prevailing from time to time and the associated methodology for arriving at that price to ensure transparency for the connectee.
29. We agree with Ofgem that the cost of reinforcing the network provides a natural backstop against spiralling flexibility costs. However, this assumes that it is feasible to carry out physical changes to the network ahead of time. The backstop price may represent, for example, a notional equivalent cost of network reinforcement but this needs to be a contractual agreement with the customer and not an informal price cap.
30. We do not propose to cap the amount that can be paid in total but we do propose to cap the price that is applied in the calculation. However, it is difficult to make an informed choice on Ofgem's proposal not to introduce a cap in the absence of further DUoS reform, where a key driver must be to avoid excessive costs being passed through to DUoS customers. In the absence of a defined backstop price, consideration should be given to developing a consistent methodology so that customers have clarity and transparency on how any flexibility payments for any curtailment in excess of agreed limits is calculated.
31. The price control settlement should also make provision (in some way) for costs incurred in such circumstances.

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?

32. We agree with Ofgem's proposal to introduce explicit end-dates for non-firm arrangements where the customer requests a temporary non-firm connection with a request for a firm connection at a future date agreed between the DNO and the customer and where the customer pays the necessary costs of network reinforcement, if applicable. This can be discussed as part of the negotiations following the customer's connection application and detailed in the connection offer together with relevant costs based on Ofgem's proposed connection boundary.
33. We are comfortable with Ofgem's proposed mitigations to prevent excess costs being socialised, subject to the recommendations set out in this consultation response (e.g. an appropriate level of the HCC for demand and a cost-reflective backstop curtailment agreement).

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?

34. It is likely that both known or likely works and wider developments will be considered depending on the details of the customer's proposed project. If a customer's project is located in an area that is not expected to see significant load growth (e.g. large-scale generation in rural locations compared with urban, commercial or industrial locations) then it is likely that wider developments will not be viable. The strategic

approach to network development proposed as part of the connection boundary proposals will be based on a wider, strategic view of the network and will take longer than targeted network development to accommodate a customer's requirements. Therefore, we believe that flexibility should be retained in each specific application.

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

35. We agree this should be taken forward as part of the anticipated DUoS SCR, which we expect will consider time of use capacity charges (including excess charges). However, this should not explicitly prevent DNOs from connecting customers quicker whilst utilising time-profiled access arrangements with the appropriate monitoring and enforcement in place (e.g. physical control equipment).

3. Responses to 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)?

36. Ofgem's updated minded to position has provided additional clarity on implementation and has gone some way to protect the generality of customers from inefficient development of the system with the proposed introduction of the HCC for demand as well as generation. However, the level of the HCC(s) will be vital to ensure that DUoS customers have some protection. We propose that the 95th percentile is too high a level.
37. We remain of the view that electricity distribution access rights and connection cost signals are currently working better than the minded to proposals recognise and any changes should send efficient and effective forward-looking cost signals.
38. Removing connection-driven reinforcement price signals may encourage the connection of more generation and storage, but more of the reinforcement costs would transfer from developers to be socialised across all DUoS customers. The removal of appropriate connection charge price signals will also lead to an inefficient system.
39. As set out in our June 2021 consultation response, and to reiterate, we agree that changes to transmission network use of system charges should be subject to a wider review and considered in line with the anticipated DUoS SCR.

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

40. Ofgem needs to be clear and transparent in its final decision on exactly how any new mechanisms (e.g. the introduction of a HCC for demand) are to be calculated. This will allow any methodology and code changes to be raised in a timely fashion and the working groups to run efficiently. If any ambiguity exists in the final decision it is likely to result in avoidable delays in implementation as the current timelines are already compressed and extremely challenging.