

Patrick Cassels
The Office of Gas and Electricity Markets
10 South Colonnade
Canary Wharf
E14 4PU
(sent by email to:
futurechargingandaccess@ofgem.gov.uk)

Scottish and Southern Electricity Networks
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

Email: mark.askew@sse.com

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Dear Patrick,

**SSEN Distribution's response to Ofgem's Access and Forward-looking Charges
Significant Code Review: consultation on updates to minded-to positions and
response to June 2021 consultation feedback**

Our networks are set to transform and enable the transition to a net zero world as we prepare to meet the new and rising electricity demands of the future. The reforms being progressed under the Access SCR can be a key building block in supporting this transformation and ensuring a just transition for all.

We recognise that new customers want faster connection to the network at lowest cost. Whilst this needs to be balanced against the needs of our existing customers, delivering the number of new connections required to deliver net zero, is a significant challenge and requires a step change in how we plan and operate our networks. SSEN is supportive of Ofgem's ambitions to enable investment in low carbon infrastructure at a fair cost and delivery of a more flexible electricity system. In particular, we see the steps to better facilitate strategic investment whilst maintaining the pace of change as a key outcome.

Our detailed response is listed in the appendix. In addition, we highlight the following points:

- 1) There is very little time left to implement these proposals for the start of April 2023. Working with the ENA and Code bodies, we are preparing as much as we can in advance of the final decision, but it is critical that the final decision is published by very early April 2022 with clear, unambiguous direction. The proposals represent a significant shift from current arrangements and require careful planning and implementation. If we are to have something approaching a smooth transition, we cannot allow policy debates to continue post April 2022. In addition, we continue to encourage Ofgem to support BEIS in adjusting the ECCR as necessary, without which the ambitions of this reform cannot be fully realised.
- 2) Ofgem must develop appropriate safeguards to avoid the risk that flexibility service payments, which may be required to meet agreed limits of curtailment, do not rise to extreme levels in areas where the market is particularly illiquid. Without safeguards, the broader body of customers will end up being exposed to excessive costs.

We trust you find this information helpful and would be pleased to follow-up with further detail as necessary.

Yours sincerely,

Mark Askew
Head of Distribution Regulation

Appendix: Response to consultation questions

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?*

Yes, as we highlighted in our response to the 2021 minded-to consultation, we see the HCC for generation and the proposed HCC for demand as important safeguards, especially in sparse or rural networks where large new connections are not normally a feature and where it would be unreasonable to ask the general body of customers to fund reinforcement. Experience has shown the generation HCC to be a practical early identifier of high reinforcement costs to allow connecting customers to assess early feasibility work without unnecessary delay.

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

Yes, as per our answer to (i), we consider a HCC to be a practical safeguard to protect the general body of customers from excess cost. It is important that the HCC is set at an appropriate level and is both calculated and applied in a manner that is transparent and readily understood. A well-designed HCC will only trigger when it is unreasonable for reinforcement to be funded from the general body of customers and is:

- Not too high as to be so rarely triggered that it offers no protection;
- Not too low as to undermine the role of strategic reinforcement; and
- Reflective of reasonable levels of funding for reinforcement from the general body of customers.

We note that the consultation's early reference to a £1400/kVA demand HCC might be misleading for some readers and is vastly different from a generation HCC of £200/kVA. We understand this is due to differences in the inputs used and will be updated. Whilst we would expect there to be some difference between demand and generation HCCs, we would not expect the difference to be so large, potentially leading to exceptionally different treatment between demand and generation customers connecting at same parts of the network.

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)?*

We believe this is an important part of the design of a HCC and is particularly relevant in rural/sparse networks where much of the reinforcement related to the connection of a single customer is triggered at the next voltage up. As such, it seems sensible that the HCC should consider reinforcement costs at both the voltage of connection and one level above.

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?*

As per our answer to (ii), we consider the key test is whether or not it is reasonable to fund the reinforcement needed for a single connection at a certain rate from the general body of customers. The proposal to use a percentile methodology is practical and enables an evidence-based

assessment of costs to try to identify outliers and other anomalies. However, it is limited by any pre-existing bias or constraints that might alter the data. For example, generation connections are already exposed to a HCC and a percentile method could not be applied in the same way. We recognise that it may be appropriate for generation and demand HCCs to be different given the nature of reinforcement associated with these types of connection (i.e. differences in location, concurrent connection activity, existing network use, etc). On balance we consider it is reasonable for the level to be set differently for demand and generation, as indicated by evidence.

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)?

We agree with this proposal. Three-phase connections are often in excess of the minimum scheme necessary to meet connection requirements and, as such, it is reasonable for these enhancements to be paid for in full. However, this position should be kept under review to reflect changes in network design and standards.

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?*

We agree with this proposal. Currently, speculative connection requests are not a regular occurrence in our network areas. On balance, we agree that it is appropriate to maintain the current definitions and approach to speculative developments but suggest this is kept under careful review whilst reforms are brought in and new behaviours emerge - see (ii).

- 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?*

We are unclear whether the level of speculative development will change (either increasing or decreasing) as customer behaviours shift to reflect the shallow/shallower connection boundary alongside ever-increasing use of our networks. From one perspective, the cost of accessing capacity is set to reduce, perhaps reducing the desire to gain access speculatively; from another perspective, the time to achieve a non-curtable connection associated with constructing new capacity may encourage customers to gain access early and to maintain access beyond its immediate need.

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?

We consider that access and charging arrangements must be:

- clear, transparent and predictable;
- encourage and support the UK's move towards net zero; and, importantly,
- maintain a fair and reasonable cost burden on the wider body of customers.

On balance, the proposed mitigations look like they will be able to meet these objectives. However, the combination of these new arrangements may lead to surprising or unknown behaviours and it is important that their effectiveness, in the round, is kept under review.

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?

There are many similarities between generation and storage, in particular, their role to support timely availability of energy and also their flexibility in terms of location, with storage being even more flexible than most forms of generation. For charging purposes, storage is often aligned with generation (i.e. the definition of non-final demand and the avoidance of residual charges).

Importantly, the engineering impact of storage on a network can be different depending on when it is importing power (e.g. acting like demand) or exporting power (e.g. acting like generation) and how this interacts with the wider use of the electricity network. Reflecting the impact (be it through import or export) through shallower connection charges will help to signal the cost of increasing capacity and allow storage operators to make efficient choices about their connection requirements.

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?

We agree with these proposals.

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)?

We agree with these proposals.

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?

Yes, we agree with this proposal. The Minimum Scheme, as set out in the CCCM, sets an important reference against which existing and future schemes can be assessed to ensure customers are treated in a fair and consistent manner. Under today's arrangements (and continuing into shallower generation connection boundary and proposed High Cost Caps), it is important to have a well understood and transparent minimum to assess the fair share of costs. It will also form an important datum by which early connection via limited-curtailment connection offers are prepared and limits are agreed.

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?

We acknowledge that all customers can apply for a new or modified connection at any time and expect that some existing flexible customers may wish to assess the benefits of modifying their

connections and adopting new limited curtailment connections - noting that a shallower connection boundary and potential for a high cost cap will feature in their analysis. However, we are concerned that a sudden 'swell' of connection modifications from existing flexible connections or from connections still inflight, may lead to a short-term reduction in our speed of response for all customers.

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?

As per (2i), we anticipate that there is likely to be a significant increase in the number of connection modifications following the proposed changes and agree with Ofgem's proposals that suspension/modification of timescales for SLC 12 (Requirement to offer terms for Use of System and connection), SLC 15 (Standards for the provision of Non-Contestable Connection Services) and SLC 15A (Connection Policy and Connection Performance) standards is appropriate. We suggest this should be in place for the first year and then reviewed thereafter to allow DNOs to spend the time needed to help customers adapt to these new arrangements and to allow quality to be maintained during this period.

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?

Setting out agreed limits to the level and duration of curtailment will provide predictability for customers and set a quantified standard by which the wider distribution network can be developed, whilst still enabling the quicker connection of new demands and generation. Curtailment limits will be set based on the existing and future capacity of the distribution network and the availability of distribution connected flexibility services to support efficient development. As such, it makes sense to focus curtailment limits on actions under the control of distribution network operators, which are not already incentivised. For example, interruptions are incentivised by the existing arrangements and should not be included in the measurement of curtailment; likewise, the communication and systems connections to the end customer are often outside the control of the distribution network operator and, as such, the impact of their failure should be excluded from the measurement of curtailment. We expect transmission constraints to be separately assessed as part of the development of the transmission network and wider whole-system considerations and should be excluded from the measurement of distribution 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?

Curtailment limits should give the connecting customer a clear indication of the maximum level of curtailment that a connection should expect ahead of the completion of efficient network development (via new capacity or flexible services). Efficient network development, and hence agreed levels of curtailment, must be mindful of the existing network, other committed connections, likely future growth and other planned network development. The assessment of maximum curtailment should be based on a clear, repeatable methodology linked with efficient network development and should minimise

subjectivity. This will enable customers to choose between taking an earlier limited curtailment connection or waiting until a non-curtable connection is ready.

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

As per (3b) limits must be computed in a clear, transparent and predictable manner, balancing the need to set a meaningful limit without limiting the efficient and strategic development of a network. Curtailment limits should exclude events beyond a DNO's control such as delays resulting from local authority planning controls or wayleave processes etc. in much the same way that existing energisation dates are agreed and may reasonably be adjusted for things outside the control of the DNO.

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?

The UK is currently in the early stages of developing ubiquitous distribution level flexibility services markets. For some parts of the network, it is likely that flexibility markets behind certain constraints will be insufficiently liquid with prices rising artificially high. Where agreed curtailment limits are at risk of being exceeded and the local flexibility market is priced artificially high, the costs of using flexibility services may become penal and result in unlimited liabilities being placed on DNOs (and ultimately the wider body of customers). We can understand Ofgem's reticence to set payment caps as this may undermine the nascent flexibility markets. However, we also call on Ofgem to ensure there are sufficient safeguards to protect the wider body of customers from extremes of prices. One such mechanism might be to agree a back-stop flexibility service with the connecting customer as part of their overall limited-curtailment offer, where the back-stop service payment would be set using a clear methodology, potentially set and reset nationally.

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?

As with (3c), end-dates should be designed to ensure efficient network design, as well as giving customers certainty – however, these should only be set where the customer requests that they desire a 'firm' connection and where any shallower or HCC amounts have been paid. The mechanism for setting an end-date should be clear and understandable and should also allow dates to be reasonably adjusted for things outside the network operator's control (e.g. wayleave and permission delays).

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?

We are conscious that not all customers will need or want an end-date to their defined levels of curtailment and that dates should be adjusted to reflect things reasonable outside of the network operator's control – see (3e).

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

We agree with this proposal. There does not seem to be any benefits from standardisation and consider it is better to agree with customers arrangements that fit the specific circumstance.

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 change to previous response.

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

- 1) The proposed timeline to implementation is exceptionally fast and it is essential that the final decision gives clear policy guidance without ambiguity and is not delayed beyond very early April in order for this to be in place by April 2023. Similarly, it is very important that Ofgem continues working with BEIS to progress ECCR reform – without this many of the intended outcomes will not be possible.
- 2) To highlight again, customer behaviours as a result of these reforms are very unclear and may result in a significant shorter-term 'surge' in activity as well as longer-term increases. The impacts of these proposed changes must be kept under careful review.