Access and Forward-looking Charges Significant Code Review: Consultation on Updates to Minded-to Positions

Response from Regen

February 2022

Dear Patrick,

Thank you for the opportunity to comment on the updated minded-to proposals. Regen support the objectives of the SCR in ensuring that network charging and the subsequent investment and management of the distribution networks support the transition to net zero.

However, we consider that the **High Cost Cap provides a blunt instrument that risks maintaining the status quo of incremental inefficient investment.** We recognise that some 'mitigation' is sensible but would propose that the High Cost Cap acts as a trigger for a local review of the potential for DSO optimisation and strategic investment, rather than a cliff-edge for investment in net zero.

The proposals will require DNOs to take a strategic approach rather than the incremental project-by-project mindset that their input to the mitigations process via the Delivery Group suggest that they remain in. We think it is vital, therefore, that Ofgem put clear incentives for a strategic approach to connections at the heart of its final ED2 determinations on DNO business plans.

Transparency will be critical to the success of the new approach. The inability of DNOs to articulate how much investment has been 'put off' by the High Cost Cap has made the SCR much harder. We believe that DNOs should be required to collect and disclose and discuss with local, regional and national stakeholders where the High Cost Cap has played a part in halting projects and local investment and the network issues that this highlights. This can be built on to enable strategic investment that is locally informed and supported.

Best regards

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About Regen

Regen is a not-for-profit company representing 150 members across the energy sector and have a clear goal, to accelerate the transition to a decarbonised, decentralised and democratic energy system.
Regen have a mission to transform the way we generate, supply, and use energy. We believe sustainable energy has a vital role at the heart of a successful economy and its thriving local communities.

Regen response to specific questions

2. Distribution connection charging boundary

2a: i. Do you believe that it is necessary to introduce a High Cost Cap (HCC) for demand, and to retain one for generation?

Though we agree in principle with retaining mitigations to stop 'silly' projects causing high costs to everyone, we think the High Cost Cap is too blunt an instrument for SCR to achieve its aim to:

Encourage network operators to take a more strategic approach to network planning and reinforcement. This includes investing ahead of need where it is efficient to do so and considering alternative approaches to reinforcement to meet the capacity needs of customers. (p.11)

Blanket 'project by project' mitigations undermine this principle, dampening the impact of the SCR and its potential to support strategic investment. We are concerned that the consultation notes that the impact of these mitigations is not known and, therefore, the impact of retaining it is also very uncertain.

The DNOs have advised that they do receive connection enquiries that would exceed the HCC where, as a direct result of early enquiries, the customer chooses not to proceed to the formal offer stage. These projects are therefore not captured in formal connection offer data, making it difficult to establish how many projects do not go ahead due to the existing HCC.

We believe that this lack of information is not acceptable. We would urge that along with any mitigation methodology there is at the same time a **clear process developed to ensure that all DNOs both collect and disclose information to local stakeholders on where the High Cost Cap is stopping investment and what network assets are involved.** This means collecting information on and reporting on early stage conversations around projects – in additional to formal requests for quotations.

We think that rather being a cliff edge for development, triggering of the High Cost Cap should instead start a process of regular and locally informed wider review of network investment and needs in a given area, working directly with relevant local and regional stakeholders. This approach could be developed via ENA or Open Networks for example.

We would like to see:

1. Disclosure of the volume of projects in an areas (including very early stage applications) that have or would likely trigger cost mitigations. DNOs along with National Grid from a transmission perspective should be required to actively disclose and discuss these with relevant regional bodies (e.g. local authorities, combined authorities etc.)
2. Process around further strategic conversations with developers if cost cap is triggered: This could involve:
    a. Looking for additional projects in a region/area to share costs. In the past this has been left to developers which does not work. A new process owned by DNOs along the lines of the Green Recovery funding application should be introduced.
    b. Options about short-term flexibility / ANM type solutions – if wider need is identified.
    c. Structures to allow underwriting investment risk by local or regional bodies (who may be willing to support this due to local net zero targets)

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

This question is framed too narrowly. The key question should be whether the proposals deliver net benefit for DUoS bill payers. In some cases where there is highly constrained network with good renewable resource, an expensive but strategic upgrade to the network could deliver a net benefit for DUoS bill payers by bringing down wider energy costs and the cost of reaching net zero.

Therefore, it is very important the HCC is accompanied by a process to assess strategic cost benefit of upgrades rather than stopping at the point of one incremental potentially inefficient decision.

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

We do not agree with retaining the voltage rule at both the point of connection and the voltage above. This decision significantly dampens the anticipated impact of the SCR to facilitate net zero and unlock strategic investment in the network which will be most significant at the higher voltages (the voltage above). The proposals will mean only a marginal reduction in the cost of generation connection that triggers reinforcement up to a maximum of £200/kW.

As noted in our earlier response, the voltage level above a connection should be the point where the network should be required to investigate the potential for alternatives or strategic investment. The constraints at this level above connection are not, in reality, attributable to one project – but are instead the result of all the demand and generation already using the network below that point. To continue this High Cost Cap methodology as it exists, continues to penalise new network users and contravenes Ofgem's remit to support the needs of future users on a level playing field with existing ones.

That decision also increases the inconsistency in the treatment of demand and generation connections. It was even noted in the consultation. *"One such challenge raised by our Delivery Group is that it is not always clear whether import or export drive the significant reinforcement needed at time of connection." (p.41)*

This does beg the question as to how connection costs are being determined by DNOs if it is unclear whether generation or demand is triggering the issues.

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?

We notice that there is likely to be a big discrepancy between the High Cost Cap for demand and that for generation. The documents suggest this is £1400/kVA for demand vs. £200/kW for generation. Given the DNOs are not always clear whether import or export is driving reinforcement, the logic behind this is unclear and we don't think it is sustainable to have such a large difference.

We call on Ofgem to increase the generation High Cost Cap to a point where it is more commensurate with that proposed for demand.

In the absence of this, we think it is critical that there is transparent recording and disclosure by DNOs related to the triggering of these and the contribution made by both the DUOS customers and the connecting customers towards these. We would also urge a regular independent review of whether the caps are providing the right level of signal to new projects or are set too high or too low.
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)? We don't have a view on this question.
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? **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 believe that this difference in treatment is an issue and will cause problems in the future. By treating these connections differently, the network risks not considering speculative connections within more strategic decision-making in an area. This could increase the costs for consumers in the longer term where treating them as strategic investment could have delivered more efficient investment, unlocking additional capacity for example.
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 do not have a view on this question but not note our response to 2 ii) determining whether there is a net benefit to customers.
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? We recognise that this aligns with the broader framework although would urge Ofgem to consult with storage developers on this issue as the proposals seem to have been developed for the benefit of DNOs rather than recognising the importance of facilitating more storage on the electricity networks.
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? Yes, we agree that this is the right approach.
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, we think this is consistent with other positions.
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 do not have a view on this question.
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, we agree that they should be given the right to connect on a firm contract.
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? We believe both are important and that time to connect is critical for net zero. We hope these will not be necessary as DNOs will have sufficient time to plan for any uptick in applications. Any measures should be put in only if proven to be critically important and the duration of any measures should be as short as possible.
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, this seems sensible. Although we note that transmission constraints are increasing significantly and impacting projects on the distribution network and that these constraints should be fully compensated in the same way as transmission generators are.
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 be agreed with the connecting customer but we believe that the methodology of maximum network benefit should be interrogated. The key question is how wider network benefit is calculated – this should include the cost of constraints to the customer, carbon benefits if renewable generation – as well as considering wider flexibility procurement in addition to curtailment by the customer. So the calculation should include the wider benefits to the network of having this in place (e.g. security of the network, diversity of flex etc.).

Question 3c: Do you have any views on the principles that should be applied to ensure curtailment limits are set in a consistent manner? We believe that curtailment limits should be negotiated with the customer as to the level that they believe their project remains financially viable. Curtailment in addition to this should be procured via wider flexibility markets. Without this we risk the perpetuating the same system we have now which means that one customer absorbs the cost of curtailment and lack of network investment.
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 – we believe this should be part of developing a local flexibility market and DSO role.
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, we agree that there should be explicit end-dates for arrangements and that not meeting these should trigger compensation by the DNO to the customer. This cost should be for networks to manage potentially by procuring local flexibility.
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 think the end dates should allow time for all of these including wider developments however it is important that this process works within the development of local flexibility markets to help DNOs manage risks and reduce costs.
Question 3g: Do you have any comment on our proposal not to further define or standardise time-profiled access arrangements? We would welcome guidance and shared understanding across DNOs of how time profiled access can be used to ensure: consistency of treatment; ensure there is significantly reduced cost of connections under these arrangements; and to be clear how these work with flexibility markets as well as the cross over between DNO and transmission constraints.
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)? We remain hopeful that the changes to the connection boundary and the defined flexible connections will unlock strategic investments on the network to allow for efficient and effective delivery of net zero. However, we note that these changes suggest that DNOs need to develop a new way of thinking and operating that will be different from the incremental systems embedded currently. As a result we are concerned that the responses of some of the DNOs through the Delivery Group suggest that rather than developing methodologies and processes to deliver this as an opportunity and new way of thinking in delivery of net zero, they continue to see investment as incremental, project-by-project and are looking to mitigate the changes proposed by Ofgem to perpetuate the existing system as much as possible.

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

For these proposals to work it will be vital that the design of Uncertainty Mechanisms in the RIIO ED2 process works to enable strategic investment in the network to be funded.