

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

21st February 2022

Context

Sembcorp Energy UK (SEUK), a wholly-owned subsidiary of Sembcorp Industries, is a leading provider of sustainable solutions supporting the UK's transition to Net Zero. With an energy generation and battery storage portfolio of nearly 1GW in operation, our expertise helps major energy users and suppliers improve their efficiency, profitability, and sustainability, while supporting the growth of renewables and strengthening the UK's electricity system. Our Wilton International site on Teesside sits within a hub of decarbonisation innovation. At the site, we provide energy-intensive industrial businesses with combined heat and power (CHP) via our private wire network that supplies electricity generated by gas and biomass.

These services are complemented by our fleet of fast-acting, decentralised power stations and battery storage sites situated throughout England and Wales. Monitored and controlled from our central operations facility in Solihull, these flexible assets deliver electricity to the national grid, helping to balance the UK energy system and ensure reliable power for homes and businesses.

Response

We are glad Ofgem has listened to responses to the consultation, especially around the suitability of charging SDG within this SCR and the amount of work required for DUoS reform. We agree these two changes to the scope of the SCR were necessary and worth the delay compared to the original proposed timeline. We would suggest this is further evidence that Ofgem have been setting unrealistic ambitions and we hope similar missteps can be avoided for upcoming major reforms (TNUoS review, DUoS reform, Codes Governance Review, market reviews around fit-for-purpose for Net Zero, FSO etc.). Change must take place within these resource constraints.

With regards to the DUoS reforms, we note that DUoS end consumers are likely to be less engaged with the industry governance process compared to TNUoS end consumers, and therefore may need more support (detailed models, CBA etc) to understand direct impacts. The range of DUoS methodologies means some users (such as specialist suppliers) may struggle to engage in a meaningful sense and users that are exposed to multiple sets of DUoS charges (such as national domestic suppliers) may become disengaged from the detail. The differing nature of distribution networks does, by necessity, means there is unlikely to be a one-size-fits all solution and phase 2 of the SCR must allow time for those differing conversations. In terms of impact on consumers, 15 months' notice of DUoS charges is vital for consumers to be charged a 'fair' tariff and must be upheld in the future. Charge notifications have been disturbed lately through derogations relating to RIIO-ED2 and LSRP claims. Implementation must be set with



enough time for all appropriate modelling and development of charging methodologies (including the risk of Ofgem being presented with further detailed options, as in CMP 343) to take place and then 15 months' notice of charges.

Please see below for our answers to individual questions. If you have any questions, please be in touch,

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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?

Yes. This will protect all distribution users from prohibitively high connection costs as networks become more crowded, capacity is limited in some locations and a significant volume of demand users, such as manufacturing, is locationally inelastic. Fundamental DUoS reform necessarily requires time to develop and implement to avoid unanticipated negative consequences, but wider users should not be penalised until that occurs.

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, although we are concerned that most distribution demand users will not have the technical knowledge to understand the options presented to them without the guidance of the DNO in a 'consultancy' role. In order for DNOs to be trusted, however, there needs to be some level of independence, so users can be confident that they are acting in the networks' best interest.

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)?

No comment.

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 agree that a relative threshold would protect against the highest costs only but note that figures based on previous price control periods can cause issues when the time comes to update them, leading to industry confusion and urgent modifications away from the agreed methodology, such as the urgent CUSC mods to stabilise values like the Expansion Constant. When setting the methodology to calculate the HCC level, consideration should be given to how frequently this level will be revaluated.

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 (ie lowest overall capital cost)?

No comment.

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?

There is no evidence to suggest the current regime is causing excessive risk to DUoS billpayers and it seems appropriate that speculative developments may have a higher cost than non-speculative, because of the uncertainty around eventual utilisation of assets.

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?

There is potential to broaden the disparity, but it will depend on the nature of developments (size, timescale, location) etc, so it is not feasible to draw a single conclusion. We do not believe any disparity needs to be addressed, so it should be considered a disincentive to ask network operators to build assets and reinforcements that may not be used.

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?

The proposed package is an improvement on the current situation but will make judging the suitability of any proposed wider DUoS changes in phase 2 of the SCR much harder, as the new baseline will not have taken effect, to be able to judge its effectiveness. There is a risk that if DUoS changes attempt to address faults that are being addressed by these proposals, issues could be 'over-corrected' and incentives/disincentives made too powerful. This leads to the conclusion that the timescales for phase 2 should allow for the results of this phase to be visible before more changes are implemented.

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?

Yes, this would prevent storage from being treated differently from other generation without driving storage to demand constrained areas and should encourage storage developers to weight both demand and generation connection charges when choosing location.

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?

No comment.

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)?

No comment.

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?

No comment.

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 agree with the proposed approach. Users should be able to seek the connection type that suits them but should not be given priority over 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?

Certainty around timeframes is vital in budgeting a project, especially at the early stages. DNOs should be prepared for any impacts on their business due to Ofgem interventions, in the same way users are expected to be. This SCR has been in development for some time and so the DNOs should be expecting changes to their operation as a result. Users are often told that legal, financial and/or commercial changes are “sign-posted” and therefore are expected to be prepared, up to and including, altering end-customer charging in anticipation of decisions yet to be made. We do not think it unfair for network operators to be held to a similar level of responsibility. Therefore, we do not think it appropriate that interventions are made in the Licence Conditions.

Compared to other SCRs, DNOs have been much more involved with the development around proposals through the Delivery Group, with the Challenge Group having limited access. We are concerned that this recommendation (that DNOs be allowed to let agreed standards lapse because of extra work) is an indication that Ofgem has been guided too strongly by DNOs' wishes.

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?

We agree in principle, but it must be noted that curtailment, regardless of cause, has a customer impact and so DNOs and the Regulator should be aware of the total picture.

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?

No comment.

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

No comment.

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, but this should be reviewed carefully as new functioning flexibility markets appear, or fail to appear as anticipated, especially local flexibility.

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?

No comment.

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?

Given the amount of change underway in the industry and new approaches to energy use to achieve Net Zero, incorporating other potential developments is unlikely to be the most efficient method. It also risks giving rise to informal 'arrangements' for developments that have not reached the appropriate stage that prioritise them over other developments and presents a risk to transparency and fairness. If relevant developments come into play, they should be assessed based on their impact to the existing network, not have network prepared for them in advance.

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

We would like to see DNOs collaborate for appropriate standardisation of access arrangements. If two neighbouring regions present significantly different options, this could create a locational signal for users wishing to connect, depending on the nature of the user. For instance, if one network operator designs time-profiled access based on daylight hours due to a large volume of solar generation, this would discourage any user that cannot adapt to those conditions and would prefer a more fixed arrangement.

5. General questions

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

In our response to the Minded-To consultation, we stressed that tight timescale being proposed in this SCR, and other charging reform projects, and the resource constraint this places on Ofgem and the industry. There is increased risk of incomplete assessments, low engagement and rushed implementation, leading to delays, loss of trust in Ofgem, loss of investor confidence in the industry generally, and poor outcomes for consumers, by way of increased costs or building in inefficiencies. The proposed timeline for the rest of this SCR is still unrealistically demanding. Given the late February deadline for this consultation, Ofgem are unlikely to make a decision before April 2022, leaving industry 9 months to develop technically complex and interacting Code modifications and Ofgem to be satisfied the solutions are what the SCR decided, for a decision before the end of the year. If there is any challenge beyond the Final Decision (political, circumstantial or legal), an April 2023 implementation will be impossible, and this will result in another delayed SCR.

Timings of phase 2 of the SCR, on DUoS reform, must be considered running in parallel with TNUoS reform. Both reforms will be highly technical, requiring in depth understanding and knowledge across the industry. It is not clear that Ofgem or the industry have the resources to do both at once, especially if they are tied to painfully tight timescales.

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

No comment