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21 February 2022.

Sent by email to: FutureChargingandAccess@ofgem.gov.uk

Dear Patrick,

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

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group.

We note that the June-21 minded-to decision, and the updates set out in this consultation, continue to assume no or low reform of use of system signals. We continue to encourage Ofgem to publish the forward-looking charge proposals at the earliest opportunity in order for industry to understand and engage with the overall package of reform intended from the review. Our response to the updates in this consultation should continue to be caveated on this basis.

Given the ongoing DUoS reform, we also recommend that the Access SCR decision on the connection charging boundary for generation is kept under review as part of the scope of the reform of DUoS charges. If sufficient improvements are made to generation use of system signals, then we believe it would be appropriate to move to a shallow connection boundary for distribution connected generation – to align it with the proposed arrangements for demand and to reduce the differential treatment with transmission connected generation.

Our response has focused on the questions on the specific updates consulted upon, contained in Appendix One. I hope you find these helpful.

Please contact George Moran in the first instance if you have any questions.

Yours sincerely,

Kirsty Ingham
Head of Industry Transformation,
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George Moran
Senior Regulatory Manager, Industry
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Appendix One

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?

In the absence of the details of proposed reforms to DUoS charges, we understand the need for some form of mitigation to protect DUoS billpayers from excessive increases in costs stemming from the Access SCR reforms.

However, we agree that any mitigations should remain under review as part of the ongoing reform of DUoS charges. Should sufficient improvements be made to the effectiveness of DUoS charge signals then the mitigations proposed in this consultation should be removed or reduced.

We are also concerned that the proposed application of the HCC will go beyond the stated policy intent and could also result in unintended consequences:

- **Policy intent:** Ofgem have stated that the HCC should be set at a level which would only be triggered for a small minority of high-cost projects. To provide confidence to industry and investors it is important that Ofgem commit to this intent in the final decision. We recommend the level of the cap is reviewed annually and increased, if necessary, to ensure that it is not expected to be triggered in more than 5% of connection offers (on a forward-looking basis). As the distribution network is expected to become more constrained with the electrification of heat and transport, a flat £/kW HCC based on historic RIIO-ED1 data introduces the risk that the SCR policy decision to move to a shallow connection boundary will be systematically reversed over time.
- **Unintended consequences:** The HCC has the potential to require a greater contribution to reinforcement than would be required under current arrangements. In the context of a mitigation against a policy decision to reduce contributions to reinforcements, clearly this would be disproportionate as well as a perverse and unintended outcome. Contributions to reinforcement under the HCC should never exceed what would be required under current arrangements and such a backstop should be captured as part of the final decision.

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

As stated above, we are concerned that the proposed application of the HCC will go beyond the stated policy intent and could also result in unintended consequences.

To ensure the mitigation measure remains at a proportionate level, as applied in aggregate across all connections, we believe the cap should be reviewed annually and increased, if necessary, to ensure that it is not expected to be triggered in more than 5% of connection offers.

To ensure the mitigation measure, as applied to individual connections, is not disproportionate or does not result in a perverse and unintended outcome, a backstop should be applied which ensures that contributions to reinforcement under the HCC are capped at the level that would be required under current arrangements.

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)?

In the absence of the details of proposed reforms to DUoS charges, this seems reasonable. However, the HCC mitigation should remain under review as part of the ongoing reform of DUoS charges. Should improvements be made to the effectiveness of DUoS charge signals then the HCC mitigation should be removed, or the rule reduced.

To ensure the mitigation is not disproportionate or does not result in a perverse and unintended outcome, a backstop should be applied which ensures that contributions to reinforcement under the HCC are capped at the level that would be required under current arrangements.

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?

Ofgem have stated that the HCC should be set at a level which would only be triggered for a small minority of high-cost projects. To provide confidence to industry and investors it is important that Ofgem commit to this intent in the final decision. We recommend the level of the cap is reviewed annually and increased, if necessary, to ensure that it is not expected to be triggered in more than 5% of connection offers (on a forward-looking basis). As the distribution network is expected to become more constrained with the electrification of heat and transport, a flat £/kW HCC based on historic RIIO-ED1 data introduces the risk that the SCR policy decision to move to a shallow connection boundary will be systematically reversed over time.

Regarding the potential for the HCC for generation to be different to demand, we believe this should be kept under review as part of the ongoing reform of DUoS charges. If the effectiveness of DUoS charges for generation is improved and aligned with those for demand, then we do not believe there should be a different HCC for generation.

As set out in our covering letter, we also believe that the connection charging boundary for generation should be kept under review as part of the scope of the reform of DUoS charges. If sufficient improvements are made to generation use of system signals, then we believe it would be appropriate to move to a shallow connection boundary for distribution connected generation – to align it with the proposed arrangements for demand and to reduce the differential treatment with transmission connected generation.

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)?

If a party specifically requests a three-phase connection, when it is not necessary for their upgrade, then it is reasonable for that party to be liable for the incremental costs above the minimum scheme. However, we would seek clarification that the excess cost would take into account the revised shallow connection boundary i.e., if the minimum scheme also included reinforcement of the distribution network (but did not require three-phases) then the incremental amount to be paid would be **the difference** between the three-phase reinforcement costs and the single-phase reinforcement costs, and **not the total cost** of the three-phase reinforcement. Otherwise, the proposals would be penal and unduly discriminatory.

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?

Not answered.

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?

Not answered.

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?

Not answered.

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?

The proposals for storage appear reasonable, but they will need to be kept under review to ensure that they properly reflect the benefits that storage bring to the system and do not result in unintended consequences.

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?

Not answered.

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)?

Not answered.

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?

Not answered.

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?

This proposal seems reasonable. It would be unduly discriminatory to prevent current non-firm connected customers from seeking a firm connection whilst providing new customers in the same location with a firm connection.

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?

Whilst we acknowledge that the SCR may have an impact on the volume of connection requests, this impact is highly uncertain, and so we do not support interventions at this point in time.

It may be that the surge in requests does not materialise in which case any interventions or extensions granted are likely to result in unnecessary delays to connection timescales. Alternatively, it may be that the surge in requests is much greater than could have been anticipated in which case any extensions granted now would be insufficient and DNOs would need to request further extensions.

Given this uncertainty, we consider it would be better to set out a clearly defined process for DNOs to follow, with clear criteria to be satisfied and evidenced, that would allow DNOs to request any necessary extensions or derogations against their licence obligations relatively quickly once the SCR proposals have been implemented.

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?

Not answered.

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?

Not answered.

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

Not answered.

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?

Not answered.

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. Explicit end dates provide certainty to customers on when their connection arrangements are likely to be made firm. They also provide certainty to the DNO and so will help network operators to plan and optimise the timing of network investments, leading to more efficient network development over time. An open-ended arrangement provides no incentive on network operators to resolve the constraint and progress with reinforcement or procure flexibility in a timely manner.

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 supportive of the minded to position that end dates should be agreed between the DNO and customers, similarly to how connection dates are currently agreed in standard connection agreements. The principle should be that the connection is made firm as soon as it is practical and efficient to do so, and this could take into account current known or likely works or could allow for wider developments.

However, there should be a standard maximum length of time which can be applied to non-firm connections (which are seeking firm connections). The precise length of time for this backstop is best agreed between Ofgem and the DNOs, but it should represent a reasonable length of time required to solve a constraint, for example maybe three or four years. Such a backstop end-date should not become the norm for connections, but it is necessary to provide certainty to investors and customers and to prevent an open-ended arrangement which provides no incentive on network operators to resolve the constraint.

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

Not answered.

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)?

Not answered.

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

Given the ongoing DUoS reform, we recommend that the Access SCR decision on the connection charging boundary for generation is kept under review as part of the scope of the reform of DUoS charges. If improvements are made to generation use of system signals, then we believe it would be appropriate to move to a shallow connection boundary for distribution connected generation – to align it with arrangements with demand and to reduce the differential treatment with transmission connected generation.