

Policy Document Customer Workshops

Environment Section – Briefing Note

1.1. The aim of the workshop is to provide all attendees with the opportunity to present their views on the environmental issues outlined in the December 2008 Policy Paper and to discuss the policy options proposed for DPCR5. We expect an interactive debate, driven by attendees, but we are happy to provide background information that may facilitate discussion of the issues raised in the policy paper.

1.2. The format of the workshop consist of a small group of attendees (8/9 people) from different stakeholder groups. The time allotted for the breakout session is two hours in total, with Ofgem outlining each topic/question and then facilitating discussion before starting the next topic.

1.3. The session will be structured as follows:

- Introduction of session and attendees – 10 mins
- Distributed Generation (DG) – 25 mins
- Innovation and Uncertainty – 30 mins
- Losses – 20 mins
- Business Carbon Footprint – 20 mins
- Undergrounding – 15 mins

1.4. The key issues to be discussed per topic are outlined below. This is a brief summary – and it is recommended that the DPCR5 Policy document and Appendices are referred to for further detail.

DG:

Information

1.5. Different types of DG operator will have different information requirements. Those connecting at high voltages are likely to have technical expertise, and will want detailed technical information. The operators connecting at lower voltages probably need more descriptive information, with examples and indicative costs. We therefore proposed a package of measures to enable all customer types to obtain easy access to information tailored to their competence level and need for technical detail. The package aims to improve information provision along three dimensions:

- Improve accessibility and greater standardisation of available information,
- Targeted guidance on the connection process and opportunities, and
- Provide indicative connection costing tools (e.g. web calculator, heat maps).

1.6. What are your views on our proposal to require different information for different types of DG, and what do you think of our detailed proposals (as detailed in the Appendix)?

1.7. We are aware that there may be information that DG developers could provide to DNOs in order to assist in facilitating the connection process. Should we require standardisation of the information DNOs require from DG developers?

1.8. In addition, is there information that DNOs could provide that would assist customers interested in engaging in Demand Side Management (DSM) initiatives?

Use of system charges

1.9. On 1 April 2005 we implemented a 'shallowish' connection charging policy, so that DG connecting would pay the full cost of assets installed solely for providing their connection ('sole-use') and a proportion (based on their requirements) of reinforcement costs of the shared network ('shared use'). The remaining proportion of the costs for shared use assets would then be recovered through use of system (UoS) charges, levied only on DG connected post-April 2005.

1.10. Do you agree with our proposal that all distributed generation (including that connected under non-shallowish arrangements pre April 2005) should be liable for use of system charges?

DG Incentive

1.11. The DG incentive framework was introduced in DPCR4 to encourage DNOs to undertake the investment required to connect DG in an efficient and economic manner and to generally be more proactive in responding to connection requests. We propose to retain this with an amended incentive amount to reflect DPCR5 forecast shared/reinforcement costs. Do you agree that we should retain the incentive in its current form?

Innovation, Uncertainty and Future Networks:

1.12. The future direction of electricity distribution is highly unpredictable, with a variety of environmental issues (DG, smart meters, zero carbon homes, electric vehicles and electric storage) which could significantly impact the design and operation of the networks and the role of the DNOs.

1.13. We need to encourage DNOs to assess the appropriate time to adopt innovative technical and commercial solutions and develop flexible networks to avoid the risk that the DNOs will be late in making the necessary changes to their networks. There is also the risk that unnecessary investments will be made in the short term resulting in future stranded assets or that customers will have to pay for expensive 'last minute' restructuring if the networks are not fit for purpose. We also recognise that under the current regulatory framework (without competitive pressure) there is little incentive for DNOs to move away from the way they currently plan and operate and also that innovation involves a risk of the DNOs losing money if a project fails or if additional costs are incurred in developing networks for the future that could be considered after the event to be inefficient.

1.14. The December Policy document therefore included a flexible package of incentives to encourage innovation, especially with regards to capex avoidance/deferral. Do you agree with our view of future uncertainties and the need for DNOs to change their way of working and thinking to encompass innovation and flexibility?

Registered Power Zone (RPZ) and Innovation Funding Incentive (IFI)

1.15. We propose to retain the current time limits established for RPZ registration (up to March 2010) and commissioning (up to March 2012). Beyond these deadlines we expect schemes to be funded as part of the broader innovation initiatives described below. IFI will be maintained through DPCR5 as a purely research and development incentive.

Innovation and future networks

1.16. We outline a number of options to encourage a step change in attitudes and actions. They are based on three key drivers; when projects are assessed, the level and stage of project funding and whether additional rewards or penalties are applicable, depending on the outcome of the project, and are not exclusive:

Mechanism option	Project assessment	Project explicitly funded?	DNO reward/penalty
1. Ex-ante	Project proposals included in the FBPO	Yes, fully	None
2. During DPCR5	Project proposals brought forward during DPCR5	Partial up front funding	Reward based on project outcome
3. Ex-post	Project outcomes by the end of DPCR5	No	Reward or penalty

1.17. What are your views on our proposals on innovation and flexibility? Which option (or combination of options) is most likely to drive the more innovative and flexible behaviour that we are seeking?

Losses:

1.18. We propose to retain the current output based approach, with revised targets and incentive value.

1.19. We are considering allowing the DNOs to include low loss equipment expenditure in their DPCR5 capex forecasts - where the expected loss reduction justifies the additional expenditure. We would retain an output incentive, but set a tougher target for each DNO that takes into account the loss reduction expected from the allowed investments. We are also reviewing the option to install smart meters on the low voltage side of all substations (e.g. 11kV/LV secondary transformers).

1.20. What are your views on these proposals?

Business Carbon Footprint (BCF):

1.21. We propose to:

- Develop a common reporting methodology for BCF, building on the greenhouse gas protocol and other existing initiatives,
- Use this as a basis for a league table which reports DNOs' percentage performance in reducing their (non-losses) BCF against a baseline over time,
- Initially not attach any financial incentive to the league table, although we reserve the right to review this position after reasonable confidence in the reporting methodology has been developed.

1.22. What are your views on the proposals and is it appropriate that SF6 be treated as part of the BCF as opposed to having a separate incentive?

Undergrounding:

1.23. We do not intend to mandate the scheme on the basis that DNO buy-in is an important contributor to the success of the scheme and stakeholders have an opportunity to influence DNOs' priorities via the stakeholder engagement process.

1.24. Based on our analysis of rejected schemes we consulted on the feasibility of the following revised caps:

	Current caps (per km)	Revised caps (per km)
LV	£65	£78
HV	£85	£102
EHV	£350	£420

1.25. An alternative option to revising the caps would be to remove the voltage caps altogether but maintain the overall cap. This would allow DNOs to underground large iconic schemes subject to a justified and agreed position with stakeholders. What is your preferred approach?