

DPCR5 Customer workshops - Environment

Below are the notes from the Environment breakout sessions.	From Date and time of Meeting Location	Alberto Prandini 30 January 2009 Ofgem	30 January 2009
---	--	--	-----------------

After the introduction, participants that joined the breakout session discussed the role DNOs can play as facilitators of a low carbon economy as well as the ways in which DNOs can manage their environmental impact. The main discussion points from the two breakout sessions are summarised below.

Distributed Generation

Information

- There was agreement that there is a broad range of DG customers who have substantially different informational needs, and as a consequence LTDS is not suitable for smaller players. Participants generally considered that the broad themes of information needs were well captured in the policy paper.
- Some participants acknowledged that a great deal of information is already available but not effectively publicised. One customer suggested that DNOs are reluctant to disclose available information in a timely and easily accessible manner. This is likely to be impacting more on smaller DG.
- DNOs maintained that they incur costs in gathering and providing information, and a balance shall be struck on who contributes to this. One DNO suggested that indicative self-costing tools may be funded by the generality of customers, but formal offers shall be paid for by the applicant. A customer held that the costs related to these services to DG customers should be passed-through, without any risk borne by DNOs.
- Attendees agreed on the benefits of consistency in service provision across DNOs (level of service, time lag, information requirements on applicants) but DNOs pointed out that to overcome historical issues could prove costly. Attendees agreed that best practices should be shared and implemented by all DNOs.
- Parties interested in DSM initiatives would benefit from convergence between LTDS and charging statements. A pre-requisite for DSM is that the charging framework is adequately cost-reflective. Furthermore, some attendees noted that there is a role for DNOs, suppliers and customers to play to ensure that DSM enabling technology is available.

UoS charges

- Some participants pointed out that the UoS charging framework shall be made right first, ie. introducing a fully cost-reflective charging methodology and merging the currently separate price controls for Demand and DG. The following discussion assumed that cost-reflective charges would be in place in the relevant future.
- Discussion highlighted mixed views about the proposals. Some participants agreed in principle but warned that implementation (in particular determining any compensation payments) would be utterly complex due to lack of information.

- Other attendees did not support a retrospective policy, claiming that it would undermine confidence and hence investment decisions. They held that “do nothing” is a simple, fair and proportionate solution (given that pre-2005 connected DG would be declining over time both in absolute terms and as a proportion of total connected DG).
- DG representatives stated that DG operators generally do not favour the proposals despite the prospect of negative GDUoS charges. Another attendee held that GDUoS charges for pre-2005 DG could be capped at zero, so as to limit uncertainty.

Reactive power

- One attendee stated that there is currently lack of consistency between National Grid requirements on DG to provide reactive power and DNOs’ UoS charging framework which charges for import/export of reactive power.
- A DNO considered that it is likely that in the future they will be contracting with DG for reactive power.

DG incentive

- There was some consensus that an incentive to connect DG efficiently shall be retained, and even increased in order to encourage DNOs to proactively chase potential DG. Some participants considered that the DG incentive has worked as a cost recovery mechanism but has provided little incentive toward efficient and least-cost connections, since little DG reinforcement has occurred so far or is forecasted for the future.
- It was noted that DG’s role in network management may act in itself as an incentive to connect DG, but it also needs cost reflective charging to be palatable to DG. In this respect, there was some discussion on the impact (i.e. benefits) of different types of DG on network reinforcements.
- DNOs consider that planning so far has proved to be the major barrier to DG connection, rather than costs. For this reason, the DG incentive is currently relatively untested and stability to its framework is necessary to determine effectiveness.

Innovation

- Networks will surely have changed by the end of DPCR5; uncertainty is around direction, timing and pace of changes. Ofgem shall ensure that DNOs receive the most possible guidance.
- One DNO argued that to enable them to innovate (DSM, storage, smart grids, etc.) a wider discussion to sort out the role and responsibilities of DNOs shall take place, with the involvement of the whole supply chain: suppliers, TOs and the GBSO. This also has strong links with the Transmission Access Review (access rights of DG) and the Smart Meter debate (which specifications and which services to be offered).
- Some pockets of the network will experience dramatic changes but the distribution system as a whole will not be significantly impacted until DPCR6. Participants agreed that it is important for DNOs to avoid step changes at DPCR6 and to prepare for the change.
- Some of the uncertainty factors that would lead to low carbon economy, identified in the Policy Paper, may significantly increase demand for electricity (e.g.: ground source heat pumps, zero carbon homes), with the aim of meeting target on 20% energy reduction. Discussion stressed the importance for IFI and other innovation incentives to be consistent with wider government policies.

- IFI and RPZ have provided incentives on DNOs to look at innovative solutions and should be continued (with the possibility to include SPC to account for environmental benefits). Possibly, these schemes should be increased, given that their objectives hardly fit in the current caps. It must be however born in mind that IFI is paid for by electricity consumers.
- Attendees commented on the risk sharing options for an innovation funding scheme. The “Ex ante” solution was positively received but uncertainty means short timelines for project delivery. The “ex post” option would have to provide significantly higher returns to DNOs to compensate for the balance of risks fully on DNOs. The “During DPCR5” option could be the *de facto* landing point though attendees recognised the amount of bureaucracy involved (in particular, how to determine the output/outcome from the proposed projects).
- Some respondents suggested a “During DPCR5 light” option, with a range of ex ante projects and scope for other innovative solutions to be approved by Ofgem during DPCR5. Another comment suggested considering a sliding scale for environmental friendliness of proposed projects.
- There was also a suggestion for a pot of money available to DNOs against a benchmark for dealing with customer requests. It was noted that a quick solution may not be an innovative solution, and that incentives should focus on innovation.

Losses

- DNOs questioned whether it is appropriate for DNOs to be rewarded/penalised under the current output-based scheme when performance is inaccurately measured and the factors determining it (volatility in settlement data, impact of credit crunch on demand, smart meter roll-out) are outside DNO’s control. It was suggested that DNOs and suppliers can work together to address drivers of losses volatility.
- DNOs stated that their preference is for an input-based (or “quasi-output”) mechanism, on the grounds of problems in the measurability of performance and hence certainty of any reward/penalty. This scheme would ensure the utmost consistency with a goal of losses reduction (i.e. technical losses). It was also suggested that smart meters would only partially address concerns about settlement data errors and that the improvement in data quality may result in higher losses.
- Other attendees questioned whether an input approach would focus excessively on capex solutions, leaving little scope to DG and DSM/ANM to play a role in losses reduction. Another concern is that an input-based mechanism may be seen by DNOs as a way to attain additional capex allowance, whereas major savings would stem from non-technical solutions.
- Some discussion on WPD’s proposal showed concerns that this would not solve volatility concerns and that the accuracy of proposed meters – while satisfactory for measuring total energy flows – is not appropriate for measuring losses.
- Some comments questioned the appropriateness of a separate incentive scheme for losses, arguing that such considerations should be core to any network management plan and hence incorporated in capex/opex planning. The inclusion of caps and collars on rewards and penalties was proposed. There was also a suggestion to link the losses incentive with the innovation incentive. Another participant held that the scheme should build-in the shadow price of carbon and questioned whether any lessons can be drawn from experience in Europe.

Business Carbon Footprint

- There was general agreement in principle on the opportunity for DNOs to report their business carbon footprint information in a standard way.
- Participants agreed that any proposal should be proportional to the expected benefits and some argued that differences in reporting methodologies should be allowed when it would be disproportionately costly to align them.
- One DNO commented on their reporting experience, which saw emissions increasing over the first reporting years due to data refining.

Undergrounding

- The main message from stakeholders was that the scheme has been positively received over DPCR4 and should continue.
- Some participant also advocated for the scheme to be mandatory and more funds to be made available to DNOs in DPCR5; Ofgem noted that the funds would eventually be paid by customers and that surveys on customers' willingness to pay are carried out as part of DPCR5.
- Some participants argued for the extension of the scheme to other locally-designated areas and for more flexibility to DNOs in using the allowance (e.g. removal of cost caps per voltage level, extension to lines close to the boundary of NP/AONBs, roll-over of DPCR4 funds, using the allowance to fund dedicated officers)