Promoting choice and value for all customers

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Dear Colleague,

Consultation on the issue of timely connection to the electricity transmission network

This open letter consultation seeks views from industry and stakeholders more widely on what 'timely connection' to the electricity transmission network should mean in the context of the new Connect and Manage (or "C&M") regime. It also seeks views on the ability of the current commercial framework and incentive arrangements to deliver connections in a timeframe that aligns better with the needs of a new connectee.

In particular, this open letter consultation seeks views on potential high-level options for delivering timely connection. These include:

- **A commercial approach:** Under this model a Transmission Owner (TO) could bear the full gain/loss associated with the timely delivery of connection based on individual performance in accordance with the commercial framework.

- **An incentivised approach:** Under this model a TO could share the gain/loss with consumers associated with the timely delivery of connection through changes to the incentive and funding arrangements of network companies.

This open letter is the first consultation being progressed by Ofgem through Project TransmiT[1]. It is being taken forward because of the widespread support received for the immediate priorities of the review provided by respondents to our call for evidence document[2] and the interaction with the work being progressed in the context of the forthcoming electricity transmission price control review (the recently launched RIIO T1[3], formerly TPCR5).

It is our intention for the responses to this consultation to inform RIIO-T1 price control work. Any potential improvements to the commercial framework identified by respondents will also feed back into the work of Project TransmiT.

We are keen to ensure that this process draws on the widest range of stakeholder views and evidence. This open letter is the first step in this process. It invites views on the above issues from generators, network companies, consumers and their representatives, the sustainable development community, and other interested parties.

We welcome responses to this open letter by ***25 January 2011***.

The focus of this open letter is the connection arrangements to the electricity transmission network. In terms of structure, this open letter sets out the broad context to the issue of timely connection, provides a high-level discussion on aspects of the connection process, and seeks views on some high-level options that could help to expedite the factors that could influence

[1] On 22 September 2010 Ofgem launched 'Project TransmiT' - our independent and comprehensive review of transmission charging arrangements and associated connection arrangements - with the publication of a Call for Evidence document.
[2] http://www.ofgem.gov.uk/Networks/Trans/PT/Documents1/TransmiT_Call_for_Evidence_Letter.pdf
[3] Further information can be found here:
http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=116&refer=Networks/rpix20/ConsultDocs

connection dates and their delivery and the way forward. A summary of the background to the issue of timely connection is set out in **Annex 1** of this letter.

Further detail on the treatment of gas transmission connection arrangements and the interaction with the RIIO model can be found in the forthcoming December 2010 consultation on the strategy for RIIO-T1.

We are separately writing to the network companies seeking additional information on the issues impacting the timeframes for electricity transmission connection. A short questionnaire setting out the information which we require from the network companies is attached to this letter at **Annex 2**. The information we receive from the network companies may be treated as confidential.

Context

The Department for Energy and Climate Change (DECC) recently proposed changes to the arrangements by which generators gain access to the transmission system using the powers available to the Secretary of State under the Energy Act 2008[4]. This new approach became live on 11 August 2010.

The new arrangements allow a new generator or demand user seeking to connect to and use the transmission system to gain full access to the transmission system once all the "enabling works" are completed. The criteria for identifying "enabling works" is set out in DECC's consultation response[5] and also within the new section 13[6] of the Connection and Use of System Code (CUSC).

These reforms do not extend into the detailed connection process. Instead, government has explicitly left Ofgem and industry to consider further and resolve the outstanding issues, including that of timely connection[7].

The C&M regime raises questions about what "timely connection" to the electricity transmission network means for new connectees. We need to be clear on what timely connection means and how users value timely connections to the electricity transmission network for our work in Project TransmiT and in the RIIO-T1 price control.

RIIO-T1

In RIIO-T1, we are seeking to determine a set of comprehensive, customer-focused outputs that we expect electricity and gas transmission licensees to deliver along with determining the revenues they need in return. An output category to ensure timely connection and access terms to the electricity transmission network was one of the categories identified in the RIIO recommendations. We have had useful stakeholder engagement in the early stages of RIIO-T1. We are now seeking further information to establish what timely connection should mean to both TOs and new connectees.

In December 2010 we are publishing a consultation on the strategy for RIIO-T1. Having received and had time to consider responses and views provided through our wider stakeholder engagement we intend to publish a document in late March 2011 confirming the Authority's decision on the strategy for the RIIO-TI review.

Project TransmiT

Project TransmiT was established with the broad expectation that outstanding electricity transmission issues (both connection and charging) would be dealt with holistically under the

[4] Section 84(1) of the Energy Act 2008.
[5] http://www.decc.gov.uk/assets/decc/Consultations/Improving%20Grid%20Access/251-govt-response-grid-access.pdf
[6] http://www.nationalgrid.com/NR/rdonlyres/E88C7976-D4A8-40AB-B185-D0C51BDB66B5/42627/CUSCSection13_Connectandmanage_11August2010.pdf
[7] The other areas of immediate concern such as user commitment and transition to the enduring access regime will be driven by National Grid and overseen by Ofgem.

banner of one major review. A key output to the first phase of the review work will be a decision on whether and how any associated changes to the commercial framework to ensure timely connection, amongst other things, will be taken forward.

Our approach

There is therefore clear interaction between the above areas of RIIO-T1 and Project TransmiT in the area of timely connection. We intend to progress work on timely connection in two phases – the first looking to collect evidence from industry on the issue of timely connection.

Based on the responses and evidence received in this first phase of work, we will then look to identify what changes (if any) need to be made to facilitate the timely connection of new generation through the contractual framework and develop further the connection outputs for electricity transmission owners.

We will consider responses to this consultation in setting a connections output for incentivising network companies to deliver timely connection in our RIIO-T1 March 2011 strategy decision document. It is our intention that the associated commercial changes to accommodate the output requirements will feature in our May 2011 document under Project TransmiT.

Discussion

Factors which affect desired connection dates

There are many factors that can impact upon a proposed connection date. The key factors include the planning and consents process, equipment manufacture, and the level of financial exposure and risk.

The extent to which each of these factors impact on the connection varies dependent on the type, location and timing of the requested connection. As such, adjustments in each area will have a varying degree of risk, cost and connection acceleration associated with it.

Factors affecting the delivery of a desired connection date

Under C&M, the connection offer process remains generally unaltered from the applicant's perspective relative to the previous 'invest and connect' process, i.e. 90 day period for NGET to respond, an offer is open for acceptance for three months. The main difference under C&M is that some of the works will be identified as "enabling works", and the user will be required to wait until these are completed, after which Transmission Entry Capacity (TEC) is granted and the generator can start to use the transmission system.

We also recognise that there are certain features of the current connection process that may further inhibit the delivery of connection date under the C&M regime. These include:

- The process relating to enabling works is still based on first-come-first-served principle.
- The TOs do not provide firm connection dates or provide compensation if delivery of infrastructure is delayed.
- The definition of "enabling works" as part of the C&M regime and NGET's interpretation and application of this definition[8].
- The impact of wider factors to cause delay to the delivery of desired connection dates. For example, the impact of the different planning processes in operation across Scotland and across England and Wales.

Initial RIIO-T1 discussions

[8] We understand that the boundary between 'Enabling Works' and 'Wider Works' will vary depending on the individual circumstances of a particular project and, as such, each connection will be assessed on its own merits.

As noted above, initial discussions with representatives from the network companies and their users have highlighted a general preference for the connections output under the RIIO-T1 work to focus on timings of elements of delivering a connection.

We are seeking more information from relevant stakeholders on the value of time differences, e.g. the potential to introduce an incentive targeted at an average number of days in the phase before building when C&M takes effect. This approach could be based on a uniform approach reflecting the average needs of all generators across all locations, or a 'menu' approach whereby different average timescales could be offered for different types of connection. To facilitate this approach it is important to understand average connection timeframes for different types of connection type, design, location.

The short questionnaire appended to this open letter consultation seeks additional information on the issues impacting the timeframes for connection from the network companies.

The final output in this area will be dependent on further information on what "connection" means in terms of the depth of enabling works and on the necessary output deliverable that will facilitate the transparent measure of "timely connection". This will not only inform the output but also the form of any incentive applied to it.

In order to assess the TO performance in connecting, we must first establish a general performance measure on which to base this assessment. As noted above, one possibility is to use average connection timeframe. Another measure may involve securing continuous improvement over and above the previous year's average.

Factors which affect incentive arrangements

At the heart of arrangements to facilitate the delivery of timely connection is a trade-off between the cost of facilitating a connection date and time. In terms of the regulatory treatment and funding arrangements of connections, the key relationship can be summarised as the trade-off between the exposure to cost or incentive below an agreed level of "efficient" behaviour.

There is currently limited incentive on the licensees to deliver a connection on time or early, in order to meet generator aspirations for an earlier connection date. Instead, the generators bear the risk of delay. In terms of the RIIO-T1 price control work, this is an area that we consider could be changed in order to reward transmission companies who take a leading role in facilitating the delivery of timely connection.

Furthermore, it is generally accepted that committing larger sums of money into a construction project earlier on can advance a connection date. We recognise that this money will have to come from somewhere and its treatment will need to be reflected in the regulatory framework.

With this in mind, there appears to be a fundamental choice when it comes to developing a financial incentive on network companies to deliver connections in a timeframe that is better aligned with the requirements of generators: either the TO bears the financial consequences of not meeting the connection timeframe and/or there is some financial reward to the TO if it beats the agreed connection timeframe.

It is important to note that this form of arrangement would only be further examined if the earlier delivery of connection was determined to be of genuine value to the generators. We recognise that if the agreed connection timeframe is already well-aligned with the readiness of the generators to use the system, then any advancement of connection date is of no value to the generators.

Conversely, we recognise the need to avoid over-incentivising the TOs and to develop arrangements that ensure that the connectee is provided with what is requested. This further reinforces the need for generators to use this process to clarify exactly what they want from the connection process.

Options for consultation

This consultation seeks views on the ability of the current commercial framework and incentive arrangements to deliver connections in a timeframe that aligns better with generators needs.

There are a range of approaches that could help to expedite the factors that could influence connection dates. In all cases it must be recognised that there are cost and risk implications for both the TO and the connectee associated with the late or early delivery of connection dates. There is a trade-off between the cost of facilitating a connection date and time.

The Transmission Access Review (TAR) process highlighted that there was an enthusiasm from generators to develop a model for timely connection based on requests to connect being met within a defined period of the connection offer being signed (or some other trigger). In addition, while there is a benefit in terms of retaining the current contractual relationship between NGET as the System Operator (SO) and the generator, we consider there is merit in investigating and potentially reinforcing the link between the delivery of these contractual obligations and the incentive arrangements of the relevant TO to reward early delivery or penalise late connection.

Against this background, we are seeking further information to establish what timely connection should mean in the context of the new C&M regime, ie what TOs should be expected to deliver both as a general performance standard and the specific commercial arrangements with those seeking to connect. We are also seeking to establish whether it is approporiate to incentivise network companies to deliver timely connections in a timeframe that aligns better with the generator requirements and the form that any such incentive might take.

To determine the extent of change that is required to facilitate the delivery of timely connection it is crucial for users to first identify whether the lack of commercial/regulatory arrangements is perceived as a problem. In doing so, it is necessary for users to clarify exactly what they want from the process and highlight potential changes to accommodate this. We can then explore changes to meet these requirements in the commercial framework and how they feed through to changes to the regulatory framework to incentivise behaviour that is better aligned with the needs of a new connectee. In parallel, these views will also be used to develop further the connection outputs for electricity TOs under the RIIO-T1 price control work.

There are two potential high-level options for delivering timely connection:

- **A commercial approach:** Under this model a TO could bear the full gain/loss associated with the timely delivery of connection based on individual performance in accordance with the commercial framework.

- **An incentivised approach:** Under this model a TO could share the gain/loss with consumers associated with the timely delivery of connection through changes to the incentive and funding arrangements of network companies.

To initiate debate, the paragraphs below set out some potential high-level options for areas of development in the commercial arrangements and in their regulatory treatment.

Commercial arrangements

Option 1: Fixed delivery date (X years) with compensation paid by the TO to the connectee if delivery is delayed.

This approach would seek to provide a firm delivery date X years after a defined trigger event, such as:

a) Obtaining the necessary consents.
b) The receipt of a signed connection offer.
c) Receipt of an application (i.e. as an offer is being developed); or
d) At an agreed point ahead of any application in an area where there is a high probability of a future connection requirement.

Option 2: Fixed delivery date (based on the above 'clock start' options) with compensation paid by the TO to the connectee on the condition that any delay to delivery is due to factors within the control of a TO.

Option 3: A user must be connected from a particular trigger date between an average timescale (e.g. 3 years) and a maximum backstop (e.g. broad model being proposed is that requests to connect should be met up to 5 years). Compensation will be made available on the condition that any delay to delivery beyond the average period is due to factors within the control of a TO. In this model, the amount of compensation provided to the connectee may increase if there is delay to delivery beyond the backstop period.

Each of the above commercial options could be based on:

a) Bilateral negotiation between TO via SO with generators; or
b) Codified framework agreement (e.g. CUSC) between TO via SO with generators.

Regulatory treatment

The TOs could be rewarded / penalised for beating / failing to achieve the standards set out in the commercial arrangements and share these with consumers (at an apporporiate rate to be decided) in two ways:

Option 1: A TO could share the gain/loss in relation to a fixed delivery date ('X' years) with consumers based on performance in accordance with overall parameters set by Ofgem. This is complementary to commercial options 1 and 2 above.

Option 2: A TO could share the gain/loss in relation to an average delivery date timescale (e.g. 3 years with maximum backstop of 5 years) with consumers based on performance in accordance with overall parameters set by Ofgem. This is complementary to commercial option 3 above.

Consultation questions

Factors which affect desired connection dates

- ***We seek views from industry, and network companies and their users, in particular, on the importance and impact of these factors on connection dates.***
- ***We seek views from generators on how these factors should be taken into account in establishing the target connection date (or the "clock-start" date).***

Factors affecting the delivery of a desired connection date

- ***We seek views from network companies and their users on the importance and impact of these factors on the delivery of timely connection.***
- ***We seek views from industry, and generators in particular, on how much the lack of commercial/regulatory arrangements is perceived as a problem.***

RIIO-T1 discussions

- ***We seek views from network companies on the method of performance measure and how might this vary with the number of connections.***

Factors which affect incentive arrangements

- ***We seek views from industry, and network companies in particular, on the importance and impact of these factors on the delivery of timely connection. In particular:***

- *What is 'efficient' behaviour in the context of the C&M regime and how can it be assessed (e.g. against average connection timeframes, new connections etc)?*
- *Where should the compensation for the generator come from if the required connection timeframe is not met?*
- *What is the slope of the penalty beyond a target connection date (i.e. does it get steeper after a set period of time, and if so what is the period)?*
- *Should we set symmetric rewards / penalties for performance against connection timescales?*
- *Should there be a dead band around rewards / penalties and should they be capped?*

Options

- ***We invite views on the options presented and on other possible models that respondents consider may deliver timely connections.***

Next steps

It is our intention for the responses to this consultation to be progressed in two ways.

- First, we expect the information provided in relation to the questions outlined above and supplemented by further information that we will request from the TOs, to be used to develop proposals for a connection output. We intend to finalise the RIIO-T1 output proposals (including on connections) in the March 2011 strategy decision document.
- Second, the potential improvements to the commercial framework identified by respondents will feed back into the work of Project TransmiT and feature as an aspect of the policies for consultation anticipated in spring 2011.

Views invited

This consultation letter sets our high-level thinking on aspects of arrangements that facilitate the timely connection of new (including low carbon) generation that we consider require immediate development and discussion with relevant stakeholders.

We welcome views and comments on any of the issues raised above.

Comments can be emailed to anthony.mungall@ofgem.gov.uk marked "**Timely connection**". Alternatively, If you wish to discuss any aspect of this document please contact Anthony Mungall, telephone 0141 331 6010 or Grant McEachran 0141 331 6008. All responses will be placed on our website unless marked as confidential.

Yours faithfully,

Hannah Nixon,
Partner, Smarter Grids and Governance

Annex 1: Background

This section provides a brief summary of the areas of work where the issue of timely connection is relevant.

The Transmission Access Review

The Transmission Access Review (TAR) explored the case for change to the transmission access and associated connection arrangements. The review culminated in the TAR final report, published in July 2008, which identified a range of options for enduring access reform. The report, however, noted that it is for industry to take forward and develop appropriate arrangements through the industry processes.

While the industry failed to come up with a workable set of reforms to the access arrangements, many of the Connection and Use of System Code Amendment Proposals (CAPs) developed by industry during this time recognised the importance of timely connection and aspects of the commercial and regulatory aspects of arrangements that facilitate timely connection. For example, CAP 164 proposed provisions for generators to be given a fixed connection date and CAP 148 proposed a major change so as to prioritise the connection and dispatch of new renewable generation within a given lead time of achieving planning consent over generation from conventional and existing renewable generation.

The TAR process highlighted that there was an enthusiasm from generators to develop a model for timely connection based on requests to connect being met within a defined period of the connection offer being signed (or some other trigger). One aim of this open letter is to renew the debate around the potential enhancements to aspects of the connection arrangements and to encourage generators to clarify what they want from the connection process, particularly in the context of the reforms to the electricity transmission grid access arrangements.

Connect and Manage arrangements

In June 2010 DECC set out changes to the arrangements by which generators gain access to the transmission system. The aim of these reforms is to accelerate the connection dates of new generators, thereby removing a key barrier to the connection of large amounts of renewable and other low carbon generation necessary to meet government climate change and energy targets and ensure security of supply.

The recently implemented reforms allow generators access rights to use the system irrespective of whether the system can accept the generation in real time. Under this grid access model, a new generator or demand user seeking to connect to and use the electricity transmission system will be able to gain full access to the transmission system once all the "enabling" works are completed. All generation related Offers and Modification Applications being issued after 11 August 2010 will be issued in accordance with the C&M regime.

RIIO

RIIO is a comprehensive regulatory framework designed to deliver real benefits for consumers. The overriding RIIO objectives are to encourage energy network companies to play a full role in the delivery of a sustainable energy sector and deliver long-term value for money network services for existing and future consumers.

Outputs will be at the heart of the regulatory framework for energy networks. By this we mean that future price controls will set the comprehensive customer-focused outputs that network companies are expected to deliver in return for their revenues. These, in turn, will ensure safe and reliable services, as well as non-discriminatory and timely connection and access terms. The price control will include transparent rewards and penalties related to output delivery, including a backstop threat of using our existing powers for enforcement action and potential licence revocation for persistent failure to deliver required outputs.

One aspect of these comprehensive outputs is connection terms. We have had discussions with stakeholders in RIIO-T1 including with a working group with representatives from the network companies and their users and other stakeholders. There was a general preference to focus on timings of elements of delivering a connection.

Existing electricity transmission connection arrangements[9]

The arrangements for connection to the National Electricity Transmission System (NETS) are governed by the CUSC[10]. The current connection process in electricity transmission starts with an application received by NGET (as NETS SO) from a customer requiring a new connection to the NETS. This is the trigger for the NETS SO to process the application and the requirement to respond by providing a connection offer to the customer within 90 days.

Following the acceptance of the offer by the relevant user, the connection moves into the construction phase. If a generation project is delayed, then the relevant user can apply to defer the connection date by submitting a Modification Application.

Once an offer has been made to the customer there is a further period of three months to allow for further negotiations where there is an open dialogue between the NETS SO and the customer so that the offer can be further tailored to the customer's requirements as necessary. If the agreement is not signed and returned during the three month review period, the offer will expire.

Under C&M, the connection offer process remains generally unaltered from the applicant's perspective relative to the previous 'invest and connect' process, i.e. 90 day period for NGET to respond, an offer is open for acceptance for three months. The main difference under C&M is that some of the works will be identified as 'enabling works'[11], and the user will be required to wait until these are completed, after which Transmission Entry Capacity (TEC) is granted and the generator can start to use the transmission system (i.e. export power). Any other identified works will be classed as 'wider works', and while the user may be required to provide pre-connection securities against the cost of these wider works, the user's connection date will not be contingent upon those wider works being complete before they can connect to the grid. Hence, under a C&M offer, completion of 'enabling works' will guarantee prospective generators connection to the network.

Annex 2: Information request

[9] Further detailed information on the existing connection arrangements in both gas transmission and electricity transmission can be found in the technical annex of Call for Evidence document.
[10] www.nationalgrid.com
[11] DECC (2010): 'Definition of 'enabling works' in the proposed connect and manage grid access reforms', http://www.decc.gov.uk/en/content/cms/consultations/improving_grid/improving_grid.aspx

The C&M reforms do not extend into the detailed connection process. Instead, government has explicitly left Ofgem and industry to consider further and resolve the outstanding issues, including that of timely connection. In this context it is important to understand the impact of the C&M regime.

The information on which we require the electricity transmission network companies to report is set out as follows:

(1) Please provide recent information on timescales for connections in your area. Please break this down by stages of the process: i.e.
   - Offer
   - Enabling works
   - Wider works

(2) Please provide information on how connection times can vary by location. Please provide examples.

(3) Please provide information on how connection times can vary by type of connection e.g. overhead or underground line and/or type of generation source. Please provide examples.

(4) Please provide information on how connection times can vary by size of connection. Please provide examples.

(5) Please highlight key issues that impact timetable for delivery of a connection.

(6) Please provide views on any issues likely to impact timing of connections going forward.

Where possible, the information to be provided to the Authority in the above areas should be based on actual data and provided on a quarterly basis. Where estimates or forecasts are used we request that the method used to derive the data is explained clearly.

The information we receive will be treated as confidential upon request.