

Flexibility and Capacity Working Group

Summary of the first Flexibility and Capacity Working Group meeting	From Date and time of Meeting Location	Ofgem 29 February 2012 Ofgem, 9 Millbank, SW1P 3GE	13 March 2012
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1. Present

- Anna Rossington, Ofgem
- Dora Guzeleva, Ofgem
- Rachel Hay, Ofgem
- Gareth Shields, SSE
- Brian Shewan, SSE
- Graeme Vincent, SP Power Systems
- Mark Drye, Northern Powergrid
- Nigel Turvey, Western Power Distribution
- Keith Hutton, UK Power Networks
- Paul Bircham, ENWL

2. Terms of Reference

2.1. The group discussed the draft Terms of Reference (ToR) put forward by Ofgem for the Flexibility and Capacity Working Group (FCWG). Many of the issues identified for the FCWG are overarching – and include areas being addressed by other working groups. Where necessary it will be the role of the FCWG to identify how to best co-ordinate input across, or delegate detailed development work to the other working groups in order to arrive at a solution.

2.2. Attendees broadly welcomed the ToR and emphasised the importance of identifying early which problems the FCWG should work to solve, and how these problems relate to the remits of other working groups. Attendees suggested some minor changes to the ToR, firstly to address challenges in managing existing connections as well as new connections, and secondly to acknowledge the impact of demand side issues on connection provision. It was also requested that more detail be provided on September deliverables.

Action

Ofgem to update ToR, reducing emphasis on 'connections' to focus on 'capacity' instead, in order to acknowledge demand issues. Reference to be made of the need to address challenges in managing existing connections. Further detail to be added on September deliverables.

Person – By

Ofgem –
16/03/12

3. FCWG attendance

3.1. The FCWG agreed early involvement of a broad range of stakeholders to be a priority.

Action

Ofgem to invite a range of stakeholders to join the Flexibility and Capacity Working Group, including DECC, suppliers, DG/low carbon connectees, and consumer groups (ie those who can help define the problem and confirm priorities).

Person - By

Ofgem –
16/03/12

4. Questions for Ofgem to clarify

4.1. Attendees suggested a number of areas where they felt early clarification from Ofgem would be important for achieving appropriate outcomes. Whilst not strictly under the remit of this group, a discussion was held around the areas in which individual DNO innovation would be encouraged, and those in which consistency and collaboration among DNOs would be preferable. The DNOs asked for Ofgem's views on innovation and consistency around other aspects of the business plans and strategies, including;

- Uncertainty mechanisms and strategies for moving between demand scenarios
- The incentive frameworks and company responses to incentives
- Opportunity and risk

Action

Ofgem to provide clear steer at next meeting on whether DNOs are allowed to set out different incentive frameworks in their business plans, and to adopt different attitudes to risk.

Person – By

Ofgem – Next meeting

Ofgem to provide further clarity on attitude to competition between companies over what they include in their business plans versus working collectively/sharing.

Ofgem – Next meeting

5. Problems to be solved

5.1. Attendees identified the problems and issues that they felt to be most important for the FCWG to consider. These are summarised by subject below.

Demand side response (DSR) and alternative arrangements

5.2. Attendees identified a number of significant barriers to DNO-driven DSR, which would inhibit them from building DSR into planning. There were doubts about the reliability of customer response, and whether the DNOs could depend on it; whether customers would be willing to contract their response, and also whether the price offered for the response by the DNOs would be sufficient to engage customers. The attendees noted that for connection and fault response the price offered may be sufficient, but considered that in other situations it would not be. It was noted that a report commissioned by ENW suggests that suppliers are almost always able to offer greater payment for DSR than DNOs. Attendees also identified that DSR can vary in utility from high to low voltage levels and suggested that the benefits of DSR may be more limited at low voltage due to the lack of diversity of load. For example, if lots of customers are using heat pumps there may be little flexibility in usage and as a result the required shift in load may not be possible. DSR was seen by attendees as one of a range of tools to be used where it provides value for money. One attendee suggested that DNOs create a list which ranks possible options for addressing network capacity issues. This could act as a tool for evaluating the most appropriate solution in different circumstances.

Action

ENW to circulate report on demand side response signals to attendees.

Person – By

ENW – 16/03/12

Regulatory framework

5.3. Attendees identified a wide range of issues with the current regulatory framework. These included:

- P2/6 – this doesn't allow DNOs to use demand side response as a part of their network planning.
- Outputs beyond the price control – investments during ED1 are likely to be justified using benefits arising beyond the end of the ED1 price control. There is a need to

consider how this can be measured in the outputs framework, and whether it may be appropriate to include outputs for future price control periods.

- Use of storage to manage the network – attendees asked for clarity from Ofgem regarding the rules around this. DNOs felt they should be allowed to own and schedule storage. Whilst recognising that third parties could offer storage as a service, attendees were concerned that if the DNOs are competing with others in the supply chain (ie suppliers) for the use of that storage, they may not be able to get the service when they need it.
- DUOS charges – the common charging methodology does not allow for geographical charging which would be required for DSR.
- The EU is drafting common connection standards that could significantly lengthen timescales for connection.
- ‘Connect and observe’ – it was suggested DNOs could connect customers in the first instance and then monitor the network to see if reinforcement or other measures are required to manage the load, rather than relying on conventional network modelling which might say reinforcement was needed.
- One attendee noted the “high cost” category within the DG incentive framework, where DG costing over £200/kW bears the reinforcement cost. For DG just over this threshold it can mean a substantial cost impact.

Action

All to feedback to Ofgem any analysis of the regulatory framework with regards to managing new connections or increases in demand and offering alternative arrangements (eg DSR), including analysis of cases where the regulatory framework is unclear or presents barriers to offering alternative arrangements. Feedback to include descriptions of what these alternative arrangements would look like (the length and nature of DSR contracts etc).

Person – By

DNOs –
16/03/12

Investment ahead of need

5.4. Attendees noted the significant difficulties in accurately predicting the uptake of technologies in different areas. It was acknowledged however that informed predictions could be made as a result of regular engagement with stakeholders such as developers and local authorities, and that it would be important to maintain this engagement to understand whether the uptake was as predicted.

5.5. Attendees were unclear as to whether individual DNOs should be making separate decisions on these investments, or if DNOs/Ofgem should come to a consensus on the circumstances which warrant investment ahead of need. Ofgem flagged that the Smart Grids Forum work stream 3 work on cost benefit for smart grids should form the basis for a common methodology for justifying investment ahead of need, among other options. It was felt that the FCWG should address the question of when to deploy investment ahead of need.

5.6. DNOs felt that more clarity would be needed from Ofgem around how investment ahead of need and the associated risks would be dealt with in the output framework.

Delays to new connections

5.7. Going forward, DNOs were concerned about the increasing need for transmission reinforcement to accommodate growth on the distribution network, and the subsequent delays associated with this. Another cause of delay was noted to be the lead times to obtain consents and negotiate access to land for new connections, DNOs are working with DECC on the possibility of exemptions. Finally DNOs described delays caused as a result of the permissions required from grid when connecting distributed generation (DG). It was noted that the process for applying for DG connection permission from Grid is very costly

for DNOs, and that Grid are looking to reduce the threshold at which DG triggers the permission.

Sterilised network

5.8. Attendees discussed the implications of unaccepted connection offers on timely and cost efficient connections. Whilst there is a validity time on connections offers, there is no limit on the number of connection requests an entity can make. Customers can therefore make a large number of speculative requests. In order to minimise the risk of funding reinforcement costs themselves, DNOs treat the offered capacity as accepted from the point at which the offer is made, to the time at which the offer expires. In practical terms this means that the network is 'sterilised', and a new connectee may face high cost, or significantly delayed connection, despite there being sufficient capacity on the network to connect quickly at low cost.

Installations on LV networks

5.9. Attendees generally agreed that the LV network poses bigger challenges for ED1 than the HV network.

5.10. One problem raised with installations on LV networks was a lack of visibility, due to measurement difficulties, and the fact that there are a wide range of installations, such as small scale PV and heat pumps, which do not currently require permission from DNOs before installation. DNOs are only occasionally informed of these installations. Unless the DNO is able to identify an installation as a result of reports of supply issues in the area, these installations are not identified. It was suggested that the commercial and regulatory group of the smart grids forum may be an appropriate group to address issues around visibility.

5.11. Ofgem asked DNOs about the current policies on charging customers for reinforcement necessitated by domestic installation of equipment such as heat pumps and welders that alter the customer's electricity usage. DNOs were aware of arguments for both socialising the costs of these reinforcement works, and for charging costs to those individuals with installations. It was felt that the current legal framework allows discretion. However, it was suggested that the framework drives DNOs towards charging individual customers, and that this can be inconsistent with government aims of encouraging low carbon. It was also identified that it is possible to charge the individual customer where they are identified, but in many cases they are not. This raises questions around how to make charging practices fair. It was noted that a further consideration should be how to apportion charges appropriately between early movers and those installing later on. Ofgem recognised that there may be a need to change the regulatory framework. DNOs acknowledged that this would help to define policy in the area, and committed to working with Ofgem to resolve some of these questions.

5.12. The group discussed the range of smart options available to DNOs to manage changes in demand on the LV network (e.g. voltage control, battery and storage: batteries, controllable storage heaters and controllable hot water tanks). Attendees felt that fewer smart options were available than on the higher voltage networks.

Action	Person – By
All to fill out Ofgem's questionnaire on reinforcement of the upstream network, and return to Ofgem.	DNOs – 16/03/12
UKPN is drafting a set of deliverables for the Commercial and Regulatory Group (as part of the Smart Grids Forum), and will circulate to FCWG attendees.	UKPN – 16/03/12

Time/cost incentive

5.13. Ofgem noted that since the objective is to ensure connections are made in an appropriate time and at efficient cost, it would seem to make sense to have outputs around both time and cost. Potential options were discussed including an average time to connect. Attendees considered whether the connection or the release of capacity is more important, and whether it is just new connections or connections growth. It was also flagged that if there are only a relatively small number of new technologies which are more difficult to connect (both in terms of time and cost), they may not impact an average measure. It was observed that both the time and cost to connect would depend on the local network condition, which could be reflected in baselines or targets.

Action

All to undertake further thinking in advance of the next meeting on the barriers to timely and low cost connections, and potential solutions to facilitating them.

Person – By

All – next meeting