# Minutes

## Flexibility and Capacity Working Group

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| Summary of the second Flexibility and Capacity Working Group meeting | From | Ofgem |
| | Date and time of Meeting | 9 May 2012 |
| | Location | ENA, Horseferry Road, London |

## 1. Present

- Dora Guzeleva Ofgem
- Donald Smith Ofgem
- Nicola Meheran Ofgem
- James Hope Ofgem
- Mark Askew Ofgem
- Paul Mitchell SSE
- Cathy Falconer SSE
- Graeme Vincent SP
- John Gray SP
- Zoltan Zavody RenewableUK
- Chris Welby Good energy
- Adrian Butt DECC
- Fruzsina Kemenes RWE renewables
- David Leam London First
- Mark Drye Northern Power Grid
- Iain Miller Northern Power Grid
- Nigel Turvey WPD
- Tim Rotheray CHPA
- Duncan Carter Consumer Focus
- Paul Bircham ENW
- Keith Hutton UKPN
- Dave Openshaw UKPN
- David Walker West Coast Energy

## 2. Minutes – 16/04/2012

2.1. ZZ noted that paragraph 4.13 stated that attendees agreed that 'whether the DNOs should take a reactive or proactive role in leading development in their areas, was an issue best addressed by the smart-grids forum.' He stated he was unable to agree or disagree with this statement. It was agreed that 'agreed' should be replaced with 'suggested'. No other changes were made. DG acknowledged that the question of whether it is the role of DNOs to facilitate or encourage low carbon technology was still open to debate.

2.2. It was suggested that the group should invite the SGF to present their work on the Low Carbon Technologies scenarios at the group's next meeting. AB said he would be happy to present.

2.3. DW suggested this discussion should consider whether DNOs should become Distribution System Operators (DSO). JG stated that business plans should allow DNOs to move to becoming DSOs during the ED1, in order to avoid delaying changes until ED2.

| **Action** | **Person – By** |
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| AB to present on the SGF at a subsequent meeting | AO –20/06/12 |

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| Ofgem to amend and circulate minutes | Ofgem – 18/05/12 |

## 3. Review of Terms of Reference

3.1. FK tabled proposals to change to the terms of reference. These proposals were circulated to the group in an email previously. The majority of FK's proposals were accepted by the group, although some changes were made.

| **Action** | **Person – By** |
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| Ofgem to circulate updated terms of reference. | Ofgem –18/5/12 |

## 4. Actions/Condoc responses

4.1. Ofgem ran through the actions log and summarised the responses to the February open letter consultation. PB stated that the DNOs' action to develop proposals for dealing with speculative requests for capacity had been raised with the DNO's Connections Commercial Operations Group.

## 5. DNO business plans

5.1. The DNOs gave short presentations on their preferred approach to the relevant outputs and incentives in their business plans. The presentations have been circulated to the group, the discussion surrounding each presentation is set out below.

*SSE Discussion:*

5.2. CF highlighted that current incentives did not encourage innovation in respect of DG connections. DW stated that there should be an incentive on DNOs to role out 'innovation' across the board.

5.3. PB noted that the sharing factor puts a strong incentive on DNOs to innovate for demand connections, but noted that this did not apply for DG. JH noted that the DG incentive may need tweaked. DG said that the discussion of the DG incentive would be included in a future agenda.

5.4. In response to SSE's view that costs should not increase from DP5 to ED1, JH noted that if, in line with the RIIO format, there are strong incentive payments, baseline allowed revenue would need to be reduced in order for customers to pay the same as in DP5 in the case that the DNO performs well. CF explained that she was referring to the demand connections incentive and that this would flex based on the number of connections with the per unit cost normalised.

| **Action** | **Person – By** |
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| CF to Provide more detail on SSE's outputs and incentive mechanisms proposal | CF – 24/05/12 |

*ENW discussion:*

5.5. PB noted that ENW could apply load indices to their HL/LV substations. Other DNOs considered that this approach would be very costly on their networks. It was noted that it was important to measure loading to see what customers are getting for their money. IM noted that it was important to have a consistent definition of investment of LIs.

5.6. JH asked how much it would cost to get LIs at LV. PB said the cost was not exorbitant. DG asked whether 'under loading' should be measured. IM noted that this was hard to do because standard asset sizes may create headroom and load may

drop after assets have been installed, making a DNO appear inefficient. NT queried the point of smart meters if LIs could be applied at LV. DO noted that smart meters could assess network loading on LV feeders where as LIs were limited to HV/LV substations.

5.7. The group discussed investment ahead of need. CF suggested that investment ahead of need at LV was not sensible because it's relative to higher voltages it's expensive can be carried quickly and the risk of stranded assets was greater. PB noted that he wasn't suggesting investing ahead of need at LV and that in his view, decisions over the timing of reinforcement should be left up to the DNO. PB and CF clarified that SSE and ENW were not in favour of investing ahead of need at LV.

5.8. The group discussed ENW's proposed approach to uncertainty at LV – a volume driver based on the number of 'problems' fixed. PB explained that this was intended to take into consideration that reinforcement would depend as much on the concentration of load increase as much as the total volume, which in his view makes volume drivers based on load or volume of low carbon technology connected unsuitable. KH queried whether a 'problem' could include issues over time to connect. PB clarified that it would not, it would be based on the number of issues relating to load growth or voltage issues that the DNO resolved.

| **Action** | **Person – By** |
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| PB to bring costs and analysis relating to the use of LIs at LV | PB – 24/05/12 |
| PB Develop a definition of "problem/solution" for ENW's uncertainty mechanism proposal | PB – 24/05/12 |

*WPD discussion:*

5.9. NT suggested that the expected increase in LV load from existing connections would result in a change in the connection charging boundary and increased socialisation of costs. DG suggested that while more costs would be socialised the given the current connection charging boundary, this wasn't a change in the connection charging boundary per se. MD agreed with DG.

5.10. The group discussed WPD's proposed approach – base revenue based on a low forecast topped up by revenue drivers. CF suggested that consistent scenarios should be used across DNOs to allow bench marking. JH explained that his view, from a cost assessment and network outputs perspective, Ofgem's provisional thinking was that a common set of scenarios based around something such as the DECC WS1 work[DECC/WS3?] should would be useful used to compare across all set out a range within which to bench mark DNOs. JH made clear that he was not proposing to force DNOs to choose a particular scenario, as at this stage his understanding but that is that ultimately it would be up to DNOs to make their own forecast.

| **Action** | **Person – By** |
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| JH to ensure that the September document is clear on Ofgem's position regarding scenarios. | JH – 09/12 |
| NT to develop WPD's view on outputs strawman further | NT – 24/05/12 |

*SP discussion:*

5.11. The group discussed SPs proposed approach – base revenue based on a 'medium' forecast, which would then flex up or down. DG queried how the revenue might flex down and how customers would be protected the risk of underutilised stranded assets.

5.12. JH queried what would happen if DNO unit costs change during the price control. CF suggested that DNOs would like fixed unit costs in order to incentivise them to innovate/reduce. IM queried whether the discussion was referring to units of asset or capacity. CF explained that the point applied regardless of the type of unit. JH noted that consistent approach would be needed to allow benchmarking.

| **Action** | **Person – By** |
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| JG Develop further how you could flex down (and up) during the price control if scenario differs from those assumed at the start. Considering both the cost and volume dimensions. | JG - 24/05/12 |

*NPG discussion:*

5.13. IM highlighted NPG's view that uncertainty mechanisms should be used for uncertainties outside of the DNO's control (eg demand / generation growth, perhaps copper prices , etc)and not the issues that are for DNOs to address (eg cost effective design – novel or traditional, cost effective installation).

| **Action** | **Person – By** |
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| IM to consider what outputs and incentives can be delivered from NPGs perspective and elaborate further on the tools that can be used. | IM - 24/05/12 |

*UKPN discussion:*

5.14. Discussion focussed on how DNOs would meet the challenges of moving to a low carbon economy, rather than the price control incentives and uncertainty mechanisms.

| **Action** | **Person – By** |
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| DO Consider further what uncertainty mechanisms are appropriate from UKPN perspective | DO – 24/05/12 |