

## Summary of the views of Northern Powergrid with respect to the letter from Rachel Fletcher on the connection of distributed generation

Since our meeting in November 2011, we have made progress in reviewing the specific items that we discussed and working them into the plan that we already had to improve our service to DG customers.

We recognise the concerns that you have as being legitimate and we have demonstrated this through our actions prior to receiving your letter. For some time now we have felt that there are real issues that arise from the fact that the service that we deliver to this particular class of customer is the product of a process that has developed over time, primarily with demand customers in mind. Our service offerings are backed, largely, by guaranteed standard-type performance instruments that are geared to put pressure on us to deliver each component of the connection process in isolation. They do not derive from an understanding of what it is that DG customers specifically value.

We are convinced of the need to change some of the fundamentals of that approach, but some of the changes that are necessary are not ones we can make on our own. However, a number of them are within our control and we are already implementing them. In describing our approach in the paragraphs that follow, we will be clear about which elements of our action plan are entirely within our control and which ones rely on some level of third party action, particularly from Ofgem but also from manufacturers and from customers themselves. It is also important that the dependencies on third parties are clearly understood and mutually agreeable prioritisation of these actions and associated timescales is established in order to enable the progression of the programme of improvements.

In your letter, you raise five high-level points that came out of the workshops. When added to the issues that you raise later in the letter on triggering general reinforcement, socialisation of costs and commercial incentives (i.e. charges for application and design) that list creates a comprehensive checklist of necessary improvement areas that should guide our discussions. We shall summarise and group the actions that we have taken and are planning to take into those areas. Clearly, some actions will have an influence in more than one area. We have included an action plan that provides summary bullets of the actions we will undertake for each area in an annex to this letter.

### *1. Shortening the application and connection process*

We are committed to improving the application and connection processes to reduce lead times through developing our connections services, and are giving particular focus to distributed generation. These actions are within our control and we are already making progress, however we feel that Ofgem's involvement in a review of the application of guaranteed standards is necessary. Under this broad heading the actions we have taken, or are taking, are:

- Appropriately improving our service channels to provide efficient access to easy-to-understand information and application processes, thereby leveraging the time and availability of our technical and commercial experts to assist those customers who need more help, or who have a more complex enquiry. This is entirely within our control.
- Exploring ways to optioneer choices and solutions with the customer ahead of the enquiry entering the fixed timescale guaranteed standard quotation process. Whilst we continue to support the introduction of the guaranteed standards, quotation timescale is only one important component of the customers' experience. DG

connections are often bespoke and there is a danger that focusing on guaranteed standards can result in serial 'production line' outputs that do not present what the customer actually needs. We could also miss the opportunity to find the optimum solution at an earlier stage in the process, thereby shortening overall connection timescales. The exploration of optioneering is certainly within our control, but Ofgem involvement is necessary in reviewing the DG guaranteed standards. We would like to discuss that with you.

- Exploring the potential to gather technical datasheet information from DG equipment manufacturers, so that customers just tell us the manufacturer and models they are considering and we can advise them accordingly. In the end the responsibility for requesting a connection that is appropriate for the equipment that is to be installed must rest with the customer, but we believe that we can do more than we do at present to assist them at this point in the process. This is partially within our control but requires cooperation from DG equipment manufacturers.

## *2. Better information for customers (before and after they receive a quote)*

We will improve the availability and quality of DG information to customers and continue to provide access to experienced staff to provide information and optioneering services for potential DG connections. Our published DG strategy will be updated to keep track of improvements and developments as they arise. Under this broad heading the actions we have taken, or are taking, are:

- Exploring workable solutions that enable customers to sufficiently understand the type of network (voltage level, single or three-phase, likely capacity) operating in the area they wish to connect to, to enable more informed choices over the type and size of DG equipment to select, and the potential impact on price and connection timescale. This is a common issue but one that is not always as easy to deal with as customers would like. Nevertheless, we are keen to make progress here, in addition to the informal advice we currently provide. This is entirely within our control.
- Exploring ways to optioneer choices and solutions ahead of the customer enquiry entering the fixed timescale guaranteed standard quotation process in the manner described in 1 above.
- Ensuring that our published DG information strategy document keeps pace with improvements to our existing processes and appropriately signals the improvements we are pursuing. Through experience, our latest thinking has moved on from the information currently contained in our document. We will update the document early in 2012 and issue new versions as further improvements are implemented. This is entirely within our control.

## *3. Improved consistency amongst DNOs*

You will be aware that there is a tension between the benefits that may flow from sharing good practice quickly and the disincentive to this that may be perceived to be present when comparative performance is used to inform regulatory judgements on which rewards and penalties may turn. Ofgem considered this issue when it developed the LCNF arrangements and we think there may be benefits in a similar approach so that those companies that have responded to the challenge retain some advantage when their ideas are implemented by others. Making changes in this area will require Ofgem's involvement as it depends upon the incentives provided by the regulatory regime.

We consider there may be considerable merit in developing a national database for generator data. Funding routes should be considered if the proposal continues to look favourable following the due diligence and scoping exercise we propose to undertake.

Initially, we wish to focus on the value such a service could bring to customers prior to working through the cost considerations of introducing such a process. Funding via the LCNF funding is probably less appropriate since, although being 'green', this is neither a trial nor research. It is more about bringing in a new process such that innovation funding would be less applicable and a special alternative treatment may be more apt. Northern Powergrid is ready to lead on an industry approach, however the participation and sharing of information from DNOs and other third parties is essential to the success of this initiative.

#### *4. Better customer engagement*

As you know, we fully support the steps taken by Ofgem at DPCR5 in relation to the broader measure of customer satisfaction. From the start, our approach has been driven by our wider customer engagement strategy. Our programme of engagement is designed to help us listen to what customers need and expect, whilst also communicating the fundamentals to help customers to better understand the process. The output of those engagements is causing us to adjust our services, or introduce new ones. It is clear that this is an area that we can progress without any degree of dependency on others, so we have made it one of our early priorities.

In May 2011, we held a nationally promoted DG connection customer awareness event in York, with invitations extended to independent distribution network operators, independent connections providers and electricity suppliers to present at the event, and/or run trade or information stands. This was well attended and the feedback we received was very positive. We believe we are the first DNO to host such an event, and intend to repeat communication events of this type in future.

We have supported this event by initiating regular connections customer stakeholder events, on a twice-yearly basis, and the introduction of monthly connections surgeries for all customers to raise any topic, including prior to any connection application. We know that DG customers, in particular, can face tight deadlines, particularly when this is caused by prospective changes to Government support arrangements, and so our 'open-door' approach to interact with them on issues of general or project specific concern is proving valuable.

Based on the feedback that was shared in open forum at the DG sessions, our commitment to engage proactively in stakeholder workshops and surgeries is already paying off. We introduced those features to our service as a direct response to customer feedback and we have been pleased with the results. Those activities are now a routine part of our approach to working with those customers.

#### *5. Appropriate approach to triggering general reinforcement and the socialisation of costs*

This area of consideration covers the three specifics of how general reinforcement should be used to deal with looming network constraints, the merits of changing charging boundaries or methods to increase the socialisation costs, and the need for a sensible commercial incentive on customers to ease the overloading that occurs at the application stage as a result of those services being free at the point of use.

We understand that some companies have commented that the regulatory regime discourages or even prevents distributors from making investments in their networks that would facilitate the quicker development of DG. We accept that in a general sense the regulatory regime discourages speculative investment, whether to meet an uncertain demand or an uncertain generation requirement. This is a virtuous property of the regime and it is not one we would like to see being changed. However, to say that the regime

discourages appropriate investment in making the network receptive for DG ignores the important countervailing incentives that exist in this regard.

Rewards under the DG incentive are proportionate to investment in shared use assets used to facilitate the DG. We are incentivised to invest in the shared use DG assets that will release the revenues that are potentially present within this component of the price control. Moreover, there is absolutely nothing to prohibit a distributor from investing in a network development that it thinks will have a good prospect of triggering the additional revenues under this component of the price control formula. I appreciate that this is not straightforward and that there is an element of risk involved. Furthermore, the rules of the apportionment of costs restrict the circumstances in which an investment is likely to be remunerated under the incentive. Perhaps these details need to be reviewed at RIIO-ED1, but the fact remains that the regime does not prohibit or discourage this kind of investment *per se*. It encourages us to seek out the opportunities and to invest accordingly.

For completeness, we should say that the same is true in the area of demand-led reinforcement. Of course there are incentives for outperformance but we have been using decision making algorithms for several years that take account of the probability of demand manifesting itself in the future. Although the technical parameters may differ - and the certainty levels associated with a given forecast for generation connection might well be different to that associated with demand, the principle is the same.

In short, the details could perhaps be reviewed, but the fundamentals of the regulatory arrangement do not, in our view, discourage these investments in all circumstances. We think that distributors need to get beyond the over-simplification that claims that the DG is not being connected because of a defect in the regulatory incentives and a fear that Ofgem may disallow the investment. We believe that this particular issue is ripe for airing in a round-table discussion and we suggest that Ofgem's participation in, and possibly leadership of, that debate would be advantageous. We would be happy to contribute our position up front in the interests of stimulating debate.

Our own position on the broader question of socialisation of costs is that this should not go beyond the appropriate incentivisation of investment to facilitate DG. However, once the debate is opened up we expect that there will be plenty of voices that will be raised in support of others bearing the costs of their connections. Perhaps we should also have a look at the potential benefit of amortising connection costs for DG customers. This would retain the cost signal inherent in the present arrangements but it would be better targeted on actual customers than any proposal to treat such costs as general reinforcement. We appreciate that this would effectively reintroduce tariff support, albeit for a particular subset of customers.

In addition, we very much welcome Ofgem's intention to seek to prompt DECC to make progress on Assessment and Design Fees. We have been an advocate from the outset of providing an appropriate price signal to customers. We will work up an analysis of the costs that the absence of this price signal creates and the potential impact it has on the service that customers experience, and provide this information to Ofgem.

In taking this work forward, we shall of course wish to have a dialogue with Ofgem if we find that the customer driven improvements that we would like to deliver are inhibited by regulatory constraints.

In summary, we are keen to make significant progress in this area and we hope Ofgem finds our comments helpful in this regard. We are sure that we are not the only company that is willing to contemplate significant change in this area and we are keen to hear the ideas of other DNIOS. We are certainly willing to share our thinking with others in the interests of improving this relatively complicated process.

**Annex 1**  
**Northern Powergrid 2012 DG Connections Programme**

**ANNEX 1: SUMMARY OF ACTIONS**

<b>Northern Powergrid: 2012 DG Connections Programme</b>
<b>1. Introduce further customer choices to optioneer potential DG connections</b> <ul style="list-style-type: none"><li>• Continue to promote our one-to-one approach on system modelling prior to any formal application, budget estimate or full quote.</li><li>• Develop channels where possible for connection optioneering, establishing system capacity and indicative charges</li></ul>
<b>2. Develop a central repository for generator manufacturer technical data</b>
<b>3. Enhance DG stakeholder engagement</b> <ul style="list-style-type: none"><li>• Widen engagement to all interested parties, not just the connectee, e.g. landowners, national farmers union, local authorities, trade groups etc.</li><li>• Establish preferred method of communication with various bodies</li><li>• Formalise an annual engagement programme</li><li>• Further enhance effective communication channels</li></ul>
<b>4. Establish an industry business case to lobby DECC on assessment and design fees</b> <ul style="list-style-type: none"><li>• Offer to take the lead on an industry approach in developing a business case</li><li>• Seek to gather data on DNO volumes and values of abortive work</li><li>• Develop the financial position on costs to the industry for abortive work</li><li>• Present case to Ofgem, and ultimately DECC, for consideration</li></ul>
<b>5. Update our DG communication strategy</b> <ul style="list-style-type: none"><li>• Update strategy in line with this action plan</li><li>• Communicate revised strategy to our customers</li><li>• Seek any further improvements through stakeholder engagement</li></ul>