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Dear RIIO Team,

RenewableUK consultation response REF 122/12
STRATEGY CONSULTATION FOR THE RIIO-ED1 ELECTRICITY
DISTRIBUTION PRICE CONTROL

Summary

RenewableUK welcomes this comprehensive consultation by Ofgem on the RIIO-ED1 distribution price controls. We see that a lot of thought has been into different aspects of the control. Our overall thinking is as follows:

- **There is a need for more clarity on long-term direction, with reference to the UK's 2020 renewables target and the Committee on Climate Change recommendation for the decarbonisation of electricity by 2030.**
- **There is a need for a simple incentive on DNOs that encourages them to be positive towards DG and seek ways of making viable connection offers; and that encourages them to find the most cost-efficient connection solutions.**
- **It is rather difficult for us as DNO customers to pull out the strands of the proposals as they apply to DG, and would recommend a "what this means for different customer groups" summary for future proposals.**
- **The incentives proposed should be explored in a DNO/DG workshop through a range of connection scenario case studies, to assess how they and their interlinkages would pan out, including unintended consequences.**
- **We are sceptical of the value of a Time to Connect Incentive, which should at least be explored to assess its likely consequences.**
- **We support the introduction of separate Customer Satisfaction measures for different customer groups. The surveys should be complemented with**

information provided by DNOs to all connectees, setting out Standards of Performance and “good practice” in customer service.

- **We support the introduction of Assessment and Design fees, provided these are proportionate, do not discourage deployment, and guarantee service.**
- **We do not see a strong incentive for DNOs to adopt and mainstream innovation for connection of DG projects that might otherwise be unviable.**
- **We would like to see a proposal for an overarching incentive for DNOs to work towards our long-term decarbonisation goals.**

Introduction

RenewableUK is the trade and professional body for the UK wind and marine renewables industries. Formed in 1978, and with over 660 corporate members, RenewableUK is the leading renewable energy trade association in the UK, representing the large majority of the UK's wind, wave, and tidal energy companies. The association's response aims to represent these industries, aided by the expertise and knowledge of our members.

RenewableUK responds on behalf of not only our more prominent members, but also our smaller members who may not have the time or expertise to engage in the policy development process, but are busy delivering renewable projects on the ground. These members will in general be connecting to the distribution network.

Through this submission we are responding to a number of the RIIO-ED1 consultation papers, as follows:

- Overview
- Outputs, Incentives, and Innovation
- Tools for Assessment
- Uncertainty Mechanisms

We hope we have managed to pull out the strands of the proposals as they apply to DG, but would comment that this has not been easy, and we question how accessible the consultation is to less well informed stakeholders.

- **It would be helpful to have a “what this means” by customer group summary for future proposals, in order to make future consultations more accessible.**

For simplicity, we focus on the proposals we believe to be of most relevance to DG, and take them in turn below.

Overall Direction

We welcome the setting out of the key challenges in the Overview document, including the transition to a low-carbon energy sector and reference to the 2030 4th Carbon Budget and scenarios for achieving this.

The proposals do not however seem to convey a sense of wider vision regarding the electricity system. Although they make reference to carbon targets, there is no reference to the UK’s legally binding renewables target of 15% of our energy by 2020; nor to the Committee on Climate Change recommendation of decarbonisation of electricity by 2030. While incorporation of the CCC’s recommendation as a legal target is contingent on provisions in the Energy Bill, it would seem a highly relevant recommendation and an ambition that is in line with Ofgem’s duties to protect the interests of “existing and future consumers ... including their interests in the reduction of greenhouse gases and in the security of the supply of gas and electricity to them.”

- **We would like to see explicit reference to renewables targets and an ambition to decarbonise electricity by 2030, in the price control framework.**

Note that this RenewableUK does not consider this to be fluffy context around hard incentives. Rather, it sends a message to DNOs, to DG developers, to investors, and to Government that infrastructure investment is happening, and can be relied upon, with a view to the facilitation of clear, longer-term goals.

We believe this kind of wider thinking is consistent with Ofgem’s work on incorporating “strategic and sustainability considerations” into its decision making.¹

¹ See www.ofgem.gov.uk/Sustainability/Pages/Sustain.aspx and, more specifically, www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=56&refer=Sustainability for Ofgem’s proposals and responses received.

Allowances and Drivers for DG Connection

The proposals for allowances and efficiency incentives in relation to DG are not easy to piece together.² Our understanding of these is as follows:

- For small-scale DG (Customer Groups 1-4), a technology neutral volume driver is proposed, with proposals for both a financial driver for either MW installed or work carried out. This is included within a criterion for a re-opener, of a +/-20% deviation in expenditure from the allowance for the whole RIIO-ED1 period.
- For any larger-scale DG, an ex-ante allowance is proposed to cover the cost of reinforcement. These projects are included in the +/-20% criterion for a re-opener. Projects requiring over £50M of reinforcement outside of the ex-ante allowance will be assessed on an individual basis.

These points are discussed separately as follows:

Small-scale DG

We support the proposal for a volume driver for smaller DG. We would like to have a better understanding of how such an incentive might work before favouring either a £/MW or £/work carried out driver. We support an incentive that encourages DNOs to be positively disposed to DG and encourages efficient connection solutions.

In the event of a £/MW volume driver, we understand the arguments for a technology neutral approach. We suggest the effectiveness of this approach should be kept under review to ensure the desired outcomes are delivered.

High-Value Projects

In principle, RenewableUK supports the ex-ante approach, whereby efficiency is encouraged and charges to network users are stable and predictable. This can also provide longer-term reassurance to the renewables community that network investment will be made, and allows DNO operations to be aligned behind this.

There are however two downsides to a simple ex-ante approach for DG, as follows:

- **Difficulty in forecasting:** We believe it will be very difficult for a DNO to predict accurately the network investment required for DG. By way of example, the forecast for the last price control was for the deployment of 10GW of DG, whereas the actual outturn will be closer to 4-5GW.³ Furthermore, the location of DG deployment also materially affects the network investment required. In contrast to low-volume LCTs, larger DG by definition comes in high-cost “lumps” that do not necessarily bear any relation to existing network infrastructure. It is therefore doubly difficult to predict where it will appear.
 - **A time of transformation:** DNOs have traditionally dealt with high-volume, low-cost technologies. As is set out in the background to the proposals, DNO businesses are transforming. This transformation requires intervention to guide DNOs in the right direction. It seems to us that under the proposals a DNO may, while still adhering to its Licence Condition, identify prohibitive reinforcement costs in response to a connection application, using a “business as usual” approach. As a result, DNO expenditure is not incurred and DG is not connected.
- **We would like to see an incentive on DNOs that encourages them to be positive to DG and seek ways of making viable connection offers; and that encourages them to find the most cost-efficient solutions to connection.**

DG Incentive

RenewableUK notes the proposal to remove the current DG Incentive, which we understand offers DNOs an 80% pass-through on reinforcement costs associated with DG, together with a £/MW incentive in place of the final 20%, in order to drive efficiency. Our understanding is that this Incentive has been employed by different DNOs to varying extents, but does not act as much of a driver, primarily because DG will be liable for an element of reinforcement costs and generally does not pursue connections where these are significant.

² “Tools for Cost Assessment” pages 24-26, 44-45; and “Uncertainty Mechanisms” pages 12-13, 17-19 seem of most relevance.

³ We cannot say definitively the reasons for the shortfall, and obviously uncertainty in Government support schemes plays an important role, but unresponsiveness on the part of DNOs to connect DG under the current control is a likely contributory factor. See DG Fora: www.ofgem.gov.uk/Networks/ElecDist/Policy/DistGen/Pages/DistributedGeneration.aspx.

Although there is a need to review the DG Incentive, we continue to support its stated aim “to encourage DNOs to undertake the investment required to facilitate [these] DG connections (and generally be proactive and positive in responding to such connection requests), and encourage DNOs to invest efficiently and economically.”⁴ We do not believe either DNOs or DG deployment have changed sufficiently to justify removal of some sort of volume driver according to this aim.

- **We would like to see a revision to the DG Incentive that is more effective at achieving Ofgem’s previously stated aim regarding DNO engagement with DG.**

Overall

While there is necessarily a range of mechanisms in a price control, RenewableUK believes the various proposals that Ofgem has made in relation to DG, and their interlinkages with other aspects of the price control, are rather difficult to identify.

We believe it would be very helpful for each DNO to run a series of “case studies” on how they would respond to a variety of connection situations, in response to the drivers being proposed. Without this, the considerations from a customer / connectee point of view are somewhat theoretical.

- **There is a need for DNOs to run a series of case studies on how they would respond to DG connection applications in a variety of different situations.**

RenewableUK believes further that DNO staff themselves may not be entirely clear on the interplay of different drivers. As a result, even if the drivers were in theory geared to lead DNOs to a more positive response in relation to DG, the desired result may not be achieved. This militates in favour of a more simple driver that sends a clear message, along the lines of £/MW of DG installed.

⁴ “Electricity Distribution Price Control Review Final Proposals – Incentives and Obligations,” Ofgem, 7th December 2009

- A consideration should be the simplicity of any driver designed to facilitate the connection of DG so that the message is clear throughout the DNO.

Charging

We understand the consultation to propose the socialisation of reinforcement charges for small systems (Customer categories 1-4). We support this proposal.

- We support the proposal to socialise the reinforcement charges for small systems (Customer categories 1-4).

It would be helpful to reflect this arrangement in the relevant guides to connection, notably future revisions to G83.

Average Time to Connect

RenewableUK welcomes the intention behind the proposal for an Average Time to Connect incentive. RenewableUK understands that Ofgem has taken on board the significance to a DG project of completing grid connection in the timeliest manner once planning consent for the generator has been secured.

However, the experience of our members is that efficient grid connection timescales are usually very specific to the project in question, and it is therefore very difficult to establish a generic target that would be of value. Indeed, an Average Time to Connect Incentive on the DNO may lead to unsatisfactory outcomes. For example:

- DNO is disincentivised from offering any connection at all in cases that, for justifiable reasons, might take a long time.
- DNO offers rapid connection on sub-optimal route (for example, more expensive).
- DNO proceeds with build when DG is not yet ready (for example, still seeking planning consent, or other delays).

Ofgem has clearly thought about some of these issues, through a) the possibility to request an exemption from the Time to Connect; and b) a higher weighting to the Customer Satisfaction Incentive, and this goes some way to alleviate our concerns. However, it leads to further questions such as:

- What security is there for DG if it chooses to seek an exemption?

- What weight will a single DG Customer Satisfaction score on timescales carry, compared with all the other elements of customer satisfaction, and compared with lots of other connection applications from lots of different kinds of load?

In short, it is not clear how the Time to Connect Incentive would play out in practice and, as stated before, it would be helpful to work through a series of connection scenario case studies. These may show that a simple incentive by MW of DG connected may be a more effective driver.

→ We are sceptical of the value of a Time to Connect Incentive, which should at least be explored through a range of connection scenario case studies to assess its likely consequences.

Customer Satisfaction

RenewableUK welcomes the proposals for a Broad Measure of Customer Satisfaction (BMCS), including direct customer feedback; complaints; and stakeholder engagement, split by customer groups.

This is a positive step forward in encouraging DNOs to provide good customer service. We have some reservations around its effectiveness, particularly around the difference between parties feeling they received good customer service on the one hand; and MW of actual DG being efficiently connected on the other. Customer satisfaction surveys can be highly subjective.

This issue is compounded by the lack of understanding amongst many DG connectees regarding the customer service to which they are entitled. There is rarely scope for projects to “shop around” amongst DNOs and compare service.⁵ For this reason, we welcome the continuation of Guaranteed Standards of Performance for connections, and believe these should be set out clearly for all connectees, together with a set of “good practice” principles that can help benchmark the service provided. We support taking account of unsuccessful contacts and aborted projects under this measure.

⁵ Indeed, it is not clear how customers will know whether there is any competition within any particular DNO area, and therefore what standards of service do and don't apply.

- **Connectees should be provided with a summary of Standards of Performance and “good practice” principles of DNO service, to help manage their expectations at each stage of the process.**

We are also concerned that the customer satisfaction surveys will be diluted by non-DG interests, to the point where these are lost in the noise. It is important to note the difference between high-volume demand connectees, lower volume DG connectees such as small and medium wind systems up to 500kW (which may entail for example ten 50kW turbines), and larger developers connecting plant of several MW. Each of these has widely different customer profiles.

- **We support the introduction of separate Customer Satisfaction measures, but would recommend further categories beyond “minor” and “major” connections, to cater for small and medium DG systems.**

Stakeholder Engagement Incentive

We support the incentive on DNOs for exceptional stakeholder engagement. We are a little concerned about the potential for a tick-box approach, that might prioritise “number of meetings” or “number of attendees” over “quality of discussion” and “resolution of issues.”

By way of example, DNOs may currently be driven to initiate their own, individual events for all aspects of their business plan, inviting everyone on their contacts list, rather than demonstrating collaboration amongst themselves (perhaps through ENA) on common issues, and developing audience specific initiatives (such as through RenewableUK and other trade associations). Many DG project providers have interests in several DNO areas but do not have the resource to attend several events around the country to discuss the same thing.

RenewableUK is spending some time engaging DNOs on this, but our sense is that we are driving it more than the DNOs themselves. This suggests that the stakeholder incentive as it now stands does not actively encourage the above approach.

Furthermore, some RenewableUK members report that the perceived additional interface risk of separately contracted contestable works outweighs the cost saving by as much as 15-30%.

- **We are keen to see a stakeholder incentive that secures the most effective and “smart” stakeholder engagement, geared around the needs of the audience rather than the convenience of the DNO.**

We understand the incentive is relatively new and we will be interested in seeing the results from the first year. We would ask Ofgem to take our concerns into account when assessing the first year’s performance.

Assessment and Design Fees

We agree with the proposal to allow DNOs to introduce fees, with the aim of reducing the number of purely speculative applications, but on condition that the fees should be proportionate.

We understand that safeguards will be in place so that any fees are set at a level that discourages entirely speculative applications but does not discourage deployment, particularly of smaller turbines (down to 5kW). We expect there is a need for a working group to develop the parameters for the setting of fees, once the necessary legislative tool has been invoked.

In order to render the introduction of the fee more palatable to all in the DG industry, it is important to make clear the response time and level of service that will be provided, i.e: there is clarity on what the fee “buys.” Given the objective to reduce purely speculative applications, there is probably no justification for a further fee in the event that the initial connection offer, which has been paid for, needs to be revised.

- **We support the introduction of Assessment and Design fees, provided these are proportionate, do not discourage deployment, and guarantee service. A working group is needed to develop the parameters.**

We note that speculative applications are often (but not always) associated with the lack of publicly available information on the state of the network. Orkney has been cited as a possible example of where the publication of information has reduced the number of speculative connection requests. There is therefore a linkage between the proposal to introduce application fees and the requirement on DNOs to make network information more accessible. We suggest the two are looked at in parallel.

Innovation

We note Ofgem's expectation that successes from IFI and LCNF projects will be utilised and rolled out. We support this roll-out, but question the extent to which Ofgem's scrutiny of business plans will secure this. – Firstly, Ofgem will never be in as good a position as the DNO to judge what technical innovation can be rolled out. Secondly, innovation should continue over the course of the price control, but we do not see the incentive for this for connections that are, on the face of it (i.e: under a business-as-usual approach), prohibitively expensive.

We welcome the concept of an Innovation Roll-out Mechanism (IRM), to promote the roll-out of proven environmental solutions. However, with only two reopener points over the course of the price control, this does not seem to be designed to mainstream innovation on an ongoing basis.

→ We do not see a strong incentive for DNOs to adopt and mainstream innovation for connection of DG projects that might otherwise be unviable.

Environmental Discretionary Reward

RenewableUK is disappointed that Ofgem does not propose to introduce an incentive for DNOs to manage their broader environmental impact. Although we welcome the consideration of how DG (and other LCTs) can be more efficiently connected through a variety of price control drivers, we feel there is a lack of an overall driver for DNOs to take on the mantle of "playing a full role" in delivering the vision as set out at the beginning of this response.

We note that, in Ofgem's recent RIIO Update, the environmental provisions attributed to RIIO are: undergrounding, losses, and business carbon footprint.⁶ This does suggest to us that the wider role of DNOs in addressing climate change has still not been fully internalised.

⁶ "RIIO Update Issue 3," Ofgem, November 2012:
[www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=RIIO newsletter November 2012.pdf&refer=Networks/PriceControls/newsletter](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=RIIO%20newsletter%20November%202012.pdf&refer=Networks/PriceControls/newsletter)

The variety of issues faced by DG on a day-to-day basis are discussed in detail in a recently completed RenewableUK report,⁷ and were set out at Ofgem's DG Forum in November 2012. We are hopeful that progress will be made on some of the issues in the context of ongoing Ofgem interest. However, RenewableUK believes that an overarching regulatory / financial incentive would encourage DNOs to pull in the right overall direction on a systematic basis, regardless of the interplay of individual "micro-incentives" on individual investment decisions.

Ofgem's Environmental Discretionary Reward under RIIO-T1 sets out some categories, such as strategic understanding, commitment to, and leadership on low carbon objectives; and assessment of the impact of the low-carbon agenda on the business for operational alignment. We believe these would apply equally to DNOs.

→ We would like to see a proposal for an overarching incentive for DNOs to work towards our long-term decarbonisation goals.

Conclusion

In conclusion, RenewableUK welcomes Ofgem's proposals and is pleased to be involved in the development of the price controls from the DG customer perspective. We look forward to working with Ofgem and DNOs on both the regulatory framework and on helping to develop DNO activity on the ground. Our chief concern is that the many individual incentives proposed for DNOs need to be road tested, and the goal of decarbonisation may be well served by the introduction of an overarching incentive for progress towards long-term decarbonisation goals.

Yours sincerely,

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Grid Policy Team

⁷ "Renewable Generators' Experiences with DNOs," RenewableUK, November 2012