



**Grid Connections Working Group- Meeting 2**

27/03/2014

ofgem



**Can DNOs offer preferential treatment to certain types of customers?**

Overview of legislative framework in the context of Community Energy

**James Veaney**  
27/03/14

ofgem

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This presentation provides an overview of the legislative framework on issues concerning discrimination.

This presentation is intended to provide guidance but does not represent Ofgem's definitive view on the subject. Each case is context-specific and interested parties should seek their own legal advice on specific matters.

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- DNOs have a natural monopoly on the ownership and operation of distribution networks and are therefore in a dominant position
  - EU law prohibits any abuse within an internal market by those in dominant position
  - This principle is reflected in the 3<sup>rd</sup> Energy Package, which places obligations on Member States and National Regulatory Authorities (NRAs) to ensure all systems are free from discrimination
  - GB law (Electricity Act) and DNO licence conditions (SLC19) accord with the principle of non-discrimination, and include obligations for DNOs to facilitate competition in supply and generation and not to discriminate.

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- Under EU law and GB legislation, member states and NRAs are given powers to override non-discrimination obligations in certain limited circumstances

#### Promotion of Renewable Energy

- Art. 16(2) Renewables Directive – Member States:
  - To provide for either *priority access or guaranteed access* to the grid-system for electricity produced from renewable energy sources
  - To *remove barriers to network access* for new market entrants and electricity from renewable energy sources

→ These give rise to support for renewable energy, such as Feed in Tariffs schemes

#### Protecting Certain Categories of Customers

- Art. 36(h) Electricity Directive:
  - Objective of NRAs to help achieve high standards of universal and public access, *contributing to the protection of vulnerable customers*

→ These allow for Ofgem to have certain provisions ie. Priority Services Registers for vulnerable customers, gas network extensions schemes for the fuel poor

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- For a DNO to offer preferential treatment may require changes to their licence
  - Need to be mindful of requirements on member states and NRAs to ensure systems are non-discriminatory in nature and comply with Electricity Directive
- Alternatively, it may be permitted for member states (govt) to offer preferential treatment for CE in the form of subsidy that could overcome barrier to grid access
- There is a need to be mindful of the following:
  - Need for consistency: all like cases must be treated alike
  - If the criteria is promotion of renewables, distinctions must be drawn between renewable vs non-renewable, not other factors
  - Lack of definition of Community Energy in legislation creates issues - How do you differentiate between a CE project and other renewable projects?
  - Need to ensure that any positive discrimination does not disproportionately impact other customers

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Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.

We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.

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## Update on community energy evidence base Rob Kinnaird - DECC



## Cost of connection - staging of payments

Brian Hoy

27 March 2014



### What planning to cover....

- ✔ Provide an update on current DNOs positions on
  - Upfront payments
  - Milestones in connection offers
  - Approach to terminating connection offers where milestones not met
  
- ✔ Look at issues arising from a couple of other possible options
  - Payment in arrears
  - Different payment profiles for sole use and reinforcement
  
- ✔ Note these are just options that *could* be considered and not proposals at this stage

## Deposits – upfront payments



DNO	Status
Electricity North West	We will accept initial payments of A & D fees (plus wayleaves if applicable) up front for all projects >£20k on acceptance. After acceptance an agreed project specific payment plan to agreed milestones.
Northern Powergrid	We will offer, subject to passing our internal governance, staged payments that reflect delivery of the scheme within a reasonable timescale which may include wayleaves, civils, design SoW or Stability Studies.
Scottish Power	There is no change to current policy, although this is currently subject to review; we will always work with our customers to find a solution to any issues brought about by the required 'deposit' payment
SSE	We will consider a payment schedule for any quote. We now also offer a £10k deposit, where the connection date is fore-cast to be more than 18months away
UK Power Networks	A staged payment process has been extended to include quotations below £250K. Initial payment is greater of full payment or £50K. Fully refundable except A&D charge and any legal costs incurred.
WPD	WPD generally allow staged payments. An initial payment to cover A&D Fees and preliminary works prior to construction is required.

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The Voice of the Networks

## Deposits – milestones in connection offers



DNO	Status
Electricity North West	Rights to terminate if project has not progressed within six months of acceptance. Agree project specific milestones to track progress at EHV. Considering introduction of further specific milestones into standard terms.
Northern Powergrid	We offer multiple payment arrangements & are applied when there are clearly identifiable project delivery milestones agreed with the customer e.g. alignment with the construction phases on longer lead time projects – all subject to credit governance and on longer lead time projects.
Scottish Power	We will agree staged payments with our customers based on project timescales and key delivery milestones
SSE	Our standard connection offer includes a clause of specific progression dates that need to be achieved by the Customer. These dates will be designed on the basis of achieving the agreed connection date.
UK Power Networks	Payments required such that we are cash neutral at all times – advance payments required to pre-order plant and equipment. Initial payment followed by staged payments as required.
WPD	WPD sets out payment milestones the applicant must meet in all EHV connection offers. This will be extended to all HV/LV connection offers by the end of March 2014.

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The Voice of the Networks

## Deposits – approach to termination



DNO	Status
Electricity North West	Only do on a reactive basis where a non progressing acceptance causes an issue for a subsequent customer.
Northern Powergrid	We will work closely with customers at all stages of a project to minimise any risk of termination but reserve the right to review on an individual basis and be reasonable in proactively managing especially where alternative parties are at an advanced stage requiring connection.
Scottish Power	We already proactively terminate projects that are not progressing; in addition we undertake an annual review of contracted projects at EHV; we anticipate extending this approach to HV through 2014
SSE	Terminating a connection offer will always be our last resort. However, if the Customer is repeatedly not achieving the progression dates we will and have terminated the agreement. In the event of termination, our standard policy is to offer a full refund of any deposit – less any costs incurred by SSE.
UK Power Networks	Still considering our position on this. Likely to be implemented initially for schemes that are >12 months old with no movement. And would like to reduce threshold to 6 months. Full update will be provided at meeting.
WPD	Clauses are included in the offer that allow WPD to terminate at its discretion when milestone timescales for planning application, planning consent, work commencement and completion are not met.

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The Voice of the Networks

### Payment in arrears



- ▣ All DNOs currently work on a 'cash positive' basis
  - DNO in receipt on contributions from connecting customer in advance of costs incurred
- ▣ Moving to payment in arrears introduces a number of considerations
  - It introduces a debt risk to the DNO and therefore DUoS customers
  - Would require interest charges to be added
  - May require some sort of securitisation eg bond
  - May have to offer facility to all customers
  - Introduces extra administration costs for the DNO
  - Unlikely to be over the whole life of the asset
    - 3-5 year term more likely

## Different payment profiles



- ▣ Another option could be to have different payment requirements for sole user assets and reinforcement charges eg
  - Sole user assets paid on 'cash positive' basis ie upfront
  - Reinforcement charges due when connection made
- ▣ Moving to this introduces a number of considerations
  - It introduces a risk to the DNO (and therefore DUoS customers) as DNO would incur reinforcement costs in advance of financial commitment from customer
  - Introduces a risk of 'stranded assets'
  - May require some sort of securitisation
  - May have to offer facility to all customers
  - Introduces extra administration costs for the DNO
  - Time delay may only provide marginal benefit



## Summary



- ▣ All DNOs now offer some degree of phased payments in place
- ▣ Specific arrangements for Community Energy projects likely to be difficult
- ▣ DNOs would need to assess wider implications in considering any other options
- ▣ Welcome views....





# Community energy involvement in consortia: options

Merlin Hyman, Chief executive

27 March 2014



building a low carbon economy  
in south west England

regensw  
delivering sustainable energy

[www.regensw.co.uk](http://www.regensw.co.uk)

regensw  
delivering sustainable energy

1) *Developers agree to make grid capacity available*

[www.regensw.co.uk](http://www.regensw.co.uk)

2) *DNO's reserve some capacity for  
community projects*

[www.regensw.co.uk](http://www.regensw.co.uk)

3) Third party funds proportion of  
reinforcement for communities

[www.regensw.co.uk](http://www.regensw.co.uk)

## Break – Tea and coffee

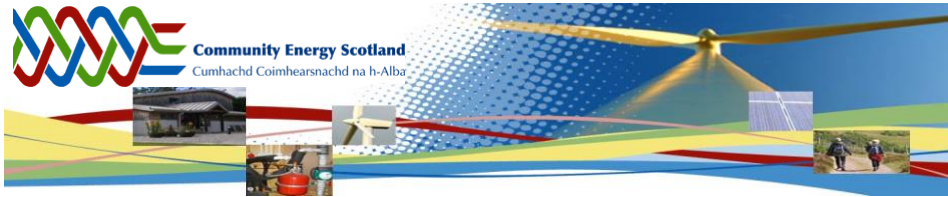
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## Update on Customer Service

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## Demand Side Management opportunities for community generators- Experience to date

Felix Wight, Head of Development  
Community Energy Scotland

DECC Community Grid Working Group  
March 2014



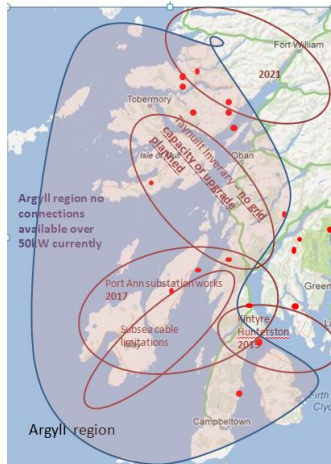
- Types of grid connection
- Identifying DSM opportunities
- Types of DSM solutions
- Lessons learned
- Q&A



Increase community benefit and ownership of low carbon energy in Scotland



- Independent Scottish charity
- 16 FT staff spread across Scotland, including Orkney and Western Isles
- Over 400 members- mostly non-profit distributing community groups
- Supported over 600 community energy installations across Scotland, totalling 37MW capacity
- Our projects provide income and affordable energy worth over £5 million per year to local people



- Grid connection delays and high costs
- Subsidies are being rapidly reduced
- Need to increase direct benefits to local communities
- Energy costs are rising unsustainably



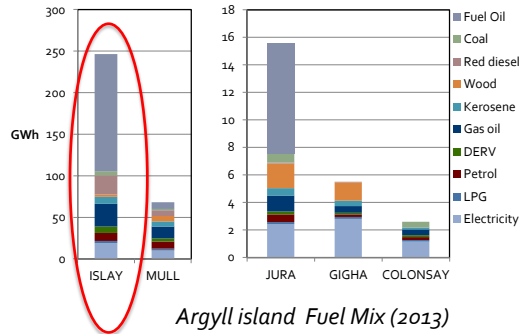
Typically a DNO can offer 3 types of grid connection to DG:

1. Full, firm connection
2. Export limited firm connection
3. Non-firm connection

In the case of 2 and 3, generators need to find ways of minimising lost output; **matching generation with local demand can help**

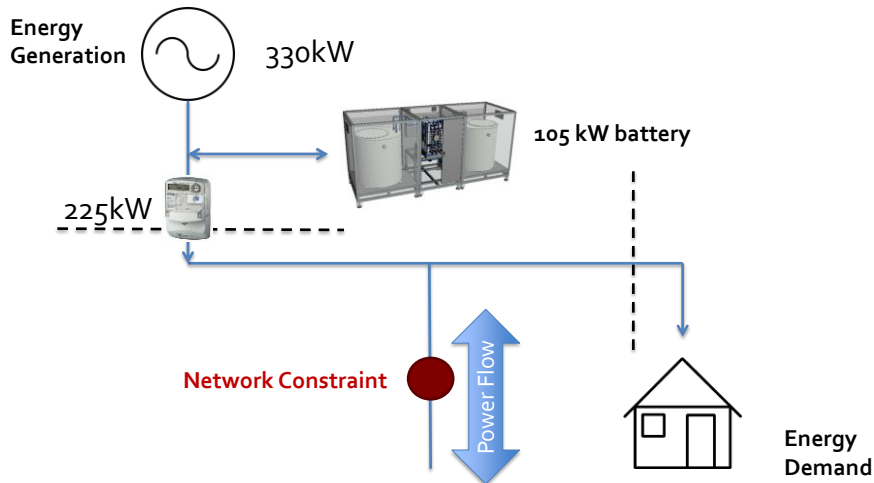
# Identifying constraints and demand opportunities

Pinch points

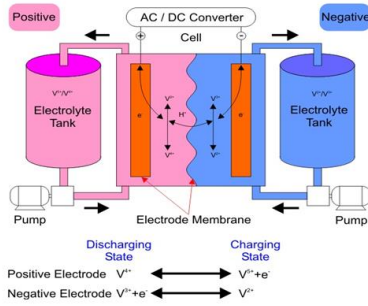


Argyll grid network

# Export limited connection: On site demand

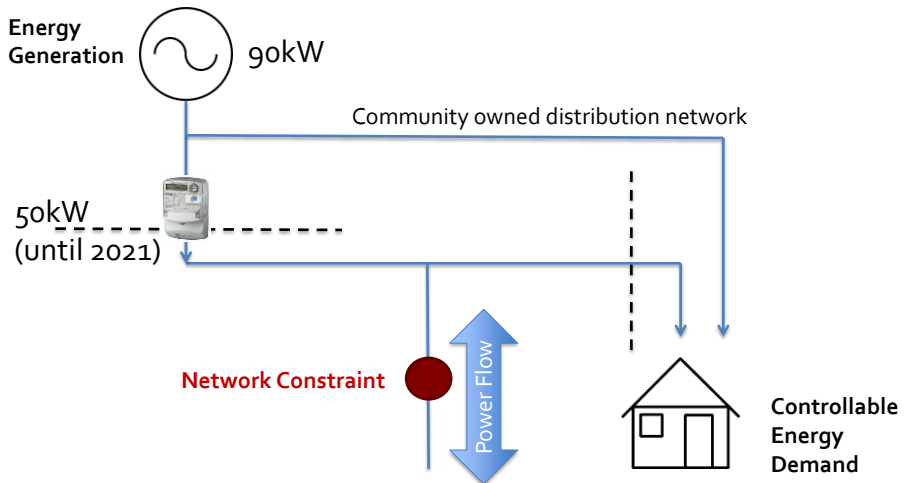


# Gigha Battery Storage (DECC funded)



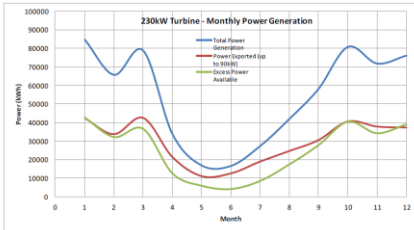
# Community Energy Scotland

## Export limited connection: Private wire network





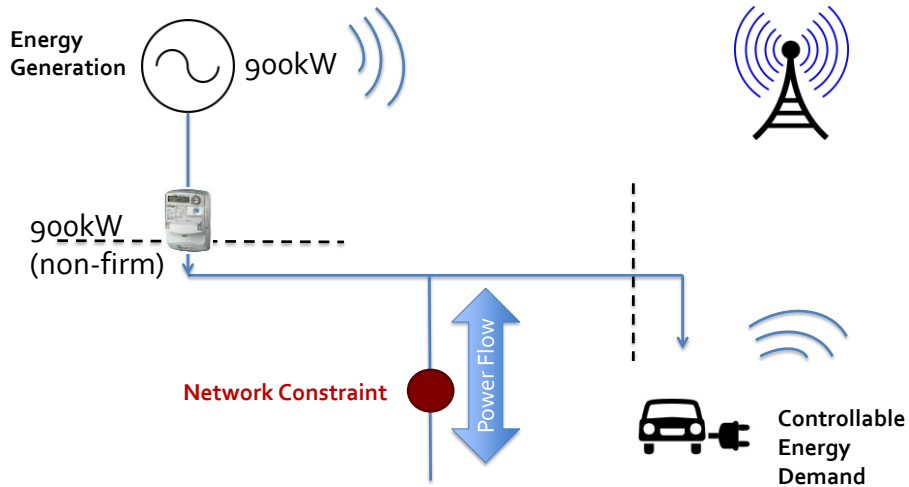
# Community Energy Scotland Applecross Hydro 2 Heat

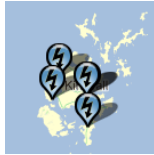


Property	Heat Demand (kW)
Blair House	27,303
Applecross Inn	73,260
2 Shore Street	3,165
4 Shore Street	6,311
6 Shore Street	6,311
8.1 Shore Street	21,335
8 Shore Street	3,522
8 Shore Street	5,277
10 Shore Street	9,951
11 - 12 Shore Street	6,926
13 Shore Street	7,796
14 Shore Street	2,310
15 Shore Street	11,025
16 Shore Street	11,025
17 Shore Street	16,838
18 Shore Street	20,048
19 Shore Street	20,048
Subtotal	230,251



# Non-firm connection: Local Demand Side Management





Issue	Action
Commissioning on export limited connections can be problematic because of FiT rules	DECC are reviewing legislation and Ofgem have flagged this in FiT guidance; however remains a barrier
DNOs are vital to enabling more innovative solutions	Early engagement; greater focus on community participation in LCNF
Derogations may be required to trial new technologies	Early discussions with Ofgem; greater clarity on the derogation process
Local DSM could complement new electricity supply opportunities	Development of License Lite and other alternatives needs to be accelerated
Very little public data on heat demand and costs in off gas grid areas	Regulatory status of heating oil sector should be reviewed
Half hourly metering and settlement is expensive	Aggregated settlement via single half hourly meter should be permitted by Elexon



**Any questions?**

Felix Wight, Head of Development  
[felix.wight@communityenergyscotland.org.uk](mailto:felix.wight@communityenergyscotland.org.uk)  
07917 883 698

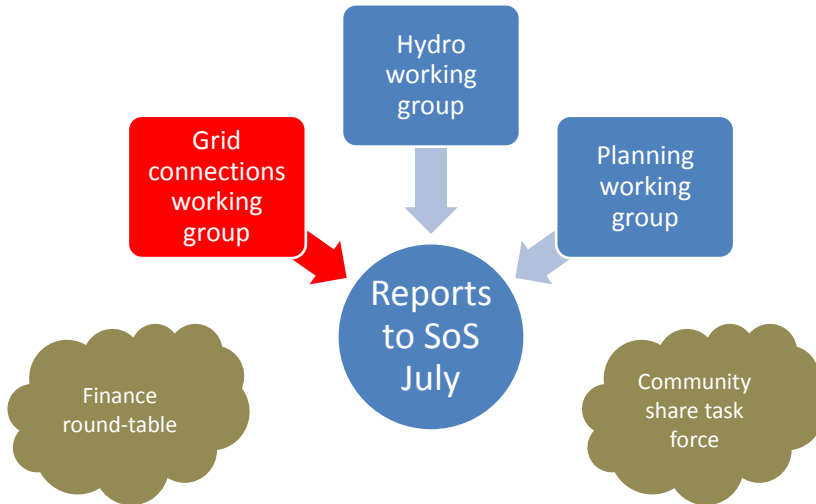


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for energy consumers

**Next steps**

**Tom Handsides**  
27/03/2014

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**Grid connections working group**

*Report to Secretary of State, July 2014*

- Chair's introduction and summary
- Section 1: customer service
- Section 2: staging of payments
- Section 3: the consortium model
- Section 4: demand side and storage

Subgroup leads to draft sections covering:

- ✓ Analysis of the problem/challenge/barrier
- ✓ Consideration of options
- ✓ Detail of proposed solution(s)
- ✓ Where responsibility would lie (industry, Ofgem, DECC, other)
- ✓ Likely costs, eg to DECC

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April	May	June	July
w/c 31/03: minutes and issues log circulated	w/c 05/05: progress update 3 from subgroup leads	w/c 02/06: minutes and issues log circulated	04/07: final approval due
w/c 07/04: progress update 1 from subgroup leads	w/c 19/05: finalise agenda for WG3 and circulate drafts for comment	13/06: draft sections from subgroup leads	w/c 07/07: submit report to SoS
w/c 21/04: progress update 2 from subgroup leads	<b>28/05: WG3 meeting, Millbank</b>	20/06: consolidated draft circulated for comment	
		27/06: final version for approval	
Continuing development	Developing draft response and presenting to WG3	Refining and agreeing document draft	Submit to SoS

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