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Distribution of risk – DG curtailment contracts

Ofgem
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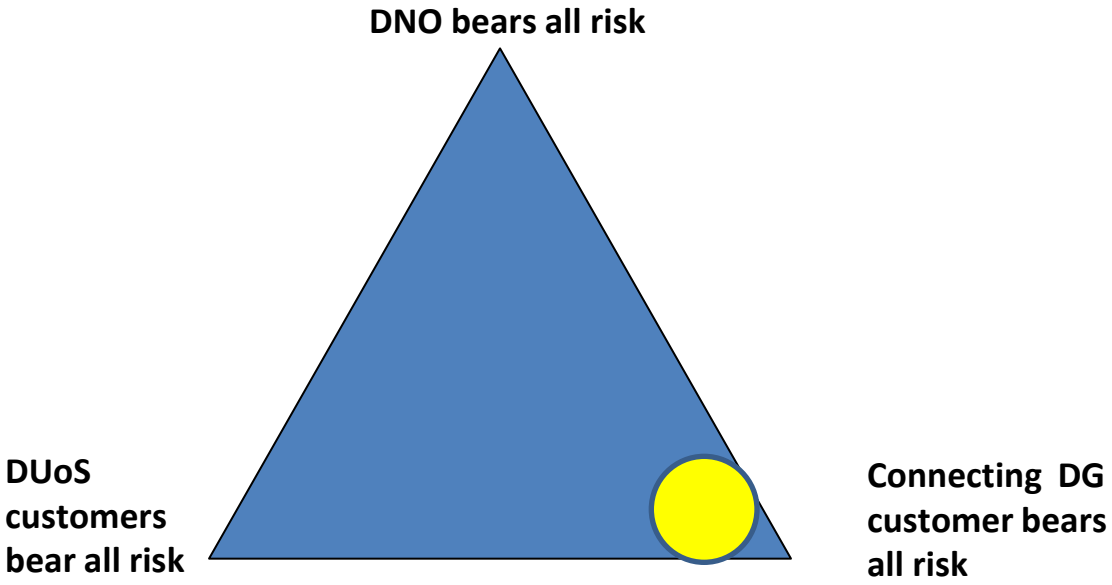
Distribution of risk – scenario 1

Assume DNO can curtail DG when needed with no payments and no limit.

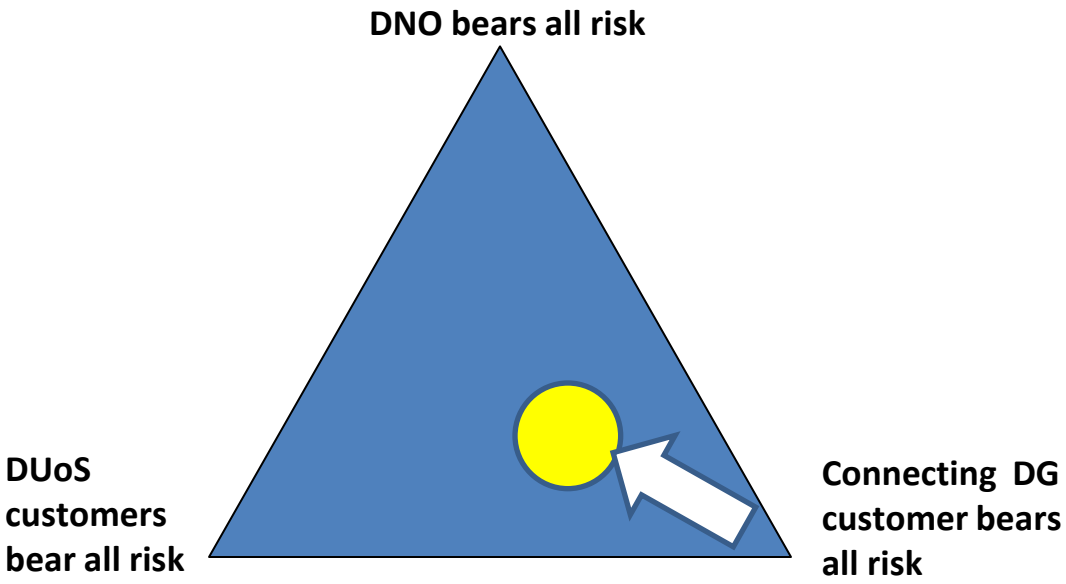
- **DNO takes no risk** as it can curtail DG when necessary to manage network constraint.
- **DUoS customers take no risk** as no need to reinforce and no reduction in reliability.
- DNO able to provide some estimates of how often DG customer will be curtailed, but no commitment to these estimates.
- Connecting **DG customer takes all risk** and have to weigh up against benefits of cheaper connection offer.



Distribution of risk – scenario 2

Assume limit on number of curtailments, beyond which DNO must pay generator a guaranteed price for curtailment.

•**DNO and DUoS customers take some risk** as they may have to make payments to customer.



1. Should DNO and DUoS customers take some risk, and what level of risk?
2. What incentives or benefits are there to DUoS customers for taking this extra risk?

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Distribution of risk – scenario 2

Should DNOs and DUoS customers take some risk?

- What do DUoS customers get out of the connection of DG?
  - Need to clearly articulate how DUoS customers benefit from DG in order to justify placing risk on them
- How can the DNO manage constraints after it has reached the limit of curtailments?
  - If the DNO has other options for managing network constraint, DNO is able to reduce risk on DG customer. If the DNO does not have other options for managing constraint, the DNO is less able to accept the risk on behalf of DUoS customers.

What level of risk should DUoS customers take?

- What principles should be used to set the curtailment limit?
  - The limit would be set on a case-by-case basis and aim to provide certainty to both parties.
  - If the limit is too high, the risk remains on the DG customer.
  - If the limit is too low, the risk is pushed too much onto DUoS customers.
- How should the level of compensation for additional curtailments be set? What should the common principles for determining payments be?
  - Needs to appropriately compensate the DG customer for curtailment.
  - If too low, the risk remains on the DG customer.
  - If too high, risk moved too much onto DUoS customers.

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Costs of later reinforcement

What happens when reinforcement is triggered by another party at a later date?

- New connecting customers pay for the proportion of the reinforcement they will use. For example, a new customer requiring a 3MW connection but triggering 5MW reinforcement will pay 3/5 of the cost of reinforcement. The remaining 2/5 is funded by DUoS customers.

- HOWEVER, where an existing DG customer is connected to this part of the network on a curtailment contract, they will get the benefit of the reinforcement without paying for it. For example, a 1MW DG customer would be using half of the new capacity paid for by other DUoS customers.

Should the existing DG customer be required to pay a portion of the cost?

- If there is no mechanism for the existing DG customer to contribute there is a free rider problem; DUoS customers subsidise the DG connection.

What mechanism should be used to set the level of contribution?

- Exposing existing DG customers to reinforcement cost triggered by new connections creates risk for the existing DG customers.

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Distribution of risk – Next Steps

We propose to request the Storage/ DG sub-group to take this discussion forward.

We propose that the sub-group –

- reports back in August with **a set of options** on the issues discussed,
- **develops proposals** (based on these options) for what curtailment contracts should look like – to report back in November.

Are there any other issues that the group needs to consider in relation to curtailment contracts and the distribution of risk?

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