



Price Control Review Forum
Electrical Infrastructure development
10 September 2014

Strategic Infrastructure development

- Existing regulations are effective in managing:
 - reinforcement of the electricity network in response to increasing demand
 - provision of new connections
- However, in the context of large and long-duration regeneration schemes, the approach is not ideal
 - Incremental reinforcement can be inefficient and a connections-led approach is unpredictable and hence inherently tactical
 - Often it will be more efficient to deliver reinforcement before the development
 - In addition, for developers, there are financial burdens of being first-mover

The challenges

- Developing the electricity system in an optimal manner, rather than in a piecemeal fashion
- Delivering an enhanced system so that it is not perceived as a brake on economic development
- Ensuring that the primary beneficiaries, i.e. the developers, pay their fair share, but in a way that does not stifle development
- Protecting domestic consumers from the risk of financial liability

RIIO-ED1 framework discussions

- Issue was raised by UKPN stakeholders during the development of the fast track ED1 business plan
 - Discussed at ED1 flexibility and capacity working group
 - Stakeholders were invited to attend 1 August 2012 Birmingham working group. SSE indicated that they also supported a review of the existing regulatory framework
- UKPN November 2012 draft business plan incorporated stakeholders' requirements
 - Additional expenditure for strategic investment
 - Proposals to amend the regulatory framework
- ED1 Strategy decision - 4 March
 - Ofgem clarified that there was no need to update the assessment framework for strategic investment

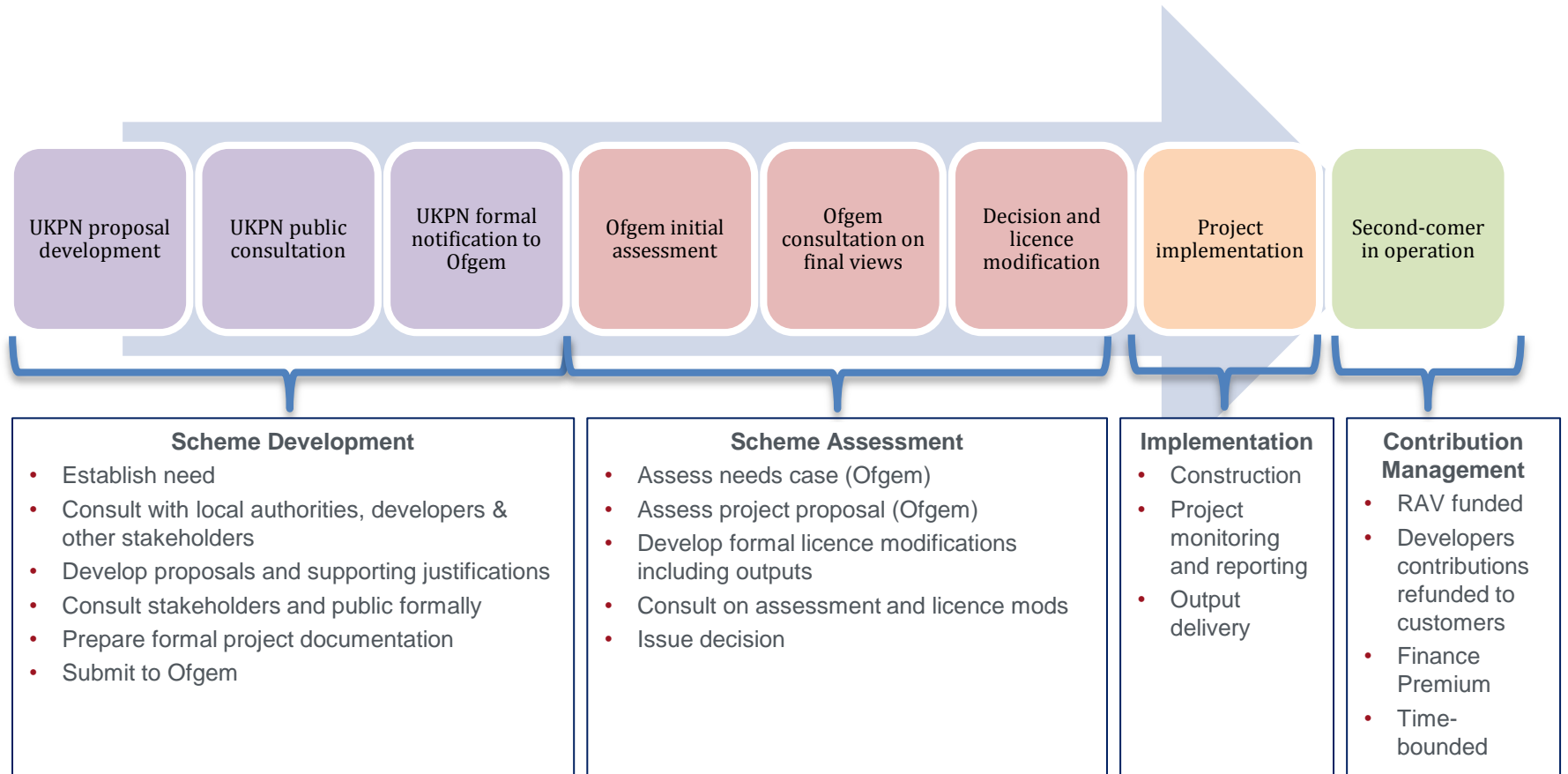
Review process since fast track assessment

- London and other stakeholders approached central government and DECC
 - Boundary of who should pay for strategic investment questioned as to whether in UK plc interests
- Several meetings have taken place led by the GLA
 - local authority, No 10 policy unit, DECC, Treasury and Ofgem representation
- Scope of ongoing work
 - Review costs and potential benefits of revisions to the existing framework through specific examples
 - Review alternate regulatory treatment including required changes to legislation

Potential solutions

- Strategic Wider Works (transmission)
 - devised in response to the uncertainty over timing/location of generation projects
 - enables the transmission operators to bring forward proposals for investment projects over and above those agreed as part of RIIO-T1
- Second-comer rule (distribution connections)
 - designed to reimburse connecting customers who fund infrastructure which is subsequently utilised by other parties
- Revision of HVP reopener mechanism
 - Current timing (2019 only) and scope (>£25m) of reopener is seen as restrictive by stakeholders

Strategic infrastructure investment – a possible process



Protection of DUoS customers remains the key focus

A range of options:

- Key protection will be in managing number and scope of these projects
- Reimbursement of DUoS customers should not require complete utilisation of new assets, e.g. customers reimbursed at 90% utilisation
- Continue collection of contributions beyond target level to 100% utilisation offers potential for upside reward for DUoS customers
- Penalty on DNO at end of scheme duration if utilisation has not reached target
- Developers appear to be willing to underwrite some/all of the ongoing risk to general consumers

Next steps

- Support GLA to consolidate the sets of proposals
- Updated discussion paper to be shared with Ofgem, DECC, Treasury, Downing Street policy unit and other interested parties – 23 September
- Further develop options re reimbursement and protection of DUoS customers
- Assess legislative/regulatory implications of proposals
- Agree timelines for other preparatory activities, e.g. public consultations, and implementation