

Ofgem open letter: Quicker and more efficient distribution connections

Regen SW response

Summary

Regen SW welcomes Ofgem's open letter on Quicker and more efficient distribution connections and the opportunity to comment on the different scenarios put forward.

We consider it is clear the current approach to enabling distribution connections is not working and that change to enable DNOs to take a strategic approach is urgently required.

We propose a combination of Scenarios 1 and 2 that incentivises distribution network operators (DNOs) to invest ahead of need in areas where strategic reinforcement makes sense, i.e. not necessarily limited to where customers are requesting connections, and that the connecting customer pays back a fair share of the reinforcement.

We also recommend that:

- Ofgem issues guidance on the evidence required for a 'needs case' for investment from a DNO
- The Department of Communities and Local Government encourages local planning authorities (LPAs) to take a more strategic approach to planning for distributed generation (DG), which would help DNOs understand the needs case
- Ofgem changes the second comer rule to extend the time period in which customers are reimbursed for their initial funding and to introduce a tapered arrangement
- Ofgem benchmarks DNO performance on following up on accepted connection offers and to consider introducing assessment and design fees to reduce speculative applications
- Community energy has access to more flexible terms for recovery of connection charges to enable it to operate on a level playing field
- Ofgem explores the Smart Grid Forum WS6 DG/Storage Subgroup draft paper suggestions on how curtailment risk could be shared or capped.

Introduction

Regen SW is an independent, not-for-profit centre of expertise on sustainable energy with frontline experience of working in the renewable energy sector in the south west. We are a membership organisation with over 260 business and local authority members, as well as a network of over 250 community energy groups in the south west and beyond.

Regen SW's response is based on experience of working on the ground with developers and community groups, as well as over a decade's worth of experience supporting the wider renewable energy industry.

The distribution network has become increasingly constrained across the country over the last few years. WPD's recent announcement that all new connections above the LV level will be delayed by 3-6 years illustrates the scale of constraints we are now seeing. This scale of constraint on the network is clearly a major challenge for renewable energy development, particularly community energy and the smaller independent generators. It is

also a major barrier to the objectives of many public bodies and Local Enterprise Partnerships who are looking to make investment in renewable energy part of their strategies for economic and social development.

We have been working with Western Power Distribution (WPD) for the last three years to help facilitate network connections, including:

- Running a consortium trial in Bridgwater, as set out in Appendix 3 of the Ofgem discussion paper
- Setting up a grid collaboration service in response to requests from developers for a service to broker collaborations that could reduce grid reinforcement costs and enable projects in areas where grid costs are prohibitive
- Managing a NIA trial with a community energy group to test the concept of an 'offset connection agreement' using a static time of use tariff – the Sunshine Tariff
- Helping community groups to understand the connection process and encouraging early engagement with the DNO to understand constraints.

The challenge

In order to deliver an efficient process that protects the interests of all consumers, it is important that we:

- Find ways to free up the large volumes of capacity that is contracted but not yet being used
- Ensure DNOs have a clear 'needs case' for strategic investment that provides them with confidence to make that investment
- Recognise that investment in the network will ultimately be paid for by consumers through electricity bills, either through Distribution Use of System (DUoS) charges or through higher costs for distributed energy paid through FIT/ROC/CFD levies. And therefore, it is necessary to make sure that the most cost effective method is used
- Speed up the connection process so that the time lag for reinforcement does not result in projects missing out on subsidies and therefore not going ahead
- Ensure a joined up approach with National Grid, so that restrictions on the transmission network do not prevent DG connecting to the distribution network
- Support community energy schemes, which are at a disadvantage to commercial schemes for several reasons: It takes communities longer to develop projects and so can miss the chance to reserve network capacity; and, they are geographically constrained and cannot move to areas where there is spare capacity.

Scenarios

Of the scenarios set out in the discussion paper by Ofgem, we believe a combination of Scenarios 1 and 2 would deliver the greatest benefit to the connections process without placing additional cost on all consumers. Other ways under Scenario 4 will also make an essential contribution.

Scenarios 1 and 2 – DNO funded anticipatory reinforcement

We support the approach of enabling DNOs to invest in reinforcement ahead of need, which could provide a more coordinated and efficient upgrade to the network. But the DNO should not be limited to investing in areas where there are customers requesting connections (as in Scenario 2), as there may be other strategic investments that make sense. And the DUoS customer should not pay for the reinforcement in full (as in Scenario 1) as the connecting customer should pay a fair share of the reinforcement required.

We consider the risk of stranded assets to be overstated. To meet the UK's legally binding targets renewable energy will have to continue to grow and DNO's now have significant experience of the development of distributed energy to make decisions on where there is need for extra capacity.

Conversely, it is certain that a non-strategic approach will put up the overall costs to consumers of developing renewable energy. Subsidies for renewable energy are paid for on customer bills. The level of those subsidies is calculated on the current cost of renewable energy development and operation, including grid connection.

Recommendation: We suggest a combination of Scenarios 1 and 2 that incentivises DNOs to invest ahead of need in areas where strategic reinforcement makes sense, i.e. not limited to where customers are requesting connections, and that the connecting customer pays back a fair share of the reinforcement.

Presenting a 'needs case' for investment will need clear guidance from Ofgem to DNO's on what is expected. That could include the following:

- Evidence on the number of connection offers and connected flexible agreements. The DG and Storage Subgroup of Work Stream Six of the Smart Grid Forum has considered how and when reinforcement might be triggered and paid for in areas where DG customers have connected on flexible contracts¹
- Evidence from local planning authorities (LPAs) on their strategic approach to planning for distributed generation. For example, Swindon Borough Council's Local Development Order for Solar PV could enable SSEPD to confidently invest in the network around Swindon
- Reference to DECC's Roadmap for achieving the UK's 2020 renewable energy targets.

Recommendations: Ofgem to issue guidance on the evidence required from the DNO

The Department of Communities and Local Government to encourage LPAs to take a more strategic approach to planning for DG.

We are broadly supportive of the RAV Buyback Model, but believe that generation customers should not be limited to connecting to the new, enhanced part of the network. This is particularly important for community energy, farmers and other small independent generators that do not have as much choice in where they connect.

It would be reasonable, in theory, for the DNO to charge a premium to subsequent connection customers to reimburse DUoS customers for the risk they bear. However, in practice, it would be very difficult to calculate the level of risk, which will differ between areas. If this approach was taken, the way that the premium is calculated must be transparent.

It would be fair to change the second comer rules to extend the time period in which customers are reimbursed for their initial funding. This would discourage developers from deferring development until the 5 year time period has lapsed and would create a fairer system overall. We think we should move from a sharp cut-off to a tapered arrangement. A depreciation factor could also be applied to the assets, in recognition of their age and utilisation before the second comer arrived.

Recommendation: Ofgem to change the second comer rule to extend the time period with a tapered arrangement.

¹ Flexible Connections: Considerations, Risk and Issues – WS6 DG/Storage subgroup

Scenario 3 – Connection customer funds anticipatory reinforcement

If DNOs are incentivised to invest ahead of need and given clear guidance on how best to do this, there should not be a need for the DevCo model. Furthermore, if the DNO consults with the LPA, the wider interests of the area should be able to be considered in reinforcement schemes. There is also a risk with a commercial DevCo model that generators are charged an unreasonable premium to connect, which would be particularly detrimental to community energy.

The consortium model does not require a DevCo, as it can apply for a connection under Section 22 and the cost of reinforcement is split proportionately between the consortium members. However, our experience with the Bridgwater consortium trial with WPD (as set out in Appendix 3 of the discussion paper) shows that the consortium model will only work in a limited number of circumstances. Key to its success is lining up timings of a number of different renewable energy projects, which is difficult without a strategic approach from the local planning authority.

Scenario 4 – Other ways

Managing connection offers

As stated above, it is essential that Ofgem and the DNOs find ways to free up the large volumes of capacity that is contracted but not yet being used. In the south west, Regen actively encourages developers to relinquish capacity that they were not able to use. However, there is currently little incentive to do so.

We are aware DNOs are taking a more robust approach in connection offers and follow up to ensure schemes that are not progressing release their capacity. We believe DNOs should put more resource into this process and Ofgem could consider benchmarking DNO performance.

Looking forward, it is important that ways are found to reduce speculative connection applications. The introduction of assessment and design fees would help achieve this. However, this must be accompanied by better information from the DNO on available capacity and constraints. Community energy will require additional support to understand their options.

Recommendations: Ofgem to benchmark DNO performance on following up on accepted connection offers and to consider introducing assessment and design fees to reduce speculative applications.

Flexible terms for recovery of connection charges

As stated above, assessment and design fees would be helpful in reducing speculative applications. Similarly, recovering the cost of connections upfront reduces the risk of holding capacity. However, to enable community energy to operate on a level playing field, it needs to have access to more flexible terms, as community schemes are unlikely to have significant finance available for the early stages of project development and the burden of paying upfront for the connection could prevent schemes from going ahead.

Recommendation: Community energy to have access to more flexible terms for recovery of connection charges.

Active network management

More active management of the distribution network and the move towards a Distribution System Operator (DSO) model would help maximise the headroom in the system. We are pleased to see WPD's roll out of alternative connections and would like to see other DNOs following their lead.

However, non-firm connection offers can make renewable energy very difficult to finance. The WS6 DG/Storage Subgroup draft paper on Flexible Connections provides some suggestions on how curtailment risk could be shared or capped.

Recommendation: Ofgem to explore WS6 DG/Storage Subgroup draft paper suggestions on how curtailment risk could be shared or capped further.