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Dear Olivia,

Response to quicker and more efficient distribution connections

ENA members welcome the opportunity to respond to Ofgem's consultation on quicker and more efficient distribution connections. Many of our members will be responding as individual companies to the separate questions in the consultation. This response is from Electricity Distribution members (DNOs) and provides high level comments on the scenarios listed in the document.

While it is important to stress that the majority of connections do not require reinforcement of the network, all DNOs already have capacity constraints on their networks to some extent. The degree and cause of these constraints differs among companies. Some urban DNO areas have widespread demand constraints, while for others, constraints are caused by a proliferation of small and commercial-scale renewable generation wanting to connect to certain stretches of the network. DNOs recognise that limited capacity in specific areas can mean a high cost and some time before people can connect to the network.

DNOs are trying to find the right balance between ensuring the network has capacity to accommodate new connections, while keeping costs down for DUoS customers'. Scenarios 2 and 3, along with the options discussed in scenario 4, all add to the DNO 'tool kit' in helping to deliver an improved connection service. We can see how each scenario will have merit under different circumstances. Consequently, our members would be happy to work with Ofgem and other stakeholders to help develop the detail of them further.

We do note that scenarios 2 and 3 resolve issues around the time it takes to connect and could potentially drive more efficient network design solutions with the potential to be cheaper than the incremental solutions. This is likely to have benefits for demand driven developments in city centres, where time to connect is, in most cases, a larger concern than cost. Stakeholder feedback suggests that for small scale generators, it is the cost of connection in constrained areas which is the most important issue. We do not believe that either of these scenarios will make a significant difference to the cost of connecting to constrained networks. We believe that the current connection charging framework does an excellent job in encouraging new connections where there is existing spare capacity on the network and therefore reducing the costs borne by both connecting and DUoS customers. Ofgem and DECC will need to consider whether this framework continues to strike the appropriate balance given the competing objectives of keeping energy bills down while encouraging decarbonisation.

We have provided some specific comments under each of the scenarios below and look forward to working with Ofgem on developing the detail of them.

Scenario 1 – DNO funds (via DUoS) cost of anticipatory reinforcement (costs are socialised as no initial connection customer)

Having received helpful clarification from Ofgem, we understand that this option is effectively the current arrangements. As highlighted in the consultation, proposals for ‘strategic investment’ have been made by some licensees within the price control under this scenario. However, it is important to highlight there is a big challenge to predict what and how many new schemes will need connecting in the future, particularly as there is uncertainty in the current political landscape and the direction energy policy will take.

In addition, weighing up the balance of risks and costs between an ‘incremental’ and ‘strategic’ approach requires some anticipation of what connection contributions would be received under an incremental approach. These contributions will vary depending on the capacity requests of customers. It is difficult to make accurate assumptions on these to compare to the costs of the strategic approach. This adds additional risk to the strategic approach. Consequently, only where there is a very clear case, is this scenario likely to lead to a strategic approach to investment.

Scenario 2 – DNO funds (via DUoS) cost of anticipatory reinforcement when initial connection takes place (to be reimbursed by subsequent connection customers)

As highlighted above, we are supportive of this scenario. However, we note that the strategic wider works programme (on which this is loosely based) provides some lessons for implementation. If the main benefit of this scenario is to reduce the time to connect, care needs to be taken not to introduce an overly onerous process for a scheme to be approved by Ofgem. It should also be made very clear up front what that process is and exactly what evidence DNOs need to provide to Ofgem. The evidence required should be proportional to the size of the connection project. The incremental strategic wider works¹ framework in Transmission could provide a more appropriate basis for a model in Distribution here.

We also note that you asked if this scenario had any implications for competition in connections. In this regard, we think it is important that connecting customers retain a choice over whether they connect into the defined area or not. This allows customers to be free to choose an alternative connection provider.

Scenario 3 – Connection customer funds cost of anticipatory reinforcing when initial connection takes place (to be reimbursed by subsequent by subsequent connection customers)

ENA members think this is an interesting model and recognise that it could provide benefits, particularly for large scale connection projects. However, there are concerns that, while it de-risks anticipatory investment or existing DUoS customers, it increases the risk for future connecting customers – either by a) increasing the cost of connection or b) by removing headroom from the network thereby driving further reinforcement for future customers that do not want to connect or cannot connect to the DevCo model. More generally, whilst this might be a model that works in areas of high demand (e.g. London), ENA members do not feel there is an ability or appetite among local authorities and public bodies to pursue this option.

Scenario 4 – Other ways of making it easier to connect

As mentioned in the consultation documents, DNOs have recently initiated a review of Engineering Recommendation P2/6, which is being led by ENA. We will keep Ofgem and other stakeholders fully informed of this review.

¹ Where incremental wider reinforcement works meet the criteria set out in NGET’s Network Development Policy (NDP), NGET’s baseline price control revenue allowances are adjusted in line with a wider works volume driver and unit cost parameters, which are specified in NGET’s Final Proposals. These revenue adjustments are calculated automatically and set out in licence.

It is also worth highlighting that DNOs have a number of innovation projects which are investigating how to obtain the best value from existing capacity on the networks. DNOs have started and will continue to roll out the learning from these projects to reduce the occasions where reinforcement is required to connect new customers.

In ENA's view, the details of Scenarios 2 and 3 both require further work to develop licence modifications and associated procedures to allow these tools to be used to improve customer experience. ENA and its members would be very happy to discuss these scenarios and this specific issue further with yourselves and colleagues in your Smarter Grid and Governance directorate. If you would like to do so, please contact my colleague mark.askew@energynetworks.org.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'David Smith', is positioned above the printed name and title.

David Smith
Chief Executive, Energy Networks Association