

## **Concerns raised by REA Membership relating to the perceived issue of Stranded Assets on DNO Distribution Networks.**

Members of the REA have raised concerns following presentations made by DNOs relating to understanding the implications and potential connection /dismantlement charges associated with Stranded Assets on Distribution Networks. Furthermore, the issue of 'stranded assets' continues to be raised as part of the connection funding cost apportionment debate.

This short paper is intended to provide an insight into this subject matter.

### **Definition**

There is no standard definition for 'Stranded Assets' within either the Common Charging Methodology Statements, the Electricity Act or the Standard Licence Conditions. Perhaps therefore the best explanation / definition of the existing situation would be :-

*DNO owned equipment and assets (cables, transformers and switchgear etc) that may become surplus to requirements - should the original reason for their installation and commissioning no longer be applicable.*

The perceived risk from the DNOs perspective is therefore that such assets could, in theory, remain connected to the DNO's network whilst fulfilling no useful purpose, without use of system charge income to offset the investment, and wasting consumer funded resources in their construction. Stranded assets are therefore not desirable from either a DNO or consumer viewpoint.

Furthermore those assets can be:

- 1) 'sole use' - in which case they are likely to be removed - assuming that there is no foreseeable reason to retain the assets or,
- 2) the assets could be considered to be assets originally installed to support the DNO's network (reinforcement) and installed as part of the connection of new works (demand or generation) which originally required reinforcement works to support the network that existed at that time.

[We would argue that OR the current regulations make clear that]:-

- Assets are not considered to be stranded if they are required and integral to the provision of a new connection (sole use or reinforcement).
- Assets are not considered to be stranded if the connection is designed and built to the minimum design to facilitate the required connection.
- Assets should not be considered to be stranded if there is a strategy in place by the DNO regarding what the connection is designed to accomplish (capacity wise) to satisfy immediate and future network requirements.
- Assets should not be considered to be stranded if they are/were fully utilised for the duration of the life of the network or individual connection for which they were originally installed (25+ years?).

- Furthermore, and with particular reference to DG related connections, should the original connection be subsequently decommissioned then the chances are that another customer (demand or DG) will rise to absorb any available capacity subsequently made available, and therefore in these circumstances such assets should not be considered stranded.

### **Research needed into actual occurrence**

The REA believe that this issue is given disproportionate consideration by Ofgem and the DNOs. Based on the fact that concerns relating to 'stranded assets' would appear to be a recurring theme for both Ofgem and a number of the DNOs we believe it is time to attempt to quantify the number of occurrences whereby stranded assets are deemed to have been a concern to the DNO and have therefore required remedial actions. Such a review could be based on the past 5 or 10 years.

### **Reference to the Connection Charging Methodology**

1. There is a requirement within the Electricity Act (and/or the Standard Licence Conditions) to apportion costs for reinforcement works.
2. There is not a concern relating to sole use assets which, it is confirmed, are fully chargeable to the customer.
3. Amending the energy tariff or raising the 'strike price' for specific DG technologies will not assist if the connection is unaffordable in the first instance.
4. Amending the energy tariff or raising the 'strike price' for specific DG technologies (to assist with unfavourable connection charges) will not assist other 'connectees' who would also need to access the (required) reinforced network connection... in fact it would probably make the situation worse from an affordability point of view.

### **Conclusions**

1. The old network arrangements for centralised power production (via power stations) has served the system well but the development of significant new distributed generation (DG) technology and capacity requires a full review and a new, coherent strategy for network reinforcement at both distribution and transmission levels.
2. We have previously considered the issue of 'locational signals' for charging.
3. Until the Minister will accept that distributed generation projects are, by their nature, likely to be situated remote from locations of high network demand then any outward support (at Government levels) for DG renewable technology is somewhat misplaced as the connection parameters frequently makes the development of such projects (and capacities) financially unviable.
4. Arguably, the issue is not actually stranded assets. Rather the issue is one of who funds the reinforcement of the networks in the first instance.

### **NOTE**

This paper has been reviewed by 2 of the DNO's - neither of whom wished to challenge the accuracy of the statements made.

One DNO however did not necessarily agree with some of the opinions raised.

Bob Weaver, November 2014