

OFGEM – Quicker and more efficient distribution connections

<p>Q1: Would a DNO be sufficiently confident about future connections demand and the benefits to DUoS customers to justify this approach? If so, in which circumstances?</p>	<p>To have the confidence needed the DNO would need to be aware of future connections not just in the short term but also the potential medium to long term demand growth. The DNO would need to make their decisions with input from and consultation with key local stakeholders. A business case would need to be prepared considering proposed development plans alongside social factors. For example would the upfront investment in reinforcement assist with faster development of the area, stimulate the creation of new jobs or improve the reliability of the local network? In the circumstances where clear local benefits for economic growth, quality of service improvements and reduced disruption to the local community can be identified, then a case for upfront funding via DUoS can be justified.</p>
<p>Q2: What other barriers are there to DNO's taking this approach? How might these be overcome?</p>	<p>Any anticipatory investment costs should be ring-fenced and supported by a business case such that in the event that development does not occur (no load take up) then the DNO is not penalised via subsequent price control reviews. The DNO may not want to risk investing ahead of need due to the potential for a negative outcome at subsequent performance reviews.</p> <p>Greater focus by local planning authorities on utility requirements as part of the development of the local plan and more open engagement from the development community to share their plans for medium to long term development projects is essential. Whilst some engagement presently exists, with the co-operation of all parties much more robust future planning can be done and then the DNO would need to take responsibility for using the information provided to properly inform their investments.</p> <p>To provide comfort on the strength of the requirement OFGEM could review and approve on a case by case basis each business case proposed by the DNO or just select test cases by exception. This would place an additional regulatory burden on all parties and a resource demand on OFGEM to ensure a prompt and timely response. The hurdles placed in front of the DNO should be appropriate and reasonable and not be overly bureaucratic</p>

	in order to achieve approval.
Q3: What are your views on this type of approach and the RAV Buyback Model? Are there any elements which are essential, not required or should be changes – and why?	<p>The RAV model proposed coupled with the suggested benefit/penalty arrangement appears to be a sound approach to the problem of encouraging investment ahead of need.</p> <p>For this scenario to work, a robust stakeholder engagement process needs to be in place. Regular and detailed advice from the local planning authority coupled with regular input from major property developers and other key energy users in the area (factory's, data centres, etc.) should be sought by the DNO to build the case for investment ahead of need.</p> <p>OFGEM could consider providing the DNO's with a standard business case template that is not too onerous on the DNO to complete. OFGEM would also need to put in place a straightforward but robust approval process to review each business case in a short timeframe. The point of this exercise is to promote the efficient construction of distribution assets, with the minimum disruption to the local community promoting growth and investment in potential development areas.</p> <p>The current statutory connection process is often slow and convoluted so it is important to ensure that the impact of implementing Scenario 2 does not slow down the process any further.</p>
Q4: Please give details of any projects or schemes this type of arrangement could have helped progress which would have not otherwise gone ahead?	<p>There are a number of developments in London and I am sure in other cities where this type of arrangement would help major developments to proceed. There are major projects planned towards the eastern end of London's Docklands, in the City and West End and in Vauxhall Nine Elms where there is little capacity in the existing local networks and the projected loads far exceed the planned reinforcement measures based on business as usual analysis.</p> <p>Until such times as these development projects like these make a formal</p>

	<p>application, the DNO is not obligated to consider them in its forward planning.</p> <p>Once the DNO receives a connection application for a major development, the DNO, under Scenario 2, could plan ahead and anticipate the quantum of demand likely to be seen in the medium to long term and make efficient investment plans to reinforce the area before all the demand comes on line rather than respond in a piecemeal fashion to each application, increasing disruption to the network and the local area and the risk of late delivery.</p> <p>The question asked about projects that would not otherwise have gone ahead. In the vast majority of cases, once the property developer has made the investment decision to buy the land, it is unlikely that he will not develop on the basis solely of the electrical connection cost. However, it will impact on the overall commercial viability of the project. If connections are disproportionately expensive and subject to very long delivery periods. Major infrastructure reinforcement measures can take a long time to deliver in the case of establishing a new main sub-station for example a 3 – 4 year period would not be unusual.</p> <p>The potential for reputational damage for a developer due to late infrastructure delivery is very high and this together with high costs due to inefficient supply solutions can all discourage investments in a particular area.</p>
Q5: What would justify requiring subsequent connection customers to only be able to connect to the new, enhanced part of the network?	<p>The purpose of a DNO reinforcing an area is because little or no spare capacity currently exists, given that scenario it would seem logical that any new developments within a reasonable distance of the new assets should be compelled to connect to them. This could be moderated based on the size of the new supply required with loads over a certain size being required to connect to the new infrastructure and small loads still able to use the current provision.</p> <p>Customers should be encouraged to connect to the new infrastructure</p>

	<p>provided by Scenario 2 as it should be able to be demonstrated that any other option would be more expensive or prohibitively protracted to deliver in comparison. This could be via a clear and open pricing arrangement where the customer is provided transparency of cost coupled with a delivery programme that should demonstrate that connecting to the new assets is demonstrably quicker and easier to achieve than connecting to pre-existing assets. If this is not the case then questions need to be asked of the robustness of the business case put forward for the reinforcement works.</p> <p>In instances where connection requests subsequent to reinforcement are made for low voltage or small loads, and in the instance where some LV or minimal pre-existing capacity exists then it would seem reasonable to allow that capacity to be utilised before mandating use of the new reinforced assets.</p>
<p>Q6: What would justify requiring subsequent connection customers to reimburse DUoS customers for the risk they bear in funding this work? What might be the impact of this? How should the premium be calculated?</p>	<p>Whilst the DNO should be rewarded for the investment made in investing in infrastructure, the level of reward needs to be capped at a reasonable level as subsequent customers will find themselves in a position where they have little or no choice but to connect to the new infrastructure and they should not find themselves penalised via this monopolistic position.</p> <p>The DNO's are commercial organisations with responsibilities to shareholders and as such could not reasonably be asked to invest in assets and risk either a penalty via a subsequent price control review or loss of benefit from DUoS revenues. Therefore it would seem reasonable for the DNO to obtain a limited return on any anticipatory investment.</p> <p>Use of the second comer rule, supported by far greater transparency of load take up, capital cost expenditure and cost apportionment should be utilised to justify and where possible mitigate the level of charges made to customers connecting.</p>
<p>Q7: Over what time period would it be reasonable to expect DUoS customers to be reimbursed for the initial funding?</p>	<p>Experience suggests that the construction build out period for major multi-</p>

	<p>phased developments can span a large number of years. The five year period currently associated with the second comer rule would be insufficient to properly recover costs from second comers on major development sites. It is not unreasonable to consider a 10 year or even longer timescale for a second comer rule.</p>
<p>Q8: When might it be appropriate for a DNO to have an upfront revenue adjustment to cover this type of scheme? Or should existing mechanisms be used?</p>	<p>Fixed time periods for submission of business plans for investment requests would be counter-productive. The DNO needs to be able to respond to market forces that in turn are driven by numerous influencing factors. The DNO should be able to submit applications at any time and the regulator should be able to respond accordingly.</p>
<p>Q9: Do you consider that this approach would have any implications on competition in connections?</p>	<p>The reinforcement activities and funding via DUoS would continue to be a DNO delivered activity. However, extension to the network could still remain a contestable activity that ICP's could bid to install.</p> <p>Scenario 2 could limit the ability of iDNO's to compete in the investment areas for the duration of the capacity availability. Whilst being fully supportive of the introduction of competition in connections the case for a properly managed and regulated approach to investment in strategic infrastructure assets to release new development areas and areas of high stress on existing networks is compelling. Well planned cost effective efficient investment ahead of need in strategic infrastructure will reduce disruption within the local community, promote sustainable development and growth which will bring many benefits to existing as well as future customers.</p>
<p>Q10: What are your views on the DevCo model and process set out in Appendix 2? Are there any elements which are essential, not required or should be changed – and why?</p>	<p>The DevCo model set out in Appendix 2 would also promote investment ahead of need and would potentially work best in areas where very long term regeneration is being considered. It would require an investment partner and may be a good model for a local authority or regional development agency.</p>

	The model works for adoption by the incumbent DNO, but equally it could also work with an IDNO. This could overcome some of the concerns around the potential restriction on competition and the network itself could be built by an ICP thus expanding competition still further.
Q11: Please give details of any projects or schemes this type of arrangement could have helped progress which would not have otherwise gone ahead?	The question posed enquires about projects that would not otherwise have gone ahead. In the vast majority of cases, once the property developer has made the investment decision to buy the land, it is unlikely that he will not develop on the basis solely of the electrical connection cost but anything that reduces viability can contribute to a project not going ahead.
Q12: What would justify requiring subsequent connection customers to only be able to connect to the new, enhanced part of the network?	See response to Q5 above the same would apply in this case.
Q13: What would justify a DNO charging a premium to second-comers to reimburse the customer? What might be the impact of this? How should the premium be calculated?	See response to Q6 above the same would apply in this case.
Q14: Over what time period would it be reasonable to expect the customer to be reimbursed initial funding?	See response to Q7 above the same would apply in this case.
Q15: What would justify the initial investor being permitted to restrict the type of schemes that would connect using the infrastructure it has paid for? For which type of schemes might this be appropriate?	There would need to be a clear business reason for restricting the type of scheme that could connect to a reinforced network.

<p>Q16: Do you have any comments on the recommendations proposed in Appendix 3 to enhance consortium arrangements? What would justify these recommendations? Are there any other changes which would support consortium arrangements?</p>	<p>Consortium arrangements between multiple developers has been tried before via Section 22 agreements. Experience has shown that while they are potentially possible there are many hurdles to overcome and in practice rarely happen. They take a protracted period to achieve heads of terms and even then there remains a risk that one of the parties to the agreement could drop out delaying the subsequent agreement still further.</p> <p>The parties to the agreement need to be in reasonably close proximity to each other and have development delivery programmes within similar timescales in order for the most cost effective solution to be achieved. The potential for consortium agreements to become common place is limited.</p>
<p>Q17: What role, if any, could change to engineering standards play in helping to accelerate the connections process without damaging reliability levels? In what circumstances would this be appropriate?</p>	<p>Engineering Recommendation P2/6 provides a robust level of electrical distribution design guidelines that provide a network that is appropriate for commercial customers. A good level of diversity of supply is needed so that in the event any minor faults power can be restored in a reasonable time scale. If changes are introduced to accelerate the connections process these should not be to the detriment of network resilience.</p>
<p>Q18: Which particular standards might most benefit the connections process if changed?</p>	
<p>Q19: What benefits might the introduction of assessment and design fees bring?</p>	<p>Assessment and design fees could be considered for connections above a specified capacity limit such that one off small developers and individual domestic customers are not charged for connection offers. However larger commercial customers would only accept to pay an appropriate fee in return for a robust connection offer and an accelerated turn-around time for the quotation with a fixed date of return.</p> <p>Any fee should come with an improved level of service from the DNO. The design and connection offer should be provided in improved and rigidly enforced timescales, the quotation should be provided with an improved</p>

	<p>degree of transparency including a full cost breakdown of all costs and the offer should be structured in such a way that the customer can choose to accept either the full offer or just the non-contestable element without the need for a re-quote (already available from some DNO's but not all).</p> <p>The A&D charges should be truly cost reflective of the work necessary in producing the deliverable by the DNO.</p>
Q20: Could more flexibility in the way assumed available capacity is calculated help accelerate the connections process? Are there any other improvements to be made in how DNO's manage interactivity between schemes looking to connect to the same part of the network?	<p>Insufficient clarity exists currently to the outside observer / customer on how the DNO manages spare capacity and where spare capacity currently exists within the network. If the DNO's provided clear and easy to decipher records of their networks then some of the burden placed upon the DNO's by way of connection enquiries may be reduced. Third parties would be able to make early judgements at the feasibility stage of a project as to the likely potential connection point and therefore make their own assessment of capital cost to connect. For early stage appraisal purposes this may be sufficient. This could remove some of the work load currently flowing through DNO's connection gateway.</p>
Q21: When might it be reasonable to withdraw capacity it has previously offered to customers?	<p>There would need to be a compelling reason to withdraw capacity previously offered to, and purchased by, customers. In the scenario where a customer has purchased a connection, the connection has been provided but no take up of load has taken place for an extended period from connection and no subsequent reservation of capacity charge is being paid then it would not be unreasonable for the DNO to approach the customer to discuss withdrawal of capacity. However there should be greater flexibility to take account of load ramp up from initial power on dates through commissioning and building handover periods and to allow time for buildings to be fitted out and progressively occupied. If the customer is prepared to pay the capacity charges and has paid for the connection it would not be reasonable to withdraw capacity even if the load is not used.</p>
Q22: Are there any other changes which could be made to reduce the need for reinforcement?	<p>If the DNO's were required to maintain a clear headroom of between, say, 5</p>

	<p>to 10% spare capacity at its primary substations at all times then it may be possible to smooth out the delivery of reinforcement measures. The headroom would allow most developments to be able to connect within a reasonable time scale and would provide the DNO some flexibility in running its networks. This would not necessarily reduce the need for reinforcement but would allow more time to plan and deliver new capacity.</p> <p>To do this there would need to be a change to the current price control methodology which requires the DNO to run their networks wherever possible at maximum capacity or risk being penalised financially at review.</p>
Q23: What would justify a DNO offering more flexibility terms for connection charges? What might be the impact of this?	DNO's currently remain cash positive on all connections, this is achieved by upfront payments. On larger projects some DNO's offer staged payments, providing they can still remain cash positive during the installation process. This mechanism for staged payments could be introduced for certain smaller connections which would help smaller projects with their cash flow.
Q24: What type of schemes would most benefit from this arrangement?	This arrangement could be used to benefit community or charitably funded projects.
Q25: What could be done to protect other customers from picking up any costs which cannot be recovered from the original connection customer?	Not sure when this could occur.
Q26: Are there any other measures that would reduce the cost impact of connecting to the network?	Commercial contracts with connection providers other than DNO's are often carried out via standard forms of contract that require the installation works to be carried out in advance of payment, with valuation and payment for the works being carried out monthly in arrears. The introduction of this type of arrangement would be welcomed by developers as they are familiar with this approach and feel that it would put more onus on the DNO to meet programme and performance obligations. Late delivery would be subject to financial penalty proportionate to the client's loss. However this more commercial arrangement would potentially lead to higher costs as DNO's would then start to add risk premium to their costs. Payment in arrears

	<p>would be beneficial in terms of cash flow particularly for organisations carrying out community or charitably funded projects on a not for profit basis. However it could be argued that from a DNO's perspective that final payment should be made in advance of energisation in order to ensure that the DNO complies with its requirements to protect other customers from the effect of bad debts.</p>
<p>Q27: Which of the arrangements described above would deliver the greatest benefit to the connections process without placing additional risk or cost on the generality of customers, and why?</p>	<p>Given the various scenarios described, Scenario 2 appears to offer the most realistic chance of being supported by the DNO's and of being implemented in timescales that would work for a large section of the development community. Clearly there would need to be a change in mind set and approach by many stake holders in order to make this scenario work effectively.</p> <p>Scenario 3 also provides a solution that addresses the needs of providing investment ahead of need however there would need to be a catalyst to make it work, maybe a coming together of several stakeholders with a common aim. This scenario may take the longest to formulate but does provide a solution that could work with the least impact on competition in connections.</p>
<p>Q28: Should wider benefits beyond energy system benefits (such as those provided by NTBMs) be taken account of in DNO's or third parties' considerations of any of the measures or mechanisms described in this paper?</p>	<p>Currently the aspirations of the NTBM market is yet to be realised efficiently and effectively. In order to progress the case for investment ahead of need as quickly as possible the issue of benefits from NTBM's should be ring-fenced and dealt with via a separate review.</p>
<p>Q29: Do you have any other suggestions for delivering quicker and more efficient connections?</p>	<p>The Scenario's being considered are the result of a lot of work by the GLA and representatives from all the major stakeholder groups to which we have as an organisation contributed. The focus is on the strategic planning and long term investment needed to ensure quicker and more efficient connections.</p> <p>Further improvements can be made at the project delivery level through</p>

	<p>improved management processes within the DNO's, more investment in training people with the appropriate skills and greater encouragement for science and technology education for the next generation of engineers needed to rebuild our infrastructure etc. but this is not really the subject of this consultation.</p>
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