

Energy UK response to Ofgem's consultation on Quicker and more efficient distribution connections

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About Energy UK

Energy UK is the Trade Association for the energy industry. Energy UK has over 80 companies as members that together cover the broad range of energy providers and suppliers and include companies of all sizes working in all forms of gas and electricity supply and energy networks. Energy UK members generate more than 90% of UK electricity, provide light and heat to some 26 million homes and last year invested over £11 billion in the British economy.

Executive Summary

Energy UK welcomes Ofgem's consultation on quicker, more efficient distribution connections. We consider that developing a framework for anticipatory network reinforcement ahead of capacity being reached on distribution networks can be a positive tool to enable project developers to bring forward schemes that would otherwise not be viable. With large parts of the distribution network having already reached capacity, with some connection dates now extending into the mid 2020's, we consider Ofgem's consultation to be very timely. A summary of our key points can be found below:

- Anticipatory works should be cost reflective and ensure that over recovery by the Distribution Network Operator or third party developer is scrutinised by Ofgem to ensure that any "premium" charge for having anticipated the need for reinforcement is proportionate and appropriate.
- Anticipatory works should have no impact on currently contracted connections which have been signed and agreed between project developers and Distributed Network Operators. Energy UK would not support any new policy which erodes the Distributed Network Operators obligations to current customers.
- As part of any proposals to implement anticipatory reinforcement work on the distribution network there would also need to be a joined up strategy taking transmission constraints into consideration. This should include discussion with and between the Distribution Network Operators, Transmission Operator, System Operator and Ofgem as well as the generation and demand community.
- Anticipatory work involving reinforcement of the network should be considered in parallel with other possibilities such as active network management, storage, demand side response and other techniques developed through the Low Carbon Network Fund and Smart Grids Forum (as described in scenario 4). We would like to

see a commitment to Active Network Management at all High and Extra High voltages as well as the transition of Distribution Network Operators to Distribution System Operators.

- Stakeholder engagement for building a needs case for anticipatory investment is crucial as well as effective regulatory oversight to prevent inefficient spending by Distribution Network Operators. Lessons must also be learnt from related activities for the transmission system, such as National Grid's Network Development Policy (NDP), the transmission Strategic Wider Works (SWW) process and the Integrated Transmission Planning and Regulation (ITPR) project.
- It is not appropriate to mandate new connectees in the area to connect into the reinforcement. For overall efficiency (and thereby lowest overall cost to consumer) the broader test of a connection solution being economic, efficient and coordinated should apply in the first instance, which typically (but not always) results in the minimum cost scheme being the most appropriate.

Energy UK welcomes the opportunity to further discuss the scenarios set out in this consultation with Ofgem. Should you require further information or clarity on the issues outlined in this paper then please contact Kyle Martin on 020 7747 1834 or kyle.martin@energy-uk.org.uk.

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Response to specific proposals

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

Energy UK supports the concept of Distribution Network Operators (DNOs) being incentivised to invest strategically in reinforcements to distribution networks. We consider that Scenario 1 intends to reduce DUoS charges by allowing a more efficient and coordinated networks to be built, rather than undergoing smaller and more frequent reinforcement works in an ad hoc manner.

However, this option places the risk of stranded assets on DUoS customers and removes the signals which currently incentivise the DNO's to efficiently reinforce the network. We are unclear on the track record of DNOs in terms of the accuracy of their past load-growth forecasts therefore we request that Ofgem review this in order to decide whether the ability to forecast such trends should lie solely with the DNOs. We would like to see a worked example of how this scenario might be implemented to make a more informed decision regarding its applicability.

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

We are supportive of the proposals set out under Scenario 2. However, there are aspects of this scenario which we consider needs further review if this option is to be a viable. Ofgem must ensure there is no ambiguity in guidance documents and that stakeholders fully understand the criteria for any needs case assessment or cost benefit analysis that is undertaken by Ofgem.

Consultations must be developed and presented in a manner which allows all interested stakeholder to easily access and assess them. Considering we are likely to see more of these types of developments than we have seen in the past it is crucial that the consultations are in a format that allows stakeholders to easily assess and respond to proposals for anticipatory reinforcement.

Assessment of the Regulatory Asset Value (RAV) buyback model must be efficient with Ofgem's framework for assessment of anticipatory reinforcement needing to be simple and clear from the onset with information flows between DNOs and the regulator being swift.

We also request that Ofgem look at whether the initial connection customer requesting connecting is an essential part of this model or whether in effect the first customer could be treated in the same way that a second comer would be. This would rely on the DNOs identifying areas that are likely to become constrained ahead of this becoming the case. Applications for formal terms or budget connections, in tandem with recent history of connections and the DNOs own capacity heat-maps, could be useful tools to evidence the need for reinforcement.

Another barrier highlighted by our membership is the length of time it takes to build-out the reinforcement of networks. DNO timescales to reinforce networks are much longer than those to build Feed-in Tariff (FiT) scale projects. As a result, the time lags between the identification of a suitable network area and the actual reinforcement works being completed are too long for small-scale FiT projects to wait. By this point in time, they may have changed the projects location, no longer have the financial resources or the potential derogation no longer makes the scheme viable. These types of projects cannot commit to waiting any longer than a couple of years for connection; otherwise the economics of installing the project may no longer stack up. Further delays can also occur once connection agreements have been signed which can be disastrous for projects that have preliminary accreditation for a project.

We also note that under the new Contract for Difference (CfD) regime renewable energy projects are under pressure to minimise development and operational costs and income streams cannot be secured until a contract is awarded.

Premium payments:

If the DNOs are appropriately obligated to deliver anticipatory projects (via incentives) and Ofgem are confident they can develop a system which can appropriately predict where anticipatory development may be needed, then there may be scenarios where no premium is needed.

However, where this isn't possible and the level of risk requires a premium for the anticipatory work to progress then this should be well-scrutinised by Ofgem to ensure this is proportionate and appropriate. One solution which could address this concern of ensuring DUoS customers are reimbursed for their funding would be to extend the second comer rule from the existing arbitrary 10 years out to the lifetime of the asset.

We also note that DNOs must be allowed revenue-adjustment (outside of their approved RIIO plan) otherwise the DNO would be incentivised to not actively participate in the identification of any areas of the network which could benefit from anticipatory reinforcement. Any anticipatory investment solution must be introduced in such a way that it does not create network charging volatility: an 18 month warning should be provided to suppliers and this should be straight forward if these investments are truly anticipatory.

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

Energy UK considers that the DevCo model could provide a viable option in bringing forward anticipatory reinforcement for demand and distributed generation to connect to the network. Although there is a significant lack of third party organisations willing to build remote assets for connecting distributed generation under the current framework we consider that the DevCo proposal could incentivise new projects to come forward.

The DevCo model in its current form looks to provide a regulator framework more suited to demand connections. There would need to be strict regulation around the premium was applied to new connections (both DG and demand) to ensure cost recovery through the use of premiums was appropriate. This would need to be scrutinised by Ofgem to ensure that any “premium” charge for having anticipatory reinforcement is proportionate and appropriate compared to the level of risk.

We also consider that it is not appropriate to mandate new connectees to connect into the newly reinforcement section of the network. For overall efficiency (and thereby lowest overall cost to consumer) the broader test of a connection solution being economic, efficient and coordinated should apply in the first instance. This restricts competition and is subsequently contrary to DNO license obligations.

Scenario 4: Other ways of making it easier to connect.

Energy UK considers that active network management has the potential to provide addition space on the distribution networks at least cost in the shortest amount of time. In addition to implementing improvements from the Low Carbon Network Fund and Smart Grids Forum we also consider that DNO’s should benchmark against each other to ensure technologies and solutions to network capacity are implemented to ensure cost efficiency across the networks, these would include methods such as reactive power management. These measures should be used prior to network reinforcement as well as transitional tools to enable generation to connect to a network while reinforcement takes place. These solutions should be rolled out across Low Voltage, High Voltage and Extra High Voltage levels as soon as possible.

We foresee that the main areas to resolve here are the adequacy of DNOs IT systems to deal with a much larger number of generators across much wider geographical areas. DNOs should learn from both their own lower voltage trials and Transmission level implementation of network management in order to be able to accomplish this as soon as possible.

Another barrier highlighted by our membership is the length of time it takes to build-out the reinforcement of networks. DNO timescales to reinforce networks are much longer than those to build Feed-in Tariff (FiT) scale projects. As a result, the time lags between the identification of a suitable network area and the actual reinforcement works being completed, are too long for small-scale FiT projects to wait. By this point in time, they may have changed the projects location, no longer have the financial resources or the potential derogation no longer makes the scheme viable. These types of projects cannot commit to waiting any longer than a couple of years for connection, otherwise the economics of installing the project may no longer stack up. Further delays can also occur once connection agreements have been signed which can be disastrous for projects that have preliminary accreditation for a project.

A&D Fees

The pressure on DNOs due to the volume of connection quotes and low acceptance rates are widely documented. DNOs have presented their case for the reintroduction of A&D fees to both Ofgem and DECC already.

We support the introduction of fixed A&D fees provided that they are set at a reasonable level that deters speculative applications and also provided that feasibility study standards and turnaround times are also improved and potentially guaranteed to provide a good alternative for ascertaining available network capacity. Making better use of connection “surgeries” (without charging prospective developers) could also allow developers to discuss the best solution for their project with the DNO before submitting an official connection quote.

Adding the provision for applications to be accompanied by a Letter of Authority from the landowner stating that the developer has permission to develop on his land would prevent numerous speculative developers applying for a scheme at the same site. This requirement should be easy to implement.

Requiring DNOs to present the best solution and costed alternatives to reinforcement in Connection Offers in instances where they identify reinforcement need. This would help ensure that DNOs are actively and transparently considering the least cost innovative options alongside reinforcement.

Improvements in the information available to developers should also reduce the number of connection quotes. Advanced heat maps and the publication of contracted capacity registers would be beneficial across distribution networks.

Flexible terms for the recovery of connection charges

We consider that user connections could be enabled if charges are levied post-energisation. The DNOs financing arrangements are likely to be significantly cheaper than almost any single system users. To mitigate risks of projects which don't progress, some form of pre-energisation user commitment may be justified. Posting of liabilities would ensure that the original connection customer takes on their fair share of the risk relating to the costs of connection on the event that a project failed to connect. A clear, transparent methodology for any such user commitment would be essential to enable projects to progress.

Additional points

Under the presiding frameworks and methodologies DNOs have not been able to deliver strategic capacity to enable the high volumes of distributed generation which have sought to connect leading to an impasse where distributed generation has been all-but completely blocked in large areas of Great Britain.

As part of any proposals to implement anticipatory reinforcement work on the distribution network there would also need to be a joined up strategy taking transmission constraints into consideration. This should include discussion with and between the DNO's, TO', SO and Ofgem as well as the generation and demand community. There is no voltage rule between the Distribution and Transmission network boundaries to limit cost impacts and pass through of Liabilities and compared to the embedded project timescales transmission reinforcement is very lengthy in duration.