

14 May 2015

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By email only to: Olivia.Powis@ofgem.gov.uk

Dear Olivia

Re: Quicker and more efficient distribution connections

Brookfield Utilities UK ("BUUK") welcomes the opportunity to respond to Ofgem's consultation on quicker and more efficient distribution connections. BUUK is the parent company of electricity distribution licensees the Electricity Network Company ("ENC") and Independent Power Networks Limited ("IPNL"). Our licensees operate as Independent Distribution Network Operators ("IDNOs"), owning and operating 'last mile' networks which are principally provided to new developments. These networks connect to the distribution systems of DNOs. Additionally, BUUK is the parent of Power on Connections (POC) which operates as an ICP undertaking work which may be adopted by BUUK's licensees or other distributors.

BUUK's businesses compete with other ICPs, IDNOs and more particularly DNOs, to provide own and operate networks. These are principally to new developments. Since coming to market we have raised concerns on how the market for competition in connections is distorted by the actions and behaviours of DNOs.

The treatment of reinforcement is a vital component of the competition in connections market. How reinforcement is treated and financed can significantly impact and distort competition. Previously, we have engaged with DNOs and Ofgem on the way DNOs the funding of certain types of reinforcement is treated. We have experience of a number of occasions where DNOs provide partial funding (a subsidy) of reinforcement where their own connections business is to undertake the work, but offer no such funding where an ICP is to undertake work. This can foreclose competition in connections where such reinforcement is required.

This consultation appears to be looking at two areas. These are:

- The need to provide anticipatory reinforcement to speed up the connections process; and
- How anticipatory reinforcement should be funded.

We accept that anticipatory reinforcement may be required in a limited number of cases. However, where it is offered it should neither distort nor foreclose competition. Financing for such works should be equitable so that ICPs and IDNOs can compete on a level playing field with the DNOs' connections businesses.

In summary, other points we make are:

- To support the development and operation of an economic and efficient distribution system we believe that it is appropriate to give locational signals through connection charges. Giving locational signals is a principle that Ofgem has previously promoted. Subsidising charges for providing reinforcement can dilute the locational signal for connections in areas where capacity is limited, lead to inefficient investment and increases the burden on wider existing DUoS customers. Particularly, where the level of subsidy may be greater than the DUoS revenue recovered from future customers who benefit from the reinforcement.
- The common distribution charging methodology (CDCM) for use of system charges excludes reinforcement costs in its modelling. The effect of this is that reinforcement costs are smeared across all customer groups and network tiers using the CDCM MEAV cost driver. This unduly skews the allocation of reinforcement costs to higher network tiers because the MEAV at the low voltage tier is understated for reinforcement (it excludes two thirds of excavation costs, all reinstatement costs, and in any case is net of customer contributions). This means that customers connected at higher network tiers subsidise reinforcement provided to customers connected at lower voltage tiers. As consequence, we think that the funding of reinforcement carried out under the proposed scenarios could further exacerbate the unfair allocation of reinforcement costs between different customer groups.
- Scenario 1 does not allow for IDNOs or ICPs to fund investment for future speculative developments on an equivalent basis to DNOs since IDNOs do not have the same certainty of return on investment that DNOs would be given through this scenario. We believe that this would impact on competition in connections.
- BUUK is unable to support scenario 2 as it has the potential to severely impact on competition in connections as funding for such reinforcement works will only be available to DNO's own connections businesses, as evidenced by current practices.
- We believe that the nature of the RAV Buyback model will mean that parties may seek to use it as a means of providing funding at a stage where future connection requirements are unclear. We think it is inappropriate to place the burden of risk for premature reinforcement solely on existing DUoS customers. (Future customers only bear the risk if and when they connect).
- BUUK does not think there is a need for regulatory change to facilitate the DevCo model as described in scenario 3. We believe that such arrangements probably occur already.
- We do not believe that a DevCo should be able to dictate and control the new extension assets or hold to ransom the provision capacity for subsequent connection customers. This would be in contradiction with the licensed operator's statutory and licence obligations not to discriminate between those to whom it provides connection works.
- BUUK believes that with the roll out of smart metering, measures will be available to more effectively manage customer usage and therefore improve network efficiencies. We believe that this will be a major stepping stone to allowing network operators to develop more responsive networks which will, in turn, reduce the requirement for reinforcement.

Our detailed comments on the questions raised within the consultation can be found in Appendix 1 to this response.

We would be happy to discuss any of the points raised in further detail if required.

Yours sincerely

Mike Harding
Head of Regulation

Appendix 1

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

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?

Whether DNOs would be “sufficiently confident” about future connections demand is a question for DNOs. However, operating as an IDNO, we are not confident with this approach and believe it could distort competition in connections.

- Firstly, where DNOs provide and subsidise reinforcement they may foreclose part of the connections’ market to competition because of the way DNOs fund reinforcement when their own connections business bids for the work, but where such funding is not available to competing ICPs or IDNOs bidding for the work. We have experience of such behaviours and have raised concerns to Ofgem on how DNO part funding of reinforcement compromises competition. If anticipatory reinforcement is to be subject to arrangements, then such funding should be made available to ICPs and IDNOs – and not just to the DNO’s own connection’s business.
- Secondly, the socialisation of reinforcement costs may result in a cross subsidy to the DNOs’ own connections businesses from the DNOs’ wider DUoS customer bases. As an IDNO we compete with DNOs for the provision, ownership and subsequent operation of new networks. Our DUoS charges to end customers replicate the ‘all the way charges’ levied by DNOs to equivalent customers. Our DUoS revenue is determined from the difference between the all the way charge and the boundary use of system charge levied to us by the DNO.

Because DNOs have a larger customer base and are able to spread their reinforcement costs across a much broader base than IDNOs can. As such would not be able to fund reinforcement in the same way that DNOs could. Also the DNOs current use of system charging methodology, the CDCM, does not model the recovery of reinforcement. Therefore, the funding of reinforcement by existing DUoS customers is distorted.

Below we provide further observations on the socialisation of reinforcement costs and on the potential benefits (or dis-benefits) to consumers.

- a. Under the Electricity Act 1989 (the “Act”) an electricity distributor has a duty “*to develop and maintain an efficient, co-ordinated and economical system of electricity distribution*”. This duty is transposed into the licence conditions either directly, or as a general duty to comply with the Act. In considering whether a DNO should fund reinforcement, and to what extent, DNOs need to demonstrate that they are compliant with this duty.

We think such investment in anticipation of new connections can only be justified as being economic and efficient where the DNO can demonstrate that there is a high degree of certainty that future connections will materialise within a reasonable time horizon. Whilst there will be circumstances where this is the case, in many circumstances (the majority?) development strategies for sites or areas are aspirational with little certainty of what electricity load will materialise and over what time frame. Translating aspirational development strategies into reality will in the majority of cases be dependent on commitment from private investors and developers from stakeholders

other than local authorities or government. Such stakeholders will only invest where they have certainty of return.

Under Scenario 1 the DNO bears the very limited risk that the Authority will not support its reinforcement decision and be permitted to recover the associated investment through the price control mechanism. However, this is a risk that the DNO can elect to take. Where Ofgem approves investment, it is existing DUoS customer who will bear the risk through higher DUoS charges.

We believe that there are many examples of initial forward investment in development areas which remain dormant for many years and significantly under utilised.

- b. Where DNOs are permitted to recover investment through DUoS charges, it is DUoS customers that are ultimately required to fund (through DUoS tariffs) reinforcement undertaken in anticipation of future customers. Such DUoS customers have no choice on whether to bear the risk. Therefore, in respect of such investment, customers' interests need to be protected. For such customers we think the economic decision is whether the net present value of providing the reinforcement early, is cheaper than providing the reinforcement when new connection customers materialise. We question whether it is right that DUoS customers should solely bear the burden and risk of funding (through DUoS charges) what are in effect speculative investments and whether the investment burden should be shared across other stakeholders.

We think the investment decision for reinforcement in anticipation of new connections comprises two parts. The first part is whether the investment in proposed reinforcement should receive funding from the DNO and if so, the second part is in respect to the level of funding that should be provided; i.e. an 'economic test'. The level of funding should relate to the revenue that the new connections will generate. To do otherwise would result in a cross subsidy (which may already be the case under current connection charging methodologies).

Whilst we recognise that the speed of getting a connection will be important to future customers, we do not think, on its own, providing quicker connections delivers benefits to existing DUoS customers. Also we question the number of instances where the lack of anticipatory reinforcement has delayed significantly the provision of connections.

Q2. What other barriers are there to DNOs taking this approach? How might these be overcome?

IDNOs are subject to an RPC mechanism where the DUoS revenue that the IDNO gets is the difference between the all the way charge levied by a DNO and the boundary DUoS charge it levies to the IDNO.

As outlined in our response to question 1 above, under the current funding arrangements, the proposals under Scenario 1 fail to provide a solution for IDNOs funding reinforcement in advance of need on an equitable basis to that proposed for DNOs. Under current charging arrangements IDNOs are unable to recover the costs associated with anticipatory reinforcement on their own networks. The current distribution use of system charging methodology, the CDCM, does not model reinforcement costs and we have significant concerns that as a consequence the recovery of such reinforcement costs is unduly skewed to customers connected at higher voltages.

Therefore, to ensure that such costs are allocated on a fair cost reflective basis we think Changes are required to the CDCM to allow such costs to be recovered.

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

Overview

The comments we have made in respect of Scenario 1 apply in respect of this Scenario 2. In summary we think that:

- Such a scheme could distort competition between DNOs and IDNOs. Whereas such a scheme would provide a DNO certainty of cost recovery through the price control mechanism no such certainty would be available to IDNOs. Therefore, IDNOs would be required to take a much bigger risk than DNOs in such investment. We do not think such disproportionate regulatory treatment can be justified.
- Such a scheme could foreclose part of the connections market from ICPs and IDNOs since the funding of such works would only be available to DNOs' own connections businesses.
- Notwithstanding the above points, we believe further and full justification is required to demonstrate that funding of anticipatory reinforcement is in the interest of wider DUoS customers. We think funding should only be provided where there is a very high degree of certainty that the future connections (commensurate with the proposed anticipatory reinforcement) will materialise within a reasonable time horizon.

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 changed – and why?

We do not support the RAV Buyback Model to fund reinforcement for a number of reasons. These relate to the specific mechanism itself and to its wider impact on the connections market.

The RAV Buyback Model provides DNOs with a risk free option of building anticipatory reinforcement. This is because the risk is borne by future connection customers (because they pay connection charges), or where they don't materialise, by the wider DUoS customer base. We are not sure a mechanism that absolves DNO's from the investment risks provides the right drivers for efficient and economic investment.

We are concerned that parties may seek for this funding approach to be adopted at the aspirational or embryonic stage of development where there is insufficient certainty as to what the development will comprise, when it will commence and when it will complete. We are not convinced as to the merits of placing the burden of risk for premature reinforcement solely on DUoS customers.

Typically, for the types of development we think this type of funding is targeted at, there is a significant time lag (sometimes tens of years) between the aspirational/ gestation stage of the development (or development area) and the commencement of works on site. By the time works start on site, it is likely there are developers or investors with whom information has been shared and who are able to fund the development. Even when work on sites commences, they can take a significant time to mature with capacity requirements ramping up over the time; i.e. all the capacity is rarely, if ever, required on the first day of the first

connection. Therefore in the majority of circumstances we do not think reinforcement prevents or delays projects.

However, we think there may be merit in developing the Electricity Connection Charge Regulations to better facilitate the funding and cost recovery of work. We understand that DECC are already considering this.

In addition to our general comments above we make specific comment below.

- a. We think the RAV Buyback approach would give DNOs a significant but undue competitive advantage on sites where such funding is provided. We believe this provides significant potential to distort competition in the connections market. The RAV Buyback approach would not be available to IDNOs. Therefore DNOs would be given an undue competitive advantage over IDNOs.

We already have experience of how DNOs' partial funding of reinforcement (but only where they undertake the reinforcement) distorts competition. We have previously raised concerns on this to Ofgem on a number of occasions. However, the matter is still to be resolved.

Using the RAV Buyback Model to exclude IDNOs and Independent Connection Providers from this area of work could distort competition beyond the scope of the provision of the reinforcement. In funding such work from future customers or the wider DUoS customer base DNOs may secure an undue advantage in tendering for subsequent connections to the enhanced part of the network through their own connections business.

- b. Leaving aside the merits or de-merits of Scenario 2, we are concerned Ofgem may not have the resources to administer robust assessment and approval of more than a limited number of submissions.
- c. We note the suggestion that a new mechanism under the price control be put in place to allow DNOs to finance additional expenditure for this type of scheme. No justification is provided as to why such a mechanism should be established.

Q4. Please give details of any projects or schemes this type of arrangement could have helped progress which would have not otherwise gone ahead?

As the RAV Buyback Model would not provide funding access to IDNOs we do not have any schemes that would benefit from this model. The likely outcome is that implementation of such a scheme could foreclose part of the competitive market for connections.

Q5. What would justify requiring subsequent connection customers to only be able to connect to the new, enhanced part of the network?

New customers should only be mandated to connect to the enhanced network where:

- The connection charges (including any premium) to the new customer are no more than the cost of the notional minimum scheme in providing the connection; and
- The new connection from the enhanced network is provided in the same time frame as it otherwise would be (i.e. provision of the connection should not be delayed unduly).

As stated in our response to question 3, we do not support Scenario 2. We do not believe that subsequent connection customers should be mandated to connect to the enhanced part of the network. Requiring customers to connect to the enhanced part of the network which, owing to its funding, must be DNO owned could distort competition and lead to behaviours which may not be economic nor efficient.

Under section 19 of the Act the DNO is only entitled to “...require any expenses reasonably incurred to be defrayed...by the customer. We seek clarification on how this would apply to a new connection customer where making a connection to the enhanced system is not consistent with the minimum scheme. For example, how would it apply to an IDNO seeking a connection where the efficient and minimum solution for the IDNO may be a connection elsewhere on the distribution system or at a different voltage level? It does not seem appropriate that an IDNO or other party seeking connection should suffer an undue burden of costs as a consequence of a DNO’s failed investment decision.

Q6. What would justify a DNO charging a premium to 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?

We do not think there is a justification for discriminatory treatment of customers who connect to reinforcement provided under a RAV Buyback model compared to customers connecting to reinforcement funded on a different basis. The locational pricing signal to connection customers (if locational pricing signals are still considered to be important) is to connect elsewhere than on the new enhanced network. Once network is provided the pricing message should be to encourage customers to connect and use the new assets or at worst be neutral.

We are concerned that new connection customers who are ‘second comers’ could be required to pay a premium through their connection charge to enable DUoS customers to be paid back more quickly. We think such an approach may be flawed in several respects.

- We think that entitling DNOs to charge a premium to allow investment made under a RAV Buyback Model to be recovered more quickly than investment in other network assets may be in unduly discriminatory. Firstly against the second comer, since second comers connecting elsewhere on the distribution system are not subject to such a premium; and secondly against other first comers who will not receive a premium where they fund the initial connection costs.
- We think that such a mechanism may be inconsistent with the provisions of Section 19 of the Act which only entitles the DNO to “...require any expenses reasonably incurred to be defrayed...”. We are not convinced that levying a premium to new connection customers to manage a DNOs’ risk of stranded asset should be considered to be a cost reasonably incurred.
- Currently, and in accordance with the Common Connection Charging Methodology, DNOs fully fund reinforcement where it is in respect of work at greater than one voltage level above the point of connection. Charging a premium under the RAV Buyback model for anticipatory reinforcement appears to treat some customers more harshly than other connection customers and could be unduly discriminatory.

Q7. Over what time period would it be reasonable to expect DUoS customers to be reimbursed for their initial funding?

As stated in previous answers we do not support the RAV Buyback model as a means for providing funding. We believe the time period for DUoS customers to be reimbursed should be no different than for funding of other reinforcement assets (i.e. the 45 year period set out in the price control). In providing funding for anticipatory reinforcement there should be a high level of certainty that the future connections will materialise in a reasonable time horizon. If such certainty doesn't exist then we question why such reinforcement is economic or efficient and why DUoS customers should be required to fund it.

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?

We see little justification to use a mechanism other than existing mechanisms.

Q9. Do you consider that this approach would have any implications on competition in connections?

Yes. Please see our responses to previous questions.

We believe that there are substantial implications on competition in connections if the RAV Buyback approach is adopted. We think the RAV Buyback model could foreclose part of the connections market to IDNOs and ICPs. Our previous experience is that such funding is only be available where the DNO commissions and undertakes the work; i.e. where ICPs or IDNOS undertake the work under the competition in connections framework DNOs will not fund reinforcement on an equal basis.

This means that sites where the RAV Buyback Model is adopted will be monopolised by the DNO. We do not believe there is any compelling reason that an IDNO should not be able to build and/or operate the necessary deep reinforcement (including providing wider network benefits) and we believe that competition developing in this area will, in itself, enable quicker and more efficient distribution connections without the need for DUoS funded projects.

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

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?

In Appendix 2, Ofgem state that this scenario *"would require some regulatory changes, as the DNO would hold the reinforcement assets as if it were an IDNO, which is currently prohibited"*.

- We are not sure what barriers exist to prevent this from happening now or what regulatory changes would be required to address the concerns.

Our analysis is as follows:

- We do not think there is anything to prevent DNOs from entering into arrangements with DevCos for the provision of connections. We believe such arrangements probably occur already. We do not see anything difference in the relevant licence conditions that apply to both IDNOs and DNOs.
- Under the charging methodologies DNOs are required to fund assets more than one voltage tier above the voltage level at the point of connection. However, for such connections, the point of connection is where the network connects to the existing distribution system. Therefore, we do not think this places a barrier on DNOs. If it does it can be remedied now with a change proposal under the DCUSA governance arrangements.
- Once the network or reinforcement is provided and is owned and operated by the licensed distributor (DNO or IDNO) we do not think the licensee can discriminate who connects to the new network. Section 16(1) of the Electricity Act 1989 places a duty on an electricity distributor to make a connection to his distribution system to premises or to other distribution systems. Whilst Section 17 of the Act sets out circumstances where an electricity distributor is not required to make a connection. We do not think this allows for a DevCo to enter into an arrangement where it can veto who can or cannot connect to the new network.
- It seems inappropriate that a DevCo should hold ransom rights or control over who connects to a new piece of network. Whilst a DevCo may defray the expenses for the initial provision of a network, it is the wider DUoS paying customer base that funds the ongoing operation, maintenance and eventual replacement of assets. In respect of a new network the DevCo will not be paying charges.

One option would be for a DevCo to initially operate the network as a private licence exempt network. However, even here we believe there may be constraints on them operating it as a 'closed' network.

- We remain to be convinced that new connection customers (second comers) could be charged a risk premium for passing onto developers. This is because Section 19 of the Act (and regulations pursuant to it) only entitles the electricity distributor to require a second comer to pay charges in respect of costs reasonably incurred in providing the connection. We are not sure that a risk premium falls within that definition.
- Whilst Section 22 of the Act allows a person requiring a connection to enter into a special connection agreement, it is unlikely to be the DevCo that will be the owner or occupier requiring the connection. However, even if it is, the terms in such

agreement cannot be imposed on a third part seeking a connection. Where a new customer seeks a connection then the presumption must be that the request is made pursuant to section 16A of the Act unless the customer agrees otherwise.

- The development of arrangements under Scenario 3 should not create circumstances that prevent or distort competition, either because a DNO is able to offer more favourable terms where it provides the connection than when the connection is provided by an ICP or IDNO. Further arrangements subsequent to connection should not:
 - unduly prohibit IDNOs or ICPs from connecting to such networks
 - unduly penalise ICPs for connecting to such networks (through charging a premium).
 - Mandate that ICPs or IDNOs connect to such networks where more economic solutions are available – it is not the role of second comers to mitigate or reduce the risk of the first comer.

Q11. Please give details of any projects or schemes this type of arrangement could have helped progress which would not have otherwise gone ahead?

We think major projects can be (and are) funded and provided through consortium arrangements. What appears to be fundamentally different with this proposal is that:

- There is an accelerated path to cost recovery (through the levying of a premium). However this only occurs where new customers connect and pay connection charges.
- A DevCo can restrict who connects to the new reinforcement/ infrastructure.

We are not aware of any projects that have been constrained.

Q12. What would justify requiring subsequent connection customers to only be able to connect to the new, enhanced part of the network?

To justify the mandate that subsequent customers connect only to the enhanced part of the network, the terms and charges should be no more onerous than those associated with the minimum scheme that would be required to connect them to another part of the network. It would be unfair to force connection customers who are unrelated to the DevCo to be forced to connect to the enhanced part of the network if that connection does not form part of the minimum scheme. Not only will they face higher connection costs, they may actually face delays if the enhanced part of the network is not fully constructed.

Other connection customers unrelated to the DevCo should not be forced to repay the costs of the DevCo (especially if a premium is included in the connection costs) where alternative connection points may be available. We believe this would be counter to the purpose of this consultation and stifle competition for IDNOs and ICPs through providing less choice, higher costs for customers and exclusion of IDNOs from such arrangements.

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?

We do not think that Section 19 of the Act allows for a premium to be charged to a second comer; however, we are open to be convinced otherwise. Additionally we believe that the case has to be made that such discrimination against a second comer in requiring them to pay a premium where other second comers do not; and in favour of the DevCo in receiving a premium payment where other first comers do not, is properly due.

Notwithstanding the above point, if such premium is due, we have difficulty in understanding why it should not be available to all first-comers. The purpose of the DevCo funding reinforcement works is for an increased capacity to be readily available in a given area. If subsequent connection customers benefit from this additional capacity, and incur lower connection costs as a result than they would have done otherwise, there may be a case to argue that they should be charged a small premium for their connection. This premium should be on the basis that the total connection charge is no more than it would have been had the customer been connected using a minimum scheme prior to the anticipatory reinforcement. If the minimum scheme as designed would be to connect to another part of the network (i.e not the enhanced section) then it would be unfair, if they are forced to connect to the enhanced part of the network, to charge a premium.

Q14. Over what time period would it be reasonable to expect the customer to be reimbursed for their initial funding?

Please see our response to question 7.

Given that this is an investment by choice from an interested party there may be more flexibility to offer repayment terms based on the wants/needs of the DevCo. It may be reasonable to expect the initial funding to be reimbursed over a period of 10 years. This should give them sufficient time in order to recover the initial investment whilst not being too long so as to force subsequent customers to pay for ageing assets. However, the DevCo will be reimbursed only to the extent that new customers connect and pay connection charges.

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?

Under current legislation and licence conditions we do not think the initial investor can (nor should be allowed to) restrict the types of schemes that would connect to anticipatory reinforcement assets adopted owned and operated by a licensed distributor. If a DevCo wishes to retain such rights they can retain ownership of the relevant assets and operate as a private network.

Section 19.1 of the Distribution Licence clearly states that "*the licensee may not discriminate between any person or class or classes of persons in carrying out works for the purpose of a connection to the licensee's Distribution System.*" Any requirements imposed by a DevCo that would restrict the potential of a person or persons from connecting to a distribution system do not appear to be permissible according to this licence condition.

We believe that justification for restricting the types of schemes that were able to connect to the enhanced part of the network may be incompatible with the requirements in Q12 that would require subsequent connection customers to connect to the enhanced part of the network.

There is a mechanism currently in place for reservation of import capacity for UK Power Networks, set out in their Connection Charging Methodology. This requires payment to be made by the party requiring the capacity to be reserved.

Restriction of the type of scheme or premises that can be connected could lead to under-utilisation of the network with new customers seeking connection having to connect elsewhere. Such an approach is inconsistent with the requirement to operate an efficient and economic distribution system.

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?

Please read our comments in response to question 10.

There have been consortium arrangements in place for a number of years so as long as all parties are prepared to work together then this happens already. The key differences in this proposal are the requirements to pay DevCos a premium and the ability of DevCos to restrict who connects.

Scenario 4: Other ways of making it easier to connect

Reducing the Need for Reinforcement via Network Management

Q17. What role, if any, could changes to engineering standards play in helping to accelerate the connections process without damaging reliability levels? In what circumstances would this be appropriate?

Demand Side Response (DSR) coupled with Demand Side management (DSM) through automated active network management could help reduce reinforcement and can make connection costs cheaper. However, to support this more dynamic use of system tariffs may be required to provide appropriate incentives to customers.

Additionally, engineering standards will need to be reviewed and enhanced to accommodate DSR and DSM. We understand that there is already some development work in this area. Review of the Engineering Recommendation P2/6 is already under review by the Energy Networks Association.

As a starting point, an approach that could be adopted is learning from Low Carbon network funded projects like Capacity 2 Customers.

Q18. Which particular standards might most benefit the connections process if changed?

We believe that Engineering Recommendations P2/6 (currently under review but requires enhancement in scope), ETR 130, ER G59 and ER G83 (under review requires enhanced review scope) would most benefit the connections process if changed.

Reducing the Need for Reinforcement by Managing Connection Offers

Q19. What benefits might the introduction of assessment and design fees bring?

We do not believe that introducing assessment and design fees will in themselves reduce the need for reinforcement. For most developments, factors other than the cost of reinforcement have a much greater influence where development takes place. We note that DNOs are concerned that the removal of A&D fees has led to a significant increase in speculative requests for connections (particularly in respect of generation). The intent for introducing A&D fees would be to discourage customers from making speculative requests to identify cheaper points of connection; i.e. areas where reinforcement is not required. Therefore, such move would appear to have effects that may work against reducing reinforcement.

Notwithstanding the above we may support the introduction of Assessment and Design Fees where, and only to the extent that, DNOs make the activity contestable; i.e. where they have systems and information available to enable a third party to undertake the assessment and design without reference to the DNO. Such an approach allows a customer to quickly assess points where it can connect, reduces the burden on DNOs in undertaking such activity and reduces speculative requests. To facilitate this DNOs need to provide access to relevant information to enable third parties undertake such assessment.

In general, development of systems to provide greater transparency and availability of information on the capacity available on the network system (to DNOs and to relevant third

parties) will assist the management of capacity of network for existing and new customers. This will not be brought about by the introduction of A&D fees.

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 DNOs manage interactivity between schemes looking to connect to the same part of the network?

Assumptions on available capacity at a distribution system node can only be made in respect of the information available. The availability of more accurate and dynamic information may assist in a more flexible assessment of capacity; e.g. what is the range in system peaks and when system peaks occur.

Additionally, certain non-domestic customer may be willing to accept lower levels of security for capacity at certain times. However, appropriate incentives would need to be in place for such customers (reduced connection charges for new customers, lower DUoS for existing customers).

Q21. When might it be reasonable to withdraw capacity it has previously offered to customers?

We do not believe that under the Act an electricity distributor has a unilateral right to withdraw capacity. We believe the capacity, or maximum power requirement can only be reduced with the customer's consent. We note DCP 115 is progressing as a modification under DCUSA governance. However, we believe the premise that the DNO can withdraw capacity is flawed.

For many non-domestic sites the capacity requested is overstated and a customer may be paying more for their electricity use (through high capacity charges). In such circumstances distributors may be able to agree a reduction in capacity which can then be allocated to other customers. However, such reductions can only be by agreement.

Q22. Are there any other changes which could be made to reduce the need for reinforcement?

Demand on networks is not flat; it is subject to peaks and troughs throughout different times of the day, week and year. Flexible tariffs that provide pricing message incentives to move their demand to 'off peak' periods. This could be done through not only the unit rate but through having variable capacity charges.

A more active approach to demand side management may reduce the need for reinforcement in certain circumstances. This could include voltage reduction schemes, or load shedding arrangements with customers.

The connection of generation at demand hot spots may offer opportunities to defer upstream reinforcement by offsetting ('peak lopping') demand. However, under EU directives distributors are unable to own and operate generation. Such solutions could include solutions of energy storage during 'off peak' times for release at peak times. To facilitate this, a commercial framework to incentivise third party arrangements is required. For example, what rights would a distributor have to control dynamic operation, what incentives would/could a DNO offer, what are the connection costs and use of system charges for export and demand.

Flexible Terms for the Recovery of Connection Charges

Q23. What would justify a DNO offering more flexible terms for connection charges? What might be the impact of this?

Where the cost of connection is a critical component of whether a connection proceeds then there may be an approach where they can be annuitized and recovered in future years. However, the questions that would need to be resolved are whether the debt for connection would reside with the person requesting the connection (even if they move) or whether it resides with the premises (even if the person requesting the connection moves away).

Better phasing of the recovery of connection charges in line with expenditure on assets may assist in some developments, particularly where phasing of works are over a long period of time. We believe that this must be agreed on commercial terms and does not require regulatory change.

Q24. What type of schemes would most benefit from this arrangement?

Schemes that are protracted over a long time horizon.

Q25. What could be done to protect other customers from picking up any costs which cannot be recovered from the original connection customer?

Credit should only be offered to those customers that have a robust credit score. Licensees should not be high risk taking businesses. Alternatively insurance bonds could be put in place to cover potential loss.

Q26. Are there any other measures that would reduce the cost impact of connecting to the network?

Competition drives efficiency and innovation. The continued development of competition in the connections business will reduce the cost impact of connecting to the network. Full implementation of self connect and self-assessment will reduce costs of connecting to the network. Introducing national competency arrangements would reduce the need for trade tests which subsequently increases timescales and costs.

The development of competition in connections will lead to providers offering innovative solutions to customers requesting connections in order to win work which could result in different financing arrangements.

For generators, capitalising the benefits that a generator may bring to a distribution system and offsetting them against connection costs could reduce connection charges in some circumstances and would maintain a locational pricing message. This may be particularly appropriate for generators charged under the CDCM for use of system.

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?

Of the 3 scenarios, we believe that Scenario 3 is the more viable. However, we do have concerns to this proposal. These have been set out in our responses to the relevant questions.

Q28. Should wider benefits beyond energy system benefits (such as those provided by NTBMs) be taken account of in DNOs' or third parties' considerations of any of the measures or mechanisms described in this paper?

For congested networks, the adoption of DSR/ANM schemes could create advance head room for future connections.

Learning from various Low Carbon Network Funding projects must be translated into regulations. In new Network Innovation competition, Small and Medium Enterprises, ICPs and IDNOs must not be barred to compete as it was done during LCNF in the last price control. DCRP5 ended on 31st March 2015.

SMEs, ICPs and IDNOs are more creative and can offer cost effective pilot projects. Their existing nature of business is not commercially supportive to sustain any trial pilot project. Incentives if offered to these market forces, can pave way for bright future in the connection market.

Apart from network improvement, funding to small players as mentioned above will create more jobs /reduce unemployment and host various other social benefits include the skill base required for smart networks in future.

Q29. Do you have any other suggestions for delivering quicker and more efficient connections?

Please see our response to question 26.

The emphasis of this consultation has been on the provision of anticipatory reinforcement to areas short on capacity and on how this should be funded. One of the options that has not been considered as part of this consultation (even if it is to only discount it) is whether there should be a move to shallower connection charging methodologies.

Such an approach would significantly dilute locational pricing signals and lead to higher DUoS charges. However, it should be noted that this is in effect the approach that has been adopted for reinforcement to customers connected at LV, subject to NHH settlement and where reinforcement is not required to a customer's service line.