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Overview

We have some concern that the responses to this consultation will not be fully representative of the potentially affected consultees due to the specialist nature and complexities of this topic.

We recommend that more work is done on a broad range of real, exemplar projects (see Q4) to demonstrate the impacts and importance of this agenda to local authorities and other economic regeneration bodies.

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?

A DNO should be confident about this if it's decision to invest is based on clusters of proposed developments within a discrete geographical area.

Liverpool City Council (LCC) analysis of historic planning application data shows that over the last 10 years at least 70% of planning applications, that would have a significant load impact on the network, have proceeded to be constructed within the life of the planning application – currently 3 years. This data is partly based on a time period of difficult economic conditions, this percentage is therefore likely to increase as the economy improves.

Based on this historic planning data a DNO could reinforce for 70% of predicted new demand based on new planning applications clustered within an area with a very low risk of stranded assets. The details of approved planning applications are publically available and accessible on line. LCC are working with the DNO and the Local Economic Partnership (LEP) to trial and make better use of this intelligence.

This approach would not be applicable for a single or of isolated developments.

The cost to connecting customers is likely to be significantly less if the network was reinforced in advance of connection need as the costs are being paid for by DUoS customers. The DUoS customer base would be expanded by connecting customers, albeit that this would not significantly dilute these additional costs.

There could be less reinforcement work required under this approach than if a piecemeal approach was adopted,

These savings should be reflected in the final DNO proposals which could offset the cost to DUoS customers.

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DNO's now submit business plans with an 8 year life period. It is difficult for DNOs with their current structure and skill set to identify where anticipatory reinforcement is required 8 years in advance as business plans are developed. There is a danger that new regeneration areas will not be picked up Or there may be areas with a large cumulative number of smaller developments that are not picked up because they are too small scale for the DNO's forward planning department to have considered, but collectively these clusters of developments could have a big impact on the network.

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

- The acquisition of land to host the necessary additional assets for reinforcing the network for connections may be an issue for the DNO. There would be no incentive for new connecting customers to provide this.

- Risk management is a routine part of good business practice and a national approach to risk needs to be established. The current process encourages the DNO to be quite risk adverse with strong mythologies around stranded assets few of which appear to be stranded with a longer business planning horizon. UKPN may appear to be less risk adverse, having requested £100m of strategic investment within the current model and this process needs to be considered by other DNO's when they can demonstrate that they have a realistic understanding of local risk

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

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?

Such an approach would need to be exceptional and to be agreed with, and supported by, the appropriate local authorities or development agencies. It should only be undertaken if financial modelling demonstrates that the potential cost increase to consumers and new connecting customers would be minimal and that customer and public benefits outweighed the costs. If so we would support this approach

Consultation by the DNO on the funding model being proposed by the DNO is important. There needs to be the opportunity to challenge the DNO as to why a scenario one, or other, would not be more appropriate. (This consultation and challenge stage would need to be applied to all scenarios.)

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The full financial benefit to the DNO of improved infrastructure and reduced management and maintenance must be transparently built into the cost modelling to off set some of the Duos customer risk..

We need to be able to demonstrate to developers that being charged a small premium to be connected was cost beneficial to them compared to options of no connection availability or higher first comer charges

We would need to consider whether it is possible to easily define the enhanced part of the network when it is an interconnected network as Liverpool enjoys

The ability to apply this area approach to distributed generation customers would be welcomed as would the facilitation of other environmental benefits. However, this is conditional on not significantly increasing costs for existing customers.

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

This approach would lend itself to an area with little or no existing capacity but with a large number of small uncoordinated development proposals. The small first comer would then not be faced with the prospect of having to pay the full cost of the reinforcement works.

A worked example for the Baltic Triangle area of Liverpool has been previously shared with Ofgem , DECC and Treasury. This example has been accepted by Ofgem and Treasury and DECC as demonstrating that there is a problem. What has then to be resolved is what is the best answer to the problem – scenario 1 or scenario-2 . From a local authority perspective further work would be required to challenge and to work through an actual model with the support of Ofgem could be confident that the DNO figures as given are fair and neutral.

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

It would have to be demonstrated that it is in the wider interest of the new connection customer to connect only to the new enhanced part of the network. It could not be justified if it was cheaper for a development area customer to pay to be connected outside the development area unless the area had added benefits. The Local Authority would require the information on future customer cost scenarios and added benefits to enable then to make a balanced decision on whether or not to support a RAV model in a particular area.

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

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work? What might be the impact of this? How should the premium be calculated?

Any premium charged must be shown to be reasonable and overall taking into account the customer and public benefits and the customer risk of the alternative of there not being sufficient infrastructure to have a connection.

Given that the risk premium will only be applied to standard minimum cost schemes it should only be a small additional proportion of these costs or these connecting customers will be unfairly penalised in terms of cost.

Given that charges to DUoS customers will increase if all the proposed development doesn't take place then some means of ensuring that this is minimal and proportionally balanced against the possibility of future cost savings would be appropriate.

This needs to be reviewed on a case by case basis and something that the local authority/development agency should consider prior to this funding model being approved.

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

If DUoS customers are going to fund the reinforcement and then be reimbursed then this should be completed within the 10 year period.

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?

It is difficult to provide further comment on this due to the complexity of the existing revenue formulas and a lack of clarity of how sensitive they would be to this adjustment and other changes that may also happen over the same time period.

The 5th paragraph of page 14 of the consultation document suggest that providing all the new capacity is taken during the revenue control period there would be no change to DUoS charges. This approach would be supported.

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

The role of IDNOs and ICPs could potentially be affected. However, given that this scenario would lend itself to a number of small un-coordinated developments then the IDNO approach is probably unattractive in any event.

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There needs to be challenge that the advance work that the DNO has done is both necessary and has been delivered in the most cost efficient manner and could not be delivered by an IDNO and ICP approach at less cost

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?

We understand why some economic regeneration bodies will have the appetite to take on this role and it does allow for a potentially different route, particularly where development pressure is exceptionally high and the of delay in connections are significantly affecting active development costs.

If a DevCo model was to be adopted then it should ideally have the potential to address all utility connections and not be limited to power in order for the DevCo model to be successful it needs to be able to unlock all issues to enable development to take pace. There could be significant construction cost savings of having combined service trenches etc. Maintenance costs could also be reduced by having a single opening in a carriageway/footway rather than several. The disruption costs to the local economy and inconvenience to the travelling public would also be minimised.

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

It would allow a fairer sharing of reinforcement costs across a number of developments. This may assist in making developments more financially viable.

Large developments could most likely afford connection costs under traditional models. In high growth development areas the risk of not having a second comer to share costs must be low. Therefore this model may have limited application based just on connection costs. However, connection time could be significantly reduced enabling the highest value developments to move forward at a far quicker pace, hence reducing overall development costs.

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

This could be justified if the DevCo area was tightly defined such as a new business park which has a clear geographical boundary. It becomes harder to justify if the model is applied to a mix of brown field sites and redevelopment of existing sites.

Therefore in order to create a DevCo all the local authorities in the area should first agree to this so that there is clear support that this model would be advantageous for inward investment. It is understood that the DevCo model will only be used on rare occasions.

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?

Justification could be made on quicker connection timescales. However, it may be difficult to explain what notional time saving has been made and for the developer to accept this premise. Therefore the premium should be kept as small as possible.

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

The length of the second comer rule or until all spare capacity is taken up, whichever is the sooner, would be appropriate.

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?

This is hard to justify given that the network is being managed by the DNO. It would be different if the network were an IDNO. Therefore this approach is only considered appropriate for something like a new business park where all the new connecting customers would be part of the DevCo partnership.

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?

Questions as much as comments :

- Why do normal connection regimes need to be suspended? Could the DevCo not just buy a particular capacity for area it has just paid the reinforcement for? It can then sell this on to developers and recover a proportion of the reinforcement costs from the sale. Why cannot another developer connect in the area using the normal rules? They would have to pay for any additional reinforcement etc.? The DevCo should be incentivising all developers to use them so developers would want to do this by choice not by rule.

- Can a developer have a planning condition that they must become a member of the DevCo or will planning legalisation need amending?

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Considerable effort will be required to ensure that connection costs / or delay reduction costs make the overall development costs less. There would be significant set up costs for a DevCo with a number of legal agreements and finance arrangements required. These costs, plus any profit, will be passed onto connection customers.

Scenario 4: Other ways of making it easier to connect

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?

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

4.2 Reducing the need for reinforcement by managing connection offers

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

Whilst it would help focus potential connecting customers on only pursuing credible propositions it is not supported. This could have a significant impact on community groups, not least those involved in distributed generation. It could also be a deterrent to small businesses.

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?

Yes the DNO's require greater incentive to actively manage available capacity, including capacity held unused in related developments.

Assumed available capacity calculations do need to be cautious but the current system seems to encourage DNO's aim to be risk free. In reality the local issues experienced with network failures are more likely to be based around poor future planning, for example not anticipating network impacts of changes of use to 24 hour lifestyles and an understanding of cumulative impacts and lack of planned investment. This whole system requires active management and incentives for the DNO to better manage and understand the reality of local business risks.

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

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If capacity has been unused for a substantial period of time then the business should be contacted by the DNO to see if this can be released. This would reduce the need for technical reinforcement when the reality is the network has capacity. There is currently no incentive for a DNO to do this.

Planning permission is now only given to sites for 3 years before it expires. Based on this approach there is a strong case that capacity should be withdrawn on a similar time period. As stated below there needs to be a great role for DNO's in managing network capacity far more effectively to limit the need for expensive reinforcement.

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

DNOs should have an incentive to reduce network load and the need for reinforcement, rather than continue to just grow the network capacity.

4.3 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?

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

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

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

Could more costs become contestable?

Summary and next steps

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?

It is important that in such a complex area an independent answer to this question can only come ultimately from Ofgem. In the longer term as these issues become more connected to economic development it is important that mechanisms are devised that both , simplify the current system and widen the understanding of the current system.

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?

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Wider economic regeneration issues will have to be acknowledged by a requirement for formal sign off to either a RAV or DEVCO model by the appropriate local authorities or economic regeneration body.

Throughout the implementation of any changes increased incentive for reducing the future demand for electricity should be built in.

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

The process is complex, and this consultation document is hard to understand unless you have considerable experience in the energy industry. This complexity is preventing developers from benefiting from the competition in connections that is already allowed for. Only if a developer is very informed are they likely to consider alternatives to just using a DNO.

There does not appear to be any straightforward guides that a customer can follow without undue technical knowledge.