GREEN HEDGE
RENEWABLES

Olivia Powis
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By email:
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Dear Olivia,

Green Hedge Renewables is a developer and operator of solar farms in the UK. We have successfully realised 18 solar farms to date and are working on a similar number of projects under development. This letter contains my response to your consultation on "Quicker and more efficient distribution connections", launched in February this year.

Question 1

For any type of renewable generation, there is uncertainty as government policy changes with regard to which technologies and sizes of projects receive what level of support. Similarly, planning law is often unhelpfully vague. Any confident assessment of future demand is subject to changes in government policy. For instance, the removal of financial support for any type of onshore wind project would leave investments ahead of need as stranded assets. It is easier for a DNO to forecast demand for a wider region, i.e. at substations and higher voltages.

Question 2

While generally supportive of allowing DNOs to invest more strategically in network upgrades, our concern is that the timeline for these works would still be much longer (years) than the commercial horizon for most projects (months).

Furthermore, it would be difficult for a DNO to evaluate the likelihood of future demand as this would require a qualified opinion on commercial attractiveness of new demand, availability of willing landowners, and the likelihood of obtaining planning consent. Especially at present, applications for connection carry little information about actual demand as many developers apply on a speculative basis. The German system (see annexes) has the advantage that DNOs need to respond only to actual connection requests where all these questions have been answered.

Questions 3 – 9

This model would be our second preference after our proposal described above, which has the advantage of allowing earlier connections based on actual rather than expected demand. The reason why we still think that the RAV buyback model would be an improvement on the status quo is that known capacity constraints that have arisen as a result of recent actual demand would be addressed now. In the absence of cost estimates by DNOs for their work and indications how much a typical second-comer would be charged it is hard to comment on projects that would have been made viable.

Questions 10 – 16

In our view the DevCo model is unlikely to be viable in practice. The assumption behind it is that one applicant alone cannot justify the cost of a grid reinforcement but the cost shared between several

applicants may be commercially viable. The challenge for this is that a developer has no guarantee that other developers will realize their project as they may fail to raise funding, obtain planning consents, or secure required property rights. The chance of the overall project succeeding increases exponentially with the number of developers required.

For instance, if any single project has a 75% chance of going from feasibility study to realisation, in a club of five developers required to pay for the grid connection the overall chance of realization of any project is $75\%^5=24\%$ only. In this scenario, a developer that has invested in his project on the assumption that other developers will share the grid connection costs finds herself in the same position they would have been in without the DevCo, i.e. a grid connection cost that makes her project unviable, but only after having invested significant resources in the project.

This could be avoided by getting a firmer commitment by all DevCo participants to pay for their share of the grid connection costs regardless of whether their project goes ahead or not, but this is unlikely to be financially acceptable to most developers.

In the same way that forecasting demand is difficult for a DNO, anticipating future connections is nearly impossible for the initial applicant. Financially, the expected cost recovery from second-comers, therefore, is zero. This, however, means that projects that currently do not go ahead because high grid connection costs render them unviable would still remain unviable in the future.

Questions 17 – 18

Security of supply is the wrong dimension to reduce the need for reinforcement. As described above, any investor in renewables, whether a household or a pension fund, relies on the low risk nature of the asset. Facing unspecified disconnections without compensation makes any project unviable. On the other hand, the example of Germany demonstrates that for the connection of variable technologies such as wind or solar, assuming 100% utilisation at all times is unnecessarily conservative and leads to excess capacity on the grid. Hence we strongly support a standard that a) allows early connections to constrained parts of the network on condition that b) the generator's output can be reduced remotely by the DNO if actual network conditions require it as long as c) the generator is fully compensated for the loss of revenue.

Question 19

It is unlikely that design fees would reduce the number of applications significantly. We would consider them "fair" only to the extent that DNOs would in return publish all operational data required for a network assessment to independent UCPs, which could thus carry out the assessment and design themselves. At present, the information published by DNOs is out of date and not sufficient. In our experience, constraint maps (incl. those online) by several DNOs are wrong more often than not.

Question 20

More flexibility is required in that DNOs should make more detailed estimates of demand (see above).

Question 21

The introduction of conditions in recent connection offers has been haphazard and often unrealistic (e.g., conditions to achieve planning consents in a timeframe that is unlikely and by no means guaranteed by planning authorities). As applicants make significant downpayments, there is no incentive to keep a connection with no realistic chance of ever using it. In our experience the most common reasons for a delay between accepting a connection offer and connecting are delays in the planning process beyond the applicant's control, and delays by DNOs to confirm unconditionally a connection date, which can delay financial close.

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Question 22

As described above, when considering actual HH demand rather than assuming permanent 100% utilisation for all demand / generation.

Questions 23 – 26

It is unlikely that more flexibility as to the timing of payments will make any difference to applicants. Community and other projects have substantial other upfront costs (installing wind turbines, solar panels etc.) before revenues start coming in so in principle there is no problem with upfront charging.

We suspect that community groups struggle with the amount of payments, whether they are levied upfront or over time. We cannot foresee any circumstances where spreading costs over the expected live of a generator improves the expected returns of a project, especially since the cost of capital for community groups tends to be lower than for DNOs which would mean that the economics for community groups would deteriorate.

Questions 27 – 29

As stated above, we see a German-style model as delivering best value to customers. Of the models studied in more detail in the consultation, the RAV buyback is our preference. We see as critical to the consultation that apart from network charges it takes into account the expected impact on LCF charges and the benefits from meeting the Climate Change Act targets.

Supporting evidence

In addition to my consultation responses, I also attach two annexes which support our consultation response. However, I would note that these documents contain large amounts of business sensitive and propriety materials. As such, I would ask that these materials are not published on the Ofgem website.

If you have any questions, I would be happy would be happy to discuss in more detail.

Yours,

Niels Kroninger
Managing Director