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Dear Olivia,

This is a response to the 'Quicker and more efficient distribution connections consultation' on behalf of Community Energy Scotland.

The consultation raises a wide range of timely and challenging considerations, and on behalf of the community organisations that we represent, we are glad to have participated in the background to the consultation and this opportunity to comment.

Before considering the questions in detail, we would like to make some general observations in relation to the scope.

The first is that the level of risk in relation to the development of new generation projects relates primarily to the planning regime and government incentives. The changes considered below need to be proportionate to the likely development of the distributed generation sector in light of these risk factors. Our view is that as renewable technologies and costs continue to improve, the supply chain develops, and the electricity supply market evolves, there will continue to be strong growth in demand for new generation connections.

It is conceivable that this growth will ultimately decouple from government incentives and be driven purely by market forces, as has already begun for some technologies. However this is provided that the costs and timeframes for grid access don't become an insurmountable barrier, as they already have in some areas of the UK, as this could lead to a vicious spiral of supply chain deterioration, reduced deployment and increased costs. Agreement on this point is fundamental to taking a view as to the level of change required to existing arrangements.

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The second is that the extent to which any of these options will be implemented, whether in name or in practice, will depend heavily on the nuances of the relationship between DNOs and Ofgem, and what is signalled in terms of Ofgem's fundamental priorities. For a long time, DNOs' business plans have been focused on minimising the pass through of DNUoS charges to the general customer base. This has been driven by the expectation that implicitly or explicitly it is what Ofgem wanted to see.

Under RIIO-ED1 further incentives in relation to customer service, network efficiency and network security have been introduced, and these are very welcome. However for DNOs to seriously embrace the challenges thrown up by distributed generation and dramatically accelerate the number of connections required for carbon and energy security policy objectives, a clear message needs to be received from Ofgem. This would need to recognise that consumer costs relating to electricity and gas do not reside solely in the cost of network infrastructure, but the cost of energy supplied and the business models that provide services to consumers.

In our view, a diverse electricity generation sector, at a range of scales and ownership models, directly supports a competitive electricity supply and energy services market, with direct cost implications for consumers. This is a general point but particularly relevant to customers in off-gas grid areas, who are more reliant on electricity networks for heat.

To reinforce this more holistic, energy systems approach, stronger or additional incentives are needed to encourage DNOs to move from a traditional reactive approach to network investment, and consider wider system benefits and customer interests in their business plans. These could be sharper signals in relation to average connection timeframes and customer service. Going beyond that, additional indicators could include the measurement of electricity carbon intensity and customer fuel poverty on DNO's networks, with independent incentives for their reduction.

Both of these indicators are measurable with known baselines, and would complement national energy policy objectives and help ensure a joined up approach to their implementation. Fundamentally they would support a culture where the options outlined in this consultation can be considered as business as usual rather than distractions from established practices.

In our response we have decided to focus on the following key questions:

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?

In our view, all of the options should be available to DNOs as part of a toolkit that can be applied in different circumstances. It is not possible to quantify the risk/benefit in generic terms as they apply to different situations. However we would make the following observations:

- Scenario 1 is appropriate for large scale strategic investments that exceed the ability of any individual customer to pay for within a realistic timeframe. It is appropriate that the threshold for approving investments of this nature is high in order protect wider system users and avoid speculative investment; however where it is the most efficient solution the option must be open to DNOs, with clear guidance provided by Ofgem for all stakeholders to understand the evidential requirements. While there will need to be consideration case by case, a starting point could be the combination of a geographic area being included in a national government or Local Authority

strategic plan for new generation, or at least 50% of the upgrade capacity relating to consented generation projects.

- Scenario 2 is similar to option 1 but with a reduced DNUoS risk profile. As such the approach taken for transmission connections could be appropriate, where a high proportion of the reinforcement costs are socialised (in this case recovered through second comer charges), and the payment profile is staged depending on the risk profile of the project. The case for a DNO applying this approach could be based on a concentration of consented projects in a specific location, e.g. 25% of the upgrade capacity behind the new local connection assets.

Allowing DNOs to restrict new connections to upgraded assets and charge a premium could be counterproductive in terms of de-incentivising new connections to make use of the infrastructure, and also risks anti-competitive behaviour if DNOs have discretion over pricing network access. Any such proposal would need to be closely monitored by Ofgem and representatives from industry bodies.

- Scenario 3 may have a role to play in specific circumstances, however in most cases there is a low likelihood of sufficient projects going forward within similar enough timeframes to warrant risk underwriting by a developer or third party. Allowing more discretion over the subsequent allocation of capacity could increase interest, but at the risk of network underutilisation and increased complexity.
- Option 4.3 is lower risk from a DNUoS perspective because the developer remains liable for the full cost of the connection, but with payments spread over time. However sole use assets remain at risk in the event of a project failing during the construction phase for example. We have previously suggested that this risk could be mitigated by only allowing the deferral of reinforcement costs rather than local connection costs. Since reinforcement relates to shared use assets, there is a high likelihood that the assets will ultimately be used by another demand or generation customer. In our view this is a strong and deliverable proposal, and would deliver significant benefits for generators in constrained network areas where reinforcement costs are often >50% of the connection cost.

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

This consultation is focused on distribution level connection issues. However for many distributed generators, transmission constraints are the limiting factor - c60% of Scotland's distribution networks are transmission constrained, with new connections limited to 50-100kW for several years. Currently the distribution/ transmission interface is complex, with a lack of ownership of customer management between DNOs, TOs and the SO. This needs to be urgently addressed by more joined up working and streamlined procedures. We would urge more serious engagement by the SO and TOs with DG customers- a dedicated workshop chaired by Ofgem could be a useful starting point.

A specific issue is the requirement for a BEGA contract in addition to a distribution network connection offer for distributed generators seeking non-firm access to the transmission network. This duplicates the contractual arrangements required for most projects and

increases the cost/administration for the generator, simply because the procedures were not designed with small embedded generators in mind.

In general non-firm connections and export limited connections have an important role to play in facilitating network access in constrained areas, however there remains a wide range of policies between DNOs and a lack of standardised guidance on export limited connections in particular. While we recognise there is a need for innovation in these emerging areas and this will give rise to variation between DNOs, it is important that learning is captured and consolidated as we move to agreed technical standards. We would welcome inclusion of export limited G59 connections in the relevant technical workgroups.

Thank you for your consideration of our consultation response and please let me know if you have further questions.

Yours sincerely

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