

To licenced distribution networks,  
generators, parties to DCUSA,  
suppliers, customers and their  
representatives, and other  
interested parties

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Dear stakeholder

**Consultation on principles to be considered when recovering the costs of providing 'flexible connections'**

I am writing to seek your views on a number of policy issues brought to light by SSEN's<sup>1</sup> proposed modifications to their Statement of Methodology and Charges for Connection.

The changes largely relate to the recovery of costs incurred in the provision of 'flexible connections'. Our detailed consideration of the proposed changes prompted a range of wider policy questions, many of which are subject to live debate across the industry, including within our Access Reform Project<sup>2</sup>.

We also note that the ENA 2017 Open Networks workplan<sup>3</sup> set out the following objectives:

- *Seek agreement on how ANM charges should be treated within the current price control.*
- *Seek agreement amongst DNOs for common charging structures for more common ANM regimes whilst not restricting the ability for other ANM options to evolve.*

As well as identifying the following policy issue:

- *Charging for the provision of flexible connection services by DNOs. Specifically, how charges for the following costs associated with DNO Active Network Management (ANM) are passed through to customers:*
  - *Service Licence fees.*
  - *Enduring operation and maintenance (O&M).*
  - *Replacement of equipment and associated new licence fees and O&M charges.*

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<sup>1</sup> SSEN (Scottish and Southern Electricity Networks) is the trading name for Scottish and Southern Energy Power Distribution Limited and Scottish Hydro Electric Power Distribution plc

<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/reform-electricity-network-access-and-forward-looking-charges-working-paper>

<sup>3</sup> [http://www.energynetworks.org/assets/files/electricity/futures/Open\\_Networks/ON-WS4-P1%20Charging%20Issues-170816.pdf](http://www.energynetworks.org/assets/files/electricity/futures/Open_Networks/ON-WS4-P1%20Charging%20Issues-170816.pdf)

Given the relevance of these issues, we have decided to open SSEN's proposals to wider consultation. This consultation will help to inform our decision on whether to allow the proposed changes, as well as prompt dialogue and provide guidance for policy development in this area.

### Specific areas of interest

Although we are interested in your views regarding all the amendments proposed by SSEN (see Table 1 below), the following are of particular interest:

- a. Classification of costs relating to 'flexible connections' (including ANM schemes): SSEN categorise these costs as 'Operation and Maintenance'.
- b. Interpretation of the 'Minimum Scheme': SSEN's proposed methodology interprets 'flexible connections' to always be over and above the Minimum Scheme. SSEN argue this is because:
  - o A flexible connection may not provide the same level of security/network access (there may be no facility to remain connected under an n-1 scenario, whereas a Minimum Scheme may provide for this in line with P2/6<sup>4</sup>);
  - o A flexible connection may provide earlier access to the network, but at a higher cost than Minimum Scheme (eg where additional intertrip and communication equipment is required).
- c. Apportionment of costs of 'flexible connections' (including ANM schemes): following on from a) and b) above, SSEN propose that the entirety of these costs is borne by the connecting customer.

Flexible connections (also referred to in industry as 'alternative connections', 'non-firm connections', 'constrained connections') allow new customers to connect to the network, without reinforcement, even where the capacity requested by that customer exceeds the peak network limits. Companies are allowing this, on the basis that the customer agrees to being constrained off when the network is reaching its capacity limits. This can reduce the cost of connecting to the network and also the time to connect, as works are not required (Source: *Energy Networks Association*<sup>5</sup>).

The 'Minimum Scheme' definition is set out in the Common Connection Charging Methodology<sup>6</sup> ('the CCCM') as 'the Scheme with the lowest overall capital cost (as estimated by us [that is, the Distributor]), solely to provide the Required Capacity.'

### Background

SSEN have submitted a number of modifications to their Statement of Methodology and Charges for Connection<sup>7</sup> ('the Statement') in accordance with Standard Licence Condition ('SLC') 13 of the Electricity Distribution Licence ('the Licence').

In order to modify the Statement<sup>8</sup>, SSEN must, in accordance with SLC 13(4)(a) of the Licence, give us a report which sets out:

- (i) the terms proposed for the modification;

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<sup>4</sup> Engineering recommendation P2/6 is the current distribution network planning standard, referenced in the Distribution Code <http://www.dcode.org.uk/>

<sup>5</sup> <http://www.energynetworks.org/electricity/futures/flexible-connections.html>

<sup>6</sup> Common across all DNOs, subject to DCUSA governance process.

<sup>7</sup> <https://www.ssepd.co.uk/WorkArea/DownloadAsset.aspx?id=13461>

<sup>8</sup> Section 6, the 'Company Specific Connection Charging Methodology' (outside the DCUSA governance process)

- (ii) how the modification would better achieve the Relevant Objectives; and
- (iii) a timetable for implementing the modification and the date with effect from which the modification (if made) is to take effect.

The modification report and supporting evidence are in Annexes A and B respectively. For ease of reference, the relevant extracts from the Statement with proposed changes in track are in Annex C.

The Relevant Objectives as listed in SLC 13<sup>9</sup>:

- 13.3 (a) - that compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by this licence;
- 13.3 (b) – that compliance with the methodology facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity
- 13.3 (c) – that compliance with the methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its Distribution Business
- 13.3 (d) - that, so far as is consistent with 13.3 (a), (b), and (c), the methodology, as far as is reasonably practicable, properly takes account of developments in the licensee’s Distribution Business
- 13.3 (e) - compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

**Table 1: SSEN’s Proposed Modification of Operation and Maintenance Charges Section of the Company Specific Connection Charging Methodology**

In submitting the modification proposal to us, SSEN have emphasised their commitment to working with the industry towards an enduring solution in this area. However, in the meantime, SSEN felt they ‘needed an urgent solution to fill the gap and address customer requirements around quicker and more efficient connections’.

SSEN plan to amend sections 6.24 to 6.33 of the Statement to make the following changes:

Paragraph reference	SSEN reason for change
6.29	<p><b>1. Remove reference to agreeing an annual service charge for O&amp;M for standard connections</b></p> <p>‘We propose to remove the reference to agreeing an annual service charge for O&amp;M in section 6.29 of the CCMS. To ensure a fair and consistent approach across all of our customers we currently capitalise O&amp;M costs and include them as part of the connection offer. By removing this sentence we will provide greater clarity to customers. The exception to this will be for flexible connections, where in some cases we incur an annual service charge from third party providers, which will be passed on to the relevant flexible connection customer annually as set out under (4) below.’</p>
6.30	<p><b>2. Amend the O&amp;M charges applicable including aligning charges for demand and generation</b></p> <p>‘We propose to align the O&amp;M percentages applicable to demand and generation and to set the O&amp;M percentage for both in section 6.30 on the basis of the voltage of the connection: 21% for LV and HV connections; and 25% for EHV and 132kV connections. All distributed generation connections are now subject to Use of System charges and the treatment of asset</p>

<sup>9</sup> See Standard Conditions of the Electricity Distribution Licence (p.63, 64): <https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

	<p>replacement in relation to distributed generation should therefore be aligned with demand connections.</p> <p>The annual O&amp;M charge is estimated as 1.25% of capital expenditure for LV and HV and 1.5% for EHV and 132kV demand and generation connections. (When applied on a straight line basis discounted back to the point of charging over a 25 year period, this gives the upfront amount of 21% and 25% respectively).'</p>
6.32	<p><b>3. Remove the granular detail on how the O&amp;M percentages are calculated</b></p> <p>'We propose to remove the granular detail on how the O&amp;M percentage is calculated. We do not consider this additional detail to be helpful to customers nor to add any value. We note that other DNOs do not include this level of detail.'</p>
6.31	<p><b>4. Include information on how operation and maintenance charges will be calculated for flexible connections</b></p> <p>'We propose to add paragraph 6.31 to ensure it is clear that for flexible connections, where there are additional third party costs incurred by us in operating the flexible connection, the additional costs will be charged to the customer on an annual basis given they are bespoke and specific to the connection. An example of this is the specific costs which are charged to operate and run the Active Network Management scheme. Any other operation and maintenance charges associated with the connection will continue to be applied in the same way as for other standard connections.'</p>
6.24	<p><b>5. Remove paragraph 6.24 to ensure a consistent approach between demand and generation connections</b></p> <p>'We propose to delete paragraph 6.24 which states that "Unless agreed otherwise with us, necessary replacement of age-expired sole user assets which have been installed for the purposes of connection of a generator will be at the expense of that generator, although the replacement cost may be shared to the extent that the generator does not have sole use of those assets." All distributed generation connections are now subject to Use of System charges.'</p>

## Consultation Questions

1. Do you agree with SSEN's approach to classify the costs relating to operating 'flexible connections' as 'Operation and Maintenance' (O&M)? Please explain your reasoning.
2. Do you agree with SSEN's proposed principle that a 'flexible connection' cannot be a 'Minimum Scheme'? Please explain your answer.
3. Under the Common Connections Charging Methodology ('the CCCM'), the ongoing costs of operation and maintenance relating to additional assets requested by the connecting customer (over and above those associated with the Minimum Scheme) will be payable in full by that customer (not supported through the Use of System Tariff).

Based on

- SSEN's interpretation of the 'Minimum Scheme',
- SSEN's proposed classification of flexible connections' costs as 'O&M', and
- the CCCM,

under SSENs proposed methodology, the entirety of costs of 'flexible connections' will be borne by the connecting customer.

Do you agree with SSEN's proposed apportionment of costs of 'flexible connections' and stated rationale (that all of these costs are bespoke and specific to the connection, do not provide any value to wider use-of-system customers and should not be recovered from the wider customer base)? Please explain your reasoning.

4. Are there any relevant differences between types of flexible connections (eg timed, ANM, etc.) which should be considered in determining the approach to classifying and allocating associated costs? Please explain your answer.
5.
  - a) The following is primarily addressed to the Distributors. How do you currently classify and recover the costs of 'flexible connections'? What are the reasons for your approach? Does your approach differ depending on the type of scheme? How do you expect your current approach to evolve (if at all) over the medium term (next 3-7 years)?
  - b) The following is primarily addressed to the connecting customers. We note that 'flexible connections' is not defined anywhere in the Charging Statement. SSEN is also proposing to remove paragraph 6.32 which details the 'operation, repair and maintenance' services they provide. What are your views on the clarity and internal consistency of the Statement?
  - c) The following is primarily addressed to the connecting customers. What are your views on SSEN's proposal - that where there are annual third party costs incurred in operating the 'flexible connections', SSEN will pass these charges onto the customer on an annual basis?
6. Do you believe the modifications made in SSEN's Statement are reasonable and are in line with the Relevant Objectives? Please provide reasons for your response.

### **Next steps**

The closing date for responses to this consultation is 26 February 2018. Once we have considered the responses, we will make our decision on whether to allow the proposed modifications to go ahead by 29 March 2018.

All written responses should be sent by e-mail and preferably in PDF form to [alena.fielding@ofgem.gov.uk](mailto:alena.fielding@ofgem.gov.uk). We will publish all non-confidential responses on our website. If you do not wish all or part of your response to be made public, you should clearly mark your response as confidential. If you are submitting confidential material, it would be helpful if this could be confined to an appendix so that we can publish the main body of the response.

While we encourage you to make written submissions, we recognise that some parties may also want to meet with us to discuss the change proposal. Should you wish to do so, please contact Alena Fielding by email or on 0203 263 2714. We look forward to hearing your views.

Yours faithfully

Chris Brown  
**Head of Core and Emerging Policy, Energy Systems Integration**  
**For and on behalf of the Authority**