

Bicester Delivery Team

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Our Ref: SSEN CON 1

Dear Alena Fielding

We welcome the opportunity to comment on Cherwell DC's local DNO's proposed modifications to its license. We partly agree with Ofgem's view that there is an implication for the rest of the industry and therefore country, however would moderate this opinion given the different approaches of the various DNO's to their primary purpose and attitude towards risk. Ultimately there could be dissimilar approaches to flexible connections by the different DNO's given the different approaches to 'standard' connections. An example of this is with Northern Powergrid already connecting generation above the calculated minimum demand within the year, on the basis that the maximum output and minimum demand are unlikely to occur on the same day. This is the opposite of the very conservative approach of Cherwell's local DNO (SSEN) which has a limited approach to risk.

In detailing this response to Ofgem we would like to convey a key message - we welcome SSEN in attempting to change the status quo and how they currently interact with generation connections in constrained areas, echoing their inference that there is an underlying latent market need in the short term (3-5years). We believe this must change, however we have some concerns relating to the existing proposals and fundamentally believe that SSEN do not wish to engage with this technology, seeing it only as a threat to be marginalised and isolated. With this in mind we agree with the need for change but disagree with how SSEN are proposing to do this, often fundamentally being in contradiction to its license commitments, with the detail provided below.

Kind Regards

Sam Thomas

Sustainability Project Officer

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.

SSEN's approach to distributed generation and flexible connections has always been that it is interfering with the existing business of SSEN – to run a safe and reliable electricity grid, with minimal interruption and prioritising the maximum possible financial returns, within the cost and license constraints enforced on it by Ofgem.

We agree that there is a different cost to the DNO in the new connection approaches and the need for systems such as active network management in order for them to function appropriately. These ongoing costs could be comparable to the ongoing maintenance costs associated with the traditional reinforcement (although the amounts are not clear or detailed within SSEN's supporting evidence). However the major difference is some of the large traditional reinforcement costs would have the ongoing future maintenance socialised across the system rather than continually being paid for by the initial upgrade, effectively with the market being distorted for new connection customers. Furthermore two points we would raise on this would be the requirement to upgrade substations as part of solar farm installations with the ongoing maintenance of that substation socialised (there are many cases of this). The second point is the 32kv system being installed in Bicester with the ~£30m cost being socialised for all customers in the South – we fail to see what benefits customers in Southampton for example would get for their contributions and would argue this sets a precedent. In highlighting flexible connection costs and suggesting that only the distributed generator would see benefits it does not take into consideration the future innovation or implementation within the DNO market. A good example of this is in Ofgem's own report on time of use tariffs (Ofgem, 2017) which could potentially shift demand to a more appropriate time and therefore would have benefits of interaction both with distributed generation and security of supply for existing customers. Or battery storage being able to release electricity at appropriate times in areas to limit traditional grid reinforcement, this industry itself has grown massively in recent years with 1.3GW of 8GW utility scale storage being added since September 2017 (Solar Media Ltd, 2017) but it is being fundamentally marginalised and ignored by SSEN in making this application because there is no mention of either of these or even what 'flexible connections' are.

The flexible connection costs are often run by third parties and therefore outside of the DNO's direct control, presenting a future risk of eating into the profit margins of the risk adverse SSEN. By stripping out the flexible connection costs it limits and simplifies the financial exposure of SSEN to volatile price rises of the third parties and passes this directly onto the distributed generator. This would pass the risk profile entirely onto the distributed generator who would have no choice in the contracts agreed by the DNO, subsequently presenting a huge unknown and could limit future investment. We would have significant concerns regarding the level of scrutiny SSEN would provide to these third party contracts, which would tie customers in, without any choice and would argue the level of scrutiny by SSEN would be different if they were being financially involved to at least some degree. It is not clear how it will be detailed by the DNO given the proposed modifications and would recommend, at the very least, appropriate safeguards are put in place in order to protect the market.

2. Do you agree with SSEN's proposed principle that a 'flexible connection' cannot be a 'Minimum Scheme'? Please explain your answer.

No, we fundamentally disagree with this view. It is not currently defined what a 'flexible connection' is and therefore it is not possible to counter specific arguments. However would suggest that grid limiters or battery storage, for example, would provide significant avoided costs over traditional investment and therefore would provide fundamentally better value in some cases (or as defined as a minimum scheme). We would also suggest that if ANM is already in place in the future the predicted third party costs (some of which could already have been paid through other distributed generators) could realistically provide a much lower price than the traditional reinforcement and therefore should be offered as standard.

This view held by SSEN, particularly given the implications for the future, would be in contradiction to 13.3 of the license condition by distorting market competition.

3. 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.

Please see previous answers.

We would also express concerns around the implementation of the cost recovery. For example SSEN previously quoted the cost of ANM at approximately £100m for Oxfordshire (SSEPD, 2015) with the need to highlight blocked scheme before taking this forward; underlying demand would be curtailed until a substantially large scheme forces the system to be implemented, although it is unclear how any initial scheme could even be able to provide this high price. We would argue that the trial areas of Orkney, Shetland and the Western Isles are significantly different to the electricity grid in the South of England with substantially different types of generation (wind) and demand profiles (varying pockets of high levels of fluctuating demands). Equally the trial on the Isle of White we understand is being driven by a substantial investment by the Ministry of Defence in its facilities requiring significant grid upgrades in conjunction to ANM. Again we would argue that the demand profiles on the mainland such as a city environment presents a more complex picture than having one key customer with a substantial level of demand.

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.

With reference to the previous answers, we would also like to express concerns as to what SSEN have determined as flexible connection and what isn't given the future implications, echoing their own identification that their approach to these connections is not standardised or published. Furthermore we would like to express concerns in relation to the changes to the future replacement of connection assets in relation to connecting a distributed generator. It is not clear as to whether it is SSEN's intention to socialise these costs or fully pass these onto the distributed generator in the future, which would have implications for existing users by subsequently impacting the business cases of these installations and would again be in contradiction of 13.3 of the license condition by distorting market competition.

We would argue that this is against the primary purpose of the DNO – to connect generation to demand.

5. 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?

Please see earlier answers. In the SSEN modification report it does highlight the need to standardise the flexible connections approach which is therefore not currently standardised or clear. We would encourage this to be published in order to make it clear to all and we are unclear why this does not need to be done so currently given that SSEN are already interacting with this approach. We also have concerns about SSEN's ambitions to remove the detail of how the O+M costs are calculated given how important this could become in the future. We would draw attention to the changes in the supply licenses which actively detail the breakdown of customer bills, by not detailing these costs the DNO will continue to remain impenetrable and obtuse to the outside observer. We would view this as a retrospective step given the well documented complaints against poor and limited communication to customers (particularly SSEN), reflected in the recent industry drive for stakeholder engagement.

The statement is also not clear in that the existing distributed generators who might be included into schemes such as ANM zone due to location and whether they would have the costs passed onto them, what these costs could be and what the rules around this would be. For example if a distributed generator or company initially put the funding in for ANM setup such that nearby generators are drafted into ANM, but subsequently went into liquidation, if these costs are passed wholly onto the remaining participants it would have substantial financial implications. Again this would also be in violation of 13.3 of the license condition.

We have concerns around the supporting evidence presented. At a recent SSEN event - Supporting a smarter electricity system on 1/12/2017, there was a significant number of SSEN and other DNO staff members there which could have influenced the results of similar meetings detailed. Similarly the lack of evidence of engagement meetings in the Southern Area is significant given the constraints and problems we are experiencing and ultimately the results of straight questions such as 'do you agree with SSEN's approach to flexible connections?' was either not asked or has not been presented. We would suggest that these significant omissions in the supporting evidence should be investigated as a matter of priority.

5. 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?

With reference to the previous answers we do not believe SSEN fully understand the benefits of flexible connections and therefore do not wish to engage with them effectively, seeing them only as a problem to be marginalised. The flexible connections can assist in the future energy system we need and can provide value, therefore the third party charges should be socialised.

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.

With reference to the answers above, definitively not.