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Dear Chris

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

Whilst we are supportive of the intent to allow Active Network Management (ANM) costs including annual ANM costs to be paid for by connecting customers that benefit from them, we have concerns that the approach proposed by Scottish & Southern Electricity Networks (SSEN) introduces new issues and potentially could have unintended consequences for SSEN and its customers.

We believe that the solution is to devise an approach for inclusion in the common part of the Common Connection Charging Methodology Statements to ensure a common understanding and application. This work should be picked up by the ENA Open Networks Project with the support of the Charging Futures Forum Task Forces and a common approach defined as soon as practicable, so as not to delay SSEN's desire to offer flexible connections to its customers.

If you have any queries relating to the content of this letter please contact Simon Brooke on 0843 311 3991.

Yours sincerely

pp

Steve Cox
Engineering & Technical Director

Annex 1: Detailed responses to the 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.

We recognise that any DNO offering and delivering flexible connections will incur ongoing costs for the operation of the flexible arrangements for the life of the connection contract. Where there are ongoing operational costs incurred for the operation of a flexible arrangements we would prefer the customer has the choice of how those charges are presented, whether as a annutised capital sum or an annual recharge. The key issue is that the DNO presents in a clear and transparent way the capital value of any assets to be installed and any ongoing annual costs for the provision of flexible arrangements.

It appears that SSEN's proposed approach calculates an O&M charge for assets deemed as over and above the Minimum Scheme (para 6.30) but any ongoing third party costs will be recharged on an annual basis (para 6.31). It is unclear from these statements what capital costs and what ongoing costs would be covered by each paragraph or whether ongoing third party costs are O&M costs or not. Would this approach mean that O&M costs are applied to any project that is over and above the Minimum Scheme whether or not it was an ANM scheme? A new worked example that illustrates the types of costs and how they will be treated would have been welcome, but any changes to section 5 of the SSEN's Common Connections Charging Methodology (CCCM) would require changes to all the distributors' CCCM Statements.

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

We note that the current definition of Minimum Scheme was created in a world when traditional reinforcement was seen as the only way to facilitate the connection of new customers onto the distribution network. But this has changed and alternative arrangements are now common place; for example new ANM schemes/systems enable connect and manage arrangements, generally referred to as constrained/flexible connections etc. These arrangements change the nature of the costs borne by DNOs and the nature of the connection enjoyed by the customer. We understand SSEN wishes to turn into business as usual the provision of flexible connections following the success of the industry's LCN Fund and NIC trials in active network management.

Yes, we agree with SSEN's proposal that a flexible connection is not a Minimum Scheme, as currently defined by the CCCM, and we also recognise that a customer may wish to accept a flexible connection that is more or less expensive than a Minimum Scheme solution for other reasons; this provides customer choice which we fully support.

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.

Following SSEN's definition of a flexible connection as greater than a Minimum Scheme then all costs for the provision of those flexible arrangements would be borne by the connecting customer(s). However, as stated above in our response to question 2 we need to define Flexible Connection so that we can understand whether it is appropriate to apportion costs in this manner.

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.

There are differences in the types of flexible connection arrangements proposed by the distribution network operators across GB, specifically in the equipment required to manage these flexible arrangements. For the benefit of all customers but specifically for those that operate across GB it would be sensible that a common approach for the classification and apportionment of costs for flexible connections is defined in the CCCM so that there is clarity on cost allocation, even if the types of flexible connection schemes are different.

This work should be prioritised by the Open Networks project with support from Charging Futures Forum Task Forces as we see flexible connections will become the norm for all demand, generation and storage customers in the future and so clarity on the allocation of costs across all existing and future customers is vital. We advocate that centralised ANM capability provision is funded by all DUoS customers as it is these customers that will continually benefit from the ongoing reduction in load reinforcement expenditure delivered by flexible connection arrangements. This means that only the sole use asset and ongoing costs are rechargeable to the connecting customer(s).

5a) 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)?

We classify our Capacity to Customers type connection as a flexible connection and we recharge for the provision of the Remote Terminal Unit (RTU) and the communications infrastructure as a capital charge to the connecting customer. In all instances our flexible connection offering has been the Minimum Scheme. As described in our response to question 4 above we see flexible connections will become the norm in the future for all demand, generation and storage customers wishing to connect to our network. We expect to develop our range of flexible connection offerings as part of our transition to a DSO through the development of a centralised ANM capability. We will work with our stakeholders and the other DNOs through the Open Network project being led by the ENA to agree a common approach to the classification and allocation of costs for the provision of flexible connections.

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.

SSEN's change proposal provides the opportunity for connecting customers to be offered and accept a flexible connection from SSEN. The proposal is unreasonable and does not better meet the relevant objectives and so it should be vetoed.