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Reference: Costs of flexible connections consultation
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Dear Alena,

Response to: Consultation on principles to be considered when recovering the costs of providing ‘flexible connections’

Innogy Renewables UK Ltd welcomes the opportunity to respond to this consultation regarding the costs of DNOs providing flexible connections.

Our answers to the questions posed in the consultation can be found herein.

Yours sincerely,

Nicola Percival

Innogy Renewables UK Limited

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.

No. We understand that there may be ongoing operational costs incurred by the DNO where they are actively managing flexible connections. However, reflecting on the CCCM definitions it is arbitrary that they are to be classed as "O+M costs". These costs should either:

- Be capitalised upfront as a distinct flexible connection asset cost line items and considered as part of the total cost of a flexible connection, when compared to the alternative solutions including reinforcement, to determine whether or not the flexible connection is indeed the "Minimum Scheme".
- or
- Come under a different budget and regarded as DSO costs. Any additional costs associated with operation should be transparent such that the customer knows exactly what they are being charged for. Again this approach can ensure that it is clear whether the offer meets the definition of "Minimum Scheme".

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

No. We do not believe it correct or fair to consider that flexible connections cannot be "Minimum Schemes".

From a connection customer perspective we would hope that most flexible connections should be the lowest overall capital cost.

Whenever possible a distributed generator (DG) would tend to prefer a firm connection. Flexible connections may be sought because of the lower cost or because of the expedited connection time or both. Where a flexible connection is being offered to a DG as an alternative to an expensive reinforcement then it will clearly be the cheaper option (regardless of impact on connection dates). It can therefore be argued that the flexible connection is the "Minimum Scheme" (albeit providing a lower level of security for the generator). If the cost of the flexible connection were in excess of the costs of the reinforcements it is replacing then it could be argued it is above the "Minimum Scheme". There may be demand for this where connection timescales are unreasonable (e.g. a connection offer for 2015 may state 2023 as the date of connection). In the past it has also been in demand due to subsidy tariff cut-off dates; with the RO closure this driver has been removed.

SSEN have not provided any Cost Benefit Analysis to demonstrate their assumption that the cost of a flexible connections are in excess of the traditional solutions of reinforcement and are therefore over and above a Minimum Scheme.

We do not understand SSEN's argument that because a flexible connection provides a lower level of security it cannot be a "Minimum Scheme". The definition of a "Minimum Scheme" as we have interpreted it only refers to cost, it does not make any reference to security.

In terms of whether a flexible connection offer meets the definition of "Minimum Scheme" a clearer distinction is whether the arrangement is temporary or enduring. There are flexible connections that are offered as an alternative to reinforcement (i.e. enduring, allowing a DG to connect early but by resulting in the DNO no longer needing to complete reinforcements) or as a means to enable an early connection in advance of reinforcement works (i.e. temporary, allowing the generator to connect in advance of reinforcement works, but then being redundant once reinforcement works are complete). The former, must be classed as a "Minimum Scheme" as that will clearly be the cheaper option. The latter however, could be classed as above the "Minimum Scheme" as the DNO are clearly carrying out additional works over and above the reinforcements to connect the DG.

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.

No, as explained in our response to question 2 it is incorrect and unfair treatment to class all flexible connections as being above the Minimum Scheme. The ongoing costs incurred by the DNO for a flexible connection should be capitalised upfront and considered as part of the total cost of the flexible connection or considered separately as a DSO charge. Either way you can then fairly compare the total capital costs to the alternative solutions including reinforcement, to determine whether or not the flexible connection is indeed the "Minimum Scheme". If it is deemed to be the Minimum Scheme then these costs should be treated as per any other connection that is a Minimum Scheme and recovered through the UoS tariff (which includes a local element that covers assets that have been provided for the sole use of the connectee and is not therefore recovered from the general customer base). If the flexible connection is deemed to be

above the Minimum Scheme then it again should be treated as any “normal” connection, whereby a portion of the costs is covered through the UoS tariff and only the elements associated with operation activities covered through a distinct flexible operation charge.

- 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.**

Yes there are differences to be considered.

If a flexible connection has been provided as a temporary measure thereby allowing a DG to connect in advance of reinforcement works then there is just argument that these costs should be attributed to the connection customer and treated differently to those flexible connections that are provided as a cheaper alternative to reinforcements. (See Q2 for detailed explanation).

Another consideration should be who benefits. It is not established whether the sole beneficiary of an unfirm connection is the connectee itself or if there are wider benefits to other users of the system. Costs of flexible connections, where they are not considered “Minimum Schemes” as per our answer to question 2 and 3, should be assessed for whether they benefit one customer (presumably the DG) or a wider suite of customers. If there are wider benefits then the costs need to be appropriately shared.

- 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?**

A definition of a flexible connection should be included and a distinction made between those flexible connections that are provided as an enduring alternative to reinforcement and those that are provided in advance of reinforcement.

- 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?**

We understand that there may be ongoing costs incurred by the DNO by flexible connections but how they are proposed to be charged seems at odds with the CCCM. The costs should be attributed to the parties that benefit from this.

These costs should be capitalised upfront and considered as part of the total cost of a flexible connection, when compared to the alternative solutions including reinforcement, to determine whether or not the flexible connection is indeed the “Minimum Scheme” or not. Without this CBA how do the DNO’s know whether they are truly the most cost efficient solutions? And how do the DG truly know the cost of their 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.

No. SSEN’s objectives are to provide the a connection at the lower cost to the customer. There seems to be no CBA to show that this is the appropriate way of treating these charges.