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Dear Alena,

Consultation on principles to be considered when recovering the costs of providing “flexible connections”

As set out in our recent CCMS modification proposal, SSEN is committed to finding quicker and more efficient ways of allowing customers to connect. This is particularly important in the north of Scotland given the geography and dynamics of our network. As can be seen on the map attached in Appendix 2, a number of areas are constrained. These areas have potential for renewable generation but traditional approaches to connection can require material reinforcement and the cost and / or time involved in carrying out such work can be prohibitive for individual projects. Following feedback from stakeholders SSEN has developed alternative means of facilitating connections, referred to as “flexible connections”. These alternative approaches have been trialled under various innovation projects and we believe there is now sufficient learning to move this into business as usual. Under our ICE Looking Forward Plan for 2017/18 we committed to make it possible for customers to request a flexible connection as business as usual from Q4. While the current legal and regulatory framework allows us to do this without modification, our recent proposal sought to introduce a change to charging arrangements for O&M costs associated with the flexible aspect of the solution. Where such costs are directly attributable to an individual customer and do not facilitate any wider network benefits we are keen that they can also be recovered on an annual basis, rather than capitalised and charged up front as is currently provided for.

With over 20 customers keen to progress a flexible connection (ranging in size up to 30MW) we are keen that this small and specific change is progressed. We believe it complies with existing industry charging principles and practice. Whilst we appreciate there are wider issues regarding how flexible connections should be treated going forward, we believe this work can progress in parallel. In the interim this should not restrict our ability to offer customers more efficient approaches to flexible connections.

Background

The term “flexible connection” is used for a connection that allows a customer to connect to the network without traditional reinforcement, even when the capacity requested by that customer exceeds the peak limits. There are different types of flexible connections, but each type requires additional equipment to be installed and services to be provided to monitor the connection, monitor the dynamics on the network, and control the connection to maximise use of spare capacity and constrain generation output where it reaches limits. These systems are essential to facilitate connection while also protecting the integrity and safety of the network and supply to other customers. The precise solution and costs associated with a flexible solution will vary with each project depending on individual circumstances. Costs can be split into the following categories:

- **Connection Costs** – they are the capital costs associated with providing the physical connection. In line with our CCMS costs may be directly attributable to the connecting customer or shared where there are wider network benefits.
- **ANM System Costs** – they include central control software and associated IT/IS and monitoring equipment. As above these costs may be directly attributable to the connecting customer or shared where there are wider network or customer benefits.
- **O&M costs** – these costs are associated with the ongoing operation and maintenance of connection assets **and in the case of flexible connections, the flexible solution or ANM scheme – it is this later component only that our modification proposal focuses on.**

As set out in our CCMS, directly attributable or sole use costs are borne by the connecting customers; but where benefits can be shared, costs are apportioned. This principle also applies to flexible connections, and the O&M element associated with the ANM or flexible aspect of a connection which is the subject of our modification proposal. As set out in our proposal, only where the flexible element is “bespoke and specific” to an individual connection would the costs be borne entirely by that customer.

Our Modification Proposal

Section 6 of our CCMS sets out that costs associated with operation, repair, maintenance or replacement of connection assets are not normally payable as part of the connection charge. However, where additional assets beyond those required for a Minimum Scheme are not supported by Use of System charges, these will be capitalised and added to the connection charge. This is currently the only mechanism available to us to recover the additional O&M costs associated with the flexible or ANM element of a flexible connection. Through our experience of innovation projects we believe where such costs are capitalised and charged up front they can be prohibitive for customers. Our modification proposal therefore seeks to implement an alternative arrangement that would allow us to apply charges on an annual basis, in line with how they are incurred.

For the avoidance of doubt, our modification proposal does not relate to any other connection costs and does not relate to circumstances where there are wider benefits to other customers. Costs would only be charged directly to the customer on an annual basis where we had demonstrated costs were directly attributable to the relevant party only. This is in line with existing principles applied across the industry to other cost categories.

Conclusion

In summary, while the wider issues raised in the Ofgem consultation are important, they are recognised and being considered by the established industry work groups, such as the ENA's Open Networks Project and Ofgem's Charging Futures Forum, in developing future arrangements. In the meantime, these issues should not prevent customers from being able to progress with flexible connections or prevent SSEN from implementing this small change to ensure more cost reflective charging in the interim. Currently, the only option available to us is to capitalise and charge all O&M costs up front. Feedback suggests this could be cost prohibitive for flexible components of a connection and would not facilitate quicker more efficient connections. Our proposal seeks to allow us to apply third party costs on an annual basis to the relevant flexible connection customer, which is in line with how these costs are incurred by us.

Response to Ofgem Questions

To further aid consideration of our modification proposal, our response to individual questions raised by Ofgem in the above consultation is set out in Appendix 1. We hope you find these comments helpful but should you have any further questions please do not hesitate to give me a call.

Kind Regards,

Beverley Grubb
Regulation Manager

Appendix 1 – Response to Ofgem 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

As set out above and in our proposal document, the relevant charges levied by third parties cover the operation and maintenance of the ANM system or flexible element of the connection. As described in our supplementary information document, these services cover the operation and maintenance of communication systems, support for ANM or flexible applications, IT maintenance and support, licence fees to operate the facility etc. These costs are specific to the ANM or flexible element of the connection and cover the costs for operating and maintaining these flexible elements. As such, we consider that these are O&M costs and it is difficult to identify any other category they could fall under.

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

It is widely recognised that flexible connections do not fit neatly within the current definition of Minimum Scheme or Enhanced Scheme. Flexible connections will always require additional equipment to be installed and services to be provided to monitor and manage the connection, outwith what would normally be required for a standard connection. Crucially it could be argued they do not necessarily deliver the “Required Capacity” as a flexible connection is a compromise that involves restrictions to “Maximum Capacity” to provide a quicker connection, in some cases at a reduced cost by avoiding reinforcement. In other cases, the flexible solution may be more expensive if the flexible components cost more than the reinforcement. This may be a better option for the customer as the time required to reinforce may be prohibitive for the customer. This compromise solution can be accepted on a temporary or permanent basis.

We believe issues around the definition of Minimum Scheme are wider than our modification proposal and are recognised by the various industry working groups referenced in the Ofgem consultation. They will be addressed in due course, but in the meantime should not impact our ability to progress this specific modification proposal. Our proposal is limited to those additional O&M costs associated with providing a flexible connection, which are not covered by Use of System charges. While they can be recovered under our current CCMS by capitalising and charging up front, we believe a more pragmatic approach should also be available which would allow costs to be recovered on an annual basis, as they are incurred by SSEN.

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 the customer (not supported through 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 SSEN's 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 rational (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.

It is important to clarify, SSEN is **not** proposing that "the entirety of costs" associated with flexible connections should always be borne by the connecting customer or that in every case all of these costs are bespoke and specific to the connection. Our proposal relates only to specific circumstances where it is established that:

- Additional costs will be incurred in operating and maintaining the flexible element of a flexible connection e.g. the ANM scheme;
- These costs are not recoverable through Use of System;
- There are no wider benefits to other connecting parties or the network; and
- The flexible solution is for the sole benefit of the connecting customer.

In such circumstances, we believe the CCMS already provides for the flexible O&M costs to be targeted at the relevant customer. The issue that we are seeking to address is that the CCMS only provides for these costs to be capitalised and charged up front. Experience shows this can be cost prohibitive. As costs are only charged by the third party / incurred by SSEN annually, we believe it would be more cost reflective and appropriate to levy these costs to the relevant customer on an annual basis.

4. Are there any relevant differences between types of flexible connections (e.g. timed, ANM, etc.) which should be considered in determining the approach to classifying and allocating associated costs? Please explain your answer.

While there are many types of flexible solution i.e. timed connection, shared capacity etc., all involve elements of active network management to monitor the network and control or monitor the connection. The principles and solution set out in our modification proposal are generic to all types of flexible connection; to the extent it is demonstrated for an individual connection that:

- additional third party services will be required to operate and manage the flexible element of the connection;
 - these costs are specific to and for the sole benefit of the connection; and
 - costs are not recoverable through wider use of system charges,
- we should be able to recover them annually and not just capitalise and recover all up front.

5 a) 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)?

As set out in the Background section above, there are several components associated with a flexible connection – connection costs, ANM system costs and O&M costs. Depending on the individual circumstances, costs may be sole use and / or shared. Our specific proposal is limited only to the O&M component associated with the flexible solution rather than wider costs and is limited to circumstances where these costs are for the sole benefit of the connecting customer. In such cases, the principles for determining whether it is sole use or shared use are no different for the flexible element than for standard connections and they are common across all types of flexible connection.

The specific issue which our modification proposal focuses on is simply how the directly attributable element of O&M associated with the flexible component of a connection should be recovered – capitalised and charged up front or recovered annually. We are keen to introduce arrangements that would also allow us to recover annually where this is deemed more appropriate and cost reflective.

Appendix 2 – Constraints on the SHEPD Network



Source: <https://www.ssepd.co.uk/GenerationAvailabilityMap/?mapareaid=2>