



Making a positive difference  
for energy consumers

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Dear Beverley,

### **Direction in relation to SSEN<sup>1</sup> modification proposal**

On 5 December 2017, you submitted a number of modifications to your Statement of Methodology and Charges for Connection<sup>2</sup> ('the Methodology') in accordance with standard licence condition 13 of the Electricity Distribution Licence ('the Licence').

The salient change relates to the recovery of costs incurred in the provision of 'flexible/ Active Network Management ('ANM') connections'. Our detailed consideration of the proposal prompted a range of wider policy questions, many of which are subject to debate across the industry<sup>3</sup> and within the scope of our *Access Reform Project*<sup>4</sup>. On 3 January 2018, we notified you of our intention to consult on the modification proposal. We issued the consultation<sup>5</sup> on 29 January 2018.

Having carefully considered the proposal and the responses to our consultation, we have decided **to direct you not to make the modification** pursuant to standard licence condition (SLC) 13.7(b) of the Licence. This is based on our concerns relating to two out of the five proposed modifications (items 3 and 4 outlined in Table 1 below).

This letter sets out the background to the modification proposal, summarises the views of consultation respondents and explains our decision to issue a direction.

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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.ssepd.co.uk/WorkArea/DownloadAsset.aspx?id=13461>

<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)

<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/reform-electricity-network-access-and-forward-looking-charges-working-paper>

<sup>5</sup> <https://www.ofgem.gov.uk/publications-and-updates/consultation-principles-be-considered-when-recovering-costs-providing-flexible-connections>

## Background

Flexible connections are now a common approach in enabling access to the increasingly congested distribution networks, at a lower cost for the consumer. This is particularly relevant for connecting renewable generation. As part of our *Quicker, More Efficient Connections* project<sup>6</sup> launched in 2015, we have been encouraging Distribution Network Operators ('DNOs') to consider new types of connections - including flexible connections - as part of their 'business-as-usual' toolkit of options in meeting their customers' needs efficiently. We view flexible connections, alongside a number of other measures to improve the connections process, as a key component to reducing barriers to market entry for new participants.

While there is no agreed definition of a 'flexible connection', it generally implies a trade-off between gaining earlier access to the network and/or avoiding reinforcement costs, against accepting a higher probability of interruption once connected. Active Network Management ('ANM') connections — where access to the network is controlled using sophisticated software linked with active monitoring of the network — are growing in popularity and relevance to facilitate flexible connections. Throughout this letter, we use the term 'flexible connections' to encompass the range of options available, including ANM connections.

Your network has a number of constrained areas, particularly in the North of Scotland that have significant potential for renewable generation. You explain that traditional connection approaches to such sites trigger the need for material reinforcement, the cost and time involved for which can be prohibitive for individual projects. Following feedback from stakeholders, you have introduced alternative means of facilitating access to the network - by using flexible connections. This alternative approach has been trialled under various innovation projects and you believe there is now sufficient learning to move this into business-as-usual.

Under your Incentive on Connections Engagement (ICE) Looking Forward Plan for 2017/18<sup>7</sup> you committed to make it possible for customers to request a flexible connection as business-as-usual from Q4. Over 20 customers are keen to progress a flexible connection (ranging in size, up to 30MW).

Whilst implementation of flexible connections has been ongoing across industry for a number of years now, the body of relevant regulatory and industry documents — the Electricity Act, the Licence, Distribution Connection and Use of System Agreement ('DCUSA'), DNO charging methodologies, etc. — were developed with the traditional physical connection framework in mind. Furthermore, we note that you are not unique with regard to this, with other DNOs also offering a range of alternative approaches, including flexible connections, in response to customers' needs as business-as-usual.

## Your modification proposal

You have licence obligations to have the Methodology in place. You have a requirement to keep the Methodology under review and bring forward modification proposals that you consider better achieve the Relevant Objectives<sup>8</sup>.

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<sup>6</sup> <https://www.ofgem.gov.uk/publications-and-updates/quicker-and-more-efficient-distribution-connections>

<sup>7</sup> <https://www.ssen.co.uk/ICE/>

<sup>8</sup> The Relevant Objectives as listed in SLC 13:

- 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;

In submitting the modification proposal to us, you have emphasised your commitment to working with industry towards an enduring cost allocation framework for flexible connections. However, in the meantime, you felt you “needed an urgent solution to fill the gap and address customer requirements around quicker and more efficient connections”.

You plan to amend sections 6.24 to 6.33 of the Methodology to make the following changes:

**Table 1: SSEN Proposed Modification of Operation and Maintenance ('O&M') Charges Section of the Company Specific Connection Charging Methodology**

Paragraph reference	Your 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 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</p>

- 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; and
- 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.

	operation and maintenance charges associated with the connection will continue to be applied in the same way as for other standard connections.'
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>

### Respondents' views

Our consultation on your proposals closed on 26 February 2018. We received fourteen responses from a varied group of stakeholders. A more detailed summary of respondents' views is provided in Appendix 2.

- The majority disagree with the exact approach proposed; most see the case for socialising some of the O&M costs of flexible connections, if certain criteria are met.
- A common view is that your proposal may work for the type of flexible connections you offer today, but the framework proposed is not future-proof, and does not reflect developments in technology and the evolution towards Distribution System Operator ('DSO') functions.
- A number of respondents comment on insufficient transparency in costs to be charged; lack of evidence of impact assessment on connecting customers.
- Only one response states the Relevant Objectives are better achieved by implementing this proposal; five clearly state that the change should not go ahead; the rest identify a number of flaws in the proposal.

### Our decision

We have considered this proposal against the Relevant Objectives in the Licence and our wider statutory duties. We have also taken into account the responses to our consultation. We are not persuaded that the implementation of this proposal will better achieve the Relevant Objectives, and have decided to direct you not to make the modification.

### Reasons for our decision

We consider that you have failed to sufficiently demonstrate how this modification will better achieve the Relevant Objectives in all cases. In particular, the scope and scale of the costs to be recovered have not been adequately defined. This view is supported by stakeholders, with a number of consultation respondents pointing out that the lack of any impact assessment of the proposed changes on connecting customers has made it difficult to evaluate the proposal.

We offered you the opportunity to supplement your submission with supportive evidence from your stakeholder engagement in this area. We note the stakeholders' overwhelming support for greater availability of flexible connections. However, we have not been provided with any evidence of customer support for the actual changes proposed or any evidence of you engaging with your stakeholders on these particular issues.

## Relevant Objectives

### **Competition**

Relevant Objective 13.3(b) requires "that compliance with the methodology facilitates competition in the generation and supply of electricity, and does not restrict, distort, or prevent competition in the transmission or distribution of electricity".

#### *Your own network considerations*

We find that you have developed a complex and ambiguous proposal to modify the Methodology. We consider that the resulting lack of transparency will make it more difficult for potential new market entrants to understand the charges they will incur and the level of financial exposure. This proposal could be seen as promoting a 'deep' connection charge<sup>9</sup> boundary for flexible connections, which potentially misaligns with the current Methodology, and could compromise market entry of flexibility providers.

You argue that without the proposed changes, capitalising the O&M costs would make flexible connections prohibitively expensive for your customers. We recognise this argument in principle. However, as noted earlier in this letter, we have received no evidence from you demonstrating that your customers understand and support the changes, or that there are no alternative options available.

Those of your customers who responded to our consultation have voiced concerns that, passing the O&M costs directly onto connecting customers (rather than recovering as part of your overall regulatory settlement) may result in insufficient incentives to ensure the most cost-effective solutions or optimal levels of service for flexible connections. They argue that passing these costs through limits and simplifies your financial exposure to any price rises imposed by the third parties, while moving the risk onto the connecting customer. This results in imposing a risk profile onto the customers without choice - as the third-party contracts are agreed by you - subsequently "presenting a huge unknown" which "could limit future investment".

Other respondents agreed, suggesting customers could be offered a choice as to whether they pay annual charges or a capitalised cost. A number of responses called for a more thorough assessment of impact on connecting customers of different charging options. We also note that there is a need to consider the consistency of treatment of additional operating costs associated with flexible connections with different customer groups.

Similarly, we feel that your proposal to remove the detail of how the O&M charges are calculated (modification 3 in Table 1) would make the Methodology more opaque, and is therefore not an improvement.

#### *Beyond your own network considerations*

We note, and share, concerns from respondents over the prospect of this modification going ahead before the industry has come to a wider consensus.

There is a lack of consistency in the flexible connection offering to customers, leading to a lack of visibility of what the implications of each approach may be across different customer types and distribution networks. Whilst a degree of difference was to be expected during the trial period of such schemes, a co-ordinated framework becomes more important now that flexible connections are becoming an increasingly common business-as-usual approach.

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<sup>9</sup> Connection charges can be 'deep' or 'shallow'. If they are deep, more of the charge is allocated to the connecting customer, while if they are shallow more of the cost is possibly socialised and/or captured through the use of system or operational charges.

The DNO responses to the consultation revealed a degree of difference in what principles they follow when recovering the costs of providing flexible connections (see Appendix 1). We are concerned that if DNOs do not co-ordinate their approaches to the charging boundary aspect of flexible connections, there may be a detrimental effect on competition. The Energy Networks Association (ENA) work agenda<sup>10</sup> recognises these challenges, and there is industry discussion ongoing in this area. We believe that, given our wider statutory duties, we are bound to take the move to commonality into consideration in reaching our decision. We are therefore reluctant to approve this unilateral change to the Methodology, in the form proposed, because of its potential adverse effects on competition.

### **Cost reflectivity**

Relevant Objective 13.3(c) requires "*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*".

You consider that the proposed modification gives flexible connection customers greater clarity about the charges they face. We recognise that the existing charging methodologies were developed with reference to physical connections, and as such may not suitably accommodate the arrangements required for flexible connections. We support the underlying principle that clarity and transparency are important. However, we are not convinced that the proposals are an improvement on the current Methodology. The action of adding specific provisions does not equate to the Methodology being more transparent. The text proposed by you leaves an unacceptable level of ambiguity in relation to the treatment of flexible connections, as set out in more detail below.

#### *What are the costs?*

In your submission, you state that the proposed changes are required to allow you to recover "a new form of costs associated with services that have to be procured from third parties in order to operate and maintain the flexible connection". However, the evidence provided by you does not clearly set out what these running costs for flexible connections/ANM schemes are, and why they should be treated separately and differently to normal network operational costs. As a principle, it is the costs of providing access that should be considered, regardless of whether the services are delivered by the DNO itself or by a third party.

A number of stakeholders expressed concern that the detail outlined in the proposal is unclear as to what the annual third-party costs would be or indeed if these would be published to provide transparency and enable customers to understand the potential cost exposure.

#### *How are these costs allocated?*

Your modification report and the response to our consultation emphasise that these new arrangements have been designed with the customers connected under ANM in mind (that is – not all flexible connections are in scope), and for customers predominantly located in Scotland. We have three concerns with this. Firstly, the actual text in the Methodology is much more generic, and by its nature, the provisions in the Methodology apply to all your customers. Secondly, as a matter of principle, we are averse to any suggestion of treating customers differently, without a convincing explanation as to why that may be reasonable. Thirdly, we find that the effect of describing cost allocation arrangements in terms of contractual relationships/types of connection agreements – in the way proposed by you –

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<sup>10</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)

might introduce complexity and ambiguity, and is in contradiction to the rest of the Methodology, where the actual costs incurred are always the starting point.

Leading on from this, we consider that as part of this proposal you have not sufficiently demonstrated that you have fully considered the costs incurred in providing flexible connections against the benefits such connections may provide, or indeed explored all potential alternatives. This puts in doubt your proposed approach for allocating these costs.

The consultation responses from the ENA and individual DNOs explain that, as with physical connections, there is a distinction between O&M costs relating to ANM 'system costs' and those of 'sole use assets'.

In your supplementary submissions, you have communicated that you agree that the costs of providing flexible connections can be broken down in this way. However, the fact remains that the text of the proposed modification is less clear in how exactly it intends to treat different costs, and it does not convey this approach.

The consultation responses revealed a clear consensus around the principles for allocating the costs of providing flexible connections. Where the ANM scheme only provides benefits for a clearly defined individual connection or set of customers (e.g. distributed generators) and identified capacity, many respondents suggest it would be appropriate for the additional costs associated with the ongoing operation and maintenance of the ANM scheme to be passed through to those benefiting from the scheme. However, where the ANM scheme provides benefit to a wider group of users and/or covers an area of undefined capacity, then most respondents agree that it is no longer appropriate to apply the same methodology. Under these circumstances, the general expectation is that the costs would be socialised across all users<sup>11</sup>.

We recognise that, in principle, recovering annually-incurred costs by levying annual charges can be cost-reflective. However, we find that the Methodology's lack of recognition of the potential benefits which ANM connections can provide is out of step with the wider industry, and a move away in terms of cost reflectivity and promoting a more efficient use of the network. Therefore, we do not consider that this change proposal, as presented to us, is appropriate, and believe that it has a detrimental impact on the cost reflectivity of the Methodology.

### ***Developments in business***

Relevant Objective 13.3(d) requires "that, *so far as is consistent with subparagraphs (a), (b), and (c), the methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's Distribution Business*".

Some consultation respondents sympathised with the intent of your proposal. They agreed that, during initial deployment of flexible connections, costs were typically bespoke and could be attributed to a specific number of connecting customers where the released capacity could be defined. ANM areas were distinct areas of the grid where different technical and commercial arrangements existed. However, the universal view expressed by respondents was that the current reality and near-term prospects for flexible connections have moved on considerably from that position.

Central ANM schemes are now being designed in some cases to control much larger areas of network, with participation no longer restricted to just distributed generation. These evolving designs can have the ability to manage technology agnostic flexibility services (demand-side response, energy storage and aggregators of multiple virtual power plants), provide capacity to accelerate the deployment of low carbon technologies (such as electric vehicles and heat pumps), and re-configure networks to optimise the capacity within

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<sup>11</sup> That is, recovered through Distribution Use of System Charges (DUoS)

existing assets. The benefits therefore go beyond just the individual flexible/ANM connected customer.

There is a lack of clear rationale or justification in the proposed Methodology for passing ANM operational costs onto specific customers. It appears the proposed Methodology, as presented to us, could limit the delivery of cost effective solutions throughout the DSO evolution, and potentially the development of non-network solutions, such as demand-side response or other flexibility services.

In this respect, we consider you are taking a short-term view in your assessment against the Relevant Objectives and we would encourage you to develop and justify models that consider longer-term cost and benefits that better take into account network trends.

### **Other considerations: Definition of a 'Minimum Scheme'**

The proposed changes to the Methodology, in their current form, imply that you consider flexible connections above the Minimum Scheme<sup>12</sup>. This classification has significant implication for the level of charges a connecting customer faces: if the connection is considered to be a Minimum Scheme, under the current Methodology the operation and maintenance charges are socialised.

We received extensive responses on whether a flexible connection could be a Minimum Scheme. While there is no straightforward consensus, the majority of the respondents agree that a flexible connection can indeed qualify for this classification if certain conditions are met.

This issue does not form part of our formal assessment of the proposal against the Relevant Objectives. It is, however, an important procedural point. We believe it is inappropriate for a DNO to change the interpretation of a Minimum Scheme to such extent in the Specific Connection Charging Methodology, as you propose. The definition is set out in the Common Connection Charging Methodology (CCCM) and as such, any changes to it should be considered by DCUSA.

### **Way forward**

We expect you to continue ensuring the needs of your customers are met, and encourage you to explore the full range of options available. We expect all DNOs to keep their methodologies under review, as experience with flexible connections is acquired.

We would encourage all DNOs to consider this issue further, to help provide clarity to consumers about how the costs of providing flexible connections are treated. We would expect this work to be informed by our Summer 2018 consultation on our *Initial Proposals*

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<sup>12</sup> The definition is set out in Section 5 of the Common Connection Charging Methodology.

**The Minimum Scheme** is the Scheme with the **lowest overall capital cost** (as estimated by us), solely to provide the **Required Capacity**. The Minimum Scheme will be subject to:

- accepted industry standards, including the requirements of the Distribution Code;
- the status and configuration of the Relevant Section of Network (RSN);
- the standard sizes and types of equipment currently used by us on our Distribution System which shall be reasonable in all the circumstances;
- maintaining our ability to minimise regulatory penalties associated with the Interruptions Incentive Scheme and the Guaranteed Standards of Performance; and
- where the Customer is an LDNO, maintaining the Customer's ability to minimise regulatory penalties associated with the Guaranteed Standards of Performance.
- and shall be consistent with our statutory and licence obligations including the requirement to develop, maintain and operate an efficient, co-ordinated and economical electricity Distribution System.

**Required capacity** is the Maximum Capacity agreed with the Customer. In the case of multiple connections (e.g. a housing development) it may be adjusted after consideration of the effects of diversity. Where an existing Customer requests an increase in capacity then it is the increase above their Existing Capacity.



*for Reform of electricity network access and charging arrangements.* We would also expect this work to be informed by the ENA's Open Networks project.

**Direction**

The Authority therefore directs, pursuant to SLC 13.7(b) of the Licence, that you do not make the Modification.

This letter constitutes notice of the reasons for our decision pursuant to section 49A of the Electricity Act 1989.

**Andy Burgess**  
**Associate Partner**  
**For and on behalf of the Gas and Electricity Markets Authority**

## Appendix 1: DNO approaches to recovering costs incurred in providing flexible connections

Following consultation, we asked DNOs to clarify their approach to recovering costs incurred in providing flexible connections. We are grateful to the Energy Networks Association for providing the co-ordinated response below.

(Yes/No?)	ENWL	NPg	SSEN (proposed)	UKPN (to date)	UKPN (2018+) <sup>4</sup>	WPD	SPEN
ANM connections offered?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ANM – Business as Usual?	Yes <sup>1</sup>	Yes	Yes (Proposed)	Yes	Yes	Yes	Yes <sup>5</sup>
ANM – Trial funded?	No	No	Yes	Yes (FPP)	N/A	Yes	Yes <sup>6</sup>

### ANM cost recovery (Distribution Use of System Charges (DUoS) or Customer?)

1	<b>ANM system costs:</b> central control software/IT	DUoS <sup>2</sup>	Customer	Customer /DUoS <sup>3</sup>	Customer	DUoS	Customer	DUoS
2	<b>ANM system costs:</b> Field monitoring equipment	Customer <sup>2</sup>	Customer	Customer /DUoS <sup>3</sup>	Customer	DUoS	Customer	DUoS
3	<b>Sole Use costs</b>	Customer	Customer	Customer	Customer	Customer	Customer	Customer
4	<b>O&amp;M costs:</b> Sole use	Customer	DUoS	Customer	Customer (where applicable)	Customer (where applicable)	Customer	Customer
5	<b>O&amp;M costs:</b> System	DUoS <sup>2</sup>	DUoS	Customer /DUoS <sup>3</sup>	DUoS	DUoS	Customer	DUoS

Notes	
ENWL	<ol style="list-style-type: none"> <li>This is on the understanding that Capacity to Customers type connections falls under the banner of ANM.</li> <li>To clarify, ENW does not specifically identify and charge in DUoS tariffs for an ANM system. ENW is developing centralised ANM functionality as part of its development and implementation of a new Network Management System, which is funded by allowances in RIIO-ED1 price control period. This system will provide functionality across the whole network rather than the more localised ANM schemes that have been typically developed by others to date.</li> </ol>
SSEN	<ol style="list-style-type: none"> <li>SSEN's proposed approach to flexible connection charges will be based on a project by project basis. Where a wider system benefit is created by an ANM scheme these costs would be socialised. If specific to the customer, they would be cost targeted.</li> </ol>
UKPN	<ol style="list-style-type: none"> <li>Intentions as part of 2018 rollout of flexible zones.</li> </ol>
SPEN	<ol style="list-style-type: none"> <li>Actively managed (or flexible) connections can take a number of forms, including export limitation, intertrips, simplified local management and more complex active network management schemes. The optimum choice of flexible connection will depend on the individual circumstances of the project and the characteristics of the network it is seeking to connect into. SPEN will offer flexible connection alternatives as BAU. SPEN has published a roll out plan for each of its SPD and SPM network areas for more advanced autonomous control of wide areas of network using Active Network Management (ANM): <a href="https://www.spenergynetworks.co.uk/pages/distributed_generation.aspx">https://www.spenergynetworks.co.uk/pages/distributed_generation.aspx</a></li> <li>SPEN previously ran a trial (Accelerating Renewable Connections (ARC)) of ANM in the SPD, East Lothian and Borders distribution network area (now adopted as BAU). This trial enabled SPEN to connect a number of consented generators several years in advance of the completion of necessary transmission reinforcement works. These connections would not otherwise have been able to connect.</li> </ol>

## Appendix 2 – summary of consultation responses

On 29 January 2018 we issued a consultation on SSEN’s proposed changes. This was to help to inform our decision on whether to allow the proposed changes, as well as to guide future policy development.

We received 14 responses to our consultation including from all DNOs<sup>13</sup>, SSEN customers based in different areas within the Licence area, and other key market participants. There were a range of views, but the majority disagreed with at least one part of the proposal due a lack of certainty as to whether it would better achieve the relevant objectives, and inconsistency with how other DNOs currently treat the same costs. We asked six key questions, and a summary of the responses to each follows.

The 13 responses we received that were not marked as confidential are available for download on the Ofgem website<sup>14</sup>.

### **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.**

Five respondents agreed, but only if the costs being passed on to the connecting customer are the actual operational costs of that single connection, and not initial capital costs or the costs of establishing a wider scheme.

Nine respondents disagreed, generally noting that no rationale is provided in the proposal for treating flexible connection ongoing costs differently to firm connection ongoing costs, and a lack of clarity around how costs specific to a customer will be differentiated from those with wider benefits.

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

Most respondents agreed that the Minimum Scheme definition is outdated and in need of review. Two respondents stated that a flexible connection cannot be the Minimum Scheme due to it not meeting Required Capacity definition. Seven respondents thought that as likely the lowest cost option, flexible connections should be able to be the Minimum Scheme.

Some respondents suggested that a flexible connection could meet the Required Capacity if the customer agrees to the flexible connection conditions.

### **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.**

Two respondents agreed, stating that the charges would be cost reflective if bespoke to the connecting customer. Nine respondents disagreed with the proposed approach, due to a lack of clarity as to how costs would be identified as benefiting one or many customers. Customers who responded noted that there might be a lack of incentive for SSEN to minimise ongoing costs of flexible connections.

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<sup>13</sup> ENWL, NPg, UKPN, WPD, SPEN

<sup>14</sup> <https://www.ofgem.gov.uk/publications-and-updates/consultation-principles-be-considered-when-recovering-costs-providing-flexible-connections>

**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.**

Most respondents suggested that many flexible connections are different in nature, so need different treatment for cost allocation. Not all examples raised result in ongoing connections costs, and some respondents were open to having separate charging regimes to ensure the model is fit for purpose for each type.

**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)?**

See the summary of responses from DNOs in Appendix 1. Many DNOs also cited work through the ENA's Open Networks project as setting the future framework for how different approaches evolve.

**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?**

All connecting customers thought the existing proposal was too ambiguous. As a result, some thought the proposal does not reflect future developments in types of flexibility that could be offered, which could be problematic for future network developments.

**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?**

Respondents expressed concern that this treatment creates a disparity between flexible and firm connections, and could discourage future flexibility. Some accepted that it is fair that customers share some ongoing costs for flexible connections, and others pointed out a lack of incentive on SSEN to keep third party costs down if all costs are passed on.

**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.**

One respondent stated the proposal is consistent with the relevant code objectives to better reflect costs incurred and to reflect future business developments. Nine respondents stated that the proposal is inconsistent with relevant code objectives for a range of reasons including that:

- it does not meet the "facilitating competition" relevant objective due to the passing of capital costs on to the first comer, and as a flexible connection could feasibly be the minimum scheme, it could distort market competition;
- it does not meet the "ensuring charges reflect developments in the Licensee's Distribution business" objective because it ignores future ability for costs to be shared with future customers;
- the proposed charges are inconsistent with existing charging regime, and need to be more cost reflective than what the proposal provides.