

Access SCR – Updates to our minded-to positions

Challenge Group Briefing

Thank you for joining. The session will begin in a few minutes.

Please note: this session is being recorded and we intend to publish it online after the session.



Email contact: futurechargingandaccess@ofgem.gov.uk

February 2022

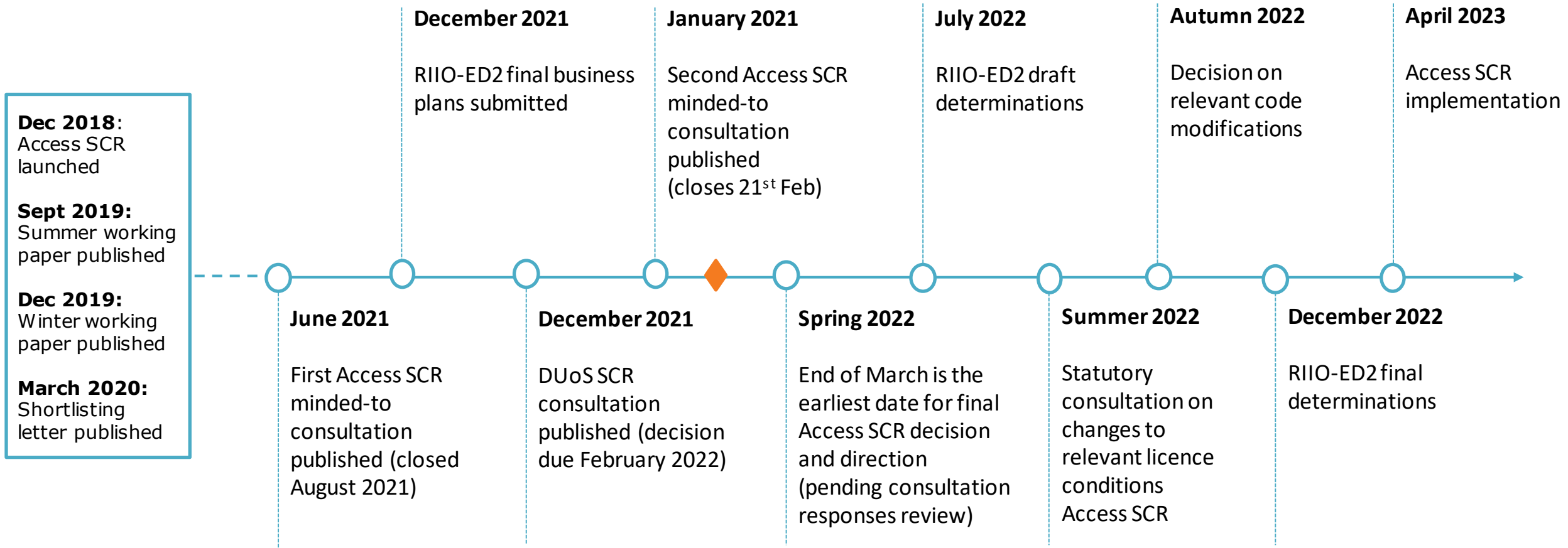
Agenda

- 1 Introductions and Objectives**
- 2 Distribution Connection Charging Boundary**
- 3 Access Rights**
- 4 Transmission Network Use of System Charges**



Objectives

- Provide an update on Access SCR process and timeline
- Brief challenge group members on the high-level updates to our policy positions:
 - Distribution Connection Charging Boundary
 - Access Rights
 - Transmission Network Use of System Charges
- Offer an opportunity to ask clarifications questions based on this briefing and any early views on our positions
- Ensure Challenge Group members and wider stakeholders feel well informed and able to offer a full response to our consultation before it closes on 21st February



Q&A



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- 1** **Introductions and Objectives**
- 2** **Distribution Connection Charging Boundary**
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Connection Boundary – The impact of our proposals

Our proposals will see the connection boundary become shallow for demand connections and shallower for generation connections. Below is a visual representation of these changes.

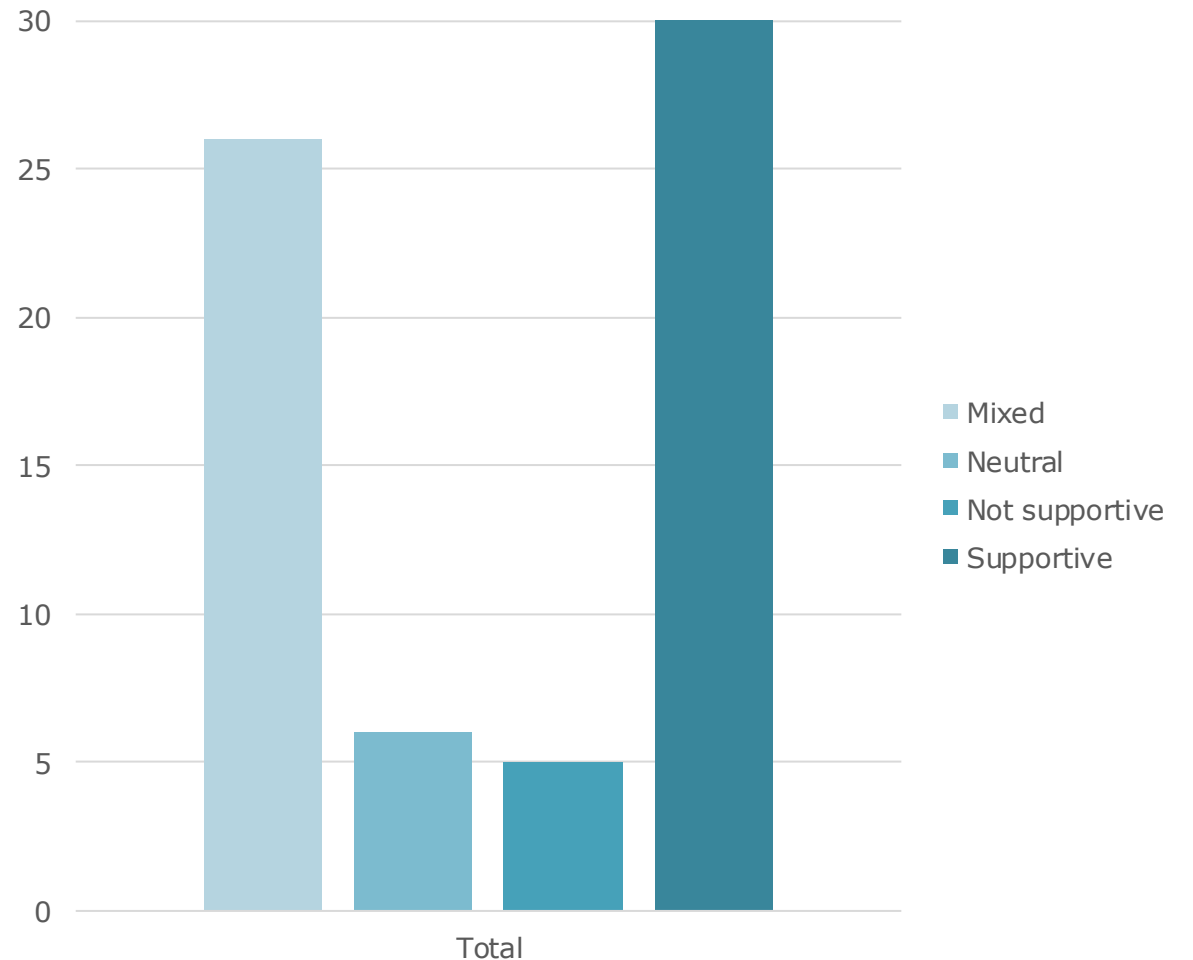
	Connection assets	Reinforcement at connection voltage	Reinforcement at connection voltage + 1
Current situation	<p>Connecting customer pays 100%. Costs can be recovered if another customer connects to these assets at a later date – costs can be recovered via the ECCR</p>	<p>Connecting customer pays a proportion of the reinforcement costs. Any additional reinforcement costs above this contribution are covered by DUoS payers.</p>	<p>Connecting customer pays a proportion of the reinforcement costs. Any additional reinforcement costs above this contribution are covered by DUoS payers.</p>
Post SCR – Demand	<p>Connecting customer pays 100%. Costs can be recovered if another customer connects to these assets at a later date – costs can be recovered via the ECCR</p>	<p>Fully funded by DUoS billpayers</p>	<p>Fully funded by DUoS billpayers</p>
Post SCR – Generation	<p>Connecting customer pays 100%. Costs can be recovered if another customer connects to these assets at a later date – costs can be recovered via the ECCR</p>	<p>Connecting customer pays a proportion of the reinforcement costs. Any additional reinforcement costs above this contribution are covered by DUoS payers.</p>	<p>Fully funded by DUoS billpayers</p>

Stakeholder feedback to our June proposals

- **153 responses** were received by 125 unique organisations
- Biggest groups of respondents were
 - Small / independent renewables generators (22)
 - Trade associations (18)
 - Charities / community energy groups (14)

Key points from the feedback on our Connection Boundary proposals:

- Relatively mixed responses on our proposal for connection boundary but **62% overall supportive of our proposals**
- Strong support for moving to a shallower connection boundary
- Similarly strong support for High Cost Cap
- More information requested on treatment of storage connections



Clarification	Proposed policy position	Rationale
In-flight projects	Charges applicable at the time of connection application would continue to apply.	Projects welcome to re-apply under new arrangements, but would not retain their queue position.
Rebates	No rebates for users who have paid reinforcement costs prior to implementation of our proposed changes (where ECCR first comer compensation does not apply).	Significant cost and no wider benefit from arranging such payments.
Non-firm connections	Existing non-firm connections seeking a firm connection under the new arrangements will not be prevented from doing so.	No clear reason to discriminate against this specific group in order to manage connection application volumes.
Licence mitigations for DNOs	We are considering mitigations (e.g. derogations from licence requirements) to accommodate a surge in connection applications immediately following 1 Apr 2023	Application volumes hard to predict without precedent in short term; greater certainty of timeframes potentially preferable for applicants.

Clarification	Proposed policy position	Rationale
Interactivity	We propose no changes to existing arrangements considering interactivity between projects	While first comer better off under new arrangements, speed of connection still a factor.
Minimum scheme	The definition of 'least capital cost' should not be affected by the proposed charging boundary changes.	Connection offers are calculated on the least capital cost overall, rather than the cost borne by the customer alone.
Point of Connection	The definition should remain unchanged by our proposals.	We see no reason to redefine what is included in the 'same voltage as POC'.
Service upgrades	No further direction on service upgrades for existing distribution connections to single occupancy premises.	majority of DNOs already fund this type of work, or plan to do so from RIIO-ED2
ECCR 2017 changes	We consider amendments to the terms of the Electricity (Connection Charges) Regulations will be required to give effect to our proposed boundary changes.	Reinforcement paid for by first comers may have to be reimbursed differently under our proposed changes. This is due for consideration by BEIS.

For the purposes of connection charges for storage, import and export reinforcement are currently assessed separately. The drivers of reinforcement determine treatment under connection cost apportionment. Under our proposed connection charge boundary changes, which sets different charging depths for demand and generation connections, this method raised some questions as to what reinforcement contributions storage connections will be expected to make.

Reinforcement contribution calculated separately (import and export)	Reinforcement contribution calculated as generation contribution (proposed)
Not always clear whether import or export drive reinforcement at time of connection	Consistency and clarity for DNOs and connectees on expected treatment
May create a storage specific locational signal	Recognises end purpose of storage (export, not final consumption)
May disincentivise colocation	Recognises comparable flexibility of storage (next to demand & other gen)
Gives storage in demand constrained areas considerable advantage over demand connections subject to DUoS charges	Recognises absent demand signal (DUoS charge) and wider recognition of storage as generation (e.g. DUoS credits and avoidance of FCLs)

Rationale for generation reinforcement contribution

- Avoids the potential for vast variation in storage connection charges
- Avoids creation of an inadvertent locational price signal specifically for storage (not our policy intent)
- Creates a single, consistent reinforcement charging regime for storage

Three-phase connections (*no change proposed*)

Where you have requested a three-phase connection, and/or a supply voltage that is not necessary to meet the Required Capacity, and the local Distribution System is not of the requested number of phases and/or voltage, then you are **required to pay in full the cost of Reinforcement of the Distribution System.**

Effects of current treatment under proposed charge boundary changes

Continues to avoid risk of customers 'gold-plating' their connection

Continues to limit wider customers' exposure to reinforcement costs that may have limited benefit to wider customer base.

Widens the gap between the Minimum Scheme contribution and the reinforcement cost for triggering

Places greater focus on DNOs for the prioritisation of three-phase upgrades

Rationale:

- Without retention, a single three-phase connection request could potentially trigger widescale network investment regardless of the broader requirement for the capacity.
- DNOs should continue to ensure strategic upgrades to three-phase network are delivered through their network development plans under the RIIO-ED2. We believe this to be a more targeted and strategic approach.

Speculative connections (*no change proposed*)

Connections deemed 'speculative' **are liable for all reinforcement costs in addition to any ongoing operational and maintenance costs.**

The DCUSA Common Connection Charging Methodology definition(s) are:

- detailed electrical load requirements not known
- development is phased over a period of time & timing of phases unclear
- capacity requested caters for future expansion rather than immediate requirements
- capacity requested caters for future speculative phases rather than the initial phase(s) of the development
- infrastructure only being provided, no connections for end users requested

Effects of current treatment under proposed charge boundary changes

Connecting customer liable for all reinforcement costs in addition to any ongoing operational and maintenance costs.

Widens the gap between 'non-speculative' and 'speculative' connection costs, making the definition more crucial if there is a strong needs case for certain types of speculative connections.

Rationale:

- Protection of DUoS customers from higher risk projects should be retained
- Propose a review of CCCM definitions, with more precise examples of high-risk development types and greater consideration of the role of strategic network development in reducing the risk of asset stranding

Updated Positions

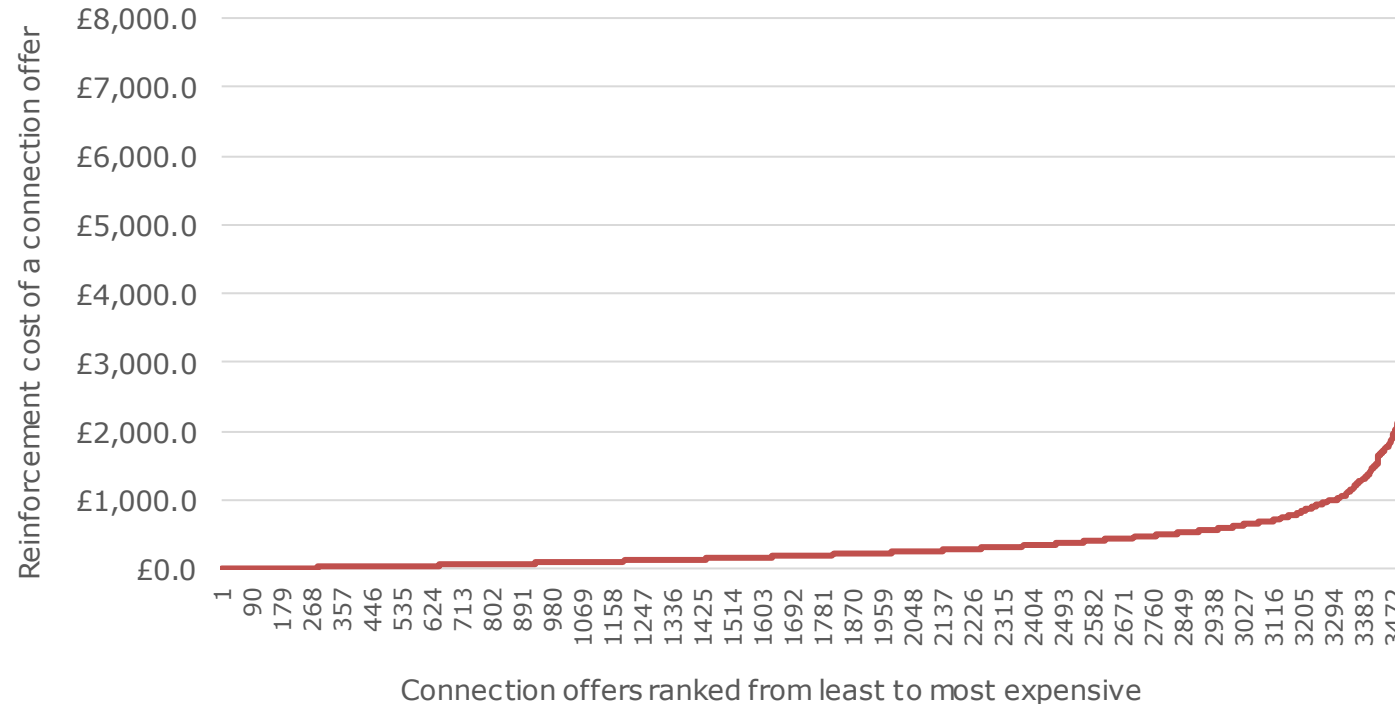
- We are minded to retain the high cost cap for generation connections and introduce a high cost cap for demand connections.
- We are minded to maintain the current voltage rule for the purpose of setting this price cap.

Reasons for our updated positions

1. Our proposals to move to a shallow connection boundary for demand connections and a shallower connection boundary for generation will incur a transfer of costs from individual connection customers to the wider DUoS billpayer base.
2. Whilst this will help to remove financial barriers from connecting customers, it will also expose DUoS billpayers to having to contribute to the reinforcement costs associated with these individual connections.
3. We received responses to our original minded to position that raised the risks this present to DUoS billpayers and suggested that mitigations were necessary in order to protect wider consumers.
4. We are now consulting on a high cost cap as a key protection as part of a suite of DUoS mitigations that we believe will help to ensure DUoS billpayers are not exposed to the cost of excessively expensive connections-driven reinforcement, which may not be in their wider interests.

Connection Boundary – The justification for a high cost cap for demand

Reinforcement Costs Associated with Connection Offers Over the Past 4 Years



This graph demonstrates the reinforcement cost (£/kVA) associated with each connection offer over the last 4 years for a DNO, ranked from lowest to highest cost. Whilst costs vary across DNOs the typical shape is common, with the vast majority of connection following a gradual increase in costs before rising rapidly towards the tail end.

Q&A



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Access rights

Access rights define the **nature of users' access to the electricity networks** (for example, when users can import/export electricity and how much) and how these rights are allocated.

The case for change:

1. Strategic and timely network investment
2. Flexible network arrangements as a tool to plan and develop the network
3. Reducing risks to connecting customers
4. Better definition, consistency, and transparency

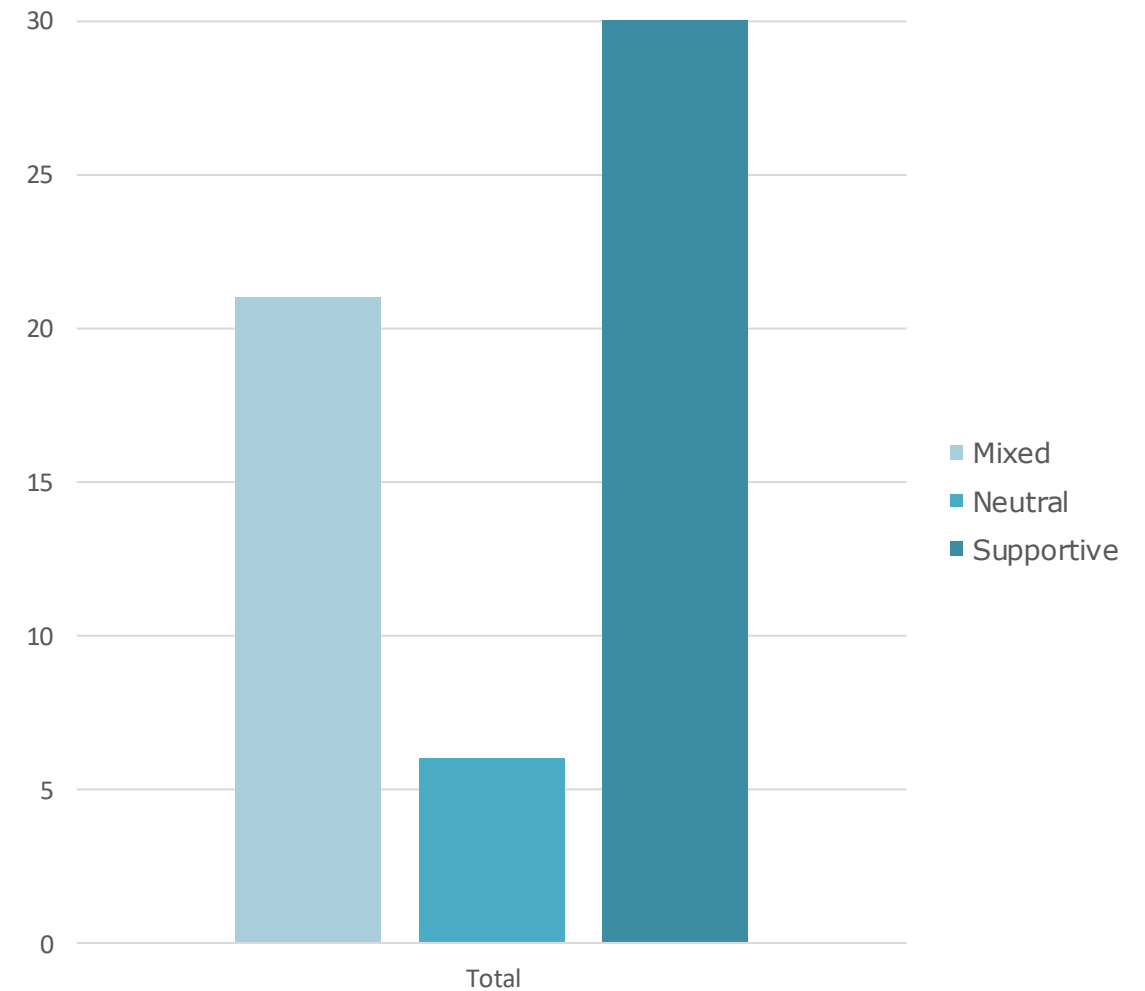
Our updated proposals at a glance

1	Better defined non-firm access arrangements
2	Curtailement limits for non-firm connections and requirement on networks to comply with those limits
3	End dates for non-firm arrangements
4	Time-profiled access rights

Stakeholder feedback to our June proposals

Key points from the feedback on our Access Rights proposals:

- 67% of respondents overall supportive of our access rights proposals
- Proposals seen to provide clarity and increased pace for new connections and generally greater flexibility in market
- Seen to reduce network access costs.
- More information was requested on curtailment limits and non-firm access arrangements



Summary of updated positions – non firm access

Key topic

Proposed policy position

Reasons for proposal

Who is covered?

- Distribution connected users only
- Not available to small users (household and non-domestic users not billed on a site specific basis or metered using whole current meters)

- Aligns with definition used in the TCR and section 3 of the National Terms of Connection

What is curtailment?

- Defined as any action taken by the network operator to restrict conditions of a connection
- Excludes customer interruptions – restrictions caused by fault or damage to a customer's supply
- Excludes curtailment that results from constraints on the transmission network

- Ensures that where a customer's connection is interrupted under definition of customer interruptions it continues to be covered under GSOP
- Transmission constraints are outside of the DNO's control

How should curtailment limits be calculated?

- Curtailment limits to be defined in conjunction with the network operator on the basis of maximum network benefit, taking into account availability behind a constraint
- Propose that DNOs should define and agree how curtailment limits will be set in a manner consistent across networks
- DNOs are required to comply with set limits

- Consistent with the aims of our reforms to enable more efficient network investment
- Network operators are well placed to ensure that the curtailment limits work with current network conditions

Summary of updated positions – non firm access

Key topic

Proposed policy position

Reasons for proposal

What happens if the network operator curtails above agreed limits?

- Curtailment limits should be taken into account when planning and operating the network, therefore additional curtailment should be on an exception basis
- Where a user must be curtailed above agreed limits, the DNO needs to procure this service from the market where it is economic and efficient to do so
- We are not proposing to introduce a backstop or a cap on payments made by DNOs who exceed agreed curtailment limits

- This requirement is meant to protect customers on flexible connections from uncapped exposure to curtailment risk
- We are not introducing a cap because we believe that it is not market based and that there is a natural backstop in the cost of physical reinforcement

How long should non-firm arrangements last?

- We are proposing to introduce explicit end dates for non-firm arrangements
- End-dates would not be applicable where the high cost cap is triggered, and the connecting customer does not agree to contribute to reinforcement above the cap

- End dates will ensure that network operators invest in network capacity in a timely way
- Provides certainty to customers on when their connection is likely to be made firm

Summary of updated positions – non firm access

Key topic

Proposed policy position

Reasons for proposal

Existing customers on non-firm

- No effect on existing user's access rights
- Should existing users on flexible connections wish to amend their access rights, they must submit an application to their network operator via normal process

- No change to the way existing connections are managed

The value of non-firm arrangements

- Our connection charging proposals will remove or reduce the financial value of flexible connections
- Non-firm access would still play an important role by facilitating quicker access to the network

- N/A

Summary of updated positions – time profiled access

Proposed policy position

Reasons for proposal

Summary of proposed position

- We propose that where there is a clear network need, network operators should consider and discuss time-profiled access options with customers when making connection offers
- We are not proposing to further define time-profiled access arrangements for example by prescribing a set of standardised time-bands as default options

- The benefits of greater standardisation are unclear beyond what network operators can already offer
- Concerns that standardisation could hamper the use of complex time profiles more appropriate to the site specific needs of customers

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We no longer intend – under this SCR – to direct NGENSO to levy TNUoS or TNUoS-equivalent charges against SDG capacity or TEC from April 2023, and will retain the current arrangements (including the Embedded Export Tariff) until at least then.

- When we launched this SCR, we wanted to understand whether Small Distributed Generators should face charges for use of the transmission system
- To answer this question, we have considered two main points:
 - The extent to which SDG has a similar effect on the transmission system to other types of generation; and
 - Whether, and to what extent SDG facing no liability for TNUoS is distortive to competition

Factored into our considerations of these questions have been CM & CfD interactions, information from transmission network licensees, as well as the views of embedded generators and DNOs

In our June 2021 consultation we said we recognised that there were arguments for a broader review of TNUoS arrangements

In October 2021, we launched a Call for Evidence which received a significant volume of responses, covering topics including case for change, routes for reform and the technical aspects of the methodology that should be in scope.

We will shortly be sharing our next steps on TNUoS, alongside a summary of the non-confidential responses to our Oct-Nov 2021 Call for Evidence

Broadly, the feedback we had to our June consultation and to our October 2021 CfE indicated widespread support for a review of TNUoS

We currently consider that it is better to delay making any decisions in respect of TNUoS charges for SDG until there is greater certainty on:

- The scope and scale of changes being proposed to the TNUoS charging methodology;
- The move to a smart and flexible system, and the role of network charging;
- Reforms in the market, taking into consideration OTNR, wholesale markets and electrification

tnuosreform@ofgem.gov.uk

This does not mean that we believe SDG should not face TNUoS charges – we believe there are many factors to that decision, and that the decision itself should therefore be delayed.

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- **stamping out sharp and bad practice, ensuring fair treatment for all consumers, especially the vulnerable.**
- **enabling competition and innovation, which drives down prices and results in new products and services for consumers.**