

Distributed generation in GB

The role of regulation in the development of DG

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Who are Ofgem?

- We are the **Office of Gas and Electricity Markets**. Our primary duty is to protect consumers
- We achieve this by promoting competition and regulating the monopoly companies which run the gas and electricity networks
- Regulation involves granting licences, monitoring performance, developing incentives to drive behaviours, approving charging methodologies to ensure common cost structures, determining in disputes between networks and customers
- and we set revenues networks can recover (through the energy bill) to run their business. These are set periodically through a price control process. RIIO-ED1 will run from April 2015-March 2023

Connecting to the network

- Network operators have a duty to connect any customer seeking a connection on request (section 16 of the Act)
- To ensure connection is provided efficiently we have developed policies in relation to:
 - Charging for network connections & use of the distribution system
 - Incentivising networks to provide a good service to customers seeking a connection

Our interest in DG

- Distributed generation is now a key component of the energy industry – significant growth in recent years in response to government incentives
- Creates challenges and opportunities for networks in accommodating new DG customers
- We have sought to ensure that DG does not encounter any unnecessary barriers when seeking to connect

Our work

- In the current electricity distribution price control (**DPCR5, 2010-2015**) we introduced -
 - **Guaranteed Standards of Performance (GSOP) in connections.** Minimum timescales for stages in the connection process, from issuing quotations through to energisation. Where a DNO fails to meet the standard it must make a payment to the affected customer.
 - **A broad measure of customer service** that includes a customer satisfaction survey with connections customers. A DNO stands to receive financial penalties or rewards based on their performance.
 - **Obligations on the DNOs** to produce a connection guide for distributed generation customers and publish Long Term Development Statements
 - Incentives to open up connections market to **Competition**

An ongoing interest

- Concern that some customers continued to experience difficulties when connecting
- Gap remained in understanding. In 2011 & 2012 we set up and hosted DG Forum events – customers/DNOs to discuss issues and how to improve arrangements
- Held in Cardiff, Glasgow and London each year.
- After last year we expected DNOs to take the lead in these events – their customers, their services. We'll continue to play an active role in monitoring progress and impact of our policies

Type of issues encountered

Application Process

- Lengthy and requires a lot of information upfront
- Recognition of heavy workload on DNOs

Provision of Information

- Feasibility studies not detailed or reliable enough
- Provision of network data would help developers know where to connect

DNO customer service and transparency

- Not designed around customer needs

Charges

- Connection costs can be high
- Not transparent

Innovation

- Lack of creative thinking and willingness to explore alternative approaches

Outcomes

- Each DNO committed to developing, publishing and delivering a workplan.
- Welcome commitment to addressing issues. Already yielding results:
 - DNOs focussing more on specific needs of DG
 - Better information/guidance
 - Dedicated resource
 - Online database of wind turbines
 - Online capacity maps
 - Access to network diagrams & design standards
 - ‘Fair’ terms for deposits
 - More detail in connection offers
 - Simplified & standardised processes
- Still more to do & some may have gone further than others. Starting to understand what’s possible. This is an ongoing process

Looking ahead

- For the next price control (**RIIO-ED1, 2015-2023**) we will strengthen DPCR5 arrangements. Introduce new mechanism to address customer issues -
 - Incentive of Connections Engagement.** This will require DNOs to -
 - submit evidence of how they have identified, engaged with and responded to the needs of their customers.
 - develop a forward-looking work plan of actions to improve performance (with associated delivery dates).
 - demonstrate performance against their relevant performance indicators and progress against their work plan of actions.
 - A DNO that does not engage or respond to the needs of its customers will be subject to **financial penalties**
- Sound familiar? Formalises DG Forum approach – but with focus on outcomes

The cost of connection

- Recognise that for many the most significant issue is cost. New customers pay an up-front charge for the cost of making their connection. This applies to users as well as to energy producers.
- Connecting DG pays the full cost of sole-use connection assets and share of reinforcement costs (up to one voltage level above point of connection)
- Customers also pay ongoing use of system charges - this should reflect the cost impact they cause. For many DG this results in 'credits' where they defer the need for investment
- Helps meet our energy needs and our targets for renewable generation at the lowest possible cost to consumers.
 - Price signals to use existing spare capacity
 - Reduces risk of stranded assets
 - Provides incentive to reduce costs through alternative connection arrangements
 - Other customers don't pay for infrastructure they don't require

Costs and Innovation

- Those tied to a location may face prohibitively high costs.
- No silver bullet. Someone has to pay for the work & our role is to protect interests of all customers – moving costs (and risks) around can lead to customer bills increasing for no added benefit
- There are options – we expect DNOs to consider alternate commercial arrangements – non-firm offers, customers forming consortia, coupling demand and generation schemes
- We've invested over £44m of customer money funding innovative projects to release capacity/improve connections for
 - Flexible Plug and Play (UKPN)
 - Low carbon hub (WPD)
 - Active Network Management (SSE)
 - Real time thermal rating (NPG)
 - Flexible Urban Networks – LV (UKPN)
- Accelerating Renewable Connections (ARC) (SP)
 - FlexDGrid (WPD)
 - Capacity to Customers (ENWL)
 - Smart Street (ENWL)

Summary

- Want to hear if there have been improvements in –
 - Engagement
 - Processes
 - Information
 - Service
 - Procedures
- What represents best practice?
- What more can be done by the DNOs? How can Ofgem help in this process?

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We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.