

Connections, network access and the RIIO Framework

An overview



- ❖ The rapidly changing nature of the UK energy sector will impact all aspect of regulation including connections
- ❖ The system is increasingly distributed, with more homes and businesses generating and storing power
- ❖ Flexible connections and other innovative approaches have enabled 3.7GW of connection offers for DG and can allow quicker or cheaper connections than if they were not available
- ❖ Outages are a necessary part of operating a network – we recognise the impact that outages can have on customers and the challenges of minimising that impact
- ❖ Further changes in the energy sector create additional challenges including for outages but crucially also opportunities

Network company responsibilities

- Recognise the impact that outages can have on customers
- Engage effectively with each other e.g. TO and DNO
- Engage effectively with the impacted parties
- Seek to minimise disruption

Ofgem responsibilities

- Oversee the framework governing performance
- To put in place incentives that drive network companies to take the right decisions
- Seek to address risks faced by customers

- These responsibilities and how they are discharged are impacted by the changing nature of the energy system

- ❖ RIIO framework determines the amount of revenue that network companies can recover over the price control period
- ❖ Designed around six output categories - safety, reliability, customer service, environment, social obligations and connections – network companies have incentives to deliver for their customers
- ❖ A number of aspects are directly relevant to your experiences:
 - ❖ Customer satisfaction survey - to improve customers service
 - ❖ Time to connect incentive - timeliness of connections
 - ❖ Incentive on Connections Engagement - engaging with connection stakeholders



Customer Satisfaction Survey

- ❖ DNOs are required to conduct an annual customer satisfaction survey
- ❖ The survey covers three categories of customer - connection customers, customers experiencing an interruption and making general enquiries
- ❖ The financial penalty or reward a DNO can receive for its performance in the customer service survey is capped – 0.5% of annual base revenue

Time to connect

- ❖ Incentivises DNOs to reduce connection times for minor connections.
- ❖ The time is an annual average across all minor connections.
- ❖ DNOs are measured against common targets.
- ❖ Reward only – 0.4% of annual base revenue

ICE

- ❖ DNOs must submit evidence each year which shows how they're engaging with stakeholders and in turn how they're responding to their needs
- ❖ Submissions include: a Looking Back report and a Looking Forward plan
- ❖ We consult and use feedback to assess performance against minimum criteria
- ❖ If DNOs haven't met the minimum standards – we can impose penalties up to 0.9% of annual base revenue



Historical patterns of demand and generation tended to be relatively predictable. The transformation of the energy sector (eg growth of DG and potential growth of EVs), has put pressure on the existing network and led to network constraints in some areas.

The DNOs have taken steps to respond to these network constraints:

- **'Flexible' connections (eg ANM)**
- **Consortia**
- **Queue management and milestones**

There are currently two Ofgem workstreams focused on making better use of existing network capacity:

1. DSO/Flexibility – DNOs increasingly actively managing networks and enabling flexibility markets. DNOs are developing improved connections, planning and operation processes, improving the connection customer experience and developing local flexibility markets.

2. Access reform: Improvements to the choice and definition of access arrangements for larger users and improving the allocations of access rights.

.... also relevant will be the incentive arrangement put in place at RII0-2.

- ❖ DNOs becoming more active managers of their networks, implementing and enabling other to provide innovative solutions as alternatives to network reinforcement. As well as greater coordination with other network and system operators to achieve efficient outcomes in a whole system context.

- ❖ Evolving policy area but key areas are:
 1. Neutral market facilitation
 2. Enhanced monitoring and planning
 3. Real time reconfiguration of the network
 4. Commercial arrangements to manage faults
 5. Active voltage management/ Permanent Active Network Management
 6. Distribution system balancing

- ❖ As part of the Open Networks project, the ENA has consulted on a range of potential market models for the DSO transition. Alongside a range of industry considerations and proposals, this work will provide inputs into Ofgem and Government's considerations about future market reforms.

Context

- ❖ For DG, flexible connections are offered by network companies to connect new generation without the benefit of financial firmness.

Issues arising

- ❖ Open-ended risk
- ❖ Lack of market mechanism to determine DG curtailment
- ❖ Baringa estimated value of curtailment risk for DG of £12m
- ❖ Once connected, DG receives DUoS credits and pays no TNUoS, even if the DG is causing constraints.

Ofgem's proposals

Ofgem are proposing:

- ❖ Better definition and choice of access rights: Improved definition/choice of 'non-firm' and time-profiled access rights.
- ❖ Enable markets for access – Allow DG to trade who is cut off by the DSO.
- ❖ Comprehensive review of DUoS to ensure that users pay costs or benefits that they create.
- ❖ Review of distribution connection charging boundary to consider whether reinforcement costs should be signalled via DUoS or connection charges.

“ Reviewing the definition and choice of non-firm access rights could reduce risk for network users by giving better information and choice to manage curtailment risk, allow more users to be connected, and provide better information to network operators about where there is demand for new network capacity. ”

- ❖ Network companies encouraged to further understand the services that consumers want and need
- ❖ Aims to create a level playing field in price controls between demand and supply side solutions to network constraints.
- ❖ Will be designed with sufficient flexibility to respond to changes in the role of networks, given work to consider the need for wider changes in the structure of the future energy market.
- ❖ Greater coordination across traditional network boundaries will be required and companies will need to adapt and play their part in meeting the challenges that the changing energy system presents.

Responding to changes in how networks are used

Network companies have to help enable the energy system transition, but we also have to guard against the uncertainty that these changes bring.

We will design RIIO-2 so that companies develop their networks to respond to the changes happening across the energy system, but we will put controls in place to protect consumers from the risk that the future could turn out differently to what we currently think.

- ❖ We will publish consultation on methodology for RIIO-T2 in December (ED will follow in early 2020)
- ❖ Documents will outline the basis on which network companies will develop their Business Plans
- ❖ We would encourage all parties to engage now
- ❖ Key issue to consider:
 - What has worked well in RIIO-1?
 - What incentives are needed to drive strong performance in RIIO-2
 - What needs to change to recognise the dynamic nature of the industry and future uncertainty e.g. create the right incentives for networks to procure flexibility solutions as business as-usual.

Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.

We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.