



Department
of Energy &
Climate Change

Assessment and Design Fees

Call for Evidence

24 March 2016

Department of Energy and Climate Change
3 Whitehall Place
London
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URN 16D/042

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This call for evidence can be found on DECC's website:

<https://www.gov.uk/government/consultations/assessment-and-design-fees-call-for-evidence>

Published by the Department of Energy and Climate Change

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General information

Purpose of this consultation:

DECC is seeking views from stakeholders with an interest in connections to the electricity distribution network on the introduction of upfront assessment and design fees for connection applications.

Issued: 24 March 2016

Respond by: 6 May 2016

Enquiries to:

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Consultation reference: URN 16D/042 – Assessment and Design Fees: Call for Evidence

Territorial extent:

Great Britain

How to respond:

Your response will most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome. Electronic responses to the above email address are preferred, however, you may also respond in hardcopy, to the above address, if you prefer.

Additional copies:

You may make copies of this document without seeking permission. An electronic version can be found at <https://www.gov.uk/government/consultations/assessment-and-design-fees-call-for-evidence>.

Confidentiality and data protection:

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we

cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We may summarise all responses and place this summary on the [GOV.UK website](#). Any summary would include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

Quality assurance:

This consultation has been carried out in accordance with the [Government's Consultation Principles](#).

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator
3 Whitehall Place
London SW1A 2AW
Email: consultation.coordinator@decc.gsi.gov.uk

Executive Summary

Assessment & Design (A&D) fees are the charges made to customers to cover the costs incurred by DNOs in preparing connection offers. They typically cover the costs of DNO staff, undertaking surveys, drawing plans, accommodation, equipment, etc.

Until 2008 most DNOs levied upfront A&D fees, however following a legal challenge Ofgem ruled that to do so was inconsistent with the Electricity Act 1989¹. Government took powers in the Energy Act 2008 to allow the Secretary of State to make regulations so that DNOs could recover these costs upfront from customers. The regulations have not been made however, so DNOs have had to provide connection offers free of charge and recover the costs of providing all connection offers only from those customers who accept a connection offer.

DNOs and a number of customers argue that the absence of upfront A&D fees has had a significant and growing detrimental effect on connection customers in general. They contend that the lack of upfront fees, combined with other drivers for increased connection applications, has encouraged multiple and repeat speculative connection applications. These applications increase costs and divert DNO resources to providing offers that will never connect. All of these costs are recovered only from customers who accept a connection offer. Furthermore, providing connection offers to speculative applications can 'tie up' network capacity which remains reserved until an offer response is received. This can artificially exacerbate network constraints. They believe that upfront fees would also be a fairer way of recovering A&D costs.

Other stakeholders have suggested that the introduction of upfront A&D fees would not reduce speculative applications as other factors, such as a lack of information on network capacity, drive customer behaviour. There have also been concerns about how any upfront A&D fees would be applied, particularly the impact on smaller customers and community projects.

Upfront A&D fees could be implemented in a number of ways, for example with each customer paying the costs of their own application or a flat fee being charged with the residual recovered from those who accept connection offers. Exemptions could also apply. The Energy Networks Association has submitted a business case to DECC including a proposal for the introduction of an upfront fixed fee with an exemption for smaller projects. We have presented the proposal in this document, however DECC has not undertaken its own analysis of the proposal and will consider this and all other evidence after the closing date for the Call for Evidence.

DECC understands the potential benefits of enabling A&D fees to be levied upfront, but also recognises that concerns have been raised too. We would therefore welcome views from stakeholders. We will consider responses to the Call for Evidence and other engagement with stakeholders. Should we decide that there is a case to consider this further we would publish a consultation together with a draft Impact Assessment. Should we then decide to introduce upfront A&D fees a Statutory Instrument would also be required.

¹ https://www.ofgem.gov.uk/sites/default/files/docs/2008/08/a-and-d-fees-consultation_0.pdf

Introduction

Timely and cost effective connections to electricity distribution networks play an important enabling role in meeting our energy and economic objectives. Providing an efficient connections service to customers is therefore a key supporting activity for distribution network operators (DNOs). There has been a far greater than expected rise in generation connections to distribution networks in Great Britain in recent years, with DNOs providing over 340,000 connections from 2010–15². In some areas this has resulted in all spare network capacity being used up, resulting in the need to upgrade the network. This means costly connections and lengthy connection timescales for subsequent customers. Ofgem is challenging DNOs to utilise existing network assets more effectively to deliver more capacity and enable faster and less expensive connections³.

A number of steps have been taken to help ensure that DNOs meet connection customer needs. The RIIO-ED1⁴ regulatory framework has set out a number of expectations for DNOs on providing high quality customer service, timely connections and engaging effectively with stakeholders. DNOs are undertaking a number of actions to meet these expectations including through the Incentive on Connections Engagement action plans for larger connection customers; measures to meet the time to connect incentive for smaller connections; provision of high level information on network constraints to inform customers where network capacity may be available for their projects; clearer guidance on the connections process; rolling out flexible connection offers; and hosting stakeholder workshops. Ofgem is currently asking stakeholders for feedback on whether DNOs are being proactive enough on tackling the queue for connections⁵.

The introduction of upfront Assessment and Design (A&D) fees has been identified as a measure which could reduce the number of speculative connection applications (which DNOs are legally obliged to provide an offer for) and help ease pressure on distribution networks. Large numbers of speculative applications from developers can result in the network appearing “full” in terms of booked capacity, as well as creating a significant workload for DNOs. As the costs of this are paid only by customers who accept a connection offer, it has also been argued that upfront fees would be a fairer way of recovering A&D costs.

² DPCR5 performance report 2010-2015 data table <https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-company-performance-2010-2015>

³ <https://www.ofgem.gov.uk/publications-and-updates/quicker-and-more-efficient-distribution-connections>

⁴ The 2015–23 price control for DNOs

⁵ <https://www.ofgem.gov.uk/publications-and-updates/consultation-getting-electricity-connection-when-network-constrained>

1. Background

What are Assessment and Design fees?

- 1.1. A&D fees are the charges made to customers to cover the costs incurred by DNOs in preparing connection offers. They typically cover the costs of DNO staff, undertaking surveys, drawing plans, accommodation, equipment, etc.

How are Assessment and Design fees charged?

- 1.2. Until 2008 most DNOs levied upfront A&D fees, although in all cases small connection projects were not required to pay in advance of accepting a connection offer. In 2008, following a formal challenge by a customer, Ofgem published an Open Letter clarifying that the practice was not consistent with the Electricity Act 1989.
- 1.3. The Energy Act 2008 subsequently allowed the Secretary of State to make regulations allowing an electricity distributor to recover from customers reasonable expenses incurred in providing connection offers (i.e. A&D costs). This would include expenses incurred in making connection offers that were not subsequently accepted. The regulations may also specify any circumstances under which A&D fees might not be charged and how the fees are to be calculated. The regulations have not been made however, so DNOs have been providing connection offers free of charge and recovering the costs of providing all connection offers only from those customers who accept a connection offer. This means that these customers are also paying for the A&D costs incurred by DNOs in providing offers to other customers which are not accepted.
- 1.4. Links to the latest DNO charges for A&D costs are listed in the annex to this document.

2. Introducing upfront Assessment and Design fees

This chapter sets out the case that has been made for introducing upfront A&D fees and stakeholder views already expressed. It seeks views on whether such fees should be introduced, the potential benefits and negative impacts, and other measures which might support or be used instead of upfront A&D fees to promote fairness and/or reduce speculative connection applications.

The case for introducing upfront Assessment & Design fees

- 2.1. DNOs and a number of customers have argued that the removal of upfront A&D fees has had a significant and growing detrimental effect on connection customers in general. One DNO reported an increase of 30% in connection applications when upfront fees were first removed. It is further argued that the absence of upfront fees, combined with other drivers for connections such as government incentives for renewable generation, has required a significant increase in resources to manage. DNOs contend that a) while this does not materially affect DNOs (as they recover their costs in any event) it is unfair that only those customers who accept a connection offer fund the A&D costs of those who do not progress and b) it encourages multiple and repeat speculative connection requests which increases costs and diverts significant DNO resources to providing offers that will never connect. Furthermore, providing connection offers to these speculative applications 'ties up' that network capacity until a response to the offer is received. This capacity could otherwise be allocated to later, more credible, projects.
- 2.2. DNOs report that they are receiving large volumes of speculative connection applications with little prospect of projects going ahead, but which they are legally obliged to make a connection offer to. All DNOs have provided DECC with examples of multiple connection applications where few, if any, of the subsequent offers were accepted. For example, one DNO reports a customer submitting 241 applications and accepting none of the offers. They also report customers insisting on receiving a formal connection offer even when it is clear at an early stage the costs and/or timescales would be unrealistic for the project.
- 2.3. Preparing a formal connection offer includes breaking down connection costs, providing relevant supporting information and producing detailed technical drawings which can require significant DNO time and resource. DNOs argue that, as there is no up-front cost attached to requesting a connection offer, instead of discussing connection requirements with a DNO at the outset some customers are simply submitting multiple and repeat connection requests to enable them to judge which, if any, are viable. Such applications are often submitted in bulk over a short period of time. DNOs also argue that the lack of upfront A&D fees is deterring customers from using alternative services (some of which are charged for), which could meet their needs (i.e. budget estimates and feasibility studies).

- 2.4. Following consultation with stakeholders the Energy Networks Association (ENA), on behalf of all DNOs, submitted a business case to DECC making the case for the introduction of upfront A&D fees. The business case reported that the difference between connection offers made and accepted had increased significantly from 2010–11 to 2013–14 leading to an estimated increase in A&D costs from £30m (34,212 offers made⁶) to £54m (54,229 offers made) being borne only by those who had accepted connection offers. DECC has not undertaken its own analysis of these figures.
- 2.5. The ENA business case argued that enabling DNOs to charge upfront A&D fees for connection applications would bring a range of benefits, including:
- reducing speculative connection applications, thereby reducing costs for customers who do accept offers. DNOs estimate the volume of connection offers made could reduce by 40% as a result of reintroducing A&D fees;
 - ensuring that a greater proportion of costs were recovered from those causing them to be incurred;
 - DNOs would be able to devote more resource to improving customer service and the quality of offers; and
 - enhancing competition as Independent Connection Providers would be free to decide whether or not (and how much) to charge for similar services.

Wider stakeholder views on the introduction of upfront Assessment & Design fees

- 2.6. The ENA business case stated that responses to its consultations were generally supportive of the introduction of upfront A&D fees, however it noted a number of concerns were raised by stakeholders. These concerns related to whether the introduction of upfront A&D fees would have the desired effect (contending that other factors, such as a lack of information on network capacity, were driving the increase in applications) and how any upfront fees would be applied.
- 2.7. DECC took the opportunity of including a question on the potential impacts of introducing upfront A&D fees in Ofgem's consultation on Quicker and More Efficient Connections⁷ which closed in May 2015. 26 stakeholders provided responses to the question, including developers (generators and demand customers), DNOs, community energy groups, local authorities, and trade associations. The majority of respondents supported the introduction of upfront A&D fees, noting that it could reduce speculative applications and was in any event a fairer way of recovering costs. A number also noted that an improved service and greater transparency on costs from DNOs would be expected in return (faster service and more information available). Some respondents, however, cautioned that (depending on the level of fees charged) making such upfront

⁶ Excluding Small Scale Embedded Generation customers and up to 4 connections in the same application for demand customers

⁷ https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/quicker_and_more_efficient_distribution_connections_-_final_0.pdf

charges could have a disproportionate impact on independent and community-owned generators who may have less access to finance at this point in their projects.

Consultation Question

1. Has the absence of upfront A&D fees contributed to the increase of connection applications and of offers not accepted? Have other factors contributed to this? Are there different reasons for increases in applications and offers not accepted between generation and demand or large and small customers?

Consultation Question

2. Do you support allowing DNOs to introduce upfront A&D fees?

Consultation Question

3. What benefits do you feel that allowing the introduction of upfront A&D fees would bring?

Consultation Question

4. What negative impacts might the introduction of upfront A&D fees have, including on other customers? How might they be mitigated?

Consultation Question

5. Are there other actions which might reduce speculative applications and/or promote fairness in charging, either instead of or in support of the introduction of upfront A&D fees? For example information made freely available by DNOs to inform customers.

3. Implementing upfront Assessment and Design fees

This chapter seeks views on implementing upfront A&D fees including the type of fees that should be charged and whether they should be reviewed. It presents a proposal by the Energy Networks Association on how upfront A&D fees might be charged.

Introduction

- 3.1. Upfront A&D fees could be implemented in a number of different ways e.g. a cost reflective approach whereby each customer was charged upfront for the costs incurred in providing a connection offer for their project or an upfront flat fee with the residual costs recovered from customers who accept connection offers. There could also be different treatment of different categories of customer dependent on the complexity of their connection applications. DNOs could also be given varying degrees of flexibility to set their charges within a broad framework. There could also be provision for periodic increases (in the case of a flat fee) and a commitment to review the effectiveness of upfront fees in meeting the objectives of reducing speculative applications and ensuring a fairer allocation of costs.

Energy Networks Association Proposal

- 3.2. The ENA has submitted a business case to DECC proposing that customers requesting a connection be required to pay an upfront flat A&D fee ranging from £150 to £1,000 depending on the size of the project. The flat fee would be less than the actual A&D costs in providing a connection offer and the residual A&D costs would still be recovered from those customers accepting offers using the existing methodology. It would be applied consistently by all DNOs.

Generation Customers		Demand Customers	
Connection Size	Fee	Connection Size	Fee
Small Scale Embedded Generation	N/A	Single connection	N/A
LV up to 20kVA	£150	2-4 connections at same premises	N/A
LV up to 50kVA	£250	LV up to 100kVA	£150
LV over 50kVA	£250	LV up to 250kVA	£250
		LV up to 1MVA	£250
HV up to 250kVA	£250	HV up to 250kVA	£250
HV up to 1MVA	£500	HV up to 1MVA	£500
HV over 1MVA	£750	HV up to 3MVA	£750
		HV up to 10MVA	£750
EHV up to 10MVA	£750	EHV up to 10MVA	£750
EHV up to 50MVA	£1,000	EHV up to 50MVA	£1,000
EHV over 50MVA	£1,000	EHV over 50MVA	£1,000

- 3.3. The ENA has proposed that smaller projects (which constitute the majority of connection applications) would be exempt from upfront A&D fees as the administrative costs would outweigh the benefits. This would mean that upfront A&D fees would not be levied on Small Scale Embedded Generation customers and demand customers with up to 4 connections in the same application. The A&D costs for these categories would continue to be recovered from customers accepting offers using the existing charging methodology.
- 3.4. We have presented the ENA proposal in this document to inform stakeholders of a possible methodology for levying upfront A&D fees. However DECC has not undertaken its own analysis of the proposal and will consider this, and all other evidence, after the closing date for the Call for Evidence.

In the event of DECC allowing upfront Assessment and Design fees to be introduced...

Consultation Question

6. How should upfront A&D fees be applied? Should there be any category of application that is exempt from upfront A&D fees? Why?

Consultation Question

7. What type of upfront A&D fees do you think should be levied e.g. flat fee for all connections, flat fee dependent on size of connection, a cap with DNOs setting own fees beneath that, fully cost reflective, etc.? Why? Should they be levied at the point of application or when an offer is made?

Consultation Question

8. If a flat fee (either for all connections or dependent on the size of connection), what levels should A&D fees be set at? Should they change over time e.g. index-linked?

Consultation Question

9. What type and level of implementation costs would there be?

Consultation Question

10. What type and level of familiarisation costs would there be? Familiarisation costs are the costs associated with getting used to a new system. Would it take DNOs or customers long to get used to the new system and what type and level of costs would be associated with this transition?

Consultation Question

11. How much notice of introducing upfront A&D fees would be desirable or necessary to ensure this happened effectively and why?

Consultation Question

12. How should the impact of any introduction of upfront A&D fees be monitored or reviewed e.g. periodic review, assessment of the impact on applications and accepted offers, identification of any unintended consequences?

Consultation Question

13. Are there any other comments you wish to make at this stage that may have a bearing on our considerations?

4. Next Steps

4.1. Responses are invited from all interested parties, including any evidence you wish to provide in support of your comments, by 6 May 2016.

4.2. Responses should be sent to:

Paul Hawker
Electricity Systems
Department of Energy and Climate Change
4th Floor
3, Whitehall Place
London SW1A 2AW
Or email: paul.hawker@decc.gsi.gov.uk

4.3. Electronic responses to the above email address are preferred, however, you may also respond in hardcopy, to the above address, if you prefer.

4.4. DECC will consider responses to the Call for Evidence and other engagement with stakeholders. Should we decide that there is a case to consider this further we would publish a consultation together with a draft Impact Assessment. Should we then decide to introduce upfront A&D fees a Statutory Instrument would also be required.

Annex: Latest DNO charges for Assessment & Design costs

- Electricity North West

[http://www.enwl.co.uk/docs/default-source/connections/statement-of-methodology-and-connection-charges-\(1-april-2015\).pdf?sfvrsn=0](http://www.enwl.co.uk/docs/default-source/connections/statement-of-methodology-and-connection-charges-(1-april-2015).pdf?sfvrsn=0) (pages 95-98).

- UK Power Networks (London, East and South East)

<http://www.ukpowernetworks.co.uk/internet/en/about-us/documents/UKPN-CCMS-clean-2015-10-29.pdf> (pages 102-107).

- Northern Powergrid (Yorkshire)

<https://www.northernpowergrid.com/asset/0/document/2310.pdf> (pages 94-97).

- Northern Powergrid (Northeast)

<http://www.northernpowergrid.com/asset/0/document/2309.pdf> (pages 94-97).

- SSE (Southern England)

See SEPD statement of methodology and charges for connection at

<https://www.ssepd.co.uk/Library/ChargingStatements/SEPD/> (pages 99-102).

- SSE (Northern Scotland)

See SHEPD statement of methodology and charges for connection at

<https://www.ssepd.co.uk/Library/ChargingStatements/SHEPD/> (Pages 99-102).

- Scottish Power (Central & Southern Scotland and Northwest England & North Wales)

http://www.scottishpower.com/userfiles/document_library/SPEN_Connection_Methodology_April_2015.pdf (pages 92-95).

- Western Power Distribution (East Midlands)

<http://www.westernpower.co.uk/docs/connections/Charging-Statements/Connections-East-Midlands-Nov-2015> (pages 92-95).

- Western Power Distribution (West Midlands)

<http://www.westernpower.co.uk/docs/connections/Charging-Statements/Connections-West-Midlands-Nov-2014-doc.aspx> (pages 92-95).

- Western Power Distribution (South Wales)

<http://www.westernpower.co.uk/docs/connections/Charging-Statements/Connections-South-Wales-Nov-2014.aspx> (pages 92-95).

- Western Power Distribution (South West)

<http://www.westernpower.co.uk/docs/connections/Charging-Statements/Connections-South-West-Nov-2014.aspx> (pages 90-93).

Catalogue of consultation questions

Causes of increases in connection applications and unaccepted offers	
1.	Has the absence of upfront A&D fees contributed to the increase of connection applications and of offers not accepted? Have other factors contributed to this? Are there different reasons for increases in applications and offers not accepted between generation and demand or large and small customers?
Introduction of upfront A&D fees	
2.	Do you support allowing DNOs to introduce upfront A&D fees?
3.	What benefits do you feel that allowing the introduction of upfront A&D fees would bring?
4.	What negative impacts might the introduction of upfront A&D fees have, including on other customers? How might they be mitigated?
5.	Are there other actions which might reduce speculative applications and/or promote fairness in charging either instead of, or in support of, the introduction of upfront A&D fees? For example information made freely available by DNOs to inform customers.
In the event of DECC allowing upfront A&D fees to be introduced...	
6.	How should the A&D fees be applied? Should there be any category of application that is exempt from upfront A&D fees? Why?
7.	What type of upfront A&D fees do you think should be levied eg flat fee for all connections, flat fee dependent on size of connection, a cap with DNOs setting own fees beneath that, fully cost reflective, etc.? Why? Should they be levied at the point of application or when an offer is made?
8.	If a flat fee (either for all customers or dependent on size of connection), what levels should A&D fees be set at? Should they change over time e.g. index-linked?
9.	What type and level of implementation costs would there be?
10.	What type and level of familiarisation costs would there be? Familiarisation costs are the costs associated with getting used to a new system. Would it take DNOs or

	customers long to get used to the new system and what type and level of costs would be associated with this transition?
11.	How much notice of introducing upfront A&D fees would be desirable or necessary to ensure this happened effectively and why?
12.	How should the impact of any introduction of upfront A&D fees be monitored or reviewed e.g. periodic review, assessment of the impact on applications and accepted offers, identification of any unintended consequences?
Other comments	
13.	Are there any other comments you wish to make at this stage that may have a bearing on our considerations?

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