Grid Securities Working Group - Plan of Action

Input sought – particularly on:

1. *What are specific DNOs getting right and what are they getting wrong? Feedback is requested on this, from the ENA.*

Background

CUSC (Connection and Use of System Code) modification CMP223, modified the CUSC such that distribution connected generators deemed to have an impact on the electricity transmission network are not faced with undue discrimination in the way that security requirements under the CUSC Section 15 are passed on. This included distributed generation in the securitisation process as per CMP 192. Since then securitisation costs have substantially increased. This is discouraging investment in grid-scale renewables and clean technology.

In January 2020 an error saw the Wider Cancellation Charge Tariff in some southern ETYS (Electricity Ten Year Statement) for the B13 boundary substantially increase, affecting zones E1, E6, E7, and F6. Zones E7 and F6 saw liabilities per MW for the 2019/2020 tariff increase from £0 to £ £7,601 .30, and from £1,100.21 to £8,687.78, respectively. The issue has affected a large geographic area, comprising Cornwall, most of Devon, and parts of Dorset, Hampshire, Wiltshire, and Somerset.

Furthermore, in recent years in the South West in particular, solar and other embedded generation project developers have seen the 'securitisation' they are required to set aside when developing new sites increase.

This is having a significant impact on the sector, is impacting the size and sale of projects that can come forward, and is undermining market competition.

The issue has brought to light wider issues around securitisation for embedded generators, including:

- Stark regional differences in how the securitisation process is handled by DNOs.
- DNOs requesting Triple A credit rating or cash upfront down payments as security from embedded generation developers, despite many being small or micro-businesses.
- Discrepancies between the securities expectations laid upon DNOs and upon embedded generation, especially in the context of the relatively large size of DNOs to most embedded generation. DNOs are not required to provide Triple A credit ratings as part of securitisation, despite having to securitise tens of millions of pounds, while generators often do when securitising hundreds of thousands.

- The timeframes given for deadlines to pay increased securities when errors occur in the calculation of securities are extremely short.
- There is a lack of clarity in the sector about how securities are calculated.
- There is also a lack of information about securities, and clarity in terms of the risk that these securities pose, at the grid offer stage. There is only one reference to securities in grid offers, in a clause, which simply states that the generator is required to place securities. There is no indication as to how much these are, why they are applied, how they are paid, when they are applicable or any signposting to further information on zonal charges.
- There is also a lack of transparency in how statuses of projects are communicated to NG by the DNOs. There seems to be little effort made to inform National Grid ESO of accurate build dates, or whether planning permission has been obtained.
- The cancellation charge from the date of key consents in place (26%) should be reduced as it is higher than that for transmission generation projects. This is unfair as embedded generation is treated as more volatile, but new transmission projects are likely to have a greater volatility than they have done in the past.
- To consider in future – what the treatment should be for storage in the securitisation process.

The REA has formed a working group to identify how these barriers can be reduced or removed for solar PV, energy storage, and other embedded power generation developers.

Stated Group Outcomes

The group is seeking the following outcomes:

- To be discussed – reduce 26% cancellation charge from the date of key consents in place, for embedded connection, to a reasonable figure.
- A standardised securitisation process and clarity on associated cost calculations
- A ban on requesting Triple A credit ratings as part of securitisation (where cash payments are not used) – a limit of B- would be more appropriate.
- Greater transparency on why securities are applied, how they are calculated, and how they should be paid.
- For a factsheet on securities and the securitisation process to be provided to would-be generators at the grid offer stage. This should include information about how securities are calculated and how to estimate securities, what they could be in the relevant zone, why and how they are applied, how and when they should be paid, when they are applicable, and the process for returning the money.
- An established process on how DNOs should inform National Grid ESO of key project dates. This is important as these large sums of money belong to embedded developers - and should be handled appropriately by DNOs. A best practice document would be useful.

Membership

This group is open to all REA members affected by increasing securitisation requirements, but will be led from the Solar Forum. BSR were elected to Chair the Working Group when it was first proposed in June at our joint Solar and Energy Storage Forum meeting. GRIDSERVE was elected Vice Chair in December 2020.

The working group chairs are accountable to the elected Chairs of the REA Solar and Energy Storage Forums.

Strategy and project plan

Working group members will collaborate to:

- Help establish dialogue with key stakeholders on this issue.
- Discuss the liaison done so far by members with different DNOs and summarise which DNOs pass securities on and which don't (so far we are aware of SSEPD, ENW).
- Discuss and understand the inconsistencies among various DNOs on passing the cost to embedded generators. If there are DNOs who do not pass this cost how they manage this process?
- Identify means of reducing the 26% rate when key consents dates are in place.
- Develop materials to support any case to change costs, including case studies and surveys of affected parties.
- Discuss whether a grid code modification proposal would be appropriate and collaborate to draft any required grid code modifications.
- See any modifications through the process.

The REA will:

- Establish dialogue with ENA and DNOs, National Grid ESO and Ofgem on this issue.
- Support the working group with policy advice and coordination.
- Help publicise the issue within the sector, and to relevant external stakeholders (e.g. ENA, National Grid ESO, DNOs, Ofgem).
- Support and coordinate the development of briefing documents.
- Support working group members in other ways as issues and any code modifications progress.

Key messages

The REA and working group members will highlight:

- The significance of this issue to the deployment of subsidy-free solar, storage and other renewable generation in the UK.

- That the issue is an unfair burden on small and medium sized generators.
- That lack of available information about securitisation costs is inhibitive to community energy developments, and small and medium sized generators, preventing them from being able to make early, complete budgetary assessments.
- That the regional disparities to how securities are levied creates an additional administrative burden for generators seeking to operate in a regional distribution services area for the first time.
- That this will have a continued impact on Net Zero decarbonisation targets.

Timeline

The REA envisages this group being launched in Q4 2020 and activities running for 6 -12 months, depending on how proposals are received by DNOs

REA Contacts and Project Leads

The REA project leads on this work group will be Isobel Morris, Policy Analyst at the REA, Daniel Brown, Policy Manager and Frank Gordon, Head of Policy

With questions or comment, contact Isobel Morris, Policy Analyst at the REA – imorris@r-e-a.net .