

REA Grid Securities Working Group Meeting Notes

Friday 18th December 2020

In attendance: British Solar Renewables, GRIDSERVE, JBM Solar, Reliagen, Highview Power, Virta, REA staff - Frank Gordon, Jack Abbott, Stan Fielding, Isobel Morris.

Introduction

- There was an error with grid securities earlier in the year where cost rose 600%. Re-highlighted a lot of issues around securities including wide variance in approaches among DNOs, common & unfair requirement for triple AAA credit ratings if not securitising with cash, high cancellation charge from the key date of consents, lack of transparency & information at the grid offer stage about how and why grid securities are levied and what charges are likely to be.
- REA recently had a conversation with the ENA (day before meeting) to discuss the issues.

Possible solutions

- Reduce 26% cancellation charge from the date of key consents.
 - 45% for embedded generators
 - Down to 26% once cancellation in place
 - Very unlikely once a project reaches stage to cancel, so questions over why so high
 - Comments that the problem is that the figure post-consent is different, and treat embedded as more volatile. New projects like offshore wind will increase in volatility, so shouldn't have different cancellation charges (and this charge shouldn't be 26%)
- Standardisation of securities process and clarity on associated cost.
 - Comments that there is currently very little clarity on this process (within DNOs), but securities are important enough that this should be widely known. The fact of and process around securities is not advertised enough, this information not included enough. Eg. UKPN only just started including more details, still not all voltage levels. Not a difficult concept to grasp, project managers should be given info to understand securitisation and the charges and time scales in offers. Problem of where the burden is pushed.

- REA: in discussion with key stakeholders (including ENA, DNOs and NG ESO) about holding discussions, possible remedies.
- DNOs requesting triple-A credit ratings while not having themselves, should be banned
 - Comment - Best limit of triple-B- and above, investment grade.
- Greater transparency on why securities are applied, how they are levied and calculated
 - Comments: If all lined up, could have single guidance document. Fact sheet at the grid offer stage with all the information, such as requirement of cash down-payment.
- Established process for how DNOs should inform NG of key project dates
 - Comments: No clear guidance at the moment. It's not DNOs money, it's embedded developers' money (we're securitising). Need to be on top of this. No focus on this from DNOs because not their money. The relevant NG ESO documents should also be signposted and referred to by DNOs. No best practice. Is it then to create a best practice document to apply for everyone? Would be very good to clarify what this is, and what benefit storage would bring? On storage - storage could create additional capacity. Could move up the queue, reinforcement shouldn't happen at higher levels, therefore should be no securitisation for storage, though this may not be the first priority issue. If money paid to reinforce grid went to the storage? Some forms of interesting business models that could appear. But at least some interesting methodology that people could refer to would improve the current situation.

Discussion on proposed actions

- Is there a DNO which doesn't pass securities? Not talking the half million upfront, but the securities? UKPN don't, though higher deposits with them. We don't know what they are doing with the money. If it's a deposit, a lot could be refunded, but if for securitisation, could get a nasty shock. So need more of the clarity here.
- There are parallels with the common charging methodology. This is same process of bringing DNOs into alignment.
- We would like more information, would be more interest in the information than the cost.
- So much money involved, need more certainty here. Appreciate the point, but with such big figures, need that security.

- Big difference between securities and liabilities. Securitisation is important, but also need to be aware of what liabilities at each stage. If you cancel one year away, still paying 26%.
- Don't think DNOs don't pay securities, they just don't always reveal or you may not hear about it. But it is a legal obligation.
- My understanding is they are not paying cash securities?
- Not about funding mechanism, but all DNOs do need to securitise.
- No one is opposing paying securities, but about getting more clarity and knowing where the money is going and better understanding of costs faced.
- What about securitisation levels across different regions having an effect on how they choose to levy? Comment - don't think it makes a distinction to the amount or how its levied. Comment - think UKPN has less high liability areas. Historically Scotland had the very high securitisation levels. In South West was with a bit of a bang.
- Has there been a wider increase in securities beyond the error earlier this year? Comment - depends on the area. Roughly 50 areas, some up some down. Overall will go up because more distributed generation and therefore more NG work, so makes sense. Are predicted securitisation rates for each area until 2024.
- This prediction is a problem, four years in the future. But with this error, we can't really depend on this prediction. Need to be comfortable that the numbers predicted will be roughly correct, but this jump damages confidence. Not reasonable. Comment that perhaps a different issue, though same field.
- Worth raising that we should ask if they have made sure it wouldn't happen again. Important to raise that we need that consistency.
- REA: Definitely something we can enquire about. Wasn't much notice. When thinking about community energy, these changes can have a big impact on the viability of the project
- Discussion on reducing the 26% rate – echoed earlier comments (see above).

Timeline & Actions

Frank Gordon: We envisage chair and vice chair to reconvene group on a fairly regular basis. Once the issue is resolved satisfactorily, will dissolve the group, but a lot to be done. REA will act as secretariat, will be grouped under the solar forum. Will invite more members to the working group. Will look to set up a new meeting for the new year.

Isobel Morris: We elected BSR to serve as Chairs of the group in June 2020 when this group was first proposed. As have been very involved, is membership and GRIDSERVE happy for GRIDSERVE happy to cover Vice Chair role?

- Everyone was in favour

Isobel Morris: Can members send feedback on which DNOs are handling securities well and which are handling them badly, different aspects of how each DNO is handling is that members like and dislike? This is first question the ENA had, and is necessary information for them to take the first step in sitting down with the DNOs. Providing this information to ENA is the next step for us, then arranging a meeting with the ENA, and continuing dialogue with NG ESO.

Frank Gordon: REA got a place on DR connection group. More examples we can get at this stage would be fantastic. Maybe this as an action for everyone?

Comment - Only thing maybe is this interaction with storage. Maybe not a priority, but maybe as an annex for the time being. To identify any potential benefits by deploying storage. Not sure if of interest, but maybe an idea to pursue.

Comment - Would be something to contract with NGESO, rather than a DNO thing.

Comment - A lot of materials to discussed, what time scale of storage to offset securities? Something to look at further ahead.

IM: Thanks everyone for time, encourage people to send any examples over.