

GC0079: Commercial considerations of the costs of compliance

[These slides replicate MK's previous 'Commercial Considerations' paper, with two tables for workgroup discussion at the back]

MK/GS

Commercial considerations of the Costs of Compliance

- At issue is the implications for the treatment of the costs of compliance, should Phase 2 of GC0079 determine that it is overall cost effective to make changes to the protections settings on some or all generation plant of <5MW capacity
- This will impose new costs of compliance on all affected customers
- The following points have been received from in informal review of the issue with commercial representatives from the DNOs. It is not a definitive set of conclusions...

Commercial considerations of the Costs of Compliance points (1)

- Connectees are obliged to comply with all relevant, including D Code, requirements – the costs of compliance fall to connectees
- The costs to connectees needs to be considered in relation to any government or other policy decisions that have exposed connectees to unexpected costs
- Larger commercial organizations are generally in a better position to manage the risks of such costs than smaller players or domestic customers. This could imply a threshold below which it is either not appropriate to make changes, or below which compensation should be paid

Commercial considerations of the Costs of Compliance points (2)

- The changes are to maintain a secure system and reduce balancing costs. Balancing costs are initially borne by NGET, but are funded by Suppliers, and in turn by customers in general. It is therefore appropriate and logical that any direct compensation that might be agreed is funded by NGET in a way that is recycled into balancing costs
- The routes chosen for payment and administration will be affected by how many smaller/domestic connectees are caught by the requirement to change.

Commercial considerations of the Costs of Compliance points (3)

- The payment mechanism for compensation could be via the DNO, via Suppliers (ie using the Supplier Hub principle) or directly from NGET. It is not thought that this could or should be done via accommodation in tariffs; a direct repayment would be appropriate
- Administration again could be by DNO, Supplier or NGET
- Some form of certification would be necessary from a competent authority before payment could be made
- It might be appropriate to tender on a national or regional basis for the work by an appropriate specialist. In which case there would be no direct compensation payment to the connectee
- If paid directly to the connectee the value of the compensation would need to be fixed, or chosen from a simple menu by the payee, not the connectee

Table of cost/benefit – Scenario 1

Sub-5MW Generators obligated to change settings at their own cost:

Party	BSUoS Payer?	Costs	Benefits	Reputational
NGET		-	Less balancing actions required; Grid Stability	+VE (if successful)
DNOs		-	Grid stability	+VE (if successful)
Large Generators	Y	Negligible opportunity cost for not being called so often for Balancing Services?	Reduced BSUoS charge; Grid stability	-
Distribution Connected Generators	M	-	Reduced BSUoS charge (if applicable); Grid Stability	-
Sub-5MW Generators		Incur full costs for making changes	Grid stability	+VE (if successful)
Suppliers	Y	Increased PPA cost with small generators?	Reduced BSUoS; Grid stability	+VE for reducing bills
End Consumer	(Indirectly)	Negligible increase if affected generators increase cost to buy their power?	Lower bills; Grid stability	-
Manufacturers		Potential costs for reconfiguring equipment...	... which can be recouped by increasing charges	+VE for selling compliant equipment

Table of cost/benefit – Scenario 2

Fully-costed administration activity to manage settings change:

<u>Party</u>	<u>BSUoS Payer</u>	<u>Costs</u>	<u>Benefits</u>	<u>Reputational</u>
NGET		Administration burden if undertaking the change management activity	Funding for admin work?; Less balancing actions required; Grid Stability	+VE (if successful)
DNOs		Administration burden if undertaking the change management activity	Funding for admin work?; Grid stability	+VE (if successful)
Large Generators	Y	If work funded through BSUoS then in short-term no charge cost saving; Negligible opportunity cost for not being called so often for Balancing Services?	Longer-term reduced BSUoS; grid stability	-
Distribution-Connected Generators	M	If work funded through BSUoS then in short-term no charge cost-saving (if applicable);	Longer-term reduced BSUoS (if applicable); Grid Stability	
Sub-5MW Generators		There is a cost for doing this, but this is recovered in full	Are fully compensation for any cost to change settings (potential for up-side too?); Grid Stability	+VE (if successful)
End Consumer	(Indirectly)		Lower bills; Grid stability	-
Suppliers		Administration burden if undertaking the change management activity	Reduced BSUoS; grid stability	+VE for reducing bills
Manufacturers	Y	Potential costs for reconfiguring equipment...	...which can be recouped by increasing charges (even more so in this example?)	+VE for selling compliant equipment