

6th December 2021

National Grid ESO response to the Consultation to descope the wide-ranging review of Distribution Use of System (DUoS) charges from the current Electricity Network Access and Forward Looking Charges Significant Code Review (SCR) and take it forward under a dedicated SCR with a revised timescale

Dear Patrick,

This response is on behalf of National Grid Electricity System Operator (NGESO) and is not confidential. National Grid ESO is the Electricity System Operator for Great Britain. We balance electricity around the country second by second to ensure that the right amount of electricity is where it's needed, when it's needed – always keeping supply and demand in balance. As Great Britain transitions towards a low-carbon future, our mission is to enable the sustainable transformation of the energy system and ensure the delivery of reliable, affordable energy for all consumers. We use our unique perspective and independent position to facilitate market-based solutions which deliver value for consumers.

We are supportive of the proposal to take forward the wide-ranging review of Distribution Use of System Charges (DUoS) under a separate vehicle from the original Access and Forward Looking Charges (AFLC) Significant Code Review (SCR) such that there is a dedicated SCR with this scope. We recognise the benefits of alignment between DUoS and the wider context of work to deliver an energy system fit for a net zero future, such as the Full Chain Flexibility Programme, considering the interactions between DUoS charging and enabling all connected resources to contribute to system flexibility needs. We support the exploration of DUoS reforms to deliver further benefits to consumers and support system-wide decarbonisation at lowest cost.

We understand Ofgem plans to issue direction in Q1 2022 on the areas of the AFLC SCR consulted on in June 2021, which are: reduced up-front distribution network connection charges, improved definition and choice of network access rights, and changes to transmission charges for small distributed generators.

We believe given the interactions and dependencies involved that implementation of any decision concerning changes to TNUoS charging is best considered holistically as part of a wider review of TNUoS. Pursuing changes to TNUoS for April 2023 implementation, in addition to those in progress to implement the changes to the Transmission Demand Residual following the Targeted Charging Review decision, would be highly ambitious. We highlighted this in our response to the recent Ofgem Call for Evidence on Transmission Use of System Charges (TNUoS) reform¹. As a result, changes to the demand side of TNUoS, the reference node, and the option to charge distributed generation TNUoS should be descoped from the AFLC SCR and added to any future programme considering TNUoS reform.

We recognise that for the SCR to conclude under the approach chosen for the AFLC SCR, Ofgem would typically direct a licensee, such as NGESO, to raise code modifications following the publication of the SCR conclusions. There is also an option under the SCR guidance for an SCR "to be completed without a modification proposal taken forward if, for example, it were felt that the issue being addressed could be better resolved through alternative measures."² We believe this is an occasion where using an alternative measure for the TNUoS related aspects of the AFLC SCR is the most pragmatic option with the greatest overall benefit. Specifically, we recommend the alternative measure should be to bring all TNUoS related changes into a holistic review of TNUoS. We are supportive of direction for implementation being issued for the non-TNUoS parts of the SCR that were consulted on in June 2021.

¹ <https://www.nationalgrideso.com/industry-information/our-consultation-responses>

² <https://www.ofgem.gov.uk/publications/ofgem-guidance-launch-and-conduct-significant-code-reviews>

Bringing wide-ranging DUoS reform into a separate SCR, creates an opportunity for greater alignment between charging arrangements at transmission and distribution level, particularly on the generation side. This would better support whole system outcomes, where coordinated thinking across areas of the energy system reduces the risk of inefficient outcomes or increased costs to consumers. It would also better reflect the reality of the changing energy system, such as greater numbers of generators connecting at distribution level rather than the energy system of the past, which was designed around, relatively few, large transmission connected generators.

As an example, the option to charge small distributed generation TNUoS has raised wider questions on what constitutes use of the system, how this may be defined differently across distribution and transmission, and whether greater consistency would be beneficial. It has highlighted whether greater consistency is needed between distribution and transmission connection arrangements, such that the relevant data for whole system needs is created, shared, and utilised in a joined up way. Another example is the different treatment of costs relating to a Grid Supply Point (GSP), where some is recovered through transmission connection point charges, treating the distribution network operator (DNO) as a connectee, while some is recovered through transmission owner (TO) revenues and treated as system infrastructure.

We agree it is important to ensure the principles behind a wide-ranging review of DUoS remain relevant and are supportive of the use of the principle-based topics and technical topics from the original scope as this initial basis. From a whole system coordination perspective, we recommend taking the opportunity to align overarching principles and aims with that of any future TNUoS review, and in the context of principles for any wider market reform. We also recommend the timing and phasing of the DUoS review and any future TNUoS review are closely aligned, with common governance arrangements and decision makers to support alignment of the resulting reforms.

We welcome the opportunity to further discuss the points raised in this response and look forward to working with both Ofgem and industry to progress these reforms. Should you require further information please contact Naomi De Silva in the first instance at Naomi.DeSilva@nationalgrideso.com.

Yours sincerely,

Jenny Doherty

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