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Sent via email to: futurechargingandaccess@ofgem.gov.uk

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Dear Patrick,

Thank you for the opportunity to respond to your consultation on proposals to take forward the reform of Distribution Use of System (DUoS) charges under a separate Significant Code Review on revised timescales, published on 1 November 2021.

As you are aware Energy Networks Association (ENA) is the industry body representing the UK's electricity and gas transmission and distribution network operators. This response sets out a collective view from ENA member companies. Some ENA member companies may additionally respond individually to the consultation.

This consultation response sets out our support for the proposal to descope DUoS reform from the Access and Forward-looking Charges SCR (Access SCR), enabling Ofgem to reach a final decision on the remaining scope (Phase 1) by March 2022. We recognise the dual benefit that this proposal gives in allowing the Phase 1 reforms to be implemented for April 2023 whilst ensuring the DUoS reforms (Phase 2) are aligned with wider industry flexibility programmes.

We recommend that Ofgem considers a transitional approach to DUoS reform, which may facilitate increasing locational granularity, starting with the highest voltages and moving to lower voltages over time when data is more readily available. The scope of the Phase 2 SCR should be cognisant of learnings from the work carried out to date, focusing on realistic reforms that can be proven to deliver the desired changes in customer behaviour through industry trials.

Yours sincerely,



David Smith
Chief Executive, Energy Networks Association

ENA responses to the consultation questions

1. Do you agree with our proposal to descope DUoS from the Access SCR and take it forward under a dedicated SCR with revised timescales?

We agree that Ofgem's proposal to separate DUoS reform from the Access SCR, with revised timescales, is necessary, both to deliver the Phase 1 reforms by April 2023 and ensure the Phase 2 DUoS reforms are aligned with wider industry flexibility programmes.

It is essential that a final decision on the Phase 1 reforms (access rights and connection boundary) is published no later than the end of Q1 2022 to give the network companies realistic opportunity to implement the reforms and ensure alignment with RIIO-ED2 and business plans. These timescales are challenging and already represent the minimum time necessary to implement changes of this magnitude and requires that the policy decision be clear in all areas. Delaying the Phase 1 final decision, to allow for inclusion of DUoS reforms or otherwise, or any ambiguity in the final decision, would delay implementation beyond April 2023.

With the delay in implementation of DUoS reform, we believe Ofgem must make provision within its Phase 1 final decision for changes that limit the potential for increased costs being imposed on DUoS customers as a result of the removal of the locational price signal in connection charges. We believe one possible way to facilitate this would be to include a new high-cost cap for demand connection charges in the Phase 1 final decision.

2. What are your views on timescales for implementation of DUoS reform? How does this interact with wider market developments and what do we need to take into account?

The time required to implement the DUoS reform will greatly depend on the scope and scale of change, in particular the extent of any changes to the locational granularity of charges. We recommend Ofgem considers a transitional approach for this, which would facilitate locational granularity starting with the highest voltages, only moving to lower voltages over time when data and evidence of its impact on customer behaviour is more readily available.

We agree that it is sensible to recognise that implementation will be no sooner than 2025, particularly since retaining the 15-month notice period of changes to DUoS charges will require Ofgem's final decision on the Phase 2 reforms to be codified into licences and industry codes in advance of Q4 2023 (DNOs being required to publish 2025/26 DUoS charges in December 2023).

Any work programme developed for progressing DUoS reform should take cognisance of other work areas which may be competing for the same resources, including those focused on the implementation of Access SCR Phase 1 and RIIO-ED2. Strong governance including decision points will be important to ensure work is progressed in sufficient time for successful implementation.

Ofgem should also note that the Market Wide Half-hourly Settlement (MHHS) programme will be in the design, build, test and cut over phases from 2023-2025. This will require changes to

DNO and IDNO systems and may limit capacity to make changes at certain times (from a specialist resource and/or system perspective). The MHHS design should be monitored to prevent it limiting the feasibility of implementing DUoS reform into industry systems.

With regards to the timeframes for the Phase 2 SCR, we recommend:

- A detailed workplan is produced for the Phase 2 SCR which includes the governance arrangements for the project and specified milestones and decision points.
- Ofgem produce and maintain an integrated, overarching plan that includes the Phase 2 SCR and wider market developments that interlink. This can be used to monitor dependencies, conflicts with overlapping activities, industry resource requirements and key decision points. It should inform the sequencing of the Phase 2 activities.
- Early engagement with network operators, suppliers, and other key stakeholders to understand the impact on systems and processes. Especially as there could be extensive industry system changes required to accommodate more granular locational charges. The time required for these system changes should be factored into the detailed workplan.
- Ofgem remain mindful of the appropriateness of the 15 months' notice period in the context of DUoS reform, and the impact of notice periods on the plan and time available for comprehensive and coordinated policy development.

3. What areas of interactions of DUoS with wider developments in policy/industry do we need to consider in our review?

The scope of the Phase 2 SCR should be mindful of the reforms implemented under Phase 1. As discussed in the Access SCR Implementation workgroups, DUoS mitigations will be introduced under Phase 1 that may need to be reviewed in the light of subsequent DUoS reforms. Additionally, the DUoS reforms should provide additional clarity on how to value access rights, including time of use capacity charges for demand and generation.

Ofgem has recently published a call for evidence on the need for a wider review of TNUoS and the best mechanism for delivering this. We propose that the timing and phasing of a TNUoS review and the Phase 2 SCR should closely align, with common governance and decision makers, to ensure that the reforms drive consistency between the methodologies. The reviews should deliver consistent price signals for customers and ensure there are no conflicting signals across the transmission and distribution boundary. It is not clear why different approaches are being considered for the DUoS and TNUoS reviews and we would encourage synergies and efficiencies where appropriate.

Ofgem have recognised the need to align the DUoS reforms with the Full Chain Flexibility programme. We would welcome further information on the status of this programme, the timings, and outputs, to comment further on the interactions and impact on timescales.

In addition to considering interactions of DuoS reform to other areas in the electricity market, Ofgem also must take account of whole-system implications across both electricity and gas. Future energy scenarios are currently uncertain, and actions must be taken to preserve a

range of possible paths to reach Net Zero. Key to this will be ensuring a consistent approach is taken to charging across energy vectors. As such, DUoS reforms need to be mindful of impacts on the gas market and Ofgem must consider whether analogous reforms (for both DuoS and Phase 1 focus areas) must also be assessed in gas.

Finally, we believe Ofgem should give wider consideration of the potential for DUoS reforms to impact on any future changes to the retail energy price cap, particularly with respect to moves to reflect greater locational granularity and/or time of use.

4. Have we considered all the impacts of a phased approach to delivering the original scope Access SCR?

We are comfortable that the consultation identifies the key impacts of a phased approach. Additionally, Ofgem should recognise that the phased approach places risk on DNOs and IDNOs at the beginning of RIIO-ED2 and drives uncertainty for customers/suppliers through use of system tariffs over the next few years.

Whilst DUoS reform will determine how costs in the latter part of RIIO-ED2 will be recovered, the scope of the reform may result in DNOs incurring significant additional costs that will be excluded from business plans. DNOs set out early views of potential implementation costs (one-off and ongoing) in the July 2020 request for information but they are not included in business plans as their full scope is currently not understood. It is for this reason that uncertainty mechanisms will be essential in RIIO-ED2. These will need to account for the Phase 2 costs and for customer changes in behaviour as a result of the connection boundary reforms. These changes are made significantly more difficult to assess in the absence of clarity relating to replacement locational cost signals.

5. Do you have any views on our proposal to retain the scope and governance arrangements of the original Access SCR?

Governance arrangements

We are supportive of the use of the SCR governance structure to deliver the DUoS reforms and the continuation of the Delivery Group and Challenge Group. Ofgem could consider utilising the Challenge Group or subset of the Challenge Group in a more dynamic way, taking learnings from the TCR, where suppliers and industry stakeholders were engaged early in implementation planning to discuss workable solutions.

ENA would welcome the opportunity to help shape the scope, approach and outputs of the SCR governance structure, including any subgroups. Further, ENA would welcome the opportunity to continue to provide secretarial support to this governance framework.

Ofgem needs to remain mindful about the resource impact given SCRs are running in parallel and involving many of the same industry experts.

Scope

We are supportive of retaining the scope as detailed in the consultation document and previously set out at the launch of the Access SCR. Ofgem should be mindful that this has

proved to be a very complex topic, highlighted in the work done to date, so the scope should not be widened and should build on the outputs from the Cost Model subgroup where possible, with feedback from stakeholders where appropriate.

Ofgem and industry should seek to learn lessons from earlier DUoS work carried out since 2019, where a lot of theoretical analysis was produced alongside supporting information provided by the ENA. The scope and design principles should be focused on realistic, meaningful, deliverable changes, teasing out any implementation issues early in the programme. Ofgem should consider including in the scope a consumer research project to determine how DUoS price signals translate into actions and changes in consumer behaviour and assess if consequential system benefits are likely to be achieved.

In its consultation, Ofgem refers to the balance between usage-based and capacity-based charges. It is important that Ofgem does not ignore ‘forward-looking fixed charges’, as some costs are incurred regardless of a users’ usage/capacity. Where possible, costs should be allocated to both different ‘types’ of user and recovery mechanism. Additionally, Ofgem previously placed a significant emphasis on reflecting the impact of generation dominant areas and this needs to remain a consideration.

We encourage Ofgem to remain mindful of the appropriateness of the 15 months’ notice period in the scope of DUoS reform. We do not believe the current 15 months’ notice period aligns with notice periods for other network charges, including TNUoS and charges associated with gas transportation. Further, we do not believe it is aligned with the wider desired outputs of Ofgem’s Full Chain Flexibility programme.

6. Do you have any other information relevant to the subject matter of this consultation that we should consider?

Work done to date has highlighted the complexities of locational granular DUoS charges. We recommend a pragmatic, transitional approach initially focused on consolidating the different cost modelling approaches and replacing the EDCM and CDCM with a single charging methodology; and then applying more locational granularity at EHV, iteratively moving to HV so far as is feasible within industry systems.

It is important that the SCR is structured to deliver reformed models that work in practice. Development of theoretical models that meet principles carry the risk of not accounting for real-world complexities that can lead to situations where charges calculated for customers are not related to their situation/circumstances. Any models developed must be tested for fitness for real-world charging scenarios and avoid being developed in isolation from work on implementing future arrangements.

The consultation suggests that the final decision for the Phase 1 SCR will include decisions on some TNUoS elements (TNUoS for small distributed generation and the Reference Node). These elements could be split out of the final decision and picked up in any future review of TNUoS, in the same way as this consultation is doing for DUoS, such that changes to TNUoS are considered holistically.