

**To: Ilishan Low, Ofgem**

**From: Mike Harding, Regulation Director**

**Date: 25 November 2021**

**Response to Ofgem consultation:**

*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*

**We provide this letter in response to Ofgem's consultation.**

The consultation proposes that the SCR for DUoS reform will be delivered no earlier than 2025. However, we think it is important to recognise that DUoS reform will be required outside the scope of the SCR before and after this date and that the SCR should neither inhibit or prohibit such development. We think it is important to consider reform of the governance arrangements around charging methodologies to ensure effective processes and mechanisms are in place to facilitate future DUoS reform outside the scope of an SCR. This will be important as our understanding of what is required to facilitate net zero evolves and require further DUoS methodology changes. Our experience of the current governance arrangements under DCUSA for DUoS change is that they are not fit for purpose to develop and implement significant change.

**Response to Ofgem 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?**

Given that development of DUoS reform has been stalled since c. November 2020, we believe there is little alternative but to descope DUoS from the Ofgem SCR and establish a new dedicated SCR. However, we see the need to descope DUoS reform as a failure of the Access SCR and the wider mechanisms to review DUOS methodologies.

**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?**

Ofgem state that the Access SCR has been running for nearly 3 years. We think that by the time of the proposed implementation date of 2025 is reached the review of the distribution charging methodologies will have been taking in place (in one form or another) for nearly 10 years<sup>1</sup>.

Government has already announced a 'kick start' of the transition to air source heat pumps through financial support for c. 90,000 air source heat pumps. The transition and use of EVs is ramping up. This requires the building of EV charging points (public and

<sup>1</sup> Ofgem , published a working paper in November 2017. Prior to this, DNOs provided a report to Ofgem in November 2015, on their review of the Extra-high voltage Distribution Charging Methodology (EDCM). This was followed by reports on the review of the Common Distribution Charging Methodology (CDCM) in January and July of 2018.

private). Current proposals are that there will be no gas connections to new homes by 2025 and that electricity will provide the energy for heating new homes. To facilitate this energy revolution, integrated flexible operation of electricity networks will be required. The delay of DUoS reform means that it is now lagging behind the wider market reforms needed to facilitate the transition to net zero.

We think the DUoS reform SCR will closely intertwine with the SCR on Market Wide Half Hourly Settlement (MHHS). It is likely that new tariff structures and changes to industry systems (e.g. billing) will be required to facilitate both MHHS and DUoS reform. These changes will have to be implemented using finite resources across all market participants. Additionally, we think work will still be required in implementing the final decisions on the Access SCR, and that the same DNO resources will also be engaged on their RIIO ED2 price controls. We think it is inevitable that these different priorities will be competing for the same finite pool of resource that has the appropriate competencies.

We suggest that there are tranches of work that can be done in parallel with but outside the scope of the proposed DUoS Reform SCR. We think it is essential to consider opportunities where aspects of DUoS charging can be fast tracked for early delivery (i.e., before the publication of SCR direction). For example, the upgrading of systems to be flexible to accommodate more temporal based tariffs, potential with temporal capacity charges.

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

The SCR on DUoS reform needs to incorporate a review of how it will interact with the charging methodologies that determine the DUoS margins available to IDNOs.

Ofgem's MHHS SCR is due for implementation in 2026 and will interact with DUoS reforms. For example:

- the same resources looking at developing structures for half hourly settlement will also be involved in setting up the tariff codes (LLFCs) for the DUoS tariffs. There will be need to certainty that the current tariff/LLFC structures have sufficient scope to accommodate the number and range of tariffs required.
- Distributor billing systems may need to change to accommodate new billing arrangements, such changes may be required at the same time as changes to accommodate new structures for DUoS charging.

In their minded to position Ofgem set out that they are considering a review of transmission charging arrangements. It is unclear how Ofgem propose to take this forward and on how such review will interact with DUoS reform SCR. DUoS reform will need to interact and integrate with the development of flexibility arrangements, which are highly likely to have related charging aspects linked to them.

The development of the role off the FSO will continue and gather pace. It is unclear how this (if at all) interacts with DUoS reform

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

Deferring the DUoS reform creates further regulatory uncertainty for customers. If charges for 2023 are to be based on DNO business plans, then customers may see:

- Further price changes in 2024 to match revenues to RIIO ED2 final determinations.
- Price changes on 1<sup>st</sup> April 2025 (or later) to implement DUoS reform.

To facilitate delivery of the SCR it is important to consider how other changes can be developed and delivered early. For example, in order to facilitate new tariff structures, changes to tariff data structures or to DUoS to billing systems should be progressed as soon as possible.

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

We think the overall objectives for DUoS reform remain unchanged. However, we think it is important that the scope and governance learns lessons from the failure to deliver the DUoS reform under the current Access SCR. We think it is important to:

- a) Clearly define what the required delivery milestones for the SCR are, and what the roles, and responsibilities of relevant parties (e.g., distributors, Ofgem, Ofgem consultants) are in delivering the changes. (i.e., a clear integrated project plan for the deliverables).
- b) Consider how governance of the SCR will better manage the breadth of work required for 2025, and allow incremental changes to be made during the DUoS reform process and facilitate further development post completion of the SCR.
- c) Review of how any reform of DUoS charging will interact with the charging methodologies and arrangements for DUoS charges to IDNOs.

As GB transitions to a net zero world, arrangements for network use and network charging will need to continually evolve beyond the scope of the SCR. It is important that the SCR at the very least, does not inhibit the development a framework and strategy that may be required to facilitate such future evolution.

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

No.