

Patrick Cassels
Head of Electricity Network Access
Energy Systems Management and Security
The Office of Gas and Electricity Markets
10 South Colonnade,
Canary Wharf,
London,
E14 4PU

Sent by email only to: FutureChargingandAccess@ofgem.gov.uk.

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Dear Patrick,

Electricity North West's response to Ofgem's 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.

Thank you for the opportunity to respond to this review. We have included additional information in our Final RIIO-ED2 business plan on Access SCR Minded-to proposals, which we trust will assist Ofgem decision making in time for implementation from April 2023.

We agree that the DUoS aspects of the reforms need to be descoped and placed into a new DUoS SCR.

The consultation acknowledges that the reforms may require complex modelling and systems changes and hence the earliest possible date for implementation may be 2025. In order for the DUoS SCR to deliver in reasonable timescales, it may be better to initially focus the reforms on unifying the EDCM and CDCM but restricting any locational pricing to current EHV customers or potentially HV network customers. The approach should be capable of extension to more customers at a later stage. We suggest this because locational granularity beyond this is likely to involve major system changes across the industry. These will take time and be of much higher cost to develop and implement. However, it is important that we commence the reform and deliver it to support achieving net zero at least cost. So, focussing reforms on distinct aspects and customers and assessing the benefits these achieve in practise allows progress to be made and learning to be generated to inform further changes. This phased approach could occur before and to inform any potentially extensive changes to systems that are undertaken.

Our responses to your consultation questions are attached.

Yours sincerely,

Paul Auckland
Head of Economic Regulation



ELECTRICITY NORTH WEST'S RESPONSES TO 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?

Yes, we agree with this approach. Whilst it may not be ideal to progress the minded-to proposals on the connection boundary changes in advance of DUoS reform due to the potential for increased costs on demand customers (from both reduced contributions and the lack of a locational price signal), we believe mitigations such as a high-cost cap for demand can reduce the potential impact to some extent. If DUoS were not descoped from the Access SCR then changes to the connection boundary in practical terms would have to be delayed until closer to the start of ED3. This would not be in consumer interests, nor would this enable net zero.

It is important that should Ofgem proceed with this approach then the final decision on the connection boundary and access rights reforms is published in Q1 2022 to allow sufficient time for implementation. In preliminary work to identify the implementation issues from the Minded-to proposals, there seems little benefit in introducing time profiled access in the absence of DUoS reform. It is therefore better if this element of the Minded-to proposals was also delayed until DUoS reforms are implemented.

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 timescales are dependent primarily on the nature of the reform and the notice periods needed to implement changes. If the overall policy and methodology were developed in 2022, this could allow the detailed code changes and cost models to be developed in 2023 to publish prices with 15 months' notice to take effect from April 2025.

Even with such timescales, it may not be possible to deliver widespread locational granularity in DUoS charges as industry wide changes to registration systems would be necessary, as identified in the previous work on DUoS reform. However, it would be possible to reform the overall methodology and apply this to EHV customers, who currently receive site specific tariffs, potentially in these timescales. It may also be possible to extend these reforms to HV network customers without the fundamental changes to industry systems. The DUoS SCR should therefore consider options of phased implementation of DUoS reforms.

The DUoS review should also consider whether the current 15-month notice period is desirable in the long term. If the intention is to encourage flexibility and behavioural response to price signals, the benefits of the reform may be reduced by fixing signals for so long in advance and not being able to respond agilely to adjust signals in response to the new behaviour seen.

Any system changes must be considered alongside other major reforms such as the change to half-hourly settlement as these could impact the delivery of more complex changes.

The timescales for reform will need to be considered in setting the ED2 price control. The RIIO-ED2 mechanisms to enable changes to finalised settlements should be clear in advance of ED2 starting. We'd expect DUoS reform policy decisions are likely to result in changing customer needs that could feed into the levels and types of DNO activities.

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

There should be close alignment between distribution access arrangements, particularly where these are signalled through DUoS, and access to transmission and balancing markets. This is to ensure that distributed

energy resources can maximise their availability across the whole system. It is therefore important that any time-profiled access and DUoS charges are aligned with the wider markets.

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

Whilst the impacts of the phased approach to delivering the original scope of the Access SCR have been identified, it does potentially increase the risks on DNOs, particularly in the early part of ED2 before DUoS reforms are introduced. It is therefore essential that appropriate uncertainty mechanisms are included in the ED2 price control to enable DNOs to respond to changes in customer behaviour¹. If there are large increases in the volume of connection applications as a result of these changes it may be necessary to allow some temporary relief from obligations to issue quotations in the current timescales and in how targets are applied in other aspects of the RIIO-ED2 incentives.

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

We supported the scope and governance arrangements of the original Access SCR. The scope has proven to be complex and difficult to deliver but it remains an important area for change. Retaining the existing scope and avoiding extending the scope are appropriate so that delivery can be achieved as soon as practicable.

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

The DUoS work should take a more practical approach to ensure it doesn't get bogged down. Work is needed to investigate the practicalities of locational signals down to LV and what impact any distribution pricing signals will have in practice, including their potential marginal importance to national energy price time of day signals. We would like to see a stage of consumer engagement take place to inform how much actual consumer response might be delivered and greater clarity of how flexibility and energy efficiency might be provided on a locational basis on LV networks. At this time, more evidence is needed to investigate whether the complexity of introducing locational granularity down to low voltage is justified by a consumer benefits case. With this in mind, the initial focus should be on unifying the cost modelling approaches and replacing the EDCM and CDCM and then applying the approach to EHV customers and possibly HV customers if this is feasible without major changes to industry systems. The approach should be capable of increasing granularity at later stages to customers at the lower voltages levels if this can be seen to be justified.

¹ Our RIIO-ED2 business plan includes our proposed uncertainty mechanisms to manage SCR impacts.