

Octopus Energy - DUoS Reform Consultation Response

December 2021

'Consultation on our proposal to take forward the reform of Distribution Use of System charges under a separate Significant Code Review on revised timescales'

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 believe that we urgently need a clear direction for network charging that is consistent with a Flexible Net Zero system. However, the direction for network charging is contingent on market reform and whether or not this is going to take place. A clear decision on market reform is required as this will determine the path for DUoS reform. Given this, and where we are today, we believe separating the Access SCR and DUoS is sensible to ensure that the impacts of the Access SCR are not delayed any further.

We don't believe that a dedicated SCR is the right vehicle to deliver DUoS reform for two reasons:

- There are large interactions between DUoS, Flexibility, Markets, Ancillary Services, TNUoS and Wholesale Markets. Currently, each of these is being considered in isolation eg. TNUoS CfE, whereas we believe that they should be treated as a whole. See our response to the TNUoS CfE for more details
- The SCR process is slow and has proved to not be effective at delivering large packages for reform.

We think a joint BEIS Ofgem Taskforce is the best body to deliver a package of reform across all these interactions, of which DUoS Reform would be an important fundamental part. Small, disjointed, incremental change will not deliver Net Zero as quickly as possible and now is the time to consider the bigger picture.

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?

Given the interactions between DUoS and other signals we believe that these reforms cannot be done in isolation. These reforms should aim to be suitable and effective for a long time into the future as we start and continue the transition to Net Zero. Therefore we think that a properly signalled clear package delivered in a longer time frame is better than quick and incoherent reform. Given the pressing need to encourage efficient use of the network we believe that other instruments should be leveraged in the short term to deliver flexibility while wider reform is being implemented.

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

There is a strong interaction between the Time of Use (ToU) signal that DUoS sends via the R/A/G time bands and other ToU signals existing (Capacity Market, TNUoS) and any new ones that might be introduced (LMP, Flexibility). If these signals are considered in isolation, then when stacked they may send a signal that is not beneficial to the system or severely and unfairly punishes some behaviours.

The methodology which is used to set DUoS rates is slow and inflexible. As well as a methodology that allows for dynamic TOU signals we also think that reform is required of the methodology that is used to set the rates. A dynamic DUoS methodology is unlikely to be right the first time and so there is a need for rate setting methodology to be able to undergo rapid iterations. As the system goes through a period of rapid change, charges must be able deliver the intended consequences and provide relevant and beneficial signals under a range of scenarios. This includes regulatory change to other parts of the cost stack that may not be known at present. This is vitally important as DNOs transition into DSOs and become more active in the procurement of flexibility services. If DUoS charges encourage behaviour that contradicts what the system wants at any given time then the cost of the system and by extension the cost to customers will increase as DSOs have to procure extra flexibility services. DUoS reform should be set with the roles of DSOs in mind to reduce the cost for all to deliver Net Zero as quickly and affordably as possible.

It is vitally important that the digital systems are in place that have the capability to deliver these reforms and are not a blocker. This means ensuring that DNOs and DSOs have the capability to manage more complex settlement and billing processes and provide digital monitoring. It is no longer acceptable that lack of these capabilities should prevent the vitally important reforms that are needed to deliver Net Zero. These kinds of capabilities should be being built, developed and tested ahead of time to ensure that ambition does not catch up with what is feasible.

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

Ofgem's minded to position in the Access and FLC SCR was to introduce a shallow connection boundary. We support this a short term and pragmatic step in support of Net Zero. However we are concerned that when introducing a shallow connection boundary there needs to be changes made in parallel to ensure that DNOs still have the ability to incentivise generation and locationally elastic demand to locate in the right place. Without this, demand and generation will not get located where there is spare capacity driving up the cost from unnecessary network improvements.

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

Due to slow progress of the original Access SCR we don't believe the governance arrangements have been successful or effective at delivering the intended outcomes.

We believe that the failings of the Access SCR stemmed from its design. Primarily made up of network companies, there was a Delivery Group for the SCR and Challenge group which had a much broader make up. Octopus has representatives on the Challenge Group and believe this group was ineffective for a number of reasons as a result of the design.

- Output from the Delivery Group was received far too late, in huge batches of documents many months apart but only days before the meeting in which they could be discussed.
- By the time Challenge Group was updated on progress, Ofgem's views were entrenched and so far developed from months of Ofgem being embedded in the Delivery Group. This meant that there was no real opportunity to challenge these views.
- The large size of Challenge Group and the issues above meant that the meetings were unproductive and spiralled into high level arguments about general principles

Engagements that were had outside of both the Delivery Group and the Challenge Group we believe were more effective than all the Challenge Groups meetings combined.

To deliver the deep reform required across many areas, including DUoS which plays an important role, we urge Ofgem to work closely with BEIS from early on to develop a package of holistic reform that can be developed iteratively. We believe that an expert Task force acting under Ofgem's instructions in collaboration with BEIS may be the best way forward to enact reform at the speed required. This style of governance allows for many more important and relevant perspectives to be heard and influence thinking much earlier than in an SCR. We urge Ofgem to avoid a lengthy siloed SCR and favour pace over perfection.

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

We ask Ofgem to consider this response in conjunction with our response to the TNUoS Call for Evidence.