

Electricity Network Access & Forward-Looking Charges Significant Code Review

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Objectives of this session

In December 2018, we launched a Significant Code Review (SCR) of Access and Forward-Looking charges. Today's session seeks to provide you with:

Overview/Update on the SCR

- > The case for change
- > Our work to date on access and forward-looking charges
- > Recap of our July 2018 consultation
- > Overview of our December 2018 decision to launch an SCR

Next steps

How to get involved



The case for change

Context:

The energy system is changing (*growth of electric vehicles, distributed generation and battery storage*)
These changes could create challenges and opportunities for our electricity networks

The case for change

Increasing **constraints** caused by both **generation and demand at distribution level**, yet also increasing **opportunity** to mitigate these through **flexibility**

*(Imperial College suggests potential **savings of up to £4-15bn cumulatively to 2050** from reducing electricity network reinforcement)*

Substantially **different approach across transmission/distribution and generation/demand boundaries** means increasing risk of **distorting investment and operational decisions**

What are access and forward looking arrangements?

Our Electricity Network Access project is seeking to reform electricity network access and forward-looking charge arrangements:

Access arrangements – the nature of users’ access to the electricity networks (for example, when users can import/export electricity and how much) and how these rights are allocated.

Forward-looking charges – the type of ongoing electricity network charges which signal to users how their actions can either increase or decrease network costs in the future.

This is different to the **residual element** of network charges that are ‘top up’ charges set to ensure that the network companies’ allowed revenue can be recovered, after other charges have been levied. The residual charges are being reviewed as part of our Targeted Charging Review and we have asked for responses to our proposals by 4 February 2019.



The work so far

- > Published a working paper in November 2017 on “Reform of electricity network access and forward looking charges”
- > Commissioned **Baringa to gather evidence** to assess the materiality of current inefficiencies
- > Set up **two industry task forces under the Charging Futures** to help assess options for the change
- > Presented at last three Fora and held workshops on some potential options for change in Glasgow
- > Published a **consultation in July 2018**, seeking views on launching an SCR and priority areas for reform
- > Decision on SCR and scope of the review published on 18 December 2019



Recap – July 2018 consultation

We sought views on:

- > Case for change
- > The scope of the review (our view in the July consultation is outlined below)

Network access arrangements

Improving access choice and definition for larger users

Clarify access rights and choices for smaller users, including households

Improving the allocation of access rights, including enhancing the scope for markets

Forward-looking charging arrangements

Wide-ranging review of distribution use of system charges (DUoS)

Review of distribution connection charging boundary

Focused improvements to the transmission use of system charges (TNUoS)

- > How to take forward the work
- > Timelines for the review
- > Engagement with stakeholders



December 2018 Decision to launch a Significant Code Review

In December 2018, we decided to launch a Significant Code Review of access and forward-looking charges

What is an Significant Code Review? The Significant Code Review (SCR) process provides a tool for Ofgem to initiate wide ranging and holistic change and to implement reform to a code based issue.

Why have we decided to launch an SCR? We believe an SCR is the best tool available for us to manage successfully the complex and interrelated questions which may need changes across multiple industry codes to deliver this objective. There was considerable support for this from stakeholders.

Objective of the SCR? We want to ensure electricity networks are used efficiently and flexibly, reflecting users' needs and allowing consumers to benefit from new technologies and services while avoiding unnecessary costs on energy bills in general.

Guiding principles: We have developed some detailed guiding principles to help inform the development and assessment of options:

1. Arrangements support efficient use and development of network capacity
2. Arrangements reflect the needs of consumers as appropriate for an essential service
3. Any changes are practical and proportionate



The scope of our review

Included in the SCR – Ofgem-led

- > Review of the definition and choice of transmission and distribution access rights
- > Wide-ranging review of Distribution Use of System (DUoS) network charges
- > Review of distribution connection charging boundary
- > Focussed review of Transmission Network Use of System (TNUoS) charges

Areas led by industry outside the SCR

- > Review of balancing services charges (BSUoS)
- > Access right allocation

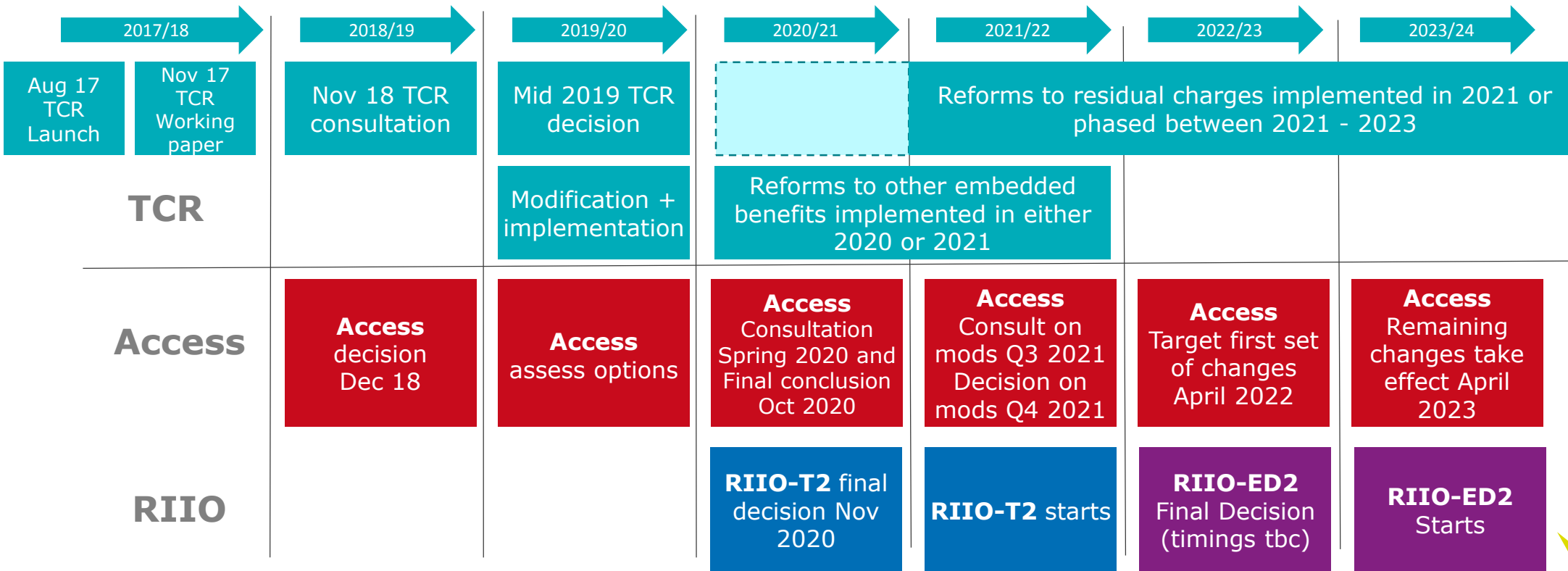
Excluded from the SCR and wider industry review

- > Introducing fixed duration long-term access rights
- > Introducing geographically exclusive local access rights which do not allow access to the rest of the system
- > Wider changes to transmission network charges
- > The transmission connection charging boundary



Timelines and links with other projects

We are reviewing the charging framework holistically; working closely with the Access reform and RIIO project teams to ensure a consistent approach is taken to the different reforms underway across the energy system.





Challenge Group and Delivery Group

We are committed to undertaking the SCR in a transparent and open manner. There will be ongoing role for the Charging Delivery Body and Charging Futures Forum.

In addition, we intend to introduce and chair a new Challenge Group and Delivery Group:

- > **Challenge Group** – will provide ongoing wider stakeholder input into the SCR. This will provide a challenge function and ensure that policy development takes into account a wide range of perspectives and is sufficiently ambitious.
- > **Delivery Group** - will comprise network companies, the Electricity System Operator and relevant code administrators. This group will help us develop and assess options, drawing on their expertise and knowledge of how the networks are planned and operated. May commission and coordinate smaller working groups to complete some activities.



Other ways to get involved

There are lots of other opportunities to stay up to date and get involved by:

- > Attending the Charging Futures Forum and using Charging Futures resources (webinars, podcasts)
- > Applying to become a member of the Challenge Group email networkaccessreform@ofgem.gov.uk by **21 January**
- > Observing Delivery Group meetings
- > Getting involved with the wider industry work on balancing services charges (National Grid ESO) and allocation of access (ENA)

Q & A

Facilitated by Gareth Davies,
National Grid SO





Q & A members



Andy Burgess, Ofgem



Jon Parker, Ofgem



Facilitator - Gareth Davies



Ask the experts

Access & Forward Looking Charges

- Jon Parker
- Josh Haskett

Targeted Charging Review

- Andrew Self
- Kayt Button
- Sean Hennity
- Dominic Green

Balancing Services Charges Task Force

- Mike Oxenham