



Forum

# Access and Forward-Looking Charges Task Force

1st meeting

1 December 2017





# Overview

## Outline of the day

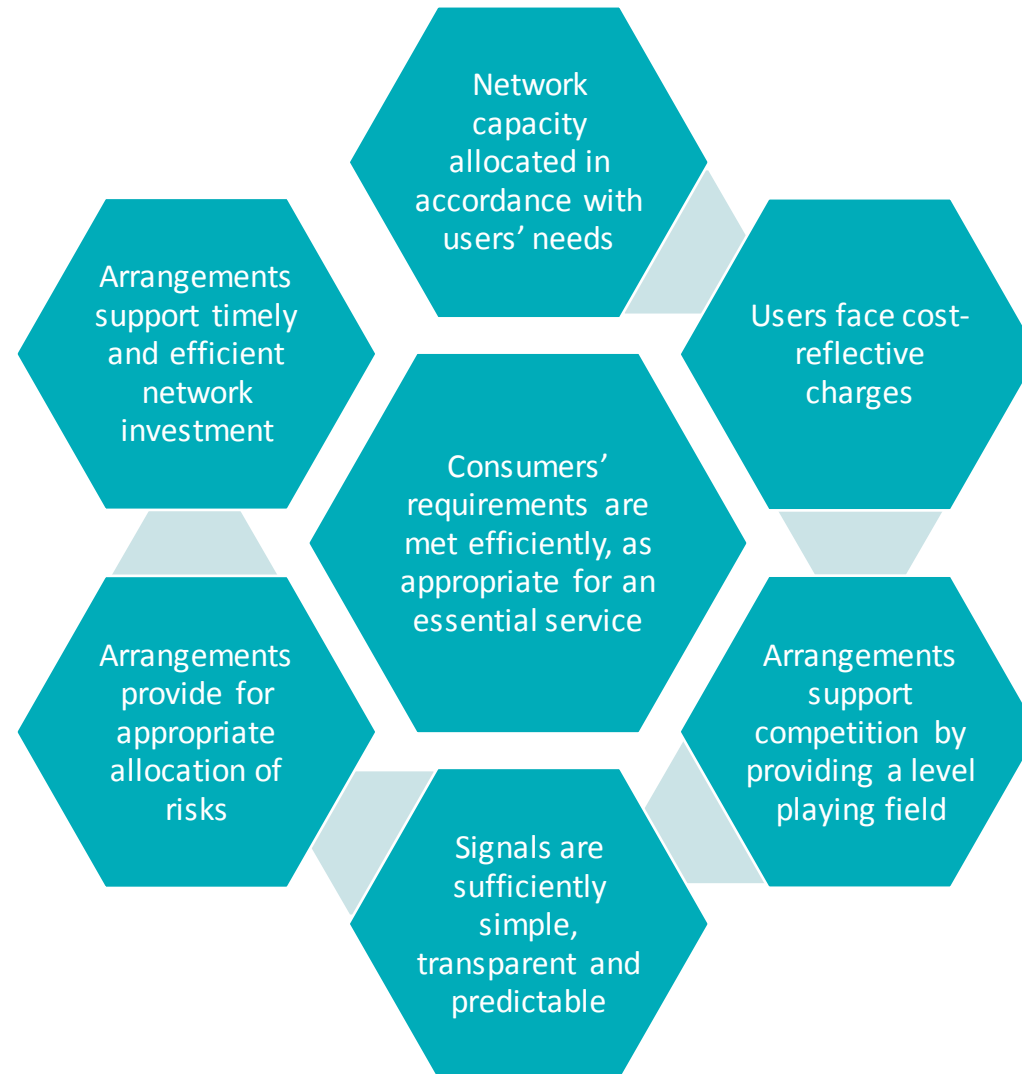
- > Welcome
- > Brief introduction to the project and terms of reference discussion
- > Breakout session – what users want from network access and charging arrangements
- > Lunch
- > Ofgem presentation – development of options
- > Breakout session – discussion of options
- > Breakout session – work planning to deliver TF outputs
- > Break
- > Confirm work planning and identify parties to support immediate products
- >

# Overview of the project



# Desirable features of network access and forward-looking charging arrangements

We think that effective arrangements for consumers would have these features:



# Potential issues with the current arrangements

Desirable features of arrangements	Summary of potential concerns with current arrangements
Consumers' requirements are met efficiently, as appropriate for an essential service	Inadequacies in arrangements (discussed in other features) mean that requirements may not be met efficiently, with greater cost than necessary.
Optimising capacity allocation	Access is typically allocated first come first served, with users having limited choice in the types of access product to allow them to optimise how they secure access. Limited scope for users to trade capacity.
Signals reflect incremental costs and benefits	As cost drivers change, existing charging structures may not adequately reflect these, with different approaches to how costs are allocated across different charges.
Level playing field	Access arrangements and charges vary differ across the system – by voltage levels and, to some extent, for users of different types or sizes. Some of these differences may be causing material distortions.
Effective signals for network users	Variability and lack of predictability in charges can make it difficult for users to build them into their decision-making.
Appropriate allocation of risk	Limited ongoing security requirements (principally at transmission level) means network operators and consumers bear some of the risk of investment triggered by specific users. At distribution, network users can bear risks of curtailment.
Arrangements support efficient network development	Arrangements generally provide poor information to inform decisions on future network investment. Strong reliance on network monopoly processes to coordinate bringing forward new capacity.



# The Electricity Network Access Project

## Why have we set up the project now:

- > Signals for efficient use of network capacity in a changing world (eg the prospect of increased network constraints).
- > Sending coherent signals across both transmission and distribution (eg growth of generation connected to distribution network highlighted differences in approach between transmission and distribution).

## Project timescales

- > In early November, we published working paper on 'Reform of electricity network access and forward-looking charges.
- > We anticipate consulting on our initial proposal for reform, if needed in summer 2018. This consultation will consider the impact on network users and the potential implementation options.
- > Following our summer 2018 consultation, we envisage setting out our proposed next steps later in 2018.

# Ofgem led discussion- Task Force Terms of Reference



# Terms of Reference (ToR)

- > We published a draft Terms of Reference for both TFs alongside our November working paper.
- > We want to use this session to review and sign-off the main features of the TF ToR.
- > Once agreed, the ToR will be sent to the CFF and published on the website.

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# Purpose of the Task Forces

## Purpose of the TFs

**We want to gain industry expertise to develop options to support more efficient use of network capacity.** The outputs of the TF will help inform our thinking.

- > **Access Task Force** – helping develop a clearer view of what changes to network access arrangements could drive benefits to consumers, and key challenges to be worked through.
- > **Forward looking charges Task Force** – helping to clarify what changes to the forward-looking element of network charges could drive benefits to consumers, including considering what changes would need to be made in light of any changes to access arrangements.

## Tasks that we plan to undertake

- > We plan to undertake our own analysis to understand the impact of any existing distortions, and the potential benefits of reform.
- > We intend to develop our own initial Impact Assessment as part of the Summer 2018 consultation document on any initial options for reform.



## TF outputs

The key outputs that we want the TF to develop are:

Date	Task
Dec 17/Jan 18	Produce a document identifying the initial options agreed for further assessment.
Feb/March 18	Produce a document assessing each of the detailed options, based on the agreed assessment criteria.
End of April 18	Produce a report outlining the TF's conclusions on what changes should be taken forward.

- > We are expecting the TFs to be undertaking high-level development work and informing this with quantitative assessment where possible. We are not expecting this assessment to be as detailed as the modelling required for a modification.
- > We do not intend to provide financial support to the TF to procure their own legal or analytical support.

**Question for now: Do you have questions about the purpose of the TF?**

**Question for later: What do we need to do to deliver these overarching TF objectives? When do need to do this?**



# Ways of working

## Key roles

- > Ofgem will chair both TFs.
- > The ENA is the Secretariat for both TFs.

## Ways of working

- > The work of the two TFs must be **closely integrated**, to develop a holistic, coordinated approach to reform.
- > **Engage with the wider industry** to help inform their thinking. Liaise closely with the CFF and ENA Open Networks Project and regularly report back on its progress and findings.
- > TF Members will **actively contribute** towards the work of the TF. This will include completing tasks that contribute towards TF outputs. TF Members must be able to **work collaboratively**.

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# Secretariat

**Energy Networks Association will provide secretariat function for Task Forces**

## **Administrative support role only:**

- > Make all necessary arrangements for meetings
- > Prepare agendas, minutes and collate other papers
- > Manage information flows, circulation of documents/papers and point of contact for TF members and wider stakeholders
- > Work closely with Lead Secretariat (NG) ensure TF information on CCF Portal
- > Produce and update detailed project plans to assist TF to deliver timely outputs
- > Maintain a list of TF actions and track progress

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# TF Members

## Objective

- > The TF should include broad range of industry representatives.
- > The TF Members should have relevant expertise and experience. TF Members should also be committed to making improvements.

## Allocating TF members

- > We asked for parties to express interest in becoming TF members.
- > Based on the level of interest received (58), we needed to limit TF membership to ensure that we have productive meetings.
- > Firstly, we gave stakeholder groups the opportunity to agree representation themselves.
- > Where parties were not able to agree, we made a decision based on the information available.

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# Forward-looking charges members



DNOs

TO

SO

IDNO

Innogy  
Renewables  
UK

Good Energy

Citizens  
Advice

Energy  
Intensive  
Users Group

Energy Local

Association for  
Decentralised  
Energy

Cornwall  
Insight

EON

Flexibile  
Generation  
Group

Centrica

Npower

Scottish  
Power

SSE plc

**Question: Are there other stakeholder groups that should be represented on these TFs?**





# Access TF members

DNO

TO

SO

IDNO

Scottish Power  
Renewables

Ecotricity

Citizens  
Advice

Energy  
Intensive  
Users Group

Regen SW

Association for  
Decentralised  
Energy

Cornwall  
Energy

Flexible  
Generation  
Group

RES

BEIS  
(observer)

Drax Group

EDF Energy

Engie

RWE Supply and  
Trading and RWE  
Generation

**Question: Are there other stakeholder groups that should be represented on these TFs?**



## Reporting to the rest of industry

- > The TF are required to keep the industry and non-members up-to-date with its progress:
  - > Regular update to the CFF and CDB
  - > Regular updates to the CFF distribution list via the CFF newsletter
  - > Regular updates to the ENA Open Network project.
  - > Publication of all agreed documentation.
  - > Ofgem organised workshops with non-TF Members next year

**Question: Is there anything additional that we can do to keep the industry up-to-date?**

- > The TF is required to publish “all agreed documentation” on the TF section of the CFF website.
  - > TF minutes, presentations, reports and outputs would be published.
  - > Draft reports or products that are not finalised, would not need to be published.

**Question: Do you agree we should publish these documents?**

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## Future TF meetings


Here are proposed TF meeting dates.

Access TF	Forward Looking Charges TF
18 December 2017	21 December 2017
24 January 2018	25 January 2018
20 February 2018	
20 March 2018	21 March 2018
17 April 2018	

All future meetings will be held at the ENA London offices.

TF meetings will be at least three hours long. TF meetings will primarily be face-to-face. The frequency can be reviewed by the Chair, in consultation with TF members.

# Breakout session 1



# The electricity network must meet the needs of consumers

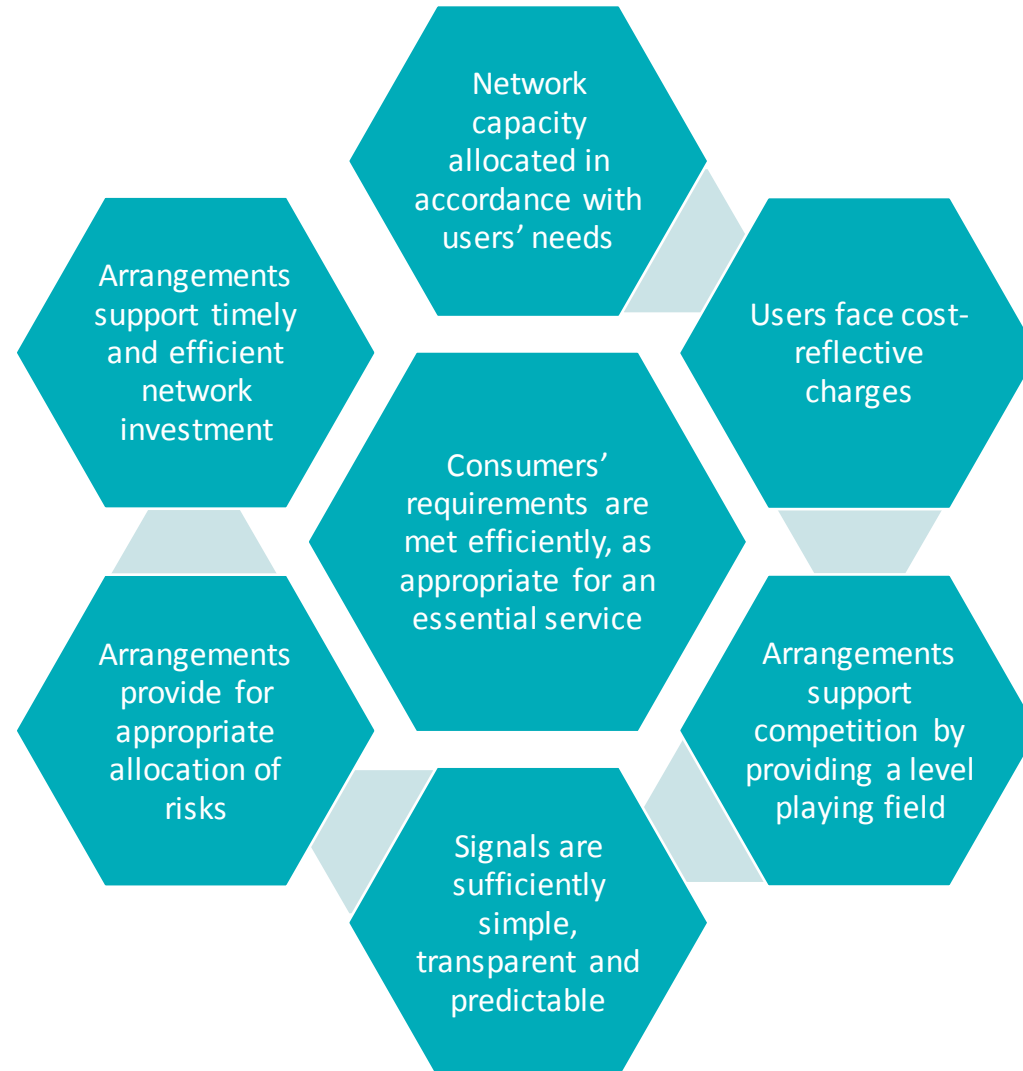
## Tasks for each breakout group

- > Breakout into five groups, based on different types of parties:
  - > Domestic consumer
  - > Non-domestic consumer
  - > Generator
  - > Storage
  - > System operator/network owners
  
- > Create a “network user profile” for their party:
  - > What is this party looking for from network access and charging arrangements?
  - > How much does this vary within each category?
  - > What are the key drivers of variance?
  
- > Review the ‘desirable features’. Based on your discussions, is there anything that needs adding or amending?



# Desirable features of network access and forward-looking charging arrangements

We think that effective arrangements for consumers would have these features:



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# Ofgem presentation – Option development



# Building blocks

In the working paper we de-construct access and forward-looking charges into the following building blocks and consider how variants around these aspects could create value:

Network access arrangements		Forward looking network charges	
Nature of access rights	Time aspects	Structure of the charge	Types of costs
	Firmness		Types of charge
	Geographical nature		Basis of charge
	Associated conditions		Timing of payment and degree of user commitment
Allocation and reallocation	Initial allocation	Level of granularity	Locational granularity
	Reallocation and trading		Types of locational signal
			Temporal granularity

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# Options to amend access arrangements

## Options to create greater choice and granularity of products, for example:

- > Greater differentiation in type of access product available, with corresponding variation in cost (network charges)
- > For example: long-term vs short-term rights; different time periods within a year (eg peak vs off-peak, seasonal); firm vs non-firm; national vs local
- > Users better able to optimise what access they obtain
- > Network companies have better information about the demand for network capacity to inform their investment plans

## Options to improve allocation of access rights, for example;

- > Could be move periodic allocation of access rights, or to allow improved reallocation (eg trading) of existing rights
- > Support access rights being held by those that value most, provide improved information on the value of access

**Important to take into account different user types needs, esp. households**



# Options to amend forward-looking charges

## Changes to individual charges, for example:

- > Considering whether charges sufficiently reflect investment drivers, eg move away from volumetric charges
- > Increased locational granularity for lower voltage DUoS charges or for transmission constraint costs

## Cross-system changes, for example:

- > Options to harmonise approach across different methodologies – eg similar methodologies across TNUoS and DUoS; harmonising connection charging boundary
- > Ensuring charges reflect whole system costs – eg ensuring that impact of EG costs on transmission network (where exporting GSPs) are taken into account
- > New charge for DSO constraint costs, or recovering SO's transmission constraint costs under TNUoS

This is not a definitive list. Some represent significant change The existing arrangements would need to have material distortions in order to justify changes.





## Links between different options

**Change to charges might be required to reflect changes to access arrangements. For example;**

- > It might be necessary for charges to reflect variations in access rights - to reflect how different types of rights drive network costs (eg temporal access rights).
- > The introduction of an auction mechanism would likely require changes to charges.
- > More defined and tradeable access rights could involve a move away from usage based charging (eg volumetric) towards access-based charging (eg ex ante capacity charges).
- > The development of long term access products may involve changes to charging arrangements (fixed charges for the duration of the product or the development of longer term financial commitments).
- > This may be reliant on being confident that operational signals to inform dispatch decisions can be provided through a near-term market for reallocation of access rights

This is not a definitive list. We will need to continue to consider the impact of access options on charging arrangements.

# Criteria for assessing options

## Criteria to assess options

Consumers' requirements are met efficiently, as appropriate for an essential service

Network capacity allocated in accordance with users' needs

Users face cost-reflective charges

Arrangements support competition by providing a level playing field

Signals are sufficiently simple, transparent and predictable

Arrangements provide for appropriate allocation of risks

Arrangements support timely and efficient network investment

Ease of implementation

The scale of change is proportionate to the issues identified

In making decisions we will take these into account as part of our wider assessment of options against our statutory duties, and using our Impact Assessment guidance



# Possible areas of analysis to support option development

## Tasks that the TF should lead on

- > Outline current charging and access arrangements.
- > Identify the different types of network costs and network cost drivers.
- > Identify and assess the options for changing forward-looking charges
  - > For example, the types of charge, basis of charges, user commitment, locational granularity, temporal granularity, whole system impacts).
- > Identify and assess the options for changing access arrangements
  - > For example, improving the definition and range of access products, conditions of access and the allocation of capacity.

## Tasks that we plan to undertake

- > We plan to undertake our own analysis to understand the impact of any existing distortions, and the potential benefits of reform.
- > We intend to consult on our own Impact Assessment as part of the Summer 2018 consultation document on any initial options for reform.

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# Breakout session 2 – discussion of options



# Initial discussion of options

Table discussion of options covered by their respective task forces

## Questions to answer

- > Based on the building blocks that we have highlighted, are there additional options for change that we have not considered?
- > What are the key considerations that should be taken into account when reviewing these options?

We want each breakout group to report back to the wider group.

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# Breakout session 3 – Planning work



## TF outputs

The key outputs that we want the TFs to develop are:

Date	Task
Dec 2017/Jan 2018	Produce a document identifying the initial options agreed for further assessment.
Feb/March 2018	Produce a document assessing each of the detailed options, based on the agreed assessment criteria.
End of April 2018	Produce a report outlining the TF's conclusions on what changes should be taken forward.

**Question: What do we need to do to deliver these overarching TF objectives? When do need to do this?**



# Outline idea for what this could involve – option identification

- > Initial discussion of options (today)
- > Sub-TF groups further scope and define different options:

TF	Option area
Access	Better definition and choice of access rights
	Periodic allocation of access rights
	Dynamic reallocation of rights
FL charging	Basis of charge
	Increased locational granularity
	Improved whole network (T&D) pricing

- > Submit papers defining options deemed to merit consideration to 2<sup>nd</sup> TF meetings
- > Subsequently update/further refine as necessary and liaise across TFs to ensure coherent overall options
- > Sign off on options to be assessed at 3<sup>rd</sup> TF meetings (Jan)





# Outline idea for what this could involve – options assessment

- > This will be iterative process, with new analysis areas identified as we go through.
- > Initial ideas for work, *some of which* could start before the options are defined:

TF	Analysis area
Access	How could better defining and standardising (across T&D) aspects of access rights, and giving different choices around access create value? What might be the key challenges?
	How could different access arrangements impact with different markets (eg CM, ancillary services)?
	Periodic allocation of access rights – what are the key feasibility issues?
	Dynamic reallocation of rights – what are the key feasibility issues?
FL charges	How should charges be set under the different access options? Pros and cons of different approaches
	What would be the impact of requiring greater financial commitment from users for investment they trigger?
	What is an appropriate basis for charges given network cost drivers?
	What is the case for greater locational granularity and what are the pros and cons of different options to achieve this?
	What are the relative pros and cons of different options for improve whole network signals?
Joint	<i>What are key drivers of network costs (including how these vary by time and location) and how well are these reflected in current arrangements?</i>
	<i>What information currently informs network planning</i> and how might options being considered help improve this?
	For households, how might a “core” level of access/usage be defined?
	What pros and cons would access options have over charging-based options (eg efficiency, certainty of flexible response )?



# Initial discussion of work plan

## Questions to answer

- > What are the key work products needed in order to be able to develop and assess options?
- > Where could joint TF products be valuable?
- > What is the right timing for the different products?

## Timings

- > First 30 minutes – table discussion
- > Next 30 minutes – whole TF discussion

We will then have a discussion across both TFs.

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