



# Electricity Network Access Project

07 January 2019



# ➤ Charging Futures



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# Quick poll

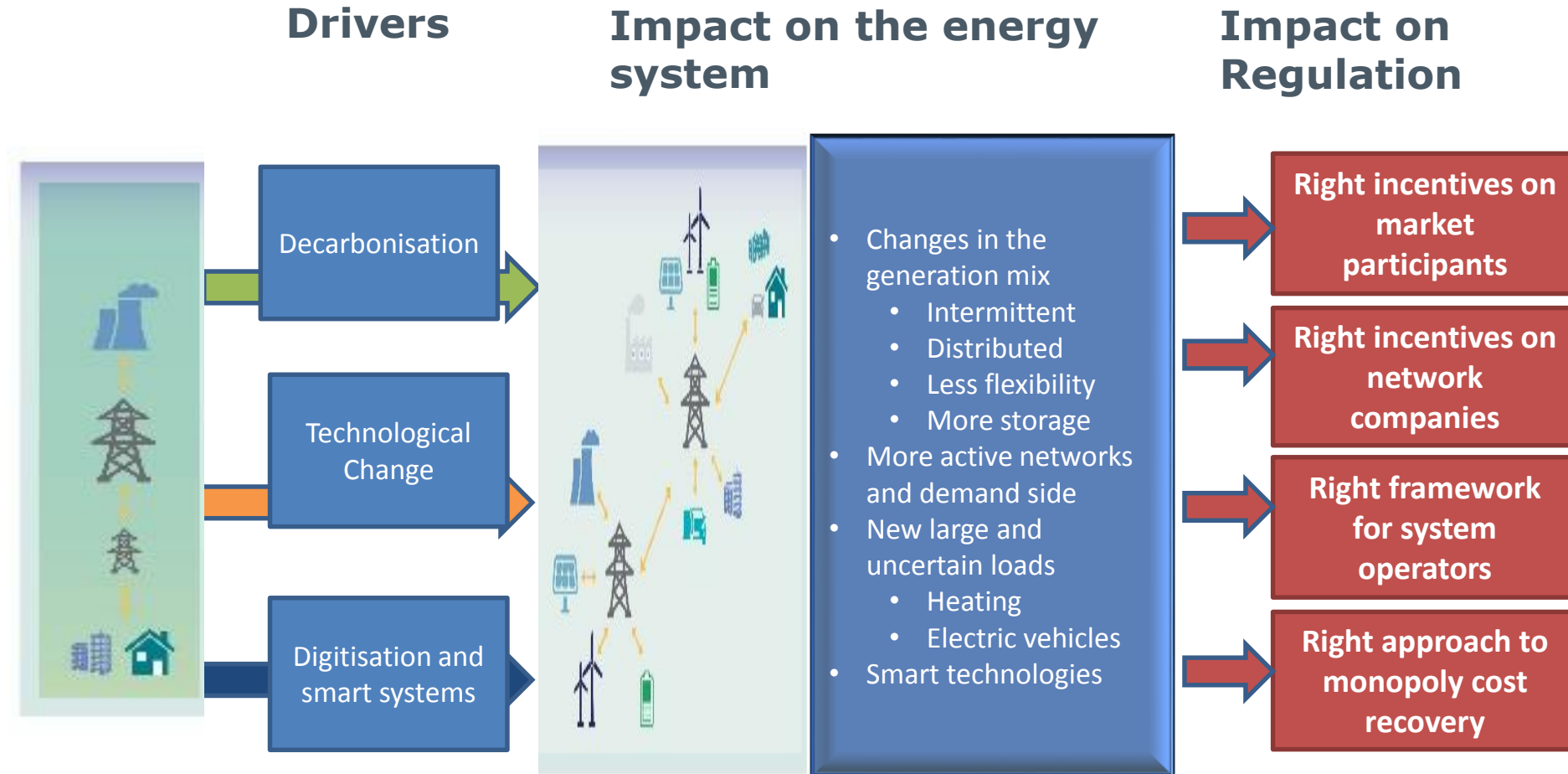
# Today's webinar hosts:

**Andy Burgess & Stephen Perry**  
Ofgem

In December 2018, we launched a Significant Code Review of access and forward-looking charges. This webinar seeks to provide you with:

- Update on the Access and Forward-looking Charges: Significant Code Review
  - What are access arrangements and forward-looking charges?
  - 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

# Changes in the system means changes in regulation



*Facilitating change in future energy systems is an important part of our forward work programme*

**Context:** The energy system is changing (eg 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** (eg 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 arrangements 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.



- 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.

## 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

## 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

## INCLUDED WITHIN THE SCR

### Priority areas

- Increased clarity and choice of firmness levels
- Increased choice around time-profiled access
- Better defined access rights and greater choice for small users, and potential protections
- Clarifying access rights of distribution-connected users to the transmission network

We will additionally explore the feasibility and value of shared across sites and/or different users – this may become a priority

### Other areas

Short-term duration access and new conditions such as 'use-it-or-lose-it' or 'use-it-or-sell-it' are not currently priorities but this is subject to change

# Wide-ranging review of Distribution Use of System (DUoS) network charges

## INCLUDED WITHIN THE SCR

**A wide-ranging review of the distribution charging methodology, including the following issues:**

- Charging design of distribution charges, including:
  - the balance between usage-based and capacity-based charges
  - time-of-use based variants of both options
  - considering the treatment of different types of users
- Improvements to signals about how network costs and benefits vary by location
- Options to mitigate the potential adverse impacts of the reforms for small users, including considering a basic charging tier.

## INCLUDED WITHIN THE SCR

If better locational signals can be sent through DUoS charges, we will consider whether there is a case for moving to a more 'shallow' connection charging boundary.

This will also consider:

- User commitment arrangements
- The treatment of existing users

# A focused review of Transmission Network Use of System (TNUoS) charges

## INCLUDED WITHIN THE SCR

### Priority areas

The charging design for:

- Distributed generation (DG)
- Demand users (including those engaged in DSR)

### Other areas

We will review evidence on the materiality of issues associated with the 'reference node' used in the model that derives the locational charges for different users and areas is not currently a priority. We may take forward options for change here if the evidence suggests this is warranted.

**The SCR is not reviewing other elements of the TNUoS charging methodology**



## INCLUDED WITHIN THE WIDER REVIEW – LED BY INDUSTRY

We believe the ESO and network companies should lead on reviewing incremental improvements to allocation of access

For example –

- Better management of connection queues
- Allowing generation who have non-firm connections to trade with others to reduce extent of their curtailment
- Enabling exchange of access rights between users

**The use of auctions will not be included in the review.**

## INCLUDED WITHIN THE WIDER REVIEW – LED BY INDUSTRY

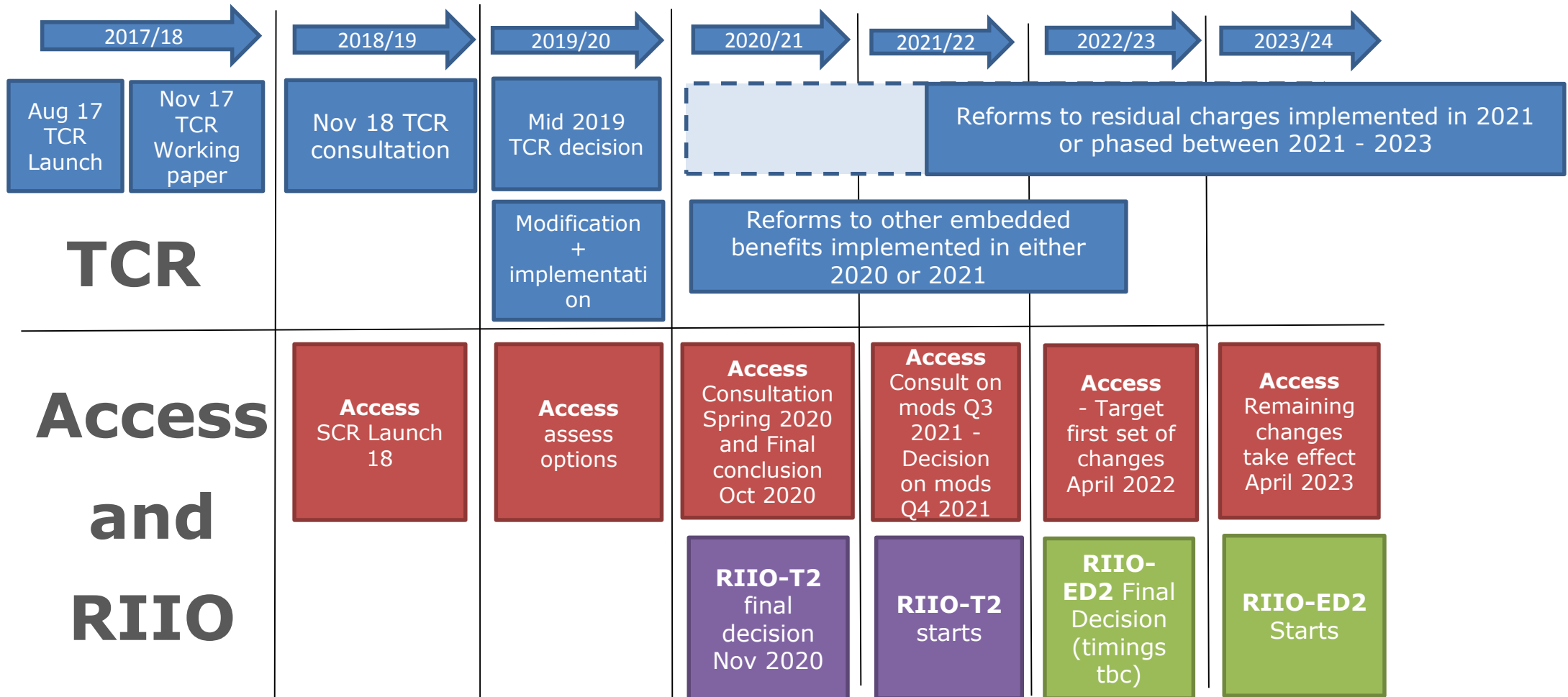
In November this year, we asked the ESO to launch a [task force](#) under the Charging Futures Forum.

The objective of the task force is to provide analysis to support further decisions on the future direction of BSUoS.

In particular, it will examine the potential for, and feasibility of, some elements of BSUoS being made more cost reflective, and which elements should instead be treated as cost recovery charges.

# Timelines and links with other projects

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



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.

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

- Attending the Charging Futures Forum (**next CFF – 15 January**) and using Charging Futures resources (eg webinars, podcasts)
- Applying to become a member of the Challenge Group email [networkaccessreform@ofgem.gov.uk](mailto: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).

# Quick poll

# Q & A

Please use the chat box to ask your questions

# Website:

[www.chargingfutures.com](http://www.chargingfutures.com)

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