

## Ofgem Access and Forward-looking Charges Significant Code Review

### Minutes

<b>Meeting name</b>	<b>Challenge Group</b>
<b>Time</b>	<b>10.00 – 16.00</b>
<b>Date of meeting</b>	<b>14<sup>th</sup> May 2019</b>
<b>Location</b>	<b>ENA Offices, 4 More London Riverside SE1 2AU</b>

### Attendees

Andrew Burgess	<b>AB</b>	Ofgem
Andrew Conway	<b>AC</b>	Ofgem
Andy Manning	<b>AM</b>	Centrica
Andy Heald	<b>AHa</b>	Energise Barnsley
Andy Scott	<b>AS</b>	Swan Barton
Anna Jefferies	<b>AJ</b>	Ofgem
Beth Hanna	<b>BH</b>	Ofgem
Bill Reed	<b>BR</b>	RWE
Daniel Hickman	<b>DH</b>	NPower
David Fogg	<b>DF</b>	Ofgem
David Sykes	<b>DS</b>	Octo Energy
David Bird	<b>DB</b>	Octopus Investments
Elizabeth Allkins	<b>EA</b>	Ovo Energy
Frank Gordon	<b>FG</b>	REA
Graham Oaks	<b>GO</b>	Graham Oaks
James Kerr	<b>JK</b>	Citizens Advice
John Parsons	<b>JPars</b>	Beama
John Spurgeon	<b>JS</b>	ENA
John Tindal	<b>JT</b>	SSEN
Jon Parker	<b>JP</b>	Ofgem
Joseph Underwood	<b>JU</b>	Energy UK
Joseph Dunn	<b>JD</b>	Scottish Power
Katie Stanyard	<b>KS</b>	ENA
Keith Munday	<b>KM</b>	Bryt Energy
Lee Priestley (Part)	<b>LP</b>	Conrad
Mark Tarry	<b>MT</b>	AMP PLC
Martin Baker	<b>MB</b>	Amber Infrastructure
Mary Gillie	<b>MG</b>	Energy Local

Matthew	Cullen	<b>MC</b>	EON
Mike	Ryan	<b>MR</b>	Anesco
Nicola	Percival	<b>NP</b>	Innology
Nicholas	Gall	<b>NG</b>	Solar Trade Organisation
Nicholas	Sillito	<b>NS</b>	Peak Gen
Patrick	Cassels	<b>PC</b>	Ofgem
Paul	Mott	<b>PM</b>	EDF Energy
Peter	Dennis	<b>PD</b>	EcoTricity
Phil	Lawton	<b>PL</b>	ES Catapult
Poppy	Maltby	<b>PM</b>	Regen
Richard	Partridge-Hicks	<b>RP-H</b>	EEL Power
Rick	Parfett	<b>RP</b>	ADE
Robert	Longden	<b>RL</b>	Cornwall Energy
Simon	Lord	<b>SL</b>	Engie
Stephen	Perry	<b>SP</b>	Ofgem
Tom	Steward	<b>TS</b>	Good Energy
Yonna	Vitanova 📞 (Part)	<b>YV</b>	Renewable UK

## 1 Welcome, introductions and actions

1.1 Ofgem welcomed the group and provided an outline of the agenda and the key objectives of the day. AB explained that Ofgem have listened to the Challenge Group (CG) feedback and intend to respond to some of the questions received in the session.

## 2 Intro / project update

2.1 AB gave a project update, an overview of the drivers for the SCR and an explanation of how the SCR links with the other Ofgem led projects (e.g. RII02 and Settlement reform). He also reiterated the objective of the Challenge Group within the SCR and explained that the materials provided in the session should help the group reach this objective but that Ofgem recognise the complex detail covered in the papers. He informed the group that they could get in touch at any time if they had any further questions on the topics covered in the session. Following this, AB ran through a slide explaining how Ofgem were responding to the feedback from the CG which included reviewing the timing of the CG meetings to ensure there is new and substantial content to review. He explained that the next CG meeting would be delayed until July to follow the publication of Ofgem's first working paper. He also informed the group that Ofgem would be publishing an Open Letter with updates on the timings of the SCR and TCR implementation in the coming days.

2.2 JP gave an overview of the work underway within each subgroup and future work on 1) Small Users and 2) the distribution connection boundary. Regarding the Charge Design workstream, he explained that Ofgem will be undertaking further work to assess the feasibility and desirability of different options and to do this they will be undertaking supplier engagement. He explained that they are planning to hold semi-structured interviews with those suppliers who are members of the CG in June/July. In reference to the Small Users subgroup JP summarised the expected scope and explained that Ofgem are working closely with the Half-hourly settlement (HHS) programme to understand how different options could be implemented through the HHS Target Operating Model.

2.3 JP asked the group for feedback on the proposed scope of work. One member raised that the SCR should also be focusing on 'behind the meter' devices and bringing the P376 modification into scope to ensure any concepts developed are compatible with outputs of the SCR. JP confirmed that Ofgem are monitoring this modification closely but it is remaining outside of SCR scope at present. A further member of the group asked to what extent diversity factors would be considered as they

perceived assumptions on diversity factors to have a large impact on the capacity available. JP confirmed that the Access Working Group were considering diversity factor, that a delivery group paper<sup>1</sup> set out the current assumptions and that part of next steps is to look at how different access options affect diversity assumptions. The group recognised the cyclical relationship between cost reflective charging and diversity assumptions. A member of the group asked about the timing of the Small Users subgroup. JP confirmed that Ofgem are starting work now but that the workload will peak in Autumn. He also confirmed that they are seeking expressions of interest to join the subgroup and would be sending out a formal request shortly. The subgroup will be formed of a mix of stakeholders including, for example, suppliers, Citizens Advice and network companies.

### 3 Analytical framework

3.1 DF introduced the Analytical Framework and the work Ofgem had done to date to define the scope. He explained the key focus has been to understand what modelling is required to ensure informed and robust decisions could be made in the SCR based on quantitative and qualitative data. He also confirmed that the approach would be to assess the likely impact of each option using the approach defined in Ofgem's Impact Assessment (IA) guidance. He gave an overview of the IA guidance which includes calculating the monetised aggregated costs and benefits of each option to determine a net present value, to the extent that such a quantification is possible to undertake robustly. He emphasised that this would be challenging for this project, which is why Ofgem intend to undertake a principles-led qualitative assessment supplemented by quantitative assessment. The options would then be shortlisted, and associated risks and unintended consequences identified for each. DF was asked how the environmental impact would be quantified. DF confirmed that options would be assessed in accordance with our published guidance. PM asked what timeframe the impacts are being assessed against and what the ranking system would be for a 'good impact' vs a 'bad impact'. DF replied that they are currently testing a fifteen-year time horizon from point of implementation and that definition of 'good' is still to do. Following this DF gave an overview of the future work planned. He explained that Ofgem are planning to contract with consultants to deliver key elements of the modelling and are in conversation with Electralink to understand if work on DUoS options can be commissioned under their existing CEPA & TNEI contract.

3.2 DF gave an overview of a potential 'ideal modelling flow' and the challenges identified in the modelling approach. A CG member suggested that a simplified model may be the best place to start, to test key principles, modelling just 2-3 nodes of the network. DF confirmed this was a key consideration and that Ofgem were looking at the level of detail required in the models to assess different aspect of the options. He also explained that they were looking to do a qualitative assessment of each option first so that options deemed infeasible can be discounted and the modelling can be undertaken on the short list. Ofgem were then asked about the use of the TCR as the counterfactual to model against and whether they had plans to revisit the Impact Assessment (IA) for the TCR. AB responded that the TCR direction had been consulted on and lots of feedback had been received, once the final decision is published there will be an updated IA published alongside it. AB also explained that Ofgem may consult on a change to one area of the modelling undertaken in the TCR.

3.3 The group had a discussion on the role of forward-looking charges to incentivise investment in the network and the need to model against future scenarios. Ofgem confirmed that the forward-looking signals should support network companies in investing at the right place and at the right time. A member of the group suggested that the SCR should review the future worlds scenarios being used in the Open Network Project and particularly the aspects on the DSO transition. PM also raised that

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<sup>1</sup> <http://www.chargingfutures.com/media/1338/scr-access-report-1-v20.pdf>

any behavioural modelling undertaken should take extreme weather periods into consideration to assess whether the system will be able to cope with the huge demand peaks associated. The concern raised was that there will not be data available for periods of hyper use of heat-pumps and EVs at times of cold weather and therefore the need for careful consideration of the robustness of the modelling. Ofgem stated that the base assumptions and the scenarios were still to be agreed and that they recognise the need to model a range of behavioural responses. DF also confirmed that the counterfactual will be 'as-is' but taking into account in progress changes such as HHS and the TCR changes (based on the forecast implementation dates for these projects).

## 4 DG sub-group reports – summary of feedback received

4.1 SP gave a progress update on the first set of sub-group reports. He explained all four reports covering Access, Locational DUoS and Cost Drivers had been shared widely with the Delivery Group (DG) and CG for comment. He gave an overview of the changes made to the reports to respond to feedback and explained they had been signed-off at the DG on 10<sup>th</sup> May and would shortly be published on the Charging Futures (CF) website. PM suggested that future reports, and the summary slides shared at CG, should include real life scenarios to ensure everyone understands the proposed changes. SP confirmed this would be considered and also mentioned that Ofgem are hosting two webinars on the content of the reports which will be recorded and shared on the CF website.

## 5 Cost Models

5.1 PC introduced the topic, explaining that Ofgem are seeking the CG views on the relative merits of a Short Run Marginal Cost (SRMC) vs Long Run Marginal Cost (LRMC) charging approaches and gave a definition of each. He explained that these approaches could be used to apportion costs through network charges. He was asked what the timeframes were in the two options and PC informed the group that they were conceptual and illustrative and LRMC includes all factors which could be considered variable and recognises that some factors are variable on different timeframes. PC then gave an overview of the benefits and drawbacks of each option. A member of the CG pointed out that the way the charge is collected is an important consideration in each methodology. The group had the opportunity to respond to a number of questions on these concepts through a mentimeter survey.

5.2 PC then introduced two alternative approaches of 'ultra' LRMC and 'moderate' LRMC where reinforcement and replacement costs are used as a basis for the forward-looking charge. He presented a graph that shows how investment in reinforcement is variable over time but is not reflected in an ultra LRMC whereas a 'moderate' LRMC could send sharper cost signal where networks costs are imminent. He presented a range of perceived benefits and drawbacks of each option and the group responded to a further set of questions.

## 6 Initial discussion on links between different work areas

6.1 JP gave an overview of how the individual workstreams of the SCR link together and how the SCR as a whole links with wider work on flexibility. He explained that Ofgem want to ensure flexibility services can be employed to reduce network costs and that the SCR doesn't block ability for these services to be implemented. JP was asked to include a definition of flexibility in this context as it can be interpreted differently across the industry. JP confirmed that in this case it is referring to solutions to manage network constraints through network users turning up or down in operational timeframes. The group were asked to respond to a number of questions on this topic via mentimeter.

## 7 AOB

7.1 AB explained that a lot of the topics under the SCR and the links between them will become clearer in the first working paper. He said that the current plan is to share the draft working paper with the CG for comment and then the paper will be published in advance of the next CG on 24th July.

7.2 AB gave an overview of future stakeholder engagement, specifically the webinars on 15th May (covering forward-looking charging) and on 20th and/or 29th May (covering initial Access reports). AB added that Ofgem are also planning on holding a CF forum in September to discuss progress on the SCR and the TCR.

7.3 Following on from the discussion on Cost Models earlier in the meeting, AB confirmed that Ofgem will look for a way to easily explain issues on peak flow between Transmission and Distribution and distribute with the CG.

### **Next Challenge Group meeting:**

<b>Time / Date</b>	<b>Location</b>
10.00 – 16.00 Tuesday 24 <sup>th</sup> July 2019	Coin Street Neighbourhood Centre, 108 Stamford St, London, SE1 9NH