ofgem Making a positive difference for energy consumers

Delivery Group – 4th April 19

Ofgem

1. Delivery Group meeting agenda

	Agenda Item	Timing
1	Welcome and agenda	10:00 - 10:10
2	Actions from last meeting	10:10 – 10:15
3	Project progress overview	10:15 – 11:00
4	Cost Drivers report	11:00 – 12:05
	LUNCH	12:05 – 12:40
5	Citizens Advice update	12:40 – 13:10
6	Locational granularity and cost models	13:10 – 14:15
	BREAK	14.15 – 14.30
7	Access reports	14:30 – 15:35
8	Network Access allocation update – non SCR	15:35 – 15:55
9	AOB and close	15:55 – 16:00

3. Project progress overview

Network cost Drivers

What are key drivers of future network costs?
How does user contribution to these vary by time and location?

Key input for policy thinking

Access rights

Report 1 – describes the current arrangements to design the system and manage constraints.
Report 2 - outlines the key design options for each access choices and undertakes initial assessment of these options.

Charge Design

What are the options for how charges for DUoS demand/generation and TNUoS demand charges are structured?
How feasible and desirable are these options?

DUoS charging models and locational granularity

What are the options for a) how the different DUoS charging models could be changed to provide better and more cost-reflective charges and b) how locationally granular DUoS charges should be?
How feasible and desirable are these options?

Proposed timelines to finalise first set of reports

This is our proposed timeline for finalising the current set of reports – any comments?

Action	Deadline
Papers sent to Delivery group for review	01/04
Sub-group review, CG and DG feedback, and draft updates to sections	05/04 - 11/04
Sub-group and Ofgem review of Report	12/04 – 17/04
Share draft reports with Challenge Group for review and comment	17/04 – 24/04
Sub-group assess comments and make final changes	25/04 - 26/04
Send final reports to Delivery Group for sign-off	26/04
Delivery Group sign-off reports	01/05

Our next milestone is the first working paper – we want to publish initial thinking on a range of options and assess these options. We are working on next set of product descriptions – some of this will feed into the first working paper and some will feed into later work. Initial thoughts below. **Are we focusing on the right areas, or are there additional things we focus on?**

Cost drivers	Next stage – undertake further analysis of primary and secondary cost categories to: • Determine whether it is feasible to allocate cost categories to different locations • Investigate whether users can be assigned to segments that reflect the costs customers with those characteristics impose on the network
Access rights	Next stage – refine options and assess the value/feasibility of options. • **Feasibility** – implementation routes, technical enablers, planning standards, information. • **Value for network operator** - cost to develop options, improved signals about where/when network capacity required and more efficient use/development of network capacity, • **Value for customers** – user preferences, impact of additional choice, market interactions.
Charge design	Next stage – feasibility assessment, supplier engagement and cost reflectivity • **Feasibility assessment** – based on survey of network companies and other evidence. • **Supplier engagement** – how will suppliers respond to different charge design options? • **Cost reflectivity** – qualitative assessment of options based on cost drivers work-stream.
Locational granularity and cost models	Next stage – review more granular locational cost drivers and develop cost models report: • **Locational cost variance** – determine alignment with granularity options. • **Cost models** – investigate and assess which approaches best capture costs for next report.

In our SCR decision we stated that we would review the distribution connection boundary, if we can make DUoS charges more cost reflective. We are considering exact timeframes for launching this work. Consideration of this will form part of our second working paper.

We expect this work to cover:

Connection boundary options	• To identify a longlist of options for amending the connection boundary at distribution (eg shallow, shallow-ish and incremental change to 'shallowish' (eg DG High Cost Cap). • Assessment of these options, including feasibility and value of options.
Existing users – options	• To determine options for treating existing users that have paid the shallow-ish connection boundary. • Assessment of these options, including feasibility and value of options.
User commitment options	• To identify a longlist of options for introducing user commitments at distribution level. • Assessment of these options, including feasibility and value of options.

Is there additional work that we should include as part of this workstream?

In our SCR decision we stated that we would review arrangements for small users, and identified potential options for improving these arrangements while ensuring appropriate protections. We are considering exact timeframes for launching this work. Consideration of this will form part of our second working paper.

We expect this work to cover:

Foundational analysis	• 'Core' access level • Understanding of user characteristics • Developing alternative 'protection' approaches • Implementation considerations eg engaging with the HHS Design Working Group
Analytical approach	• Developing understanding of guiding principle 2 for 'essential' or flexible use • Considering potential options for scope of protections
Coordination of options across workstreams	• Drawing together a picture of the range of arrangements which may apply to small users • Contributing to assessment of options across other workstreams and contributing to their options development to inform assessment and modelling
Behavioural response	• Understanding of likely response, through supplier engagement and potential trialling

Is there additional work that we should include as part of this workstream?
We are seeking EOI if you would like to contribute to aspects of this work

Potential trials - aims

We are seeking more evidence to support the development of effective network access arrangements and charging options.

We expect **trials could have merit in understanding consumers' likely behavioural response to different options**, including what retail products suppliers offer in response to cost reflective network charging and access options, and have the potential to contribute directly towards delivering the scope of the SCR providing valuable evidence.

We have previously encouraged you to work with us and identify relevant trials, both through our Summer 2018 consultation and SCR meetings.

Now, for trials aligned with our SCR priority areas, we would consider engaging with industry on aspects of the trial options and design to ensure the learning outcomes are robust and can inform policy development.

We think a trial could potentially provide valuable evidence in the following broad areas:

- How will network companies / suppliers / intermediaries respond to different access and charging options in designing their tariffs? Eg **direct "pass-through"** of charging signals in retail prices, or offerings involving **smart appliances** or **actively managed** load control.
- How would **suppliers or other parties engage** with consumers to ensure options are appropriate?
- How far would **consumers respond to tariff and access options** and **would enablers, automation or incentives** support this response? How could this vary by customer type?

There could be value in testing the following SCR options:

Access options

- **Time-profiled** – eg HHly-varying, time-banded or continuous, static or dynamic, with different degrees of notice of changes
- **Firm/non-firm** – eg consumers could allow a supplier, network operator or other third party to curtail their usage to a certain level when the network is congested as part of their tariff.

Charging arrangements

- Volumetric ToU (static or dynamic)
- Actual and agreed capacity, overall or time-varying (eg at peak)
- Critical peak pricing / rebates

All options could have a locational element

Hybrid options could also exist. There may also be merit in testing different protection approaches.

The second Challenge Group was held this week (2 April). We will use this section to provide feedback from the Challenge Group.

4. Cost driver report

The purpose of the cost drivers subgroup report was to undertaken foundational analysis of the drivers of network costs and, where possible, identify the level of seasonality and locational pricing to include in charges in order to better manage times of peak congestion.

You have all received the current draft version of the report. We are keen to get your feedback on these questions:

1. Do you agree with the content of the draft report, or are there aspects which should be revisited?

2. Are there any other data sources the subgroup could use to identify evidence of:
   - Locational cost drivers
   - User segmentation?

5. Citizens Advice update

6. Locational granularity and cost models

Locational granularity – report

- Outlines the key design options for different levels of locational granularity and high level methods for assessment (power flow and asset-based approaches).
- Assesses the feasibility and cost-reflectivity (general view) of options.
- Initial view on how to resolve boundary issues between methodologies, and assessment of combined options.

You have all received the current draft version of the report. We are keen to get your feedback on these questions:

- Do you agree that we have identified the key options? Or are there other key options that we have not identified?
- Do you agree with our initial assessment?
- Which aspects of the assessment do you consider that we need to develop as part of the next stage?

Next steps

Locational cost variance

- Further work is required to determine the locational variance in network cost drivers in more detail, so that these can be matched with the options for locational granularity.
- This information needs to be used to develop more specific locational model variants.
- Propose that the first locational granularity 'interim' report is published to the challenge group in mid-April until more detailed investigation of cost drivers is complete.

To facilitate the next steps, it is crucial to obtain an understanding of locational cost variance across the distribution networks. What is the best way to achieve this?

Cost models

- In advance of the working paper, it is necessary to form a view on the different costs that should be accounted for in the network charge and how this impacts the cost model design.
- This piece of work should assess the different cost models that may be desirable on the spectrum of long run to short run (including an assessment of features of existing models).

What is the best way to carry forward this work? Do we need to consider revising the membership of the group, or the initiation of a seperate sub-group?

7. Access reports

Report 2:

- Outlines the key design options for each access choices and undertakes initial assessment of these options.
- Identifies relevant cross-cutting design options.
- Initial view on the possible combination of options.

You have all received current draft version of the report. We are keen to get your feedback on these questions:

- Do you agree that we have identified the key options? Or are there other key options that we have not identified?
- Do you agree with our initial assessment?
- Which aspects of our assessment do you consider that we need to develop as part of the next stage?

8. Non-SCR Access update

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Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.

We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.

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