The Voice of the Networks



Energy Networks Association

Industry-led Access Rights Allocation Working Group 2019 Project Initiation Document

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Energy Networks Association

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Related Documents

Reference 1	Electricity Industry Access and Forward-Looking Charging Review - Significant Code Review launch statement and decision on the wider review – Ofgem publication
Reference 2	Open Networks Project Phase 3 2019 Project Initiation Document v1.1

Change History

Version	Change Reference	Description
0	N/A	Draft for consideration in planning
0.3		Draft updated to include product details
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1 Introduction

1.1 About ENA and our members

Energy Networks Association (ENA) represents the "wires and pipes" transmission network operators in the UK and distribution network operators for gas and electricity in the UK and Ireland. Our members control and maintain the critical national infrastructure that delivers these vital services into customers' homes and businesses.

1.2 Purpose of this Project Initiation Document

This Project Initiation Document (PID) outlines what will be delivered to meet the requirement placed on Network Companies by:

- (i) Ofgem in its "Electricity Network Access and Forward-Looking Charging Review Significant Code Review launch statement and decision on the wider review". For clarity the content of this PID constitutes the access related work that is directly relevant to but does not form part of that Significant Code Review (SCR). This work will consider **incremental improvements to the allocation of access rights**; and
- (ii) Ofgem's request that Networks further consider the definition of Active Network Management (ANM) schemes and the approach to allocation of associated costs to network users. The need for this work was identified during work carried out by the Charging Futures Task Forces in 2018.

This PID will set out what will be delivered, how it will be delivered and when. It is a best view at the time of preparation in March 2019.

1.3 Background to Industry Led Access

In light of the energy system transformation, Ofgem launched a process with industry in November 2017 to address the key regulatory gaps in the arrangements for networks access and forward-looking charges. Through the publication of its 'Reform of electricity network access and forward-looking charges working paper'¹, Ofgem outlined its views on issues with the current arrangements and its initial thinking on options to address those issues.

To take this work forward, Ofgem established two Task Forces under the Charging Futures Forum (CFF) with representatives from the electricity networks and the wider industry to assess the issues, consider potential solutions and agree interim conclusions based on early analysis. The Task Forces published their final report² and conclusions in May 2018.

Ofgem also commissioned Baringa to investigate and report on the materiality of the issues with current arrangements. Baringa's report was published in July 2018³.

Building on the work of the Task Forces and Baringa, Ofgem published a consultation in July 2018 to outline its views on key issues with the current arrangements, the options that should be prioritised in

¹ <u>https://www.ofgem.gov.uk/system/files/docs/2017/11/reform_of_electricity_network_access_and_forward-looking_charges_-_a_working_paper.pdf</u>

² <u>http://www.chargingfutures.com/media/1203/access-and-flc-final-report-and-conclusions.pdf</u>

³https://www.ofgem.gov.uk/system/files/docs/2018/07/baringa_assessing_the_current_issues_with_electricity_n etwork_access_and.pdf



addressing these issues and how a review should be taken forward. As part of this, Ofgem proposed to lead some elements of the review under an SCR with remaining elements to be industry-led.

Following the consultation, Ofgem published its decision⁴ on the scope and form of the review in December 2018 that sets out the following three bodies of work:

- **Significant Code Review** Managed and owned by Ofgem, this is the largest body of work set out for delivery by Ofgem and will constitute a review of the definition and choice of transmission and distribution access rights; a wide-ranging review of Distribution Use of System (DUoS) network charges; a review of distribution connection charging boundary; and a focused review of Transmission Network Use of System (TNUoS) charges. A Delivery Group has been formed as the main working group developing content for the SCR, with representatives from network companies and code administrators. A Challenge Group will allow wider stakeholders to input into the review.
- Industry-led Access Rights Allocation Working Group This review will consider incremental improvements to the allocation of access rights (e.g. better management of connection queues, allowing distributed generation who have non-firm connections to trade with others to reduce the extent they are curtailed, and better enabling the exchange of access rights between users). As directed in Ofgem's decision document, this work sits outside of the scope of the SCR and is Industry-led; the Network Companies including the Electricity System Operator are taking this work forward. Delivery of this Industry-led review is defined in this PID.
- ESO-led balancing services charge task force Managed by the Electricity System Operator (ESO), the balancing services charges task force will examine the potential for, and feasibility of, some elements of balancing services charges being made more cost-reflective and hence provide stronger forward-looking signals, and which elements of balancing service charges should instead be treated as cost recovery charges.

The following sections of the PID outline the scope and delivery plan for the Industry-led Access Rights Allocation Working Group.

1.4 Project Scope and Dependencies

1.4.1 Ofgem Mandate

Ofgem outlined the following as part of the Industry-led Access Rights Allocation Working Group in its SCR launch and wider decision letter dated 18th December 2018:

"As proposed in our consultation, we confirm that the review will not take forward consideration of the use of auctions at this stage for the allocation of access rights. Instead, we believe that the Electricity System Operator and network companies should lead on reviewing incremental improvements to the allocation of access rights (e.g. better management of connection queues, allowing generation who have non-firm connections to trade with others to reduce the extent they are curtailed, and enabling the exchange of access rights between users). We think this will have benefits in supporting more efficient allocation of access and in revealing the value of increased network capacity.

Some respondents to our July consultation suggested that Ofgem should include these aspects within our SCR. This is an area where the Electricity System Operator and network companies already have a number of improvement activities underway and where they should be trying to meet the reasonable

⁴ <u>https://www.ofgem.gov.uk/publications-and-updates/electricity-network-access-and-forward-looking-charging-review-significant-code-review-launch-and-wider-decision</u>



expectations of their customers. We think it is separable from the other areas of the review. We therefore believe that the Electricity System Operator and network companies should continue to lead this area to maintain existing momentum. However, there are some matters related to access right allocation which we have decided to include within the SCR led by us—specifically, consideration of conditions on access rights, such as 'use-it-or-lose-it', which will fall within the definition of access rights part of the SCR. While such conditions could help improve the allocation of access rights, our view is that the issue is more closely linked to other aspects of the SCR and may be harder for the industry to progress separately."

In addition, Ofgem has outlined the following Guiding Principles for the SCR and these will also be applied for work under this PID:

- 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

1.4.2 Scope

The following products have been identified for delivery by the Industry-led Access Rights Allocation Working Group:

- 1. Trading of Non-firm distributed generation curtailment obligations
- 2. The exchange of access rights between users
- 3. Queue Management
- 4. Active Network Management charging

Work on the better management of connection queues is already underway under the Open Networks Project (ONP). The Industry-led Access Rights Allocation Working Group will liaise with this project and will ensure progress is reported to the SCR Delivery Group and Challenge Group as required.

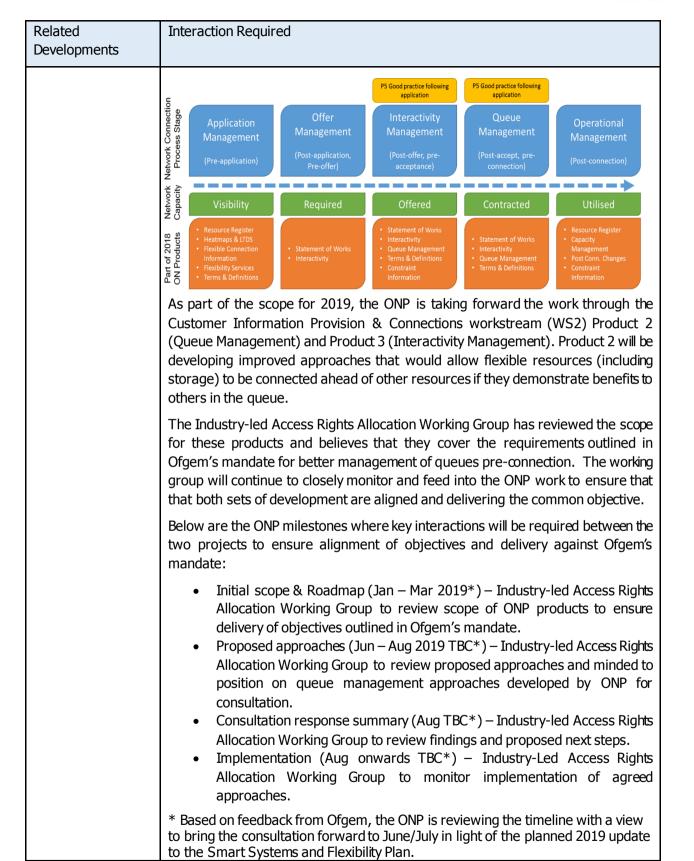
The detailed scope and timeline for these products is outlined in Section 3 of this document.

1.4.3 Related Developments & External Dependencies

There are a number of related initiatives that need to be taken into consideration as part of the development work by the Industry-led Access Rights Allocation Working Group. The following table introduces some of the related initiatives that have been identified as part of the early development work for each product, the detailed linkages and interactions with external working groups will need to be identified and managed as required through the life of the products.

Related Developments	Interaction Required
ENA Open Networks Project (ONP)	The ONP has the potential to overlap in a number of areas. Specifically, it is looking at improvements to the connections process through queue management and interactivity management. The diagram below reflects the stages of the connections process where improvements are being developed under the ONP.







Related Developments	Interaction Required
Access SCR	Alignment with the SCR is critical and common groups and input should be used across the SCR and Industry-led Access Rights Allocation Working Group wherever possible.
	The SCR will be leading work to define access rights and conditions on access rights such as `use-it-or-lose-it' and this will need to be taken into consideration in work on product 1 capacity trading and exchange of access rights.
	The SCR will be leading work on the connection charging boundary which will need to be taken into consideration in work on product 3 ANM cost allocation.
Targeted Charging Review (TCR)	There are limited direct impacts on the Industry-led Access Rights Allocation Working Group from the TCR, but implementation of the TCR should be monitored closely given its potential high impact on charges.
RIIO-2 Price Control	The work of the SCR on the connection charging boundary may have implications for RIIO-2 through products, charges and roles.
BSUoS Task Force	The BSUoS Task Force's work may inform work on product 1 post-connection curtailment. BSUoS charges recover the costs associated with post-connection curtailment for transmission connectees, so the findings are likely to be relevant when considering similar issues for distribution connectees.

1.4.4 Out of Scope

Whilst there may be linkages, the following areas of work are considered outside of the scope of the work of the Industry-led Access Rights Allocation Working Group:

- SCR activities The work of the Industry-led Access Rights Allocation Working Group excludes the development of packages of work that are being progressed as part of the SCR. However, interactions will require careful management to ensure alignment. This will be managed as outlined under dependencies in Section X of this document.
- Industry-led BSUoS development this will be continued to be developed by National Grid ESO under the governance of their BSUoS Task Force and liaison will be managed as outlined in dependencies.
- Use of auctions As outlined in Ofgem's mandate, this review will not take forward consideration of the use of auctions at this stage for the allocation of access rights.
- Definition of capacity As outlined in Ofgem's mandate, the SCR will include work on the definition of access, including consideration of conditions on access rights such as "use-it-or-lose-it".

1.5 Project Objectives

Ofgem's objective for the over-arching review is "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" and this should set the direction of any objectives for the Industry-led Access Rights Allocation Working Group.



The primary objective of the project is to efficiently deliver the scope of what is set out for this Industryled area of work in the Ofgem SCR launch statement, in line with the Guiding Principles and to an agreed timescale.

Further objectives are to:

- Look to raise and implement short term improvements where possible.
- Ensure that stakeholders are engaged and have input into our developments.
- Maintain consistency and alignment with the SCR.

1.6 Risks and Issues

Risks and Issues will be captured and managed by the Working Group on an ongoing basis and will be reported to the Open Networks Steering Group as part of the monthly reporting and review process.

A key risk to note is that there due to the volume of work in the industry that is calling upon similar expertise (SCR, RIIO 2, ONP), there may not be sufficient resource to deliver Industry-led Access Rights Allocation Working Group activities as a consequence.

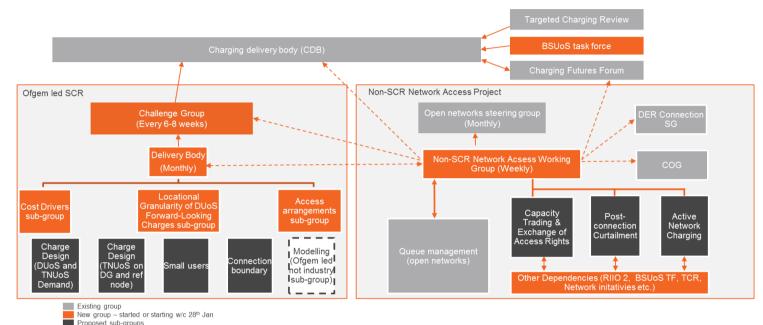


2 **Project Structure & Governance**

2.1 Project Governance

It is a key objective to keep our project governance and development work as close to the SCR as possible to maintain consistency

The project governance structure is as below:



2.1.1 Challenge Group

As agreed with Ofgem, the SCR Challenge Group will be used as the stakeholder body to get stakeholder input, challenge and feedback into the work.

The Challenge Group is comprised of a wide range of stakeholders from across the energy sector, that are best aligned to provide input into our development work alongside the SCR work. Slots to review deliverables from this working group will be requested through Ofgem in advance of these meetings and will need to be limited in duration (around 1-1.5 hours) to ensure that content from the SCR can be covered. Where additional time is required, with the permission of Ofgem, a separate meeting may need to be setup.

2.1.2 Delivery Group, CDB and CFF

The work of the Industry-led Access Rights Allocation Working Group must remain as aligned as possible with the SCR so slots will be requested at each of these groups to report progress and give these groups the opportunity to provide feedback and ensure alignment.

2.1.3 DER Connections Steering Group & COG (Commercial Operations Group)

The DER Connections Steering Group & COG will be used to provide input and feedback on products and developments as required.



2.1.4 Open Networks Steering Group

As agreed with Ofgem and Electricity Networks Futures Group (ENFG), the ONP Steering Group will be the decision making body that will be used to sign off outcomes and generally monitor progress and achievement against the PID.

Ofgem and BEIS are both part of the ONP Steering Group; therefore this increases the exposure of plans, progress and priorities.

2.1.5 Industry-led Access Rights Allocation Working Group

This is the key group that will direct and take ownership for the development and delivery of content. It is largely constituted from members of the ONP WS4 workstream group from 2018 and will have continuity of those resources.

This will be attended by a representative from each of the network operators and chaired by Paul McGimpsey and Ofgem may attend at their discretion. Coordination of meetings and documents will be carried out by the ENA.

2.2 Project Resourcing

This project will be resourced by ENA members with Secretariat support from ENA.

2.3 Reporting

Progress Reports will be provided to the Open Networks Steering Group. Written reports and decision papers will support key decision points.

2.4 Stakeholder Management, Communications and website

We will engage through Charging Futures via their website, host webinars promoted via Charging Futures Forum, and provide updates to the Distribution Charging Methodology Development Group. Reports and/or consultations on conclusions will be published where appropriate. This will be set out in a separate engagement plan.



3 Product Definition

The following sections outline the scope and timeline for the products under this project.

We expect that sufficient resources will be deployed by each of the ENA member organisations to deliver the products in the timescales defined. Named resources will be identified by each of the ENA member organisations and these will be allocated to the Working Group meetings to begin with and then subsequently in product working groups.

The key work identified for this project is to explore options for the exchange of access rights between users. The first two products have been designed to achieve this – firstly by going into detail on Product 1 which will consider the most pressing use case (trading of non-firm distribution generation curtailment obligations). Product 2 is a generalisation of this to cover demand and generation with firm and non-firm access. A full product description for Product 2 will be presented to the Open Networks Steering group for its consideration following the conclusion of step g of Product 1 (see 3.1.2 below).

3.1 Product 1: Trading of Non-firm distributed generation curtailment obligations

This product will identify and assess options for the trading of curtailment obligations by non-firm generation with other relevant parties (including demand and/or generation). The output of this product is expected to feed into Open Networks WS1A (Flexibility Services), Product 6: "Consider how to facilitate other markets that DSOs might be able to enable or support in the future".

Curtailment instructions to Users connected on a non-firm basis to the Distribution [and Transmission] network(s) are generally issued on a LIFO (Last In First Off) basis. This product will consider the appropriateness of the LIFO approach under a range of different scenarios, proposing alternative arrangements, where appropriate. Note: This product will also consider 100% curtailment (or de-energisation) instructions issued to customers.

Inclusions	Describe current arrangements (baseline)
	• Identification of range of users' actions that can alleviate a user's curtailmen below a constraint
	• Trades with parties with more favourable or no curtailment obligations e.g LIFO within ANM schemes
	Consider feasibility of trades across network boundaries, including IDNOs
	Definition/visibility of constraints and when this is made available to users
	 Consideration of timeframe for trade (short-term or permanent and when trades happen)
	Consideration of network companies' and ESO role in facilitation of trades
	Rules and compliance obligations (including provisions for default) and changes to contracts
	Reference to work being conducted elsewhere
	Consideration of use of trials to assess outcomes
Exclusions	System operator procurement of services

3.1.1 Product Scope



Assumptions	Assumes user charges from network companies are not affected by the trade
	 Assumes current network charging and access arrangements (i.e. not considering changes proposed under the SCR)
Constraints	

3.1.2 Product Activities & Timeline

Product Activities		Timeline	Deliverable	Stakeholder Engagement	Approval
а	Describe current arrangements (baseline) in order to define the types and range of information required to manage network constraints through curtailment	May 19	Report section	n/a	
b	 Define the principles to facilitate trading curtailment, including but not limited to: Visibility and frequency of information sharing, Curtailment rules, Substitution rules, Trading rules, Pricing and competition guidelines, Others (as yet undefined) 	May 19	Report section	n/a	
с	Develop hypothetical use cases for testing principles	May 19	Solution development	n/a	
d	Test principles and rules against hypothetical use cases and revise principles, where appropriate	May 19	Solution development	n/a	
e	Define requirements for project TRANSITION and project LEO ⁵	May 19	Solution development	n/a	
f	Evaluation of principles (e.g. through 'war gaming') based on TRANSITION/LEO	Summer 19	Solution Evaluation	Possible inclusion of stakeholders in projects	
g	 Consider potential refinements following project TRANSITION/LEO, in particular to clarify: Trades across network boundaries (including IDNOs) Role of network companies Rules and compliance obligations (including provisions for default) and changes to contracts 	Autumn 19	Report section	n/a	
h	Report/consultation complete and shared with Stakeholders	End 19	Publishable report / consultation	Report shared as widely as possible	

⁵ <u>https://ssen-transition.com/</u>



3.1.3 Dependencies

Body of work	Input/output Required	When
Project TRANSITION/LEO	Meaningful output from project TRANSITION and project LEO required to enable full development of solution.	Summer 19
Stakeholders' engagement	Development and usefulness of solution is reliant on engagement from well-informed stakeholders, whose time and expertise is already in demand for other areas.	Autumn 19
Market based curtailment trading (UKPN NIA project)	Maintain alignment between UKPN project team and this group. Live trials of UKPN project will run through to Autumn 2020 so will not directly inform this product, but their design will and this product can influence the way in which UKPN's trials are conducted.	Throughout 2019

3.1.4 Delivery against Guiding Principles

Guiding Principles	How this product is delivering against them
Arrangements support efficient use and development of network capacity	Exchange of curtailment rights should enable the most economically efficient generation mix to be realised.
Arrangements reflect the needs of consumers as appropriate for an essential service	No direct impact on smaller users, but an efficient generation mix should reduce overall costs.
Any changes are practical and proportionate	To be assessed as product develops – dependent on implementation costs.

3.2 **Product 2 The Exchange of Access Rights between users**

This product will provide recommendations as to how the principles developed under Product 1 ("Non-firm generation trading of curtailment obligations") can be applied to firm connections. The Product Scope and Activities will be defined and submitted to the Open Networks Steering Group for consideration on conclusion of step g from Product 1 (see 3.1.2).

3.3 Product 3: Queue Management

This product will be defined and developed under the Open Networks Project. The Product Description can be found in the Open Networks Product Initiation Document on the ENA website. The Product Reference is Product 2 within Customer Information Provision & Connections workstream (WS2).

3.4 Product 4: Active Network Management Charging

This product will develop a consistent approach across all DNOs for charging associated with Active Network Management (ANM) schemes.



The Working Group will adhere to the obligations of the Competition Act. Discussions/work will focus on developing options for network charging principles through a greater understanding of flexible products offered (or to be offered) by network companies, cost categories and benefitting parties.

3.4.1 Product Scope

Inclusions	 Review of Ofgem decision "Direction in relation to SSEN modification proposal", dated 28 March 2018, following its consultation on the principles to be considered when recovering the costs of providing 'flexible connections', including associated consultation responses. Establish current position: What flexible connection products are being offered (and planned) by network companies How network companies are recovering network costs associated with flexible connections, including those associated with the range of active network management (ANM) schemes, including approaches to schemes that have naturally had to evolve over time.
	 Develop proposals to amend Distribution Common Connection Charging Methodology (CCCM) for recovery of costs associated with (ANM)/flexible connections, ensuring: a) Transparency of charges –market entrants understand the charging rules that will determine the connection charges they will incur and therefore level of financial exposure b) Consistency of approach – development of a coordinated and consistent framework of charging principles for the main cost elements across DNOs c) Cost reflectivity and transparency of allocation – development of arrangements that recognise ANM/flexible connection schemes may deliver benefits for:
Exclusions	 The charging of curtailment assessments provided by the network company. Consideration of alignment of charging principles between transmission and distribution. To include: (i) Understanding of how costs associated with facilitating flexibility at the transmission level are currently recovered, e.g. costs associated with Load Management Schemes (LMS); and (ii) development



	of principles for future recovery of costs, including those associated with future ANM schemes.	
Assumptions	Changes are required to the CCCM such that the Relevant Objectives listed in SLC13 are better met for ANM/flexible connections, namely:	
	 13.3 (a) - that compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by this licence; 	
	 13.3 (b) – that compliance with the methodology facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity; 	
	 13.3 (c) – that compliance with the methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its Distribution Business; 	
	 13.3 (d) - that, so far as is consistent with 13.3 (a), (b), and (c), the methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's Distribution Business; and 	
	 13.3 (e) - compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co- operation of Energy Regulators. 	
Constraints	ts Consideration to be given to:	
	Ofgem's decision document of 28 March 2018 "Direction in relation to SSEN modification proposal" (including consultation responses)	
	https://www.ofgem.gov.uk/system/files/docs/2018/04/decision_to_direct_ssen _not_to_make_a_modification.pdf	
	 Charging Futures Task Forces, Electricity Network Access & Forward Looking Charges: Final Report and Conclusions 	
	http://chargingfutures.com/whats-happening/task-forces-tcr/task-force- meetings-publications/task-force-publications/	

3.4.2 Product Activities & Timeline

Product Activities		Timeline	Deliverable	Stakeholder Engagement	Approval
а	Consider principles for common charging approach	April 19	Slides	Challenge Group Delivery Group	N/A
b	Engagement with Ofgem	April 19	Slides	Ofgem	Ofgem
С	Draft initial conclusions and share with stakeholders (including Connections COG)	May 19	Report and Slides	CFF webinar Challenge Group DCMDG	
d	Submit final report to ON Steering Group for sign off	Summer 2019	Report		ON Steering Group
е	Modification to CCCM submitted into DCUSA process	Summer 2019	CCCM Mod		



3.4.3 Dependencies

Body of work	Input/output Required	When
Engagement from Ofgem	Product relies on engagement from Ofgem to ensure 'direction of travel' remains appropriate throughout.	April 19 and throughout
Engagement from Connections COG	Product relies on engagement from subject matter experts in Connections COG to ensure that proposed changes to DCUSA are appropriate.	April 19 and throughout

3.4.4 Delivery against Guiding Principles

Guiding Principles	How this product is delivering against them
Arrangements support efficient use and development of network capacity	Ensuring connectees face appropriate cost signals when connecting under ANM arrangements will help to ensure new users are connected with appropriate arrangements in economically efficient locations.
Arrangements reflect the needs of consumers as appropriate for an essential service	No direct impact on smaller users, but an efficient generation mix should reduce overall costs.
Any changes are practical and proportionate	Expected to have minimal implementation costs, but to be kept under review as product develops.