

Ofgem Access and Forward-looking Charges Significant Code Review

1 Minutes

Meeting name	Delivery Group – Meeting 10
Time	10.00 – 15:00
Date of meeting	17 January 2020
Location	ENA Offices, 4 More London Riverside SE1 2AU

2 Attendees

<u>Name</u>	<u>Initials</u>	<u>Organisation</u>
Mike Harding	MH	BUUK
Angelo Fitzhenry	AF	ElectraLink
Damian Clough	DC	Elexon
Tony McEntee	TM	ENWL
Jenny Doherty	JD	ESO
Matthew Paige-Stimson ☎	MPS	NGET
Lee Wells	LW	NPG
Chris Allanson ☎	CA	NPG
Deborah MacPherson	DM	SPEN
Nigel Bessant	NB	SSEN
Chris Ong	CO	UKPN
Ross Thompson	RT	UKPN
Simon Yeo	SY	WPD
Amy Freund	AF	Ofgem
Beth Hanna	BH	Ofgem
David McCrone ☎	DMc	Ofgem
Harriet Harmon	HH	Ofgem
Jon Parker	JP	Ofgem
Lynda Carroll ☎	LC	Ofgem
Marco D'Alterio	MD	Ofgem
Silvia Orlando	SO	Ofgem
Stephen Perry	SP	Ofgem
Katie Stanyard	KS	ENA
Paul McGimpsey	PM	ENA
Julia Phillips	JPh	ENA
Attila Hajos	AH	CEPA

1 Introduction and overview

- 1.1 JP explained the objectives of the meeting: that the focus of the day would be on providing an update on each policy area and for Ofgem to gather views and challenge on the shortlisting of options. He also added that CEPA/TNEI were joining the meeting to present on their approach to the Impact Assessment Modelling and the 'data asks' for the DNOs.
- 1.2 JP gave a re-cap on progress on the SCR in 2019, including the publication of two working papers which set out the long list of options being assessed. He explained that Ofgem received positive feedback on the second working paper at the Charging Futures Forum (CFF) in December. However, SP explained that Ofgem had received limited written feedback on the paper (published in December) and asked the DG to share any feedback they had. JP added that Ofgem would be specifically interested in receiving feedback on the Behavioural Insights Report¹.
- 1.3 JP explained that the next programme milestone is the decision on the shortlist of options, due at the end of February. To inform this Ofgem would be assessing the long list of options against the guiding principles. JP further explained that the assessment would be informed by quantitative assessment, but also analysis of academic literature. He explained that Ofgem would still be collecting some evidence during January to inform the shortlist.
- 1.4 Regarding stakeholder engagement, JP confirmed that Ofgem would not be consulting formally on the shortlist, as stakeholders had expressed a preference for a more fluid engagement and feedback process. The shortlist would be presented at the Delivery Group (DG) and Challenge Group (CG) for feedback. JP emphasised the usefulness of stakeholders providing feedback early in the process rather than waiting for that consultation, as Ofgem want to hear views and avoid making significant late changes to the decision. NB asked if there would be a CFF in February on the shortlist. JP suggested that there wasn't currently a plan to discuss the shortlisting at the CFF, as the long list of options had already been discussed with CFF (e.g. September and December). MH asked when the shortlist will be published, and JP informed the group that it would be published in March.

2 Access right definition and choice

- 2.1 SP set out the longlist of access options and the data collected to evidence the value of each. He explained that stakeholders at the CFF and CG had generally indicated they would value having more choice in the firmness of access rights and that these access choices were viewed to have potential to deliver big savings, without any major feasibility issues. SP stated that stakeholders had shown interest in financially firm access rights at distribution, but the subgroup had determined that this would be very difficult to implement within the 2023 timeframe, due to the absence of relevant planning and security standards. The group had a discussion of whether the existence of standards was fundamental to the feasibility of this option. JP added that this option could be implemented along with connect and manage, but they are yet to establish what standards to apply to connect and manage. SP agreed that planning standards may not be specifically required but the option requires a technical minimum standard to be established to offer this option consistently, and that currently it doesn't exist.

¹https://www.ofgem.gov.uk/system/files/docs/2019/12/behavioural_insights_and_forward_looking_charging_report_0.pdf

- 2.2 SP explained that time profiled access had the potential to better utilise the network and that no obvious feasibility barriers has been identified. The subgroup had established that dynamic time profiled would be more difficult to provide, but insufficient evidence had been collected to rule this option out of shortlisting. JD raised a concern about how this option would be operated in practice, as it is difficult to predict the dynamic factors such as weather. JP agreed that further investigation was needed before this was shortlisted. NB suggested that it might be worth doing a comparison of time of use tariff and dynamic time-profiled access.
- 2.3 Discussing the shared access option, SP explained that the feedback from stakeholders had been mixed about whether there is value in this option. The subgroup has identified challenges in how to charge for this and so the current thinking is that this would only be beneficial in local schemes and not over broad areas. TM agreed and said that work previously done on virtual networks found that shared access becomes very localised, so the number of places this option could operate would be minimal. JD raised a concern about how the necessary contractual arrangements would be applied for shared access, as having one of the connecting parties holding the access rights for multiple users would not be preferable. SP suggested that it might be worth taking forward shared access for shortlisting but working out the scale of the limitations.
- 2.4 SP summarised the small users' options. He explained that evidence was mixed about whether changing small users' access could lead to efficiencies, but there are significant practicality issues. The group had a discussion about the value of having different small users' access options. TM suggested that this should be descoped and ruled out of shortlisting due to the limited financial incentive it offers. RT suggested this could be an 'opt-in' option for those small users who are more engaged. NB suggested that this should be treated as a policy question, to assess who should justly pay for what, rather than a planning question. SP asked the group who thinks there is value in taking this option forward to shortlisting and there was limited agreement. RT mentioned that trial work underway (Project Shift) has kicked off and might help determine how this option could work. He further explained that evaluation on time of use tariffs was much further ahead and shows that there is a significant response from small users.
- 2.5 SP concluded by saying that Ofgem would have a discussion internally to determine which options will be shortlisted. He also explained that the Access subgroup will continue to gather evidence to demonstrate value of each option and quantitatively assess the impact of implementing them. JD asked how long this piece of work was expected to take. SP confirmed that the group would continue up until the minded to consultation was published. He added that product descriptions will be produced to help the network companies assess resource requirements.

3 Improved locational DUoS signals

- 3.1 BH gave an overview of the options identified and the sources of evidence used to assess each option. BH then explained that there was an open survey (network planning and network forecasting) out for response and clarified the approach to the network forecasting questions. BH took an action to send a follow up email with the revised deadline for the survey responses.
- 3.2 BH explained that current thinking was that the short-run marginal cost model option would not be shortlisted as it is not considered a viable option, as there is no market to reveal the price. Emerging thinking was that the incremental model was likely to be shortlisted but Ofgem will use the RFI results to understand if this could be applied to HV level within SCR

timeframes. RT asked if the incremental model would reflect a layer of the charge and not the whole charge. BH said that this would just include the forward-looking elements of the reinforcement charge. RT expressed an issue that customers on some parts of the network would face no charge as they were connected in areas of spare capacity. SY asked if Ofgem had determined the methodology for the incremental approach, either LRIC or FCP. BH explained that three incremental approaches were built into the model and the next phase of work will include assessing which is the best.

- 3.3 Looking forward to the next phase of work, BH summarised that the reference network model would be used to inform the shortlisting, and in addition there would be further questions to answer (e.g. the locational variation between primaries and the best incremental model to use). TM raised a concern about the solution being developed under the Targeted Charging Review (TCR) and its alignment to the outputs of the cost model. BH took an action to arrange a meeting to discuss this.

Actions agreed under this agenda item:

DG43: BH to revise the deadlines for the network forecasting survey questions and notify the network companies.

DG44: BH to arrange a meeting with those individuals working on the Access SCR and the TCR to better understand the interdependencies between the work under development in the cost model group, and the solution being proposed in the TCR.

4 DUoS charge design

- 4.1 HH gave an overview of the six options on the longlist and explained that these had been assessed against the guiding principles to produce the shortlist. HH explained that emerging thinking was that the lead candidates for shortlisting were the static volumetric time of use tariff and the agreed capacity option, but that additional work is required to determine whether to shortlist the critical peak pricing option. HH expects this assessment to assess the feasibility of critical peak pricing and the extent to which users will respond to it. TM suggested Ofgem should look at the load profiles from the DNOs which suggest that there isn't a single critical peak, and that properly defined time of use tariffs would be more valuable option.
- 4.2 Setting out the next steps, HH explained that Ofgem plan to engage via the cost model subgroup as the data collected is also useful for charge design. NB asked if this workstream would be assessing unmetered supplies. HH explained that not a lot of work had been done on this to date so Ofgem were open to thoughts on how this should work. JP added that Ofgem hadn't done any work on reactive power charges, and perhaps a mapping exercise should be done to determine what decisions need to be made and what input is required. NB suggested this also covers energisation status. HH took an action to undertake this assessment before the next DG.

Action DG45: Ofgem to determine what further questions need answering in the DUoS Charge Design workstream.

5 TNUoS Reforms

TNUoS Charge Design

- 5.1 JP set out that initial thinking was that static time of use and agreed capacity would be shortlisted and explained that Ofgem were still considering shortlisting an 'improved Triad' option whilst recognising that changes to make this more cost reflective could be significant to

implement. JD suggested this should be discounted as the Triad, once changed, will not deliver the desired behavioural response. NB also raised that once the residual is taken out of the charge calculation then the Triad charges would be minimal.

TNUoS – Distributed Generation charges

5.2 JP gave an overview of the three options that had been identified, explaining that current thinking was that all three would be shortlisted. He recognised that there a key area of investigation would be the impact for existing Scottish generation and the viability of existing wind farms. The group discussed the practicalities of implementing the option that proposes removing the cap and maintaining inverse demand charges for small distributed generation. Ofgem acknowledged that this would require the ESO to have contractual relationships with all customers so would be a significant administrative burden. TM asked who would bill for this right. JP answered that this was detail that still needed working through. TM suggested the charges ought to flow through and be managed by network operators, and recovered alongside DUoS, as this would reduce the information flows required and the need for ESO to build a billing system.

TNUoS – Reference node approach

5.3 JP explained that this work was based on the premise that distributed demand reference nodes created distortions between user types, but that analysis of different types of distribution in GB suggests the issue may not be as significant as first thought. JP gave an overview of the next steps in this workstream.

6 Connection charging boundary options

- 6.1 DM provided a recap of the current arrangements, and the options for change. He explained that evidence collected to date hadn't yet made a compelling case for fundamental changes to the connection charging boundary. There is evidence that the level of upfront costs is a barrier to entry in some cases, but much of this is driven by extension costs rather than reinforcement costs. Additionally, data is limited and so further evidence gathering will take place in the lead up to the minded to position.
- 6.2 DM explained that in addition to the 'as-is' shallowish boundary, Ofgem are likely to shortlist shallower and shallow connection boundary options, as there is no evidence to rule out either option but that some of the variants will not be taken forward. Following a question from PM, DM confirmed that in both the options presented, customers would continue to pay for extension assts but that the cost could be phased over time. NB raised that a very clear definition of assets is required. He also raised that the shallower arrangements help reduce the barrier relating to up-front costs but doesn't change the engineering or planning response. There was general agreement within the group that the correct variants of each option had been shortlisted.

7 Small Users

- 7.1 SO stated that going forward the small users workstream will focus predominately on feeding in on the Principle 2 assessment and considering the potential need for adaptations and protections for small users or a group of them. SO also explained that the shortlisting of adaptations and potential protections is dependent on the decisions made in the other workstreams around shortlisting of options.
- 7.2. SO explained that Ofgem envisage that they will continue to engage with the Small Users subgroup on access and charging aspects around adaptations as well as retail market aspects. However, Ofgem would expect to adopt a different approach and engagement with the subgroup in this phase of work through remote requests for comments or invitations to ad-

hoc teleconferences, and that the level of analysis is expected to be different depending on the options shortlisted.

8 Packaging options

- 8.1 AF explained that it would not be proportionate to run all the potential options and variants through the impact assessment market model, and so a more pragmatic approach needs to be taken. She then explained the approach to structuring the packages of options that would then be modelled. RT suggested that Ofgem do a light touch assessment of each option, to understand how closely interlinked they are with others. This could then inform the packaging. AF also explained that, outside of the modelling, there will be some qualitative principle-based assessment to inform the minded to position.

9 CEPATNEI approach to impact assessment (IA)

- 9.1 AH explained the scope of their work is to conduct an IA on the shortlisted options, and that they will take the outputs from several existing models. He set out the high-level plan for the delivery of the IA and explained that in February they will issue a request to the network companies that will set out the initial data requirements and possible longer-term requests. RT took an action to set up a meeting with Ofgem and CEPA about the emerging findings of Project Shift. AH also explained the approach that CEPATNEI would be taking with regards to behavioural modelling, and network architypes. NB noted that areas of the UK can vary significantly in terms of number of customers and network type. AH explained that they would be doing a regional assessment as part of the modelling but asked if the network companies could provide any assumptions or existing data on how the different areas respond to capacity charging.

DG45: Ross Thompson to set up a meeting with Ofgem and CEPATNEI to discuss the emerging findings of the Project Shift.

10 The plan for 2020/21

- 10.1 JP gave an overview of the key milestones and phases of work during 2020. He explained that the focus would be on the overall IA modelling but there would be further qualitative assessment going on in parallel to better define the individual options. Ofgem are aiming to have one consultation period for the SCR in late summer of 2020, this will be based on high level packages, but they want to ensure the detail of how each element would work in practice is documented. LW raised the risk that additional consultations periods may be required, which could cause the April 2023 deadline to slip. JD raised the need for the network companies to start detailed planning once the draft decision is published, rather than waiting for the final direction. Learning from the TCR, TM suggested the network companies would need to start assessing the system implications and drafting the code modifications based on the assumption that the draft decision holds true in the final direction. RT asked how the timelines align with RIIO-ED2 and expressed a concern that the final SCR decision is now planned for Spring 21, leaving only a few months to input the SCR changes into the ED2 plans which are due in June 2021. JP explained that Ofgem were hoping to publish the final decision in early spring but took away an action to confirm alignment of timings of ED2, and specifically the timings of the consultations.

DG46: Ofgem to assess, and report back to DG, on the relative timings of ED2 and the SCR.

11 Industry-led Access Update

- 11.1 PM explained the stakeholder engagement achieved in the lead up to completion of Products 1 and 2. He explained that this engagement had shown that there was interest for these new products and support for bringing them to market. He explained that REA were particularly interested in product 2 as a large number of their members hold land fill gas sites which are expected to have available capacity as the resource diminishes. PM talked through some of the concerns that stakeholders had raised including creating a monetary value for unused capacity, and the practical issues around non-performance. PM explained that the final report had been signed off at the Open Networks Steering Group in January and will now be taken over by the Open Networks Project to test the principles, identify trial opportunities and make the products available. The expectation is that the Industry-led Access group will cease meeting and ENA will monitor progress of delivery, and report back to DG.

Next Delivery Group meeting:

Time / Date	Location
10:00-16:00 26 th February 2020	ENA Offices, 4 More London Riverside SE1 2AU