

ENA RESPONSE TO ACCESS AND FORWARD-LOOKING CHARGES

SIGNIFICANT CODE REVIEW: OFGEM CONSULTATION ON MINDED TO POSITIONS

Energy Networks Association (ENA) represents the network companies that operate and maintain the gas and electricity grid network in the UK and Ireland. Serving over 30 million customers, they are responsible for the transmission and distribution network of 'wires and pipes' that keep our lights on, our homes warm and our businesses running.

We welcome this opportunity to respond to Ofgem's consultation on minded to positions relating to its Access and Forward-looking Charges Significant Code Review ("Access SCR").

This response is written on behalf of the ENA electricity transmission and distribution network member companies. This response sets out a collective view and focuses on common areas upon which there is broad agreement that attention is required prior to Ofgem's final decision. The network companies will also be providing their own company specific responses on the detailed questions contained in the consultation.

Introduction

ENA supports Ofgem's review of electricity network charging, encompassing the Access SCR and the Targeted Charging Review (TCR). Further, we share Ofgem's aspirations in respect of the proposed outcomes of the charging reforms, namely the facilitation of more efficient choices about where users locate on the network and how and when they use the network on an enduring basis. We agree these outputs will play a supporting role in delivering the wider objective of achieving Net Zero at least cost.

The minded-to consultation focuses on 3 key areas of reform:

1. Reform of distribution network charges – changes to the distribution connection charging boundary
2. Improved definition and choice of distribution access rights
3. The introduction of wider transmission network charges for small distribution (>1MW)

The reform of DUoS is being delayed in order that the implications of any changes can be considered in parallel with wider work focused on enabling greater use of flexibility, through Full Chain Flexibility. Whilst we appreciate Ofgem's rationale for delaying the implementation of DUoS reform (and potentially TNUoS reform), we have concerns that this delay will create uncertainty amongst our customers and may result in unintended consequences. We also believe doing so in isolation, puts at risk the proposed outcomes of the charging reforms.

Common Areas

1. Timescales

Timescales are of concern for 2 primary reasons: finalising RIIO-ED2 Business Plans and Access SCR implementation.

DNOs are required to submit final Business Plans for RIIO-ED2 on 1 December 2021. There is much to be achieved if DNOs are to consistently reflect Access SCR outcomes in advance of this; for example, in seeking to

agree a common approach to the development of key assumptions. At this stage, there remain material gaps in our understanding of the Access reform package. These gaps could fundamentally change key aspects of DNO Business Plans. It is vital that these gaps are addressed and other points of detail finalised, as much in advance of 1 December 2021 as is possible.

We recognise however that it may not be possible to address all outstanding points within these timescales. It is for this reason we seek proactive engagement with Ofgem in the development of appropriate uncertainty mechanisms for RIIO-ED2.

Much of the finer detail of the reform measures is as yet unclear, as well as the changes required to deliver them. The timescales for achieving a better understanding of this detail are tight. It is imperative that Ofgem work with ENA over the coming months to develop this detail in order that it can be reflected into the final decision. This will enable a clearer understanding of code and licence modifications; the need for system changes; work areas to be progressed elsewhere, e.g. through the ENA Open Networks project, as well as facilitating better informed conversations with our customers and stakeholders.

ENA will work with Ofgem to develop a comprehensive implementation plan, including identification of key milestone activities, risks and dependencies.

2. Wider Impacts

The impact of potentially de-linking changes in arrangements for DUoS (and TNUoS) from changes in the connection charging boundary and network access could be material and lead some customers to delay connections activity in the short-term (with subsequent ramp-up post implementation). Further, potential misalignment of DUoS price signals with the proposed changes in access rights and connection charging boundary, could result in other unintended consequences, such as cross-subsidy or an increase in speculative capacity requests and/or retention, where it is no longer needed – though noting, that in the round, some of the proposed changes may also act to reduce the incentives to do so.

We recognise that work to revise DUoS and TNUoS may need more time, and that Ofgem's impact analysis concludes that there are earlier benefits to be achieved by progressing the proposed changes in time for RIIO-ED2. We would encourage Ofgem to be alert and monitor for any unintended consequences. We also seek engagement with Ofgem on the potential for introducing short-term measures targeted at addressing any unintended consequences that might result.

3. External Dependencies

It is crucial that we understand where there are likely to be external dependencies on the delivery of the Access SCR reforms. One key external dependency, highlighted within the minded-to consultation, is the Electricity Connection Charge Regulations¹ (ECCR). ENA believes changes to the ECCR are necessary and we are concerned that any delay in updating the current ECCR provisions could have a knock-on impact on the timing of Access Go-live. On this, we would encourage Ofgem to continue its dialogue with BEIS, noting particularly the requirement within the ECCR for the Secretary of State to conclude a review of these regulations and report on this by 6th April 2022.

We believe the timing of the requirement for the Secretary of State's review should be used to address the issues highlighted in paragraph 3.45 of the consultation and take forward the necessary changes.

¹ <https://www.legislation.gov.uk/uksi/2017/106/regulation/7/made>

4. Transitional Arrangements

The consultation provides minimal guidance on the potential for transitional arrangements and any “grandfathering rights” that might be bestowed on existing connected and/or contracted parties. The decision over whether to introduce any such rights will have a significant impact on investors and connected parties and network operators’ implementation of Access reforms.

We request that detailed guidance on this is provided within or in advance of Ofgem’s final decision.

Conclusions

We look forward to working with Ofgem over the coming months to develop a robust approach to Access SCR implementation and the submission of robust final Business Plans. To achieve this, we note the importance of developing the detail and filling gaps in understanding, both in terms of the reforms themselves and in how the changes are to be implemented. Where it becomes apparent to Ofgem that strategic changes in direction are necessary, we would ask that the earliest possible communication of these is given, avoiding potential delays in implementation and / or duplication of effort.

Finally, we look forward to supporting Ofgem as it progresses in future further phases of its reform programme, including Full Chain Flexibility.

If you have any questions on the points raised in this response, please contact Paul McGimpsey, Director Markets and Regulation: paul.mcgimpsey@energynetworks.org

Energy Networks Association

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