

By E-Mail only

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To: FutureChargingandAccess@ofgem.gov.uk

22 August 2021

Dear Patrick

## **Ofgem's Access and Forward-Looking Charges SCR – Consultation on Minded to Position**

Sustainability First is a small charity and think-tank which focuses on social and environmental issues in the energy and water sectors. We have carried out significant work on the demand side (for example through the Smart Systems Forum and our support to Power Responsive), on fairness issues around network charging and on the RIIO price controls, including as part of Ofgem's Challenge Group.

In terms of my own background, I was previously Senior Partner Networks at Ofgem. I am an Associate with Sustainability First and a member of SSEN's Customer Engagement Group. I have also written a paper on network charging for the Integrating Renewables Programme at Oxford University<sup>1</sup>. This response is submitted on behalf of Sustainability First but draws on my wider experience.

Sustainability First recognises the importance of an appropriate structure of network charges to send signals to network users and consumers to incentivise them to change their behaviour. It is also important in terms of the distributional impacts for different consumers and how we recover the costs of the energy transition. These issues were explored in our paper "What is Fair: How should we pay for the energy system of tomorrow?"<sup>2</sup>. These are important issues and we welcome the opportunity to contribute to Ofgem's consultation.

Overall, the SCR represents a highly technical and complex set of reforms of how costs are (1) allocated as between connection charges and use-of-system and then (2) how use-of-system costs are recovered via charges from all consumers. Despite their technical nature the reforms have far-reaching implications for generators (large and small), for active 'prosumers' and for consumers generally, both today and tomorrow. In considering the proposals we have therefore focussed mostly on how far the process reflects the complex but far-reaching nature of these reforms, extending to a wider world beyond network charging. In particular, this raises questions as to how far Ofgem has:

- Effectively articulated and communicated the fundamental nature of these proposed changes and their implications for different groups of customers, which requires engagement beyond a largely user-led network charging community ?

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<sup>1</sup> <https://www.renewableenergy.ox.ac.uk/wp-content/uploads/oxford-network-charging-190818.pdf>

<sup>2</sup>

[https://www.sustainabilityfirst.org.uk/images/publications/other/Sustainability\\_First\\_Future\\_Energy\\_Market\\_Discussion\\_Paper\\_September\\_2019.pdf](https://www.sustainabilityfirst.org.uk/images/publications/other/Sustainability_First_Future_Energy_Market_Discussion_Paper_September_2019.pdf)

- Engaged the right stakeholders in the right way to inform the fundamental trade-offs needed in arriving at these decisions?
- Used a clear set of principles as a test against which to consider what fairness (and affordability) look like in this context?
- Demonstrated that their decisions are the right ones, not just from a net-zero standpoint but also from an affordability and fairness standpoint, now and into the future?

We have focussed in particular in our comments on the changes to the connection boundary for demand connections. While we recognise that there will be significant impacts on different types of generation in different parts of the country (which others will no doubt comment on), consumers at large should benefit from the system savings that Ofgem anticipates from the proposed generation changes and hence the distributional impacts are relatively limited. In contrast the proposals around demand connections raise major distributional issues of fairness as the generality of customers will pay for the network infrastructure needed to support EV charging, with the direct beneficiaries typically being those who are better off, in particular in the near to medium term. Ofgem's consultation does not address this fundamental question of fairness which also goes to the heart of issues that the HMT Net Zero Review is hopefully considering.

While we recognise that there are strong arguments for the approach that Ofgem is proposing it is important that there is transparency about the implications to enable an informed debate.

We are aware as well that the DNOs have been engaging extensively with stakeholders around their RIIO2 business plans. However, these charging reforms introduce a new and significant impact on the costs to be recovered through RIIO-ED2 / DUOS rather than through connection charges (including in this case the reforms to generation connection charges). We are concerned that the time-table may therefore leave DNOs submitting business plans not yet comprehensively tested with consumers in ways that take full account of these reforms. This may mean that important questions for DNO consumer research around future costs, possible bill-increases and trade-offs on affordability may not necessarily reflect a full picture.

While not the focus of this consultation we would also like to reinforce the vital importance of driving the right signals in terms of peak-related charging (p/kW) in distribution for end-consumers, including domestic consumers. We see this as an approach that could both support flexibility but would also be fairer than a fixed per site charge. As it reflects afresh on the reform of DUOS, Ofgem must give serious thought to what appropriate approaches to household capacity charges could look like (drawing on the Norway example<sup>3</sup>). Albeit an imperfect answer, this could at least offer the prospect of some form of 'rough justice' both in distributional and locational terms. As such it would also help balance out the distributional impacts of the connection reforms noted above. These issues cannot be considered in isolation.

We provide more detailed comments in the attached annex which responds to some of the specific questions in the consultation. We also discuss how Ofgem's approach to assessing distributional impacts needs to evolve to be able to deal with the complexity of these sorts of reforms going forward.

These are complex issues on which to engage. Going forward we see much merit in Ofgem adopting a more active approach to informing these vital trade-offs in its decision-making through developing

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<sup>3</sup> [https://publikasjoner.nve.no/rme\\_rapport/2020/rme\\_rapport2020\\_02.pdf](https://publikasjoner.nve.no/rme_rapport/2020/rme_rapport2020_02.pdf)

a stronger and more direct consumer perspective. As a first step we would propose that Ofgem hosts a roundtable with consumer groups to explore these distributional issues and questions of fairness further.

Yours faithfully

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CC Sharon Darcy Director Sustainability First, Judith Ward Associate Sustainability First

## Annex: Ofgem's Access SCR - Response to Questions

### Chapter 3: Connection Boundary

*Question 3a: Do you agree with our proposals to remove the contribution to reinforcement for demand connections and reduce it for generation?*

We broadly support the proposal by Ofgem to redefine the connection boundary and to limit the reinforcement costs paid by generators and to remove them for demand side.

The arguments set out in paragraph 3.5 are highly persuasive and grounded in the practical reality of, for example, the fact that demand actors cannot relocate demand in response to locational signals. We also welcome the emphasis being placed on DNOs taking a strategic rather than incremental approach to investment and the fact that this change would avoid the problem of different demand customers facing different charges for connecting LCTs depending when they connect.

However, one aspect that has not been adequately explored is the distributional impacts of this proposal which would move a significant element of cost from the connecting customer (presumably mostly I&C / larger customers) onto customers at large (including smaller customers / households). The IA and TNEI analysis focuses on the TNUOS impacts and then simply reads these across to argue that the other changes would not have a significant distributional impact.

However, the connection boundary proposal for demand connections will have significant distributional impacts as the beneficiaries will be those demand customers who no longer have to pay these costs through the connection charge. At an individual domestic level where the costs are already largely socialised the beneficiaries will be those requiring over 100 amps or a 3-phase circuit. This is likely to be consumers in larger properties and hence on higher incomes. More critically, the reduction in charges for non-domestic customers (I&C but also EV charging infrastructure providers) could be considerable. These costs will instead be picked up to a substantial degree by domestic customers (and SMEs) through DUOS. A transparent assessment of the likely scale of these transfers is needed to inform view on the fairness of what is proposed.

We have set out below some more general comments on TNEI's work on distributional impacts but a key message is that the connection boundary question needs to be explicitly considered from a distributional standpoint – even if only in high level terms, consistent with the general principles-based approach adopted in the consultation.

Moreover, in the principles that Ofgem set out as the basis for its minded-to position, the impact on vulnerable customers is not mentioned, although there are references to avoiding unacceptable outcomes for consumers generally in the context of an essential service and the need for any solution to be proportionate. In contrast in the summer 2019 working paper where the principles were initially set out, the principle around consumer outcomes specified “particularly for those in vulnerable situations”.

In the engagement that DNOs have done around ED2 the question of how far those in fuel poverty are willing (or able) to pay to support action on decarbonisation has been a major question. In particular the question of who should pay to support the costs of investment to support EV charging infrastructure is very much a hot topic. At the recent event that Ofgem held on EVs it came through as a strong theme with for example the speaker from Norway being very clear that individual households there had to pay for the costs of any network upgrades to support EV charging as a point of “fairness”.

The latest ONS data<sup>4</sup> shows that in 2018 car ownership in the bottom income decile was only 35% compare to 78% overall and over 90% in the top 4 deciles, with over half of those having more than one vehicle. It therefore feels wrong that Ofgem do not fully explore the distributional impacts that might arise from this strand of their proposals.

While we remain supportive of these changes, notwithstanding the likely distributional impacts, we do believe it is important that there is transparency about the impacts. This transparency is important in identifying what additional action might be needed to support a Just Transition, including, for example, informing HMT's net zero review which is intended to address this wider question. There may also be implications for Ofgem's wider DUOS reforms where some form of "rough justice" could be provided by introducing capacity-based charges.

## Chapter 4: Access Rights

*Question 4a: Do you agree with our proposal to introduce better defined non-firm access choices at distribution? Do you have comments on their proposed design?*

*Question 4b: Do you agree with our proposal to introduce new time-profiled access choices at distribution? Do you have any comments on their proposed design?*

We welcome the move to improve choice and definition around flexible connections (for both generators and demand). Even 5 years ago the issue of generators facing the risk of being constrained off on an unlimited and unclear basis without a formal arrangement for compensation was clearly an issue that concerned investors, even if it did help address the problems around what had originally been a complete bar on new connections.

The proposals for a range of choices around levels of firmness and timing make sense, including the recognition that seasonal factors may also be relevant.

However at paragraph 4.21 Ofgem articulates what would seem to be a fundamental issue around how its proposals in this area sit alongside the proposals to change the connection boundary (ie if you no longer have to pay for the reinforcement then what incentive is there to accept a flexible connection beyond perhaps the timing element?). It is clear that more thought is needed on a joined-up basis – including how flexible connections are expected to sit alongside the wider market for flexibility services.

Ofgem does suggest that the timing factors may be enough to encourage connectees to accept a flexible connection but with the expectation that once the reinforcement has been carried out they will then be able to move onto a firm connection. What remains unclear is what incentive the DNO will have to proceed with the reinforcement if they have available a cost free, enduring flexibility resource in the form of that flexible connection. One dimension of flexible connections that Ofgem does not address but that should presumably be a part of any improved arrangements is a clear time limit on how long the non-firm element lasts for. The expectation should be that the non-firm aspect would be limited to the time that would be required to provide a firm connection, which the DNO should commit to upfront.

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<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/percentageofhouseholdswithcarsbyincomegroup tenureandhouseholdcompositionuktablea47>

This would still leave it open to the DNO to subsequently seek flexibility services as an alternative to reinforcement but the point would be that the flexible connectee would then be offering their flexibility as part of the wider flexibility services market, avoiding distortions to that market (which Ofgem recognise s an important goal).

On a separate point we would also like to comment on the decision not to define access rights for smaller consumers. In a world of significantly growing electricity demand this fails to recognise a need for incentives for small consumers to flex, adapt or modify their demand where possible. This is also tied in with the outstanding work on DUOS reform. In our “What is Fair?” paper we advocated making use of capacity charges in the domestic sector in order to avoid the regressive impacts of fixed charges and also to provide an incentive for customers to shift load away from the peak. We would like Ofgem to keep such an approach on the table as it explores how best to encourage flexibility in the domestic sector.

## **Chapter 5 :TNUOS**

*Question 5g: Are there any specific issues you think we need to consider, as part of our work on the future role of network charges? Why are these important to consider?*

While we recognise the concerns about revisiting the TNUOS arrangements it is clear that there have been significant changes in the energy landscape and also, fundamentally, in how Ofgem sees its role in relation to facilitating net zero. As such there would seem to be merit in a more strategic review of network charging. In the light of the anticipated growth in offshore wind this might also usefully cover the need to get signals right on ‘landing’ locations.

As a part of that it would be worth Ofgem reflecting on how it can bring a more agile approach to network charging reforms. While these are inherently contentious issues (dividing up a fixed cake), and investor certainty is a consideration, we would hope Ofgem can start to give this work-stream greater priority and reflect on ways to streamline the process.

## **General question**

*Question 7: Do you have any other information relevant to the subject matter of this consultation that we should consider in developing our proposals?*

## **Distributional Impacts**

Sustainability First has taken a strong interest in the distributional impacts of previous policy decisions and were instrumental in Ofgem committing to a new approach in its Impact Assessment guidance. While welcoming that commitment we responded to Ofgem<sup>5</sup> setting out a number of comments and concerns on the proposed approach, many of which are exemplified by the analysis that has been carried out for the Access Review.

A point we have made on a number of occasions is that this sort of distributional analysis is typically buried in the technical annexes to documents and hence consumer bodies and others for whom this is the key information will struggle to engage. The TNEI supporting documents include some

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[https://www.sustainabilityfirst.org.uk/images/publications/consultations/sf\\_ofgem\\_IA\\_guidance\\_final\\_300920.pdf](https://www.sustainabilityfirst.org.uk/images/publications/consultations/sf_ofgem_IA_guidance_final_300920.pdf)

thoughtful analysis which is central to consideration of the real-world consumer impacts. As such their analysis needs to be pulled out and tested with fuel poverty organisations and others.

In particular TNEI rightly highlight that the CSE archetypes present a view of the world today whereas what matters in considering the impacts of these proposals is what the likely take up of LCTs and engagement with flexibility is likely to be come 2040. This is a point we made in our comments on the Ofgem guidance. TNEI make use of the FES scenarios for their demand projections but these do not include any assumptions about the demographic profiles of those taking up EVs and heat pumps. This is a crucial set of assumptions that must inform any forward-looking policy analysis and Ofgem should work with government, the ESO and the CCC to start to build a framework beyond the CSE archetypes that could be used for this sort of analysis going forward.

In the meantime, the TNEI assumptions could usefully be sense checked with a wider set of stakeholders through an Ofgem workshop. As well as consumer bodies it is worth noting that the DNOs in developing their DFES scenarios have had to make assumptions about the drivers of EV and heat pump take-up to produce locationally granular forecasts. Reviewing those assumptions in a structured way would be a useful exercise beyond the ED2 assessments.

While we recognise that TNEI had to make some assumptions to progress their work we would note that in terms of heat pump take-up no account is taken of the likely drive that will come from social housing providers or the early focus being placed by government on off gas grid areas. Bringing together a wider set of stakeholders would allow the TNEI assumptions to be better understood and tested, including assumptions around the flexible operation of heat pumps.

This links with another of our concerns in our response on the IA guidance which is that the use of the archetypes in assessing distributional impacts risks being a somewhat mechanistic exercise whereas what matters is the insight that the analysis provides. In the Access Review the conclusion is simply that “archetype D7 has the highest NPV saving” – without explaining what D7 is or what is driving that result.

What is clear from the underpinning TNEI analysis is that essentially the results are driven by the underlying levels of usage by category (high users having a higher bill impact but a higher NPV saving once indirect effects are taken into account) and then also assumptions made about the likely future levels of ability to flex demand which increases the benefits (with lower income households typically having less ability to do so). While the archetypes are useful, one of the comments that we made previously is that the updated archetypes are much more clustered in terms of their energy use than the previous version and that they therefore underplay the range of variation in bill impact that consumers will experience. Given that the impact here is heavily dependent on overall energy use, a proper understanding of distributional impacts needs to consider this full range of usage patterns.

We have also highlighted through our PIAG work<sup>6</sup> on the need for Ofgem to have access to aggregated or anonymised smart meter data, linked to socio-demographic data, to understand the time of use profiles of customers today which will be another factor in judging their potential for flexibility in future.

Finally, we would note that comparing tables 5.5 and 5.6 the ratio of equity weighted NPV and the figures as a % of income are not in a consistent ratio between the two tables (they differ by a factor

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<sup>6</sup> See the PIAG [website](#) and in particular the [paper](#) on regulation

of 10). This suggests an error in one of the tables. A commentary on what conclusions can be drawn from these tables would also be useful.

We welcome Ofgem's commitment to include distributional analysis in its IAs and the efforts by TNEI to develop the approach into a more forward-looking tool. However, more needs to be done to properly embed distributional impact considerations into Ofgem's policy making.

We have previously suggested that Ofgem host a roundtable to discuss its IA guidance on distributional impacts. This would provide a welcome opportunity for ourselves and other relevant stakeholders to explore some of the concerns raised in this response and previously.

Although Ofgem has put in place the Charging Futures arrangements with the ESO this remains primarily a *user-driven* programme. A more consumer focussed session looking at the distributional impacts of these proposals and the lessons for Ofgem's wider approach to distributional impacts would be of real value.