

Ofgem Access and Forward-looking Charges Significant Code Review – Consultation on Minded to Positions

25 August 2021

Summary of Logistics UK View

- Logistics UK has long campaigned for the fair and equitable apportionment of the costs of increasing energy supply to commercial vehicle operators' premises when decarbonising their fleets to meet net zero targets.
- Logistics UK welcomes the proposals to remove the contribution to reinforcement charges for demand connections thus removing the ability for 'second comers' to 'free ride' on a reinforcement paid by other connectees. However, we are concerned that large bills could still be a major barrier to fleet decarbonisation because of the costs involved in providing extension assets to ensure sufficient electricity supply for large fleet depots.
- Ofgem must ensure that straightforward guidance and information about obtaining increased electricity supply when decarbonising logistics business operations is easily available. Expertise about the processes of the electricity supply industry is not commonly found within most logistics businesses and Logistics UK would be happy to work with Ofgem in developing guidance for the logistics sector.
- The proposals for Small Distributed Generation (SDG) should be worded so that vehicle operators utilising Vehicle to X (formerly known as Vehicle to Grid) technology do not incur Transmission Network Use of Service (TNUoS) charges.
- It is not clear whether our understanding of all the proposals is correct. Therefore, we would welcome opportunities to work closely with Ofgem and network operators to improve our knowledge of the energy industry, including a seat on the Challenge Group. Likewise, we offer our expertise of the logistics industry to help Ofgem and the network operators better understand the concerns and issues facing logistics operators in respect of energy supplies and fleet decarbonisation.
- To support efficient and confident business planning, energy supply upgrades must be timed to co-ordinate with vehicle purchases to avoid delays in bringing new vehicles into operation, with service level agreements written in plain English, clearly setting out binding obligations on all parties.
- We also want to see a strategic approach to grid network upgrades, with expected milestones showing the incremental percentages of registered vehicles that need to move to electric, and outline costs of the upgrades required to reach those milestones.

About Logistics UK

Logistics UK is one of Britain's largest business groups and the only one providing a voice for the entirety of the UK's logistics sector. Our role, on behalf of over 18,000 members, is to enhance the safety, efficiency and sustainability of freight movement throughout the supply chain, across all transport modes. Logistics UK members operate over 200,000 goods vehicles - almost half the UK fleet - and some one million liveried vans. In addition, they consign over 90 per cent of the freight moved by rail and over 70 per cent of sea and air freight.

We seek to ensure that our industry can continue to supply businesses and consumers with the goods they require every day whilst reducing any social impacts – including carbon dioxide emissions and air pollution. The logistics industry wishes to play a positive role in helping reduce emissions.

Response to consultation

Whilst Logistics UK welcomes the overarching aims of the proposals to reform distributed network connection charges in line with Ofgem's 'guiding principle 1' to support decarbonisation and meet net zero targets, the technical nature and language of the consultation document makes direct responses to the challenging.

It is not clear whether our understanding of all the proposals is correct. Therefore, we would welcome opportunities to work closely with Ofgem and network operators to improve our knowledge of the energy industry, including a seat on the Challenge Group. Informed stakeholder engagement is vital to avoid unintended negative consequences of proposed reforms, now and in the future, that could delay or compromise net zero ambitions. Likewise, we offer our expertise of the logistics industry to help Ofgem and the network operators better understand the concerns and issues facing logistics operators in respect of energy supplies and fleet decarbonisation. The main concerns are set out in this response, some of which we recognise are out of scope of this consultation, but we consider them to be important factors that Ofgem should be aware of.

Overview

Currently there are over 4.6 million vans and almost half a million HGVs on the UK's road network, performing vital activities, ensuring customers receive the goods and services they require and making significant contributions to the UK's economy. Logistics operators must take into consideration many things regarding location of depots. The nature of the industry means operators need to be near distribution hubs and routes and do not usually have much freedom to choose alternative locations where power supply may be greater. This is especially true for logistics operators in towns and cities, where logistics land availability can be scarce and or expensive.

The decision to decarbonise vehicle fleets takes time to plan and requires significant funds to invest in vehicles and chargepoint infrastructure. We want to see energy price certainty and energy supply upgrades that are timed to co-ordinate with vehicle purchases to support efficient and confident business planning, with service level agreements written in plain English, clearly setting out binding obligations on all parties. We are aware of uncertainty about when installations and upgrades will take place, therefore Logistics UK would welcome a review of the upgrade process to ensure it is more streamlined and delays are minimised.

With the recently published Transport Decarbonisation Plan¹, the Government has set out a clear routemap for reaching net zero by 2050, which Logistics UK welcomed. Our industry recognises that vehicle electrification will play a major part in delivering many of the Government's transport decarbonisation objectives. Therefore, we also want to see a strategic approach to grid network upgrades, with milestones showing increasing percentages of registered vehicles expected to have moved to electric, and outline costs of the upgrades required to ensure those milestones are met. Currently, operators have to approach DNOs for each site on a case-by-case basis; adopting a strategic approach will facilitate the nationwide shift to electric vehicles and provide reassurance to operators that the infrastructure will be in place in time.

Logistics UK has campaigned for the fair and equitable apportionment of the costs of increasing energy supply to commercial vehicle operators' premises when decarbonising their fleets to meet net zero targets, so that fleet operators do not have to fund a disproportionate proportion of the upgrade costs, at the same time as they are already investing significant sums in acquiring electric vehicles and associated chargepoint infrastructure.

Expertise about the processes of the electricity supply industry is not commonly found within most logistics businesses. While this expertise may develop as the sector works to fully decarbonise logistics operations, it is important that operators can find straightforward guidance and information about how to obtain increased electricity supply when decarbonising logistics operations. Therefore, to enable better understanding of the electricity supply industry by logistics operators, and indeed other commercial operations, especially SMEs, Ofgem must ensure that this information is easily available, and promoted by relevant government departments, industry bodies and information portals, such as the Office for Zero Emission Vehicles, the Freight Portal², the Energy Savings Trust³, Zemo⁴, regional transport bodies and trade associations including Logistics UK. We would be happy to work with Ofgem in developing guidance for the logistics sector.

It is vital that Ofgem continues to ensure the energy networks are operated so that they help commercial vehicle operators across the supply chain meet the challenges of reaching Net Zero by 2050 and seek to remove barriers and obstacles with energy connections and supply to achieving those goals.

¹ <https://www.gov.uk/government/publications/transport-decarbonisation-plan>

² www.thefreightportal.org

³ www.energysavingtrust.org.uk

⁴ www.zemo.org.uk

Key Asks

We want to see:

- a fair and equitable method of sharing the costs involved with increasing electricity supply
- regular and meaningful engagement with Ofgem and the energy networks, including a seat on the Challenge Group
- straightforward guidance and information written in plain English that is easy to find
- greater flexibility which allows consumer choice on when they can access the network, particularly if this is at a reduced cost i.e. access off peak or only at certain times of the year as opposed to 24/7 365 days a year
- no transmission network use of service charges resulting from large fleet vehicle to x connections supplying additional capacity into the network

Whilst we recognise this is beyond the scope of the consultation, we also want to see:

- a strategic approach to grid network upgrades
- energy supply upgrade arrangements that can be relied upon by fleet operators with binding service level agreements
- energy price certainty to support confident decarbonisation business investment and planning
- information about the changes to the upgrade process and impacts on costs in plain English so that consumers are able to make informed investment decisions about the timing of infrastructure installation, especially if they have plans in hand for energy supply upgrades

Responses to the Proposals

Connection Boundary Proposals

The logistics industry is keen to electrify vehicle operations, but fleet operators face many significant barriers. Our electric vehicle report⁵ identified grid constraints as a severe limitation to the ongoing shift to electric vehicles and high costs when seeking to increase electricity supply for whole fleet conversion.

The wording of this consultation document makes it difficult for people outside the energy industry to fully grasp the implications of the proposals. Phrases used within the energy industry such as 'levels of firmness' or 'full chain flexibility' are not always readily understood by outsiders; indeed, regarding your proposal to reduce the contribution to reinforcement within the upfront connection charge for generation and remove it completely for demand,⁶ it could be read that the cost of increasing electrical supply connections would be removed. However, non-industry consumers may be unaware of the difference between 'reinforcement' costs and 'extension assets' costs.

Logistics UK welcomes the proposals to remove the contribution to reinforcement charges for demand connections, thus removing the ability for 'second comers' to 'free ride' on a reinforcement paid by other connectees. However, we are concerned that large bills could still be a major barrier to fleet decarbonisation because of the costs involved in providing extension assets to ensure sufficient electricity supply for large fleet depots.

Our industry has invested significantly in upgrading van fleets to cleaner vehicles; this will continue and expand to include heavy vehicles in support of the decarbonisation agenda. Many of our members are actively trialling innovative technology to help them electrify their fleet, including smart charging, Vehicle to X (formerly known as Vehicle to Grid) and energy storage. However, for many commercial vehicle operators, increased energy supply will be essential to fully move away from fossil fuels.

If the cost burden of increasing electricity supply into commercial premises is not addressed fairly it will delay or even prevent fleet decarbonisation, limiting emission reductions and undermining net zero targets.

For operators with vans, electrification will be part of those plans sooner than operators with HGVs, but upgrades should be undertaken with whole fleet needs in mind.

Given that the proposals will not come into effect until April 2023, it is important that Ofgem provides information about the changes to the upgrade process and impacts on costs in plain English so that consumers are able to make informed investment decisions about the timing of infrastructure installation, especially if they have plans in hand for energy supply upgrades.

⁵ www.logistics.org.uk/evreport

⁶ Page 7: [Ofgem Access SCR - Impact Assessments](#)

Access Rights Proposals

Ofgem's proposals for greater choice of access rights are welcome. There should be greater flexibility which allows consumer choice on when they can access the network, particularly if this is at a reduced cost i.e. access off peak or only at certain times of the year as opposed to 24/7 365 days a year.

Transmission Network Use of Service (TNUoS) charging for Small Distributed Generation (SDG) Proposals

If very large fleets opt for Vehicle to X connections, the additional capacity provided to the networks could be significant. The proposals for Small Distributed Generation (SDG) should be worded so that vehicle operators utilising Vehicle to X technology do not incur Transmission Network Use of Service (TNUoS) charges, as those fleet operators will already be meeting the costs of purchasing and installing specialist chargepoint infrastructure that can facilitate this benefit to the networks.

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