
ADE Response | Ofgem's minded to position on Access and forward-looking charges reform | 25 August 2021

Context

The ADE welcomes the opportunity to respond to Ofgem's minded-to decision on the Access and Forward-looking Charges Significant Code Review.

The ADE is the UK's leading decentralised energy advocate, focused on creating a more cost effective, efficient and user-orientated energy system. The ADE has over 140 members active across a range of technologies, including both the providers and the users of energy. Our members have particular expertise in combined heat and power, district heating networks, demand side energy services and energy efficiency.

Connection boundary

3a: Do you agree with our proposals to remove the contribution to reinforcement for demand connections and reduce it for generation? Do you think there are any arguments for going further for generation under the current DUoS arrangements? Please explain why.

The ADE supports Ofgem's proposal to remove contributions for demand connections.

However, Ofgem's differing treatment towards demand and generation does not seem well-justified. Removing the contribution for demand assumes that the latter part of the SCR will make changes to forward-looking charges to increase the locational signal that has been lost. The same assumptions should be applied when assessing options for generation rather than paring back the intervention to only reducing the contribution on the basis that "in the absence of DUoS reform, [it] would mean that these users do not face any signal about the costs they put on to the system".

This is particularly important given the other proposals in this minded-to document which would eventually look to charge such distributed generation Generation TNUoS. Whilst the costs are different between connecting at distribution and transmission, it is not consistent for Ofgem to argue on the one hand that generation should face the same forward-looking charges whether transmission- or distribution-connected whilst arguing, on the other hand, that distribution generation should contribute more to reinforcement costs than transmission generation.

Further, this differing treatment between demand and generation could also miss an opportunity to reduce barriers for energy storage and V2G as these markets develop. Currently, domestic storage projects and in future, V2G projects may be deploying parts of the network that are constrained. Continuing to require projects to contribute individually could mean that such projects are not viable.

Finally, we do not wholly accept Ofgem's arguments regarding the different elasticity of demand compared to generation with respect to location. Whilst this may be more the case for dispatchable generation, for example, renewable electricity technologies are likely to be less elastic with respect to location and there may also be differences by size

3b: What evidence do you have on the effectiveness of the current connection charging arrangements in being able to send a signal to users and what do you think will be the effect of our proposed changes? How does this vary between demand and generation connections?

The ADE agrees with Ofgem that the removal of contributions from demand connections should support electrification. It will ensure that new property developments using either individual dwelling or heat networks with heat pumps do not face excessive cost and should ensure that the costs are more balanced between early and later adopters.

Within this, these changes should also remove the distortion that currently exists between heat network solutions and individual dwelling solutions for decarbonising buildings. Currently, any reinforcement triggered by the incremental uptake of dwelling-level heat pumps in an area would be socialised. However, if a heat network's application for a large import connection to support a central heat pump triggered reinforcement, this would be paid in part by the heat network. This makes it difficult to compare like for like; including in upcoming work by Government to assess the most cost-effective areas for heat networks. This change should address this issue.

However, without sight of the level of intervention Ofgem is proposing on forward-looking DUoS, it is difficult to anticipate the effect of these changes more generally.

3c: What are your views on the effectiveness of the current arrangements in facilitating the efficient development and investment in distribution networks? How might this change under our proposals where network companies are required to fund more of this work?

The ADE considers that the impact on the DNOs from these changes is likely to be relatively limited. In particular, the link between reducing individual contributions from connectees and more strategic planning from the DNOs seems relatively weak. The ADE considers that policy decisions within RIIO-ED2 regarding anticipatory investment, the use of flexibility markets etc. will have a much more significant impact on DNOs' approach to network development.

3d: Do you agree whether the need to provide connection customers with certainty of price reduces the potential for capacity to be provided through other means such as flexibility procurement? How might this change under our proposals?

The ADE supports Ofgem's hypothesis that removing contributions would remove the need for DNOs to calculate and then charge connectees an uncertain amount towards the use of an alternative, non-network solution.

However, this notwithstanding, the ADE considers that the impact of these changes on providing connection customers with alternative reinforcement solutions; including specifically procuring flexibility or providing access to secondary trading for access will be somewhat limited.

Firstly, under these proposals, some individual contribution will still remain for generation connections. Therefore, the barrier highlighted will also still remain.

Secondly, most flexibility services at DNO level are currently procured against broader network reinforcement needs rather than as a solution to that triggered by an individual connection.

Whilst the ENA and Origami are developing proposals for secondary trading in capacity, this work is at a very early stage. Therefore, the ADE considers that it is too early to say at this stage what the appetite could be for such alternatives to reinforcement and whether the lack of a guaranteed price is a significant barrier to this.

3e: What are your views on whether we should retain the High Cost Cap? Is there a case for reviewing its interaction with the voltage rule if customers no longer contribute to reinforcement at the voltage level above the point of connection?

The ADE does not support this.

As stated above, retaining elements of individual contributions for distributed generation whilst also exposing them to Generation TNUoS does not seem consistent. If Ofgem intends to create a single framework for generation, regardless of the voltage at which it is connected, this should be applied across all network signals; not simply Use of System charges.

There is no comparable requirement for transmission-connected generation to pay for costs over and above a certain value. Therefore, this requirement on distribution-connected generation should also be removed.

3f: What are your views on the recovery of the costs associated with transmission that are triggered by a distribution connection? Does this need to be considered alongside wider charging reforms or could a change be made independently?

The ADE considers that this must be part of wider reform to transmission charging.

It is not logical to argue that individual distributed generation connections should continue to pay significantly towards transmission reinforcements on the basis of efficiency at the same time as quite fundamental questions are being asked of the ability of the current transmission charging framework to provide efficient signals.

Furthermore, the appropriate framework for managing impacts on the transmission network from the distribution networks through the price controls is a question that needs to be resolved. Its complexity should not be a reason for simply continuing the status quo.

3g: What are your views on the likelihood of inefficient investment under our proposals (e.g., an increase in project cancellations after some investment has been made)? Are there good arguments for further considering introducing liabilities and securities to mitigate this risk?

The ADE does not consider that these proposals will result in an increase in projection cancellations or otherwise, inefficient investment by the network companies.

3h: What are your views on whether the interactions between our connection reforms and the ECCR must be resolved before we are able to implement our proposed reforms? How do you factor in the effects of the ECCR (if at all) into decision making, given the levels of uncertainty around subsequent connectee(s)? What suggestions do you have to make our policy and the ECCR work together most efficiently?

The ADE does not have a view on this question.

Access rights

The ADE supports the introduction of more dynamic, more locational network charges and a single, integrated approach to the value of flexibility across generation, storage and demand.

Whilst we recognise that this is complex, we would still note that the proposals for access rights in this minded-to decision are not sufficient to adequately value flexibility at distribution, even with associated flexibility markets, and furthermore, risk entrenching approaches, such as Active Network Management, that result in market-splitting the value of using flexibility to manage constraints on a technology basis. If Ofgem proceeds with these proposals, it is important that it uses the second consultation on this Significant Code Reform and the full-chain flexibility work to set out a clearer view of how these incremental changes will develop into more dynamic signals for flexibility through the RIIO-ED2 period.

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?

Whilst not as ambitious as we had hoped from the SCR, restricting DNOs' use of curtailment to a specific number of hours and then requiring them to procure any additional flexibility through flexibility markets is a positive step forward.

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?

Whilst not as ambitious as we hoped, we support further options for access rights; including placing a stronger value on switching away from peak.

4c: Can you identify any benefits to shared access rights, which would indicate we have underestimated the likely take-up?

The ADE considers that Ofgem has previously identified the main benefits with shared access rights. We do not have a view on likelihood and the scale of uptake.

The ADE's members continue to see shared access rights as a potential opportunity in the future to better value flexibility but support the approach set out by Ofgem to focus for now on the Open Networks work.

4d: Do you have any comment on our proposed choice about how to reflect access rights in charges (i.e. connection and/or distribution use of system charges)?

The ADE's overall view is that network charging should be moving towards more dynamic signals that reflect the value of flexibility as close to real-time as possible, rather than very far in advance. Therefore, our view is that it is preferable to use DUoS to reflect this flexibility value which can change over time rather than the connection charge.

4e: Do you agree with our proposal to not prioritise the introduction of new transmission access choices as part of this Significant Code Review?

The ADE agrees.

4f: Do you have views on how access rights should be standardised across DNOs?

The ADE supports standardisation. In particular, the approach to enforcement of such access rights is currently extremely vague but involves potentially significant interventions such as physical controls. The ADE would ask that Ofgem be more directive rather than leaving this entirely to the DNOs.

4g: Do you have any views on our proposed timescale of 1 April 2023 implementation?

The ADE supports the reforms to connection charging by 1st April 2023.

However, reform to access rights has significantly more interdependencies with forward-looking DUoS and demand TNUoS reforms. The ADE considers that these reforms should be aligned to those reforms, even if it means a delay to 1st April 2023 implementation date.

TNUoS charges for small distributed generation (SDG)

5a: Do you have any evidence that SDG does not contribute to flows in the same way as large generation and, therefore, should not be charged on a consistent basis?

During the Targeted Charging Review (TCR), Ofgem introduced the Avoided GSP Infrastructure Credit to recognise the avoided costs in GSP reinforcement from distributed generation. Whilst the principles behind this are sound, its precise financial value and what should be included within scope were not explored adequately during the TCR. Further, the current potential perverse incentives for SDG to reduce export during the winter system is more a symptom that TNUoS charging needs reform rather than an indication of the right policy option for SDG.

To come to a fully evidenced solution on this question, investigating the avoided costs of SDG in upstream reinforcement should be done properly.

5b: Do you agree with our threshold for applying TNUoS generation charges of 1MW? If not, what would be a better threshold and why?

Setting a proportionate threshold will depend on what administrative solution is chosen. BELLAs and BEGAs are currently too complex and costly for smaller generation. If this were adopted, the ADE would consider a higher threshold (for example, 50MW) more proportionate.

The ADE does not support Ofgem's proposal to remove the cap to the Embedded Export Tariff (EET) for <1MW generation. This would signal to such generation, however small, to reduce export at peak periods. Whilst the absolute impact will be small, it could still lead to an inefficient distribution of costs (particularly from such small generation to demand). Until transmission charging is resolved, the cap should remain.

Further, given the significant reform about to be undertaken on TNUoS, the ADE considers that the cap should be left as is until those reforms and the treatment of distribution-connected generation is clearer.

5c: Do you have any evidence that distribution connected generation at a grid supply point has a different impact than directly connected generation?

The ADE does not have a view on this question.

5d: Do you have a preference for one of our options for addressing the local charging distortion? If so, please indicate which option and provide your reasons. Are there any options we have missed?

The ADE does not have a view on this question.

5e: Do you support our position that we should consider transitional arrangements? If so, do you have a preferred option and evidence to support the benefits or risks associated with each option?

The ADE supports transitional arrangements.

Given the prospect of broader reform to transmission charging, the ADE supports delaying any implementation of exposing SDG to TNUoS.

5f: Have we identified all the options for administering TNUoS generation charges for SDG? If not, what options have we missed, and why would they be preferable to those we have identified? Can you provide any evidence regarding the implications of the different administrative options for your business?

The ADE considers that the options are comprehensive.

Regarding which approach is used, we would note the difficulties that have been experienced with submitting non-final demand declarations to the DNOs for the first time last month. Whilst this should get better over time, it is important that lessons are learned from this.

Further, if the option of a direct relationship with the ESO, the potential impacts on code governance and representation should be considered. For example, in starting to have a direct relationship with the ESO, there is a question of whether this would mean SDG would become signatories to the CUSC.

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?

[Please see attached document on the interaction between these reforms and the development of broader flexibility signals.]

General

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

N/A.

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