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Ref : Next steps for DUoS reform consultation

Dear Patrick

Thank you for the opportunity to respond to this consultation. Please find below E.ON's response.

Summary

E.ON UK sat on the original Challenge Group for the Access and Forward-Looking Charges SCR launched in 2018. We have been active members, helping to form and shape the various aspects of network charging covered by the SCR (access rights, connection boundary, DUoS etc). We are keen to maintain this engagement and will certainly look to join the new Challenge Group for the DUoS SCR that is suggested within this consultation.

We are broadly supportive of descopings DUoS reform from the original Access SCR in order for it to progress under its own dedicated SCR. We believe that the benefits to this decision are twofold. Not only can the minded to decisions published in June 2021 be progressed more quickly¹ and therefore deliver customer benefit as soon as possible, but DUoS can receive the focus that it needs (and cover all the interrelationships with other reforms and reviews ongoing) to deliver a net zero supportive charging methodology. We are extremely disappointed that DUoS reform appears to have been pushed back even further now with a DUoS SCR not being implemented until Apr 2025. We have looked to the Access SCR to replace the signals to embedded generation that the Targeted Charging Review removed. We are supportive of these signals being removed from the residual charge but are clear that they need to be replaced in the forward-looking charge in such a way that customers can invest with confidence and certainty in solutions to help them reduce their bills and support the network at the same time. We believe that with the

¹ With the exception of charging TNUoS to embedded generators > 1MW which we believe should also be descoped from the Access SCR and incorporated in any potential TNUoS review as per the call for evidence published in Oct 2021.

correct level of human resource (both Ofgem and industry), a focus on retaining knowledge from the work already conducted on DUoS reform and a more intensive work schedule (monthly meetings with the Challenge Group instead of quarterly) it should be possible to consider an Ofgem final decision by the end of 2022.

We are also supportive of retaining the original governance structure and project framework that were used for the initial stages of the Access SCR. A lot of good work has been done to consider high level principles and success criteria and we believe that this should not be lost. This can also help to speed up the process and deliver DUoS reform quicker than Apr 2025 which is another benefit of retaining the original scope and framework as outlined above.

Questions

Q1. Do you agree with our proposal to descope DUoS from the Access SCR and take it forward under a dedicated SCR with revised timescales?

We believe that is sensible to push forward with the process for the minded to decisions of the Access SCR published in June 2021². These changes can have significant benefits for flexible, low carbon technology that is trying to connect to the distribution network and therefore will support the country's move towards Net Zero. We agree that the reform of DUoS is far from complete and would like to see Ofgem prioritise this work over 2022, working in tandem with Ofgem's Full Chain Flexibility work programme to ensure that DUoS reform can deliver strong, clear signals not only for long term investment but also for short term operation and optimisation of the network. Therefore, we agree it is to customers' benefit to descope DUoS from the Access SCR and take it forward under its own dedicated SCR. We would prefer that Ofgem retains the original timescales for DUoS reform i.e. Apr 2024 as embedded low carbon solutions have been adversely impacted by the Targeted Charging Review (TCR)³ and there was recognition that DUoS reform could help customers continue to invest in technology which can support the network. Further delay creates uncertainty and puts at risk this investment which may stall low carbon technology take-up and investment.

Q2. What are your views on timescales for implementation of DUoS reform? How does this interact with wider market developments and what do we need to take into account?

As stated in Q1, we would prefer to see DUoS reform rolled out by Apr 2024 to potentially support those embedded low carbon assets (existing and planned) that have seen their business case severely damaged by the Targeted Charging Review. As Ofgem are not starting from a blank sheet of paper in terms of its analysis for DUoS and the framework will be broadly similar (success criteria etc), we believe that the addition of the Full Chain Flexibility work should not require an additional 12 months of work. With the right level of prioritisation and resourcing, there ought

² <https://www.ofgem.gov.uk/publications/access-and-forward-looking-charges-significant-code-review-consultation-minded-positions>

³ Via the loss of revenue streams such as Triad avoidance and embedded BSUoS benefit.

to be scope to complete this reform and come to a final determination by the end of 2022. The original timeline was looking to deliver the reform by Apr 2023 and fit into the RIIO process, but it is clear that it will be impossible for DNOs to factor any reform into their business plans. Therefore, in order to reduce the likelihood of reopeners being used (and thereby prolonging the industry uncertainty), Ofgem needs to give the industry as much foresight of what DUoS reform is likely to deliver as soon as possible. A minded to decision should be made and communicated sooner rather than later.

Q3. What areas of interactions of DUoS with wider developments in policy/industry do we need to consider in our review?

DUoS reform needs to take into account the impact that the TCR has had on embedded generation (as outlined in Q1 and Q2) as well as carefully considering any analysis that HMT have developed with regard to their Net Zero review and in particular the area of affordability. Net Zero is going to add more cost to customers and it is important that those customers who are least able to afford this increase are protected as much as possible. Network upgrades and hence electricity bill increases will be a not insignificant part of the affordability of Net Zero and hence the proposed DUoS SCR needs to keep this interaction and associated timescales at the forefront of any decision it makes.

One of the key reasons that the DUoS reform is having to be potentially descoped from the Access SCR is to incorporate the Full Chain Flexibility work that Ofgem have prioritised through their strategic workplan. DUoS reform needs to ensure that the £10-£17b p.a. of potential saving that flexibility can deliver (as outlined by the Carbon Trust report⁴) is not put at risk and is brought forward to replace revenue streams that supported embedded flexibility (but which were in the wrong place in the residual charge) for assets that can support the network.

DUoS reform will also have to be cognisant of interactions it has with the parts of the Access SCR that are going ahead. Making connection boundaries shallow means the socialisation of network upgrade costs (be those from traditional reinforcement or flexibility markets put in place to defer reinforcement costs) through DUoS and we believe that this should be done on a level playing field with regard to generation and demand, making flexibility markets open to both demand and generation on an equal footing. We believe that DUoS reform should consider the benefits of introducing shallow connection boundaries for all network upgrades and not just demand. DUoS reform should also consider the long term benefits of removing Active Network Management schemes that allow DNOs to set the price of flexibility artificially through flexible connection charges and not allow markets to set the price in an open and transparent manner (unlike flexible connections).

Another area of interaction with other policy areas will be to ensure that generation of all types and connection are able to compete on a fair basis. Therefore, the DUoS reform will also have to take into consideration any changes to network charges

⁴ 'Flexibility in Great Britain' <https://www.carbontrust.com/resources/flexibility-in-great-britain>

that a potential TNUoS reform (as proposed by the Oct 21 Call for Evidence) might bring in (such as charging embedded generators TNUoS) such that embedded generators and central generation can compete on the same basis.

Other policy areas to consider include market wide half hourly settlement which will help to bring forward time of use tariffs. These tariffs can be used to send price signals directly to customers and promote actions to protect the network and minimise traditional network reinforcement. With suitable changes to DUoS charging these price signals could be strengthened leading to greater demand side response and engagement from end users.

Q4. Have we considered all the impacts of a phased approach to delivering the original scope Access SCR?

We agree with Ofgem that those areas of the Access SCR that have been clearly laid out in the minded to decision (June 2021) should be progressed on the same timeline as originally published i.e. Apr 2023. As stated in Q3 there are interrelationships between connection boundaries and DUoS, but this should not prevent Ofgem's minded to decisions being taken forward as they offer immediate benefit to customers. We do not see any clear reason to not progress with this phased approach as long as the interrelationships are considered fully in the DUoS reform.

Q5. Do you have any views on our proposal to retain the scope and governance arrangements of the original Access SCR?

We are highly supportive of retaining the scope and governance arrangements of the original Access SCR for the proposed DUoS reform SCR. A lot of good work and discussion has already been completed and remains relevant and useful to a final DUoS decision. This should also help to move the DUoS reform SCR along more quickly and ensure that the Apr 2025 timeline for implementation does not slip further (or can potentially be brought forward as we advocate).

Q6. Do you have any other information relevant to the subject matter of this consultation that we should consider?

No