

Patrick Cassels  
Head of Electricity Network Access  
Ofgem  
10 South Colonnade  
Canary Wharf  
London, E14 4PU

6 December 2021

Dear Patrick,

**CONSULTATION TO DESCOPE THE WIDE-RANGING REVIEW OF DUOS CHARGES FROM THE CURRENT ELECTRICITY NETWORK ACCESS AND FORWARD LOOKING CHARGES SCR AND TAKE IT FORWARD UNDER A DEDICATED SCR WITH A REVISED TIMESCALE**

ScottishPower welcomes the opportunity to comment on this consultation. Our answers to the consultation questions are in Annex 1 to this letter. Our networks business, SP Energy Networks is responding separately via the ENA from its perspective as a network licensee.

We welcome Ofgem's decision to allow the Network Access and Forward Looking Charges Significant Code Review (SCR) to complete without a review of Distribution Use of System (DUoS) charges and to take work on DUoS forward separately with a revised timescale.

It is important that this phased approach takes account of the lessons from the Access SCR work to date and from the implementation of the Transmission Charging Review.

Any changes to the current DUoS arrangements must have clear benefits to justify the associated costs to suppliers, consumers, DNOs and Ofgem in implementation. It is important that Ofgem demonstrates the case for making these changes as part of this work, including consideration of the impact on achieving net zero. This means that modifications should be realistic and likely to deliver real value.

We are particularly concerned about the impact on industry of locational DUoS charging<sup>1</sup>. Any solution to provide a significantly specific more granular locational signal will be extremely complicated for the industry to implement and manage going forward, and hence must show clear benefits.

In addition, as noted in our response to Ofgem's 1 October call for evidence on TNUoS, we think there is also an urgent need for a wider review of TNUoS charges, to deliver

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<sup>1</sup> As we set out in our response to the 'Request for information in relation to Electricity Network Access and Forward-Looking Charging Review: impacts of reform options implementation' in August 2020

timely and efficient progress to net zero. This should be coherent with the principles, work and goals of this DUoS SCR.

I trust that you will find this response helpful, and we remain available to provide any further clarity or other assistance that you may require. If you would like to discuss further, please contact me.

Yours sincerely,

A handwritten signature in blue ink that reads "Richard Sweet". The signature is written in a cursive, flowing style.

**Richard Sweet**  
Head of Regulatory Policy

**CONSULTATION TO DESCOPE THE WIDE-RANGING REVIEW OF DUOS CHARGES FROM THE CURRENT ELECTRICITY NETWORK ACCESS AND FORWARD LOOKING CHARGES SCR AND TAKE IT FORWARD UNDER A DEDICATED SCR WITH A REVISED TIMESCALE – SCOTTISHPOWER RESPONSE**

**1. 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 agree that the rest of the Access SCR should be allowed to run separately. It is essential that Ofgem makes a final decision on the Phase 1 reforms (access rights and connection boundary) as soon as possible. The scope of the Access SCR addresses several areas of policy, all which impact on Small Distributed Generators (SDG), therefore having a clear policy steer for industry is vital. To avoid further delays, and to inform the work going forward, we would ask that Ofgem adopts an agile approach to the process whilst taking account of the lessons from the recent Access SCR.

**2. 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?**

We consider that the following must be considered principles should apply when setting implementation dates and timescales:

- The dates set out in advance must be realistic and achievable.
- Reform must be aligned with other areas of policy such as smart system and flexibility plan, transport and heat decarbonisation and wider market reform.
- The BEIS Alternative Energy Markets Programme must be considered. Phase 1 is currently underway and includes a review which looks at Use of System Charges.
- The Mandatory Half Hour Settlement (MHHS) regime should not be implemented at the same time and the business case / justification for each should be used to determine which should be implemented first.

An implementation date of April 2025, as suggested by Ofgem, will require a final decision and updated charging model(s) by 31 December 2023. We believe this is a very tight timescale.

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

DUoS reform must be fully aligned with the Government's net zero targets which includes the decarbonisation of the power sector by 2035. We would expect that any reforms will provide additional clarity on how access rights will be valued, including time of use capacity charges for demand and generation in order to encourage greater use of flexible resources.

As noted above, we are in favour of a wider review of TNUoS. DUoS charging is linked to TNUoS charging, in particular the high voltage distribution system where small generators can often choose where to locate. It is important that customers have consistent price signals and any conflicting signals across the transmission and distribution boundary are avoided. Therefore, Ofgem must develop these coherently using the same principles.

We note that Ofgem has recognised the need to align the DUoS reforms with the Full Chain Flexibility programme. Further information on the status of this programme would be welcomed in order to fully understand the interactions and impact it may have.

The continued take-up of Electric Vehicles (EVs) and associated charging points must be taken into account. How these EVs will impact the distribution network - and how DUoS charging affects EV take-up and charging behaviour – should be a key consideration.

As non-domestic contracts can be agreed many years in advance, customers and suppliers need to have finalised or accurate forecasts to allow them to make informed decisions when locking in contracts including flexibility.

We think that the review of the regulatory framework for ancillary services and treatment of storage are additional areas which must be considered as part of any DUoS reform.

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

We believe a test should be included to ensure that changes are implemented only when there is a clear benefit, to avoid change (and increased costs) for no benefit. (For example, in our experience, the CDCM / DPCR5 changes in 2010 did not fundamentally change consumer behaviour.) A key consideration has to be the likelihood that any reforms will change consumer behaviour.

We recommend that, when considering the case for change, consideration is given to the impacts on the customer gains process for suppliers, where line loss factor classes (LLFC) are used to give quotes to customers and will continue to be used when we have market-wide half hourly settlement (MHHS). If LLFCs become more complex, it may become unmanageable for customers, third party intermediaries (TPIs), price comparison websites (PCWs), suppliers and DNOs. There must be a clear benefit therefore to progress with this.

We would again highlight our concerns regarding TNUoS charges. We remain of the opinion that there is an urgent need for a wider review of TNUoS charges. We believe the current proposal to apply TNUoS charges to SDG will be damaging to the industry and does not take account of the concerns raised by stakeholders and should not precede any DUoS reform. We believe the phased approach proposed offers Ofgem the opportunity to take a broader look at TNUoS reform before concluding on any implementation of TNUoS charges for SDG.

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

The work undertaken to date has highlighted that the Access SCR is complex. In order to deliver positive and effective change for the industry, Ofgem should build on the outputs from the Cost Model subgroup, where possible taking account of feedback from stakeholders.

Early and regular engagement via Challenge Group members is vital. It is important for members to have a platform to voice concerns and raise challenges where appropriate on proposed reforms.

Further, we would recommend that lessons are learnt from the TCR implementation and that direct communication with consumers is included in the scope of the project. For this SCR to work there has to be clear communication with all consumers to allow them to understand the changes (at a high level and for them specifically). As the SCR is directly impacting

distributors, DNOs, they must provide this to avoid any mixed messages or missed communication. As TCR has shown, leaving this out of scope leads to customer confusion and delay as they interact with the industry through many different channels (eg TPIs, PCWs, suppliers, consultants etc).

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

We would recommend that load managed areas are reviewed. Originally, when introduced into DCUSA, these were intended to be short- to medium-term fixes to allow the DNO to resolve an issue. However, they now appear to be a long-term solution. We would recommend this is reviewed going forward to make sure DNOs can ensure their network are fit for changes in consumer behaviour (for example increasing use of electric vehicles and the move away from fossil fuel heating sources).

**ScottishPower**  
December 2021