



Making a positive difference  
**for energy consumers**

To all parties with an interest in  
electricity network charging and  
connection arrangements

Richard Smith  
Director, Energy Systems Management and Security

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### **Open letter regarding prioritisation of electricity network charging reforms**

This open letter sets out how Ofgem is approaching activities on electricity network charging and connections this winter.

Our primary duty is to act in consumers' interests and we continue to prepare for and respond to the challenges the energy system and markets currently face. This means deploying our teams to focus on areas most likely to protect consumers in the coming months. These are difficult decisions – all of our work has a role in protecting consumers either directly or indirectly, in the near or longer term.

Where possible, we've moved teams from internal projects where the consumer benefit is not near term, meaning we have slowed down delivery of some longer term policy work. This includes aspects of network charging and connections reform, which we will look to resume in full as soon as we are able to.

Network charges play an important role in encouraging efficient investment in the energy system, including the size and location of new developments. They also ensure that all users of the network pay a fair charge to connect to and use the system, reflective of the costs of network development and operation. We therefore consider all of the work we do in this area to be important. Over the last 18 months, across the electricity network charging and access regimes we have seen a significant number of code modification proposals raised by industry, and taken decisions on both the Access Significant Code Review and on our reforms to the way in which residual charges are

collected. We have also launched new reform programmes including a Significant Code Review looking at distribution charges, continuing the work previously within scope of the Access Significant Code Review and two projects to consider transmission charges in the context of both the system as it is today and as it will be in future.

Over the next few months we will focus on ensuring that market arrangements support an affordable, resilient and secure electricity system in the near term. There are several core principles that we will consider in how we approach our charging and connections work over the coming months. We will assess whether each work item does one or more of the following:

- Specifically seeks to support affordability for consumers, enhance market stability and resilience, and/or improve security of supply;
- Relates to a Significant Code Review where we have already reached our final decision;
- Is required by law or relates to an ongoing legal matter;
- Improves the efficiency or speed of connecting to the electricity system in the near term.

As such, our focus in the near term will be on the following key areas:

- Continuing our work on **Balancing Services Use of System Charges (“BSUoS”) Reform**, in particular whether BSUoS charges should be set on an ex ante basis and applied on a flat volumetric basis.
- Continuing changes related to the **Targeted Charging Review (TCR) Significant Code Review**, to ensure that the principles of the TCR are applied to complex sites to ensure that arrangements are consistent, and that a site’s connection configuration or size does not undermine the conclusions of the TCR.
- Changes related to the **Access Significant Code Review**, to ensure that the assumptions underpinning DNO business planning align to the requirements of the connection and charging regimes.
- Ongoing work of the **Transmission Network Use of System (“TNUoS”) Task Force** looking at the issues of predictability and cost-reflectivity in charging arrangements. This work relates in many ways to the generator and development investment needed to support both Net Zero and security of supply and remains important. To manage the demands of winter work, Task Force meetings will not be scheduled for the remainder of 2022. However, to keep momentum we have

asked NGESO to build on the work undertaken by the Task Force. This will include work to establish the specific defects within the TNUoS charging methodology, and identify potential solutions. NGESO will communicate the areas of its further work to industry over the coming weeks and provide periodic updates to the Task Force. We expect to review the timing of further meetings in January 2023.

- Considering the **core purpose of Transmission (“TNUoS”) charges, in the long term\***, in the context of potential wholesale market reform options being considered under the Review of Electricity Market Arrangements, as we recognise the importance of ensuring consistent rather than competing signals between markets and network charges. We intend to progress this work, where possible, over the winter to ensure the packages of complimentary measures are developed alongside the Review of Electricity Market Arrangements programme.
- Near term **improvements to current processes underpinning Connections** to the National Electricity Transmission System (NETS) and distribution connections that have a transmission impact or require a Grid Supply Point upgrade, to address current challenges for generators and/or developers in obtaining timely connections.
- Assessing code modification proposals as they are raised in relation to The **Offshore Transmission Network Review (OTNR)**, a key BEIS/Ofgem programme of work examining how efficiencies can be made in the processes underpinning offshore connections.

Aligned with our prioritisation principles, we are pausing work on **The Distribution Use of System Significant Code Review** (formerly within scope of the Access SCR), which will examine changes to charging signals for distribution-connected users. We consider that the methodology underpinning DUoS charges could be made more cost-reflective, and that it warrants a review, however, given the longer term nature of these changes, we intend to defer this work in the immediate term.

Should industry seek to raise further charging or connection change proposals, or initiate new work that requires Ofgem input or a decision in the coming months, we will assess them against the principles set out in this letter. Where a proposal does not meet any of the criteria, it will likely be deferred in the short term. We will continue to assess all

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\* Clarification edit has been made to remove duplicating text on Long Term TNUOS - no substantive changes.

urgency requests, and change proposals on a case-by-case basis, based on the evidence put to us.

We encourage industry parties to consider, in the context of the above, whether the change proposals they might seek to bring forward this winter are consistent with the criteria we have established and expect each Code Administrator – under the ‘critical friend’ Code Administration Code of Practice principle – to do the same when discussing potential new changes with industry.

We recognise that some stakeholders will be disappointed that we have deferred certain areas of work in the short term. We consider each matter outlined in this letter to be important, whether Ofgem or industry-led. However, we must focus our attention where it provides most value for consumers and we consider the approach we are taking in light of the unprecedented market conditions faced by industry and consumers will achieve this.

We intend to keep this under review and publish further updates as required. In the interim, we will ensure Code Administrators are aware of how our approach impacts individual code modifications and relay this information to the relevant Code Panels.

Yours faithfully,

Richard Smith  
Director, Energy Systems Management and Security