



Getting more out of our electricity networks by reforming access and forward-looking charging arrangements

Northern Powergrid's response

Key Points

We welcome the proposed review, as properly delineated rights and cost-reflective pricing should lead to more efficient networks. However, electricity distribution access rights and connection cost signals are currently working better than the consultation recognises and the bulk of the benefits may lie in forward-looking charges and flexibility contracting.

- In order to maximise the benefits that can be achieved for ***distribution connected users***, the review needs to consider all of the mechanisms on which distribution system operators (DSOs) may rely. This includes achieving a better response than can be achieved through locational charges (which could impact badly on vulnerable customers) through emerging DSO contracts for flexibility services, which are not within scope of the review which Ofgem proposes.
- The Targeted Charging Review has highlighted issues with the current ***forward-looking transmission charges*** – the proposed review is too narrow in this respect as it leaves no scope for the resolution of such issues. One of the key priorities for the review is an effective transmission to distribution interface. Aligning incentives across this boundary, to reduce distortions, will require changes to both the transmission and distribution arrangements.
- We can see why Ofgem would wish to consider ***access rights for small users***, but we note that the current system is easily understood by these users, and works well. Making changes to this system, without introducing complexity that could disengage small users, will be difficult in practice. Changes to forward-looking charges alone could yield all of the same benefits.
- We agree that there is value in reviewing ***access rights for larger users***, although the current system already contains many of the options put forward. Like Ofgem, we do not consider options for depth of access warrant further review, as this would not reflect the reality of the system, and could distort markets by giving integrated companies a competitive advantage.
- Current access rights are coupled with the ability of distribution companies to levy ***connection charges*** for the cost of the assets which a connection requires. This has the advantage that it encourages new connectees to connect where there is spare capacity, and since it is set out in primary legislation, proposals for change would need Parliamentary support.
- Overall, we think that ***the current system of access rights and charges provides a good starting point*** for future arrangements. This is particularly the case when the possibility of DSO flexibility contracting with large users is taken into account. Changes should only be introduced if there is confidence in the user response they will generate.
- ***Forward-looking use of system charges*** are the most fundamental issue for the review, but require an understanding of all aspects of the current and potential future arrangements.
- Given the close relationships between all these areas, ***getting the best outcome*** from the review as a whole will depend on close co-ordination. A holistic, Ofgem-led significant code review is essential to tackle all these issues and to secure the legitimacy of the outcomes.

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1. Introduction

1. Northern Powergrid welcomes the opportunity to respond to Ofgem's consultation *'getting more out of our electricity networks by reforming access and forward-looking charging arrangements'* (hereafter referred to as the consultation).
2. We are supportive of the work being undertaken to ensure that appropriate network access arrangements and forward-looking charging structures are in place that send efficient and effective cost signals to users as we transition to a smarter, more flexible energy system.
3. In our response to the smart flexible energy system call for evidence we said that a fundamental review of charging arrangements does not require a significant code review (SCR) but ongoing incremental changes will need to be robustly prioritised.
4. However, it is now clear that Ofgem's preference is to invoke some form of SCR and, on balance, we agree that an SCR is necessary. The necessary changes are complex enough to meet the hurdle for an SCR used in other recent decisions. In addition, once an SCR has been launched, Ofgem can prevent the progression of new modification proposals which cover similar ground, creating space for the industry to focus on the detail of the SCR.
5. In order to maximise the value an SCR can deliver, a comprehensive SCR which covers all of the proposed areas should be undertaken. This will: ensure that the critical inter-linkages between the different areas are fully understood; enable stakeholders, many of whom have limited resource to devote to such industry developments, to engage more meaningfully with all areas; and ensure the legitimacy of the outcomes through clear Ofgem leadership. We respond to each of the specific questions asked by the consultation below, grouped in the following areas:
 - a. issues with the current arrangements;
 - b. proposals for access arrangements;
 - c. proposals for forward-looking charges; and
 - d. the process for taking forward the review.

2. Responses to questions on issues with the current arrangements

Ofgem's case for change (Q1)

Question 1: Do you agree with the case for change as set out in this chapter?

6. We recognise the need for reform and look forward to contributing to its development. We are committed to developing the distribution system operator (DSO) role, and seeking opportunities to find innovative technical and commercial solutions to both existing and potential future constraints on our networks. But we have identified five areas where we do not recognise or agree with the

case for change. The summary below signposts to our views on these areas (elsewhere in this consultation response), and we think Ofgem should consider the scope of its review in relation to these areas carefully.

- a. The access rights enjoyed by small users may already accommodate changing patterns of use, with well-established mechanisms (most notably designing networks to meet after diversity maximum demand), coupled with a review of forward-looking charges, capable of leading to efficient outcomes (see response to question three, paragraph 9).
- b. Large users connected to distribution networks already enjoy a choice of access arrangements which are not properly acknowledged in the consultation (see response to question three, paragraph 18).
- c. More work is needed to better understand the magnitude of the perceived issue caused by distribution connection queues and the proportion of capacity in the queue which is genuinely waiting to connect compared to that which is speculative (see response to question five, paragraph 32).
- d. The current connection charging boundary for distribution connectees provides a clear locational signal to new connectees, and has delivered significant benefits to network users by keeping costs associated with new connectees low (see response to question seven, paragraph 58).
- e. The case for change does not adequately address current issues with transmission forward-looking charges, which have been well-evidenced by the findings of the Targeted Charging Review, and nor does it provide any additional evidence of the costs being imposed on the transmission network as a result of distribution networks exporting onto the transmission network (see response to question eight, paragraphs 72 and 70 respectively).

3. Responses to questions on Ofgem's proposals for the scope of the review of access arrangements

Review of access rights (Q2 and Q3)

Question 2: Do you agree with our proposal that access rights should be reviewed, with the aim to improve their definition and choice?

7. In order for a review of this type to be effective, it needs to consider and understand all of the component parts of the arrangements, in order that any changes are coherent with the rest of the arrangements in which they sit. This means it is essential that the review covers access rights.
8. We do think that, under the status quo, there are more instances of well-defined access rights and greater choice than Ofgem recognises. Specific examples are signposted in our response to question

one. But overall we support further development of these existing arrangements to secure even greater benefits.

Question 3: Specifically, do you have views on whether options should be developed in the following areas as part of a review?

Question 3a): Establishing a clear access limit for small users, with greater choice of options (as considered under b) and c) below) above a core threshold – do you agree with our proposal in paragraphs 3.5-3.10 that this should be considered? Do you have views on how a core threshold could be set?

9. For small users we think that the access limits are already clear, and readily accommodate changing patterns of use.
10. Whilst we agree that small user access rights should be within scope of the proposed review, we think that there are significant practical limitations on the feasibility and value of introducing the proposed changes:
 - a. To increase consumer engagement, end users would need to consciously choose their own terms of connection; but this would further complicate the energy system and many (or even most) small users may be unwilling or unable to engage with the decision.
 - b. If end users did not take the decision, the access right would need to be determined for them by a distributor or an intermediary (for example an energy supplier); this could be conceptually difficult for users to accept. Moreover, some rules for determining access rights, such as grandfathering based on previous use, could create perverse incentives (e.g. to keep using capacity to preserve a right).
 - c. Lastly, for as long as distributors lack the technology to constrain individual domestic users in real time (and also as long as it is publically unacceptable to do so), users will move outside of their access rights. The current sanction of potential disconnection is unlikely to be acceptable if it becomes common for small users to fall foul of newly-reduced access rights. If this sanction were replaced by a modest financial penalty, say, then equivalent financial incentives could easily be imposed through well-designed distribution tariffs.
11. Although we think the concept of a core level of demand could be problematical, since what is perceived to be 'core' might vary by user and over time, there is no reason that this couldn't be implemented directly via distribution tariffs, with a bottom tier that allows users to meet their basic needs without encountering peak charging and usage above this level exposed to sharper cost signals.
12. Overall we can see that, from a *network* point of view, there is merit in considering reductions in standard access rights for small users, while at the same time requiring atypical users (such as those with generation or a large heat pump) to opt and pay for different rights. But we also think the issues listed above (including the potential behavioural economics implications of taking away rights

that people currently have) mean that the focus of the review for small users should be on structuring distribution tariffs correctly to bring about changes in consumer behaviour, irrespective of which technology is driving the use of electricity.

Question 3b): Firm/non-firm and time-profiled access – do you agree with our proposal outlined in paragraphs 3.15-3.21 that these options should be developed?

13. Our DSO vision is for a deep and liquid market for flexibility services. There are a number of routes to achieve this over the longer term. For instance, it could be based on equivalent underlying access rights for a large body of users that enables those users to compete to provide services to the DSO on a level playing field. In this scenario, cost signals would be sent through a mixture of relatively simple ongoing usage charges and an opportunity for users to contract with the DSO to flex their use of the network when the DSO requires. Models such as this would need to be considered on their merits.

14. Beyond this, we distinguish in our response between small users and larger users.

For small users, time-profiled tariffs could offer benefits

15. Overall, we think the focus for small users should be on time-profiled tariff design. We can see no genuine system benefits from offering them managed (or interruptible) access. The acceptability to customers of anything beyond 'congestion charging' is also highly questionable.
16. As set out in our response to question 3a above, we think distribution tariffs should be developed to achieve the same effect as variations in access rights for small users. This includes time-profiled tariffs, which we think should be developed. There may also be an opportunity for end users to provide demand management services; although this is likely to depend on new innovations to household technology and mass appeal apps rather than more traditional direct contracting. The introduction of smart meters and half hourly settlement are also key enablers of these new markets and customer participation.
17. We doubt that managed contracts for small users (which Ofgem refers to as interruptible contracts) could reduce overall system costs. Even if the occupier of a house with a battery wanted a managed contract in exchange for reduced charges, realistically they would need to be able to revert to a non-managed contract at short notice. These users could do so en masse if, for example, curtailment durations become longer. This would limit the whole-system value of managed contracts for small users.

For larger users, distributors already offer a bespoke range of access rights

18. A user seeking to connect to the distribution network already has multiple options, which can be broadly categorised into three groups, albeit the third will only be available if network reinforcement would be required to enable the connection to be made:
- a. **'Firm'** connections which operate with one or more redundant circuits under normal network conditions, and so will continue to operate should any one circuit suffer a fault.

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- b. **‘Standard’ non-firm¹** connections, which operate with a single circuit under normal network conditions, and so will be unable to operate should that circuit suffer a fault. Many large users (particularly generators) opt for this type of connection because it is much cheaper, is low risk, and is not subject to routine constraints. If a fault occurs on the relevant circuit, they will lose supply until it is fixed but for many users the cost-savings outweigh this risk.
 - c. **‘Managed’** connections which can be curtailed by the distributor in agreed circumstances. Such connections already enable time-profiling (for example, if a given network area is dominated by solar generation, a managed connection could enable additional generators to access the network at times when that solar generation is not active), and enable users to connect quicker and at lower cost than a ‘firm’ or ‘standard’ non-firm connection.

Any review should seek to build upon these, not reinvent them

19. If Ofgem goes on to consider the introduction of connections that are managed in exchange for payments (‘financially managed’), for distribution connected generators, there are further points to consider:
- a. If a number of generators have financially managed connections, there should be a mechanism to incentivise the least efficient generators to be curtailed at any given time, to avoid unnecessary costs for consumers from both curtailment payments and inefficient generation. For example, a solar farm has a zero marginal cost of generating on a sunny day; whilst a diesel generator incurs costs associated with fuel and carbon intensity. At such times, the more efficient solar generation should not be curtailed in favour of the relatively expensive diesel generation.
 - b. The mechanism by which curtailment payments are funded needs careful consideration, particularly for distribution connected generation. For example, the cost of making curtailment payments could feasibly be shared between all users, only distribution connected generation users or only local users.
 - c. In a constrained area, a user seeking a managed connection where no compensation payments are made when their network usage is curtailed should be able to connect quicker and at lower cost than a user seeking a firm connection, ‘standard’ non-firm connection or managed connection where compensation payments are made when

¹ We think that Ofgem uses the terms ‘non-firm’ and ‘interruptible’ interchangeably, to refer to connections where the distributor deliberately constrains the user. However, the term ‘non-firm’ is wider because it includes connections where the user *will never be* deliberately constrained. We have used the prefix ‘standard’ to reflect the fact that many large users opt for this type of non-firm connection.

network usage is curtailed (i.e. some element of queue management should be introduced).

20. If Ofgem goes on to consider changes to time-profiled access rights, there are some additional design considerations it should take into account:
- a. Careful consideration would be required of the appropriate consequences for a user of using the network in time periods where the user's agreement with the network operator does not allow access. This could range from a cost-reflective penal charge to the network operator denying network access. At present, under managed connections, the user is typically physically constrained (i.e. a signal from the network operator forces the generator to reduce output or even trip-off), and since the arrangements are set out in a bilateral contract they can be clear as to what happens in various circumstances.
 - b. A user seeking off-peak access (i.e. a user who will not contribute to the primary driver of congestion on the local network, which could be driven by demand or generation at any time of day) should be able to connect quicker than a user seeking peak time access (i.e. some element of queue management should be introduced).
21. All of these factors need careful consideration alongside flexibility contracting, particularly for distribution connected generation. Whether changes are made to access rights or not, they must not interfere with the ability of a user to contract with a DSO for flexibility services. Hence, we would suggest that such time-profiled access is only considered in large blocks of time (e.g. seasonal or peak/off peak), with the 'fine tuning' achieved through flexibility contracting.

Question 3c): Duration and depth of access, discussed in paragraph 3.25-3.32 – would these options be feasible and beneficial?

22. We set out our reasoning on each of the two points the question covers below.
- We think limiting the duration of access could create system benefits; but these are likely to be marginal***
23. There could potentially be benefits when planning the network derived from the knowledge that a given user's access will end in a fixed period – under this circumstance an additional user may be able to connect without reinforcement being needed when an existing user's access expires, or a user may be able to temporarily connect without paying the cost of reinforcement because another already connected user is still ramping up their usage.
24. However, we would not anticipate such a scenario arising frequently, and so would consider this to be a relatively marginal benefit.
25. But if duration of access is considered, clarity will be needed on what happens at the end of the period for which access has been granted. Consideration will be needed of: the interaction of a user with 'expired' access with any connections queue at that location; and the arrangements for early

exit and the appropriate level of user commitment to avoid asset stranding (assuming no other users need the access right over the longer term).

We do not think terms on depth of access would carry any genuine system benefits

26. We agree with Ofgem that options for depth of access should not be explored. All users require access to the whole energy system, and any proposal to enable access to a restricted 'portion' of the network (e.g. only lower-voltage tiers) does not reflect the physical reality of the network which provides network voltage stability and whole system frequency stability in addition to the transportation of energy.
27. We appreciate why some users may see shallow access charging as a way of reducing network charges; however, this may act as in a similar manner to the distortions created by private wire solutions. Moreover:
 - a. If 'pairing' is limited to demand and generation sites that are occupied by related parties, it could distort other markets (since integrated companies would have a competitive advantage over two separate companies pursuing the same activity).
 - b. If 'contractual-pairing' is allowed, the scarce class of user (likely to be distribution connected generation) could capture all of the value by selling its pairing to the highest bidder. This would create extra subsidy towards distribution connected generation, but may not reduce system costs overall – since the pattern of network usage has not actually changed.

Question 3d): At transmission or distribution in particular, or are both equally important – as discussed in this chapter?

28. We are not clear enough on the meaning of the question to offer a specific answer. But in general we would advocate a whole system approach to any problem, where this would reduce costs, and so we consider both transmission and distribution to be important.

Key links between access and charging arrangements (Q4)

Question 4: Do you agree with the key links between access and charging we have identified in table 1? Why or why not? Do you think there are other key links we have not identified?

29. We can see the logic that, if access is being flexed, charging would naturally be focussed on capacity.
30. However, under the current arrangements for connection charging, the value from access flexibility may be realised by the connectee in full at the time of connection. Even if connectees were to accept managed (or financially managed) connection rights when there was no immediate benefit in the form of a lower upfront connection charge, we would need to be careful not to over-value the flexing of access arrangements and so derive non-cost-reflective capacity charges.

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31. Users must be incentivised to opt for appropriate access agreements – the consequences of not complying with an access agreement must exceed the benefit a user derives from choosing a lower cost access agreement.

Review of allocation of access rights (Q5)

Question 5: Do you agree with our proposal that targeted areas of allocation of access should be reviewed?

Question 5a): Improved queue management as the priority area for improving initial allocation of access, as outlined in paragraphs 3.41-3.44?

32. We agree that changes to queue management have the potential to bring benefits and enable prospective connectees in the queue who are ready to connect to do so more quickly, but we think that Ofgem has over-simplified current issues with connections queues for distribution connected generation.
33. Paragraph 2.16 of the consultation document makes reference to 20GW of accepted connection offers waiting to connect. Whilst Ofgem notes that some of these applications may be speculative, we do not consider that sufficient work has been carried out to understand the volume of speculative versus genuine applications.
34. The recent introduction of project progression milestones for accepted DNO connection offers should help provide clarity on whether the projects in question are invested projects with target connection dates or more speculative projects, potentially involving capacity hoarding in anticipation of future opportunities. This may help to enable an informed view as to whether those projects would connect if the arrangements were changed.

Question 5b): Not to consider the potential role of auctions for initial allocation of access as part of a review at this time, as discussed in paragraph 3.44?

35. We disagree with the de-scoping of targeted auctions and whether the 'connect and manage' policy should be equalised across distribution and transmission. However, we agree that universal auctions should not be considered.
36. By proposing that targeted auctions are not considered, Ofgem risks ruling out of scope the value which is potentially available through flexibility contracting, and overlooking the linkages this could have with other aspect of the review. Such contracts may rely on some form of auction to ensure efficient delivery (e.g. to ensure that the most inefficient generators are curtailed first in response to a generation driven constraint).

Question 5c): To review the areas outlined in paragraphs 3.45-3.48 to support re-allocation of access?

37. 'Use it or lose it' has the potential to deliver benefits provided the network operator has a legal basis on which to reclaim unused capacity for reallocation. However, any review should recognise that we already make extensive use of 'use it or lose it':
- a. In relation to new connections, ramping agreements can be used where prospective demand or generation is being phased over time. This can be achieved through the use of development milestones requiring, for example, an agreed proportion of the total generation capacity a developer has committed to connect to have been installed at certain points in the development process – if the development milestones are not met, the capacity is made available for use by other users.
 - b. In our day-to-day business, capacity that connectees are not currently using is re-used. In some cases we may approach the relevant party and request that they reduce their capacity through a change in their contract, or alternatively we may take the risk ourselves because we believe it is unlikely they will ever use that capacity.
38. Any review of 'use it or lose it' should therefore focus on incremental improvements on the existing system, such as considering how generation should fit within this system.
39. We do not think that rights to the sale of capacity, or even 'use it or sell it', should be introduced. Capacity rights should not be detached from the existing **location specific** ability to sell the land on which a particular connection (and its associated access rights) is situated, or the ability to sell a company which holds a new connection offer or has already contracted for a new connection.
40. Firstly, if any right to buy and sell capacity is introduced, it would be likely to encourage speculative purchase of capacity in areas where it was under-utilised (and cheap), thus creating additional congestion (and scarcity) that would drive up the value of capacity. A speculative market like this could significantly drive up the cost of access to prospective connectees who actually have 'shovel ready' projects.
41. Beyond this, there are technical challenges with regard to users trading capacity with one another on distribution networks:
- a. Trading over a wide geographic area relies on a flawed concept of equivalence of network capacity from one location to another. Any trades could only take place behind a specific constraint, and should be facilitated by the network company.
 - b. The fact that trading of capacity is available at transmission and detailed in the Connection and Use of System Code is not in itself an argument for allowing trading on the distribution networks – this assumption oversimplifies the differences between the meshed transmission system (where users are predominantly connected at the same voltage on a 'ring' structure) and the radial distribution systems (where users are connected at multiple

voltages on a radial structure). Capacity at one point on the transmission network may be broadly equivalent to capacity elsewhere on the transmission network – this is not true for the distribution networks.

- c. If trades were to take place smoothly, users would need complex connection agreements which defined the maximum level of their agreed use of the connection assets, and the level of their network access, to ensure that a user would only be able to buy access from other users up to the level of their own connection assets.
42. Enabling a DSO to contract with users for the provision of flexibility is likely to be a more beneficial means of facilitating the reallocation of access.

4. Responses to questions on Ofgem's proposal for the scope of the review of forward-looking charges

Review of forward-looking DUoS charging (Q6)

Question 6: Do you agree that a comprehensive review of forward-looking DUoS charging methodologies, as outlined in paragraphs 4.3-4.7, should be undertaken?

43. There is benefit in undertaking a comprehensive review of distribution charging, and we agree that this should include a comprehensive review of forward-looking distribution use of system charging.
44. However, we do not consider that the review which Ofgem proposes is in fact comprehensive. Such a review must take into account all three of the likely future mechanisms for sending cost signals – connection charges, ongoing usage charges and DSO flexibility contracting. The proposed review only covers the first two of these so will at best result in a sub-optimal outcome, which is likely to become quickly outdated.
45. Below we set out our views on forward-looking distribution use of system charging which covers:
- a. locational cost signals for users connected at high voltage (HV)² and low voltage (LV)³;
 - b. temporal cost signals for users connected at HV and LV;
 - c. locational and temporal cost signals for users connected at extra high voltage (EHV)⁴; and
 - d. principles of tariff design.

² High voltage users are those connected to the distribution network at greater than 1,000 volts and less than 22,000 volts.

³ Low voltage users are those connected to the distribution network at less than 1,000 volts.

⁴ Extra high voltage users are those connected to the distribution network at greater than 22,000 volts.

Locational cost signals for users connected at HV and LV

46. Ofgem has suggested that greater granularity of ongoing charges could present a substitute for the locational signal currently sent by connection charges. The outcome of such an arrangement would only be favourable if ongoing usage charges sent a signal which was as strong as that which they were replacing.
47. But we think this is unlikely to be desirable or achievable due to the many practical considerations that would reduce the strength of locational cost signals that could be sent via distribution charges.
- a. Highly locational charges could be socially regressive, particularly for smaller users, with the most significant impact being on the most vulnerable customers (we note Ofgem has already indicated that it will consider the extent to which domestic users should be exposed to such signals).
 - b. Highly locational charges also risk being unpredictable and volatile, and thus will not provide a useful investment signal for new connectees, as evidenced by issues with the current locational methodology for EHV connected users.
 - c. Locationally granular charging would require network modelling to derive tariffs for *ca.* 25,000 users if it were extended to all users connected at HV and above, *ca.* 200,000 users if it were extended to current transformer metered users and *ca.* 30 million users if it were extended to all users. At present such network modelling is only carried out to derive tariffs for *ca.* 2,500 users. Network modelling is time consuming, resource intensive and expensive. Before this is embarked upon, the benefits must be clear.
 - d. The types of zones to which Ofgem refers (i.e. broad zones, the example being 'demand dominated' and 'generation dominated') will not achieve the locational granularity required to achieve the benefits which Ofgem hopes; they certainly could not replace the strong cost signals that are currently sent by connection charges.
 - e. More granular zones will either be extremely challenging to define (e.g. zones by primary substation will result in large numbers of tariffs and difficulty assigning tariffs to users); or will be inaccurate (e.g. postcode zones would be simpler to apply but do not necessarily bear any resemblance to the electrical network).
48. If the scope of the review as proposed in the consultation is maintained, either the locational signals given by the current connection charging arrangements should be retained, or fully granular locational signals through ongoing usage charges provided alongside a shallow connection charging boundary. The latter is undesirable and disproportionately expensive to deliver; hence under the limited options in the consultation, we would support retaining the current approach to connection charges without granular ongoing locational charging signals for users connected at HV and LV.
49. However, cost-reflective use of system charging is not the only way to encourage efficient outcomes in support of a smart, flexible energy system. DSO flexibility contracts are a more targeted means of
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delivering a locational signal, and should be considered as a fundamental element of this review given the obvious potential for interaction between these different interventions.

Temporal signals for users connected at HV and LV

50. Under the existing arrangements, over 80% of users connected at HV and LV are subject to charges which include no temporal signal (i.e. the same unit rate applies to usage regardless of the time at which that usage takes place). There may be some benefit in providing temporal signals for more users connected at HV and LV, with careful consideration given to the length of time for which the time periods are fixed and the duration of the time periods themselves.
51. Charges will be most cost-reflective if time periods are relatively short (i.e. covering only times of genuine system stress) and varying frequently and at short notice to ensure that, for example, the time period in which usage attracts the 'peak' rate remains aligned with sound forecasts for the times at which system peaks will fall. However, we have seen evidence from our Customer-Led Network Revolution study that users struggle to understand and respond in efficient ways to overly complex network tariff structures⁵. We also observe that even today's relatively straightforward network pricing signals (i.e. the variation in tariffs depending on the time of day or week based on the red/amber/green identification) are not necessarily passed through to end users by energy suppliers (although we recognise they create an incentive for suppliers to try to influence the behaviour of their customers, which they may or may not be acting upon).

Locational and temporal cost signals for users connected at EHV

52. We are concerned about the proposal to align the locational methodology at EHV to the methodology used to derive forward-looking charges at transmission for a number of reasons.
- a. It is disappointing that this is the only harmonisation which is being considered at this stage. Boundaries between methodologies should be avoided wherever possible; hence we would welcome a review which considers the alignment of charging methodologies at all voltages.
 - b. It is not clear that applying the transmission forward-looking charging methodology to distribution EHV is feasible and whether it will give cost-reflective results – at present it is only used to derive charges for use of the meshed transmission network, which is very different in nature to the radial distribution networks.
 - c. Aligning distribution EHV to transmission would also be a backward step at distribution EHV, given the issues which have been identified with the method of deriving forward-looking charges at transmission by the Targeted Charging Review – namely that it leaves around 80% of transmission costs unallocated, implying that only 20% of long run

⁵ 'Key Learning Report : The role of industrial and commercial and distributed generation customers', available as reports CLNR-L247 from the project library: www.networkrevolution.co.uk/resources/project-library/

transmission costs can be influenced by user behaviour and relying disproportionately on residual charging for cost recovery.

Tariff design

53. The balance between capacity and unit charges needs careful consideration to avoid over-valuing access (with high capacity charges) and under-valuing usage (with low unit charges). If unit based cost signals are to have any impact, it is important that they are sufficiently strong, provided this does not go beyond the cost-reflective differential between usage at different times of day and/or year. That said, we think the current charging arrangements are skewed too far the other way, with high unit charges and low fixed charges. This is likely to be addressed, at least in part, by the Targeted Charging Review, if 'residual' charging were moved to be on more of a fixed charge basis.
54. Industry-led work has already progressed in this area, most notably with the work of the then distribution charging methodologies forum (review of the common⁶ and EHV distribution charging methodologies⁷), with the reports of that work having already been submitted to Ofgem. It would be unfortunate if the progress made by previous industry-led work were to go to waste.
55. If the review results in fundamentally different tariff structures (e.g. the reversal of generation credits to charges, or the introduction of generation capacity charges which we would support) transitional arrangements will need to be considered to avoid undermining legitimate expectations in users' business plans.

Review of the distribution connection charging boundary (Q7)

Question 7: Do you agree that the distribution connection charging boundary should be reviewed, but not the transmission connection boundary?

56. We have split our response between the distribution connection charging boundary and the transmission connection charging boundary. Our views in brief are as follows.
 - a. We think that all cost signals sent to users, both at the time of connection and on an ongoing basis, need to be considered together as part of the review, but note that the current distribution connection charging boundary is sending an effective locational signal and that Ofgem would need support for any changes from Parliament, because the right for DNOs to recover the cost of providing a connection is set out in primary legislation.
 - b. We disagree with the de-scoping of the transmission connection charging boundary from the review as we think there may be a case for a move closer to the distribution model.

⁶<http://www.energynetworks.org/assets/files/electricity/regulation/Distribution%20Charging%20Methodology%20Review%20-%20Stage%20Two%20-%20report%20and%20annexes.zip>

⁷<http://www.energynetworks.org/assets/files/electricity/regulation/DCMF/EDCMReviewGroupFinalReport%2031Dec2015.pdf>

This could send stronger locational signals, to help reduce the high residual in transmission charges.

57. Below we set out our reasoning on each of these issues in turn.

Distribution connection charging boundary

58. We do not believe that the proposed changes to the distribution connection charging boundary would improve economic efficiency. The time at which a connection is being made is the only time that the connectee will take the decision to locate at one site or another.
59. We think Ofgem can and should acknowledge the significant benefits which the current distribution connection charging boundary has provided in electricity distribution, by keeping overall costs low for network users. The strong locational signal created by the requirement for prospective connectees to fund a portion of the reinforcement their connection would drive has resulted in new connections in economically efficient locations, i.e. where the new connectee values connecting in that location more than the costs it imposes on the network by doing so. Conversely, prospective connectees who value connecting in that location less, when compared to the costs they impose on the network by doing so, connect elsewhere. Ofgem misinterprets this as a disadvantage of the current arrangements in paragraph 2.15 of the consultation, stating that *'developments have little option but to either not proceed or locate to an area that is less desirable for them but where there is spare network capacity'*. This is a consequence of cost-reflective charging and decisions that impose the least cost on society overall.
60. The consequences of a shallow connection charging boundary are starkly stated in paragraph 2.31 of the consultation, where the shallow connection charging boundary at transmission is stated to have resulted in *'higher bills than necessary as full network costs are not being reflected in generators' investment decisions'*.
61. The extension assets required to give a connection to the distribution network will reasonably frequently be relatively low cost (e.g. where a connectee is close to a substation). Hence, if Ofgem were to remove the charging signal associated with paying a share of reinforcement costs, there would be little to deter speculative developments for capacity hoarding purposes (for example by independent distribution network operators).
62. We also think there are a number of practical considerations associated with the proposal.
- a. The parties paying distribution connection charges are often not the eventual end user (e.g. construction contractors); moving to a shallow connection charging basis would remove any locational signal from the initial connectee as they will not be paying the ongoing usage charges or have any ongoing user commitment. This may incentivise such connectees to request larger connection capacities than the project requires (for contingency purposes), worsening the forecasts available to distributors.
 - b. Any change to the connection charging boundary for distribution and/or transmission connectees would require careful implementation – for example, if a shallower connection

charging boundary were implemented for distribution connectees, and this was coupled with consequentially higher usage charges, these higher usage charges should not necessarily apply to existing connectees who paid for reinforcement at the time of their connection. Any mechanism to exempt users who had funded reinforcement at the time of connection from higher ongoing usage charges would add to the complexity of the system.

63. Lastly, since the Electricity Act 1989 permits electricity distribution companies to charge for the costs of providing a connection, it is a matter for Parliament to determine whether such cost-reflective signals should be reduced in pursuit of wider policy objectives. Bringing forward proposals to change legislation is ultimately the role of government, and as such a political decision would be needed on whether or not ongoing usage charges for the generality of established consumers should subsidise lower connection costs for new connectees (including the associated risk that this policy would be socially regressive).
64. In the absence of such a decision, the optimal approach will be for Ofgem to recognise that the existing distribution connection charging boundary drives efficient outcomes in many circumstances, and build the rest of the system around this. It may also be appropriate to take the opportunity to review whether any existing parts of Ofgem's arrangements for distribution connections are contrary to that primary statute (e.g. electricity distribution Standard Licence Condition 13C).

Transmission connection charging boundary and locational signals

65. We recognise that it is possible that a different connection charging boundary may be appropriate at transmission, compared to distribution, because the costs associated with extension assets at transmission voltages may be sufficiently high to deter speculative developments or capacity hoarding.
66. However, the consultation recognises the significant balancing costs associated with the connect and manage policy at transmission hitherto. We would go further and highlight that the Western HVDC and Caithness Moray links, mentioned at paragraph 2.31, have not eliminated the costs of the connect and manage policy to date. They have simply shifted them into a different part of the cost base. We therefore think Ofgem should remain cognisant of the costs of connect and manage at transmission in its review. It will be best to deal with the problem now, when there is time to consider it properly, rather than leaving it until the balancing costs again become a pressing problem for consumers.

Review of forward-looking TNUoS (Q8 and Q9)

Question 8: Do you agree that the basis of forward-looking TNUoS charging should be reviewed in targeted areas?

67. We agree that the basis of forward-looking transmission charges should be reviewed, but we disagree with the relatively narrow scope identified. The scope should be widened to include a

review of all forward-looking transmission charging for distribution connected users. This is because it is increasingly important that cost-reflectivity is considered from a whole system perspective. Currently, there are different methodologies used to derive usage charges for the transmission and distribution systems, and different methodologies employed at different voltages within the distribution system. These create arbitrary boundaries across which tariffs vary significantly and in a way which does not reflect system costs. Such arbitrary variations act as distortions which could prevent the efficient development of the energy system and future market arrangements.

Question 8a): Do you agree that forward-looking TNUoS charges for small distributed generation (DG) should be reviewed, as outlined in paragraphs 4.19-4.23?

68. We do not agree with the proposed approach to this review.
69. Under the existing arrangements, distribution connected generation is exposed to a commercial incentive to generate at times of peak demand by being treated as negative demand in TRIAD periods. The consultation proposes removing this incentive and replacing it with a charging structure based on capacity. We consider this is only feasible if the existing mechanism is replaced with an alternative which provides an incentive on generators to operate at times which could reduce flows on higher voltage networks – potentially through signals sent via the DSO.
70. The Access and Forward-Looking Charges Task Forces did not identify the costs associated with distribution networks exporting onto the transmission network. The consultation assumes the costs imposed on the transmission system are material, but we have not seen any evidence to support this.

Question 8b): Do you consider that forward-looking TNUoS charges for demand should be reviewed, as outlined in paragraphs 4.24-4.27?

71. No, we consider a more fundamental review is needed.
72. We do not agree that the ‘*evidence of potential customer detriment is less clear*’ with the current transmission charging regime compared to the current distribution charging regime. The Targeted Charging Review has presented ample evidence of customer detriment as a result of the high level of residual charges in transmission charging, with residual charges representing the majority (*ca.* 80%) of transmission charges, which is forecast to rise even further. This would imply that only *ca.* 20% of long run transmission costs can be influenced by user behaviour. Whilst the Targeted Charging Review may reduce the level of customer detriment caused by high residual charges by allocating and recovering them more appropriately, this approach addresses the symptoms of the issue whilst not addressing its underlying root cause – namely that the forward-looking transmission charging methodology only recovers a small proportion of transmission costs, because many of the costs driven by individual transmission connected users are socialised, resulting in inefficient locational decisions (i.e. that are more costly to society than necessary).

Question 9: Do you agree that a broader review of forward-looking TNUoS charges, or the socialisation of Connect and Manage costs through BSUoS at this time, should not be prioritised for review?

- 73. We consider a wider review of forward-looking transmission charging is needed, as laid out in our response to question eight.
- 74. We consider that the socialisation of connect and manage costs should also be reviewed for transmission, in the broadest possible sense. We note that the fact transmission reinforcement is taking place to reduce system balancing costs will not eliminate the socialised cost of the transmission connect and manage policy; it will just move that socialised cost into a different part of the transmission cost base.
- 75. As we have highlighted in our response to question three, if constraint payments are to be made to distribution connected generators, consideration is needed as to who funds such payments. Assuming this is considered under a review, it would be appropriate to consider the same issue at transmission; failure to do so would risk creating a distortion across the transmission to distribution interface.

Cost-reflectivity of BSUoS charging (Q10)

Question 10: Do you agree that there would be value in further work in assessing options to make BSUoS more cost-reflective, and if so, that an ESO-led industry taskforce would be the best way to take this forward?

- 76. We agree that there is value in assessing options to make BSUoS more cost-reflective, but we do not agree that this should be outside of any SCR taken forward.
- 77. If an SCR is progressed, it should cover all areas to ensure that solutions in each area are coherent with one another. If left to an Electricity System Operator-led taskforce, there is a risk that any changes implemented to improve the cost-reflectivity of BSUoS are progressed in a way which diverges from the direction of travel of the SCR.
- 78. A holistic, regulator-led approach to tackling all these issues will also improve the legitimacy of the outcomes, since Parliament has given Ofgem its primary duty to promote the interests of energy consumers, whereas Parliament has given a different set of duties to industry participants.

5. Responses to questions on taking forward this review

Leadership of the review (Q11)

Question 11: What are your views on whether Ofgem or the industry should lead the review of different areas?

79. We believe that this work should be developed as a single, Ofgem-led work program, supported by the wider industry as it will be more than just the transmission and distribution networks that will have an important role to play. Our views in brief are as follows.
- a. All of the areas proposed for review are complex, will create winners and losers, and so will be contentious – they need a legitimate decision maker.
 - b. A single SCR will result in stakeholders being able to engage with one project rather than attempting to keep track of multiple projects and their linkages.
 - c. The areas proposed to fall outside the SCR under the ‘narrow’ and ‘moderate’ scope SCRs cannot logically be progressed faster than the remainder of the SCR.
 - d. A comprehensive SCR would stop the progression of code modifications which overlap with any areas of it (unless Ofgem directs otherwise), creating the space needed for industry and stakeholders to focus on this review.

The contentious nature of the proposed review

80. Reforming access and forward-looking charging arrangements is complex. It involves balancing the interests of prospective demand and generation consumers seeking to connect to the network today against the interests of those who will seek to connect in the future, the generality of consumers that are already connected to the network and the network operators. All areas of the proposed review will require difficult decisions to be made which will result in winners and losers. None of the areas can be considered ‘non-contentious’ in nature. We consider this to be particularly true of the two areas which Ofgem has suggested could potentially fall out of scope of the SCR, namely the definition and choice of access rights for larger users, and the reallocation of access rights:
- a. Changes to the definition and choice of access rights will inevitably involve redefining ‘access rights’. Larger users operating within the terms of their connection agreement will consider that they have enduring rights to use the network; any attempt to change such rights would be contentious, and would create winners and losers.
 - b. Changes to the reallocation of access rights (for example, the introduction of ‘use it or lose it’ arrangements) would have similar effects.
81. In order for such a review to make progress, Ofgem leadership will be required to ensure that there is a clear mandate for change (recognising that change may be unpopular with some network users).

Stakeholder engagement in the review

82. We recognise that we have established relationships with some of the biggest end users connected to our network (i.e. those connected at EHV), while Ofgem may not. But the primary commercial relationship that users connected to our networks have is with their energy supplier. As a result, we do not have ongoing commercial relationships with the vast majority of users connected to our networks whose arrangements would fall under a review of larger user access rights (i.e. those connected at HV and larger users connected at LV). We believe that Ofgem-led stakeholder engagement is more likely to yield meaningful levels of engagement with such users than industry-led engagement.

Sequencing issues with a 'narrow' or 'moderate' scope SCR

83. We do not consider the scope of the 'narrow' (option A) or 'moderate' (option B) SCRs to be workable, for the following reasons:
- a. Option B (a 'moderate' SCR) would result in an SCR considering the '*options to improve definition and choice of access rights*' for both larger and small users with industry considering the allocation of access rights as a so-called 'quick-win'. This is back to front – industry cannot be expected to consider how access rights should be allocated before those access rights are themselves defined.
 - b. Option A (a 'narrow' SCR) would result in an SCR considering the '*options to improve definition and choice of access rights*' for small users with industry considering the same for larger users. There is no clear workable distinction between 'large' and 'small' in this context (and we believe there can be no such clear distinction), and there is significant risk that the SCR and industry-led work diverge leading to a regulatory boundary between large and small users, across which there will be opportunities for inappropriate arbitrage.
 - c. The progression of the Targeted Charging Review and associated changes beyond the scope of the SCR (i.e. where changes to residual charging for battery storage have been deemed out of scope of the SCR) is now disorderly in nature, with industry attempting to 'second guess' Ofgem's rationale for wanting changes outside of the scope of the SCR to progress. Ofgem needs to learn the lessons from this approach, rather than seeking to replicate it for the even more complex issues that need to be progressed under this reform of access and forward-looking charging arrangements.
84. If Ofgem was to continue with its proposal to progress with option A or B, we consider it vital that the above issues are mitigated wherever possible; by Ofgem providing clear direction on reforms which it expects industry to progress. But this should be the last resort solution.

Code modifications which overlap with an SCR

85. Whilst an SCR is in progress, code modifications which overlap with any area of the SCR should not be progressed by the relevant code panel, unless directed by Ofgem that a given change should be allowed to progress. Under a comprehensive SCR, all areas of the work will be within scope and so

code modifications would not progress in parallel, creating space for industry and Ofgem to focus on the review itself.

86. We do not consider this to preclude the progress of 'quick-wins', as Ofgem has the ability to direct the code panels to allow a change to progress. Therefore, should the SCR conclude on a given area, code modifications could be brought forward with Ofgem's encouragement and permission; allowing progress on quick wins where possible.

Implementation of code changes (Q12)

Question 12: Do you agree with our proposal to launch an 'Option 1' SCR for areas of review that we lead on?

87. No, we consider that option 3 should be progressed. We favour a holistic, regulator-led approach to tackling these issues: an SCR with a comprehensive scope (option C), where Ofgem leads the process for implementing the code modifications (option 3).
88. Options 1 and 2 suffer from the defects detailed below. Whilst it may be possible to partially mitigate against some of these, the end result is likely to be less coherent or less efficient than option 3:
- a. There is the potential for duplication, with the work undertaken by the SCR in developing code modifications being done again by a working group under the relevant code governance framework. Whilst this can create a 'check point' for changes which the SCR proposes (as those changes would be reviewed by a new working group under code governance processes), the same validation could be provided more effectively by thorough consultation throughout the SCR process.
 - b. The objectives of the SCR and the relevant code objectives will not perfectly align, as the Distribution, Connection and Use of System Agreement and Connection and Use of System Code objectives themselves do not perfectly align. Hence there is a risk that changes meet the objectives of the SCR but do not meet the objectives of the relevant code, making it difficult for a working group to progress a change. Whilst Ofgem can take a wider view (i.e. its statutory duties) when deciding on whether or not a change can be implemented, a working group under code governance arrangements cannot, and so a working group may find itself facing barriers to the progression of a given change.
 - c. Divergence could occur between Ofgem's intent when directing a party to raise a modification, and the proposed solutions developed under code governance.
 - d. Modifications developed under code governance, particularly those which are contentious, take time to develop. This could put at risk Ofgem's targeted implementation dates.

The proposed licence condition (Q13 and Q14)

Question 13: Do you agree with the introduction of a licence condition on the basis described in paragraphs 5.11 and 5.12 and Appendix 5? Why or why not? Do you have any comments on the key elements set out in table 7 of Appendix 5a, or consider there are any other key elements which should be included?

89. No. We favour a holistic, regulator-led approach to tackling these issues: an SCR with a comprehensive scope (option C), which negates the need for the licence condition and aligns with the Authority's duty to act in the interest of consumers.
90. We have commented on the specifics of licence drafting in our response to question 14 for consideration should Ofgem decide to introduce such a licence condition. The majority of our concerns with table 7 are picked up by these comments, with the exception of section 3 (c) – required outputs. This states that the licensee would be required to report to the authority on its initial recommendations for areas to be considered in the proposed SCR. This interaction between ongoing industry work and the SCR is not clear elsewhere, with other areas of the consultation suggesting that the SCR and industry-led work would be coordinated; but not to the extent that industry-led work directly feeds into the SCR as is implied here. We would welcome clarification on what is intended here, as this point does not appear (we believe rightly) to be manifest in the proposed licence drafting.

Question 14: Do you have any comments on the draft wording of the outline licence condition included at Appendix 5b?

91. As stated above, we do not think that the licence condition is required. That said, we have included a number of substantive comments, and some suggested amendments to drafting for consideration should such a licence condition be introduced.
92. Substantive comments:
- a. The proposed condition places a requirement on licensees to '*meet the reasonable needs of customers*' (paragraph 1.5) without defining what those reasonable needs are.
 - b. The proposed condition places a requirement on licensees to implement changes which '*deliver benefits for consumers in the round, including considering costs, proportionality and practicality of implementation*' (paragraph 1.7) – this is not sufficiently clear on how consumer benefits should be quantified and over what timescale.
 - c. A requirement is placed on the licensee to '*promptly escalate and/or resolve any disputes*' (paragraph 1.8 (b) (ii)). The escalation process is not clear.
 - d. The implementation dates can be '*subsequently amended by the Authority*' (para 1.9 (a)). We would need clarity on the process for such an amendment to ensure that the amended implementation dates are feasible.

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- e. The implementation dates for the interim report (30/06/2019) and conclusion report (31/03/2020) under paragraph 1.9 (b) are unrealistic. Given a statutory consultation will be required before the licence change can take effect, there could be very little time left to achieve the interim report.
 - f. The proposed condition requires licensees to take '*all reasonable steps to collaborate and engage constructively with wider stakeholders*'. Clarity will be required on what constitutes reasonable steps – we do not have ongoing commercial relationships with the majority of users, and so engaging with them constructively in this timescale is likely to be unfeasible.
 - g. The Relevant Arrangements clauses risk constraining the areas which can be reviewed – paragraph 1.12 (a) either needs an additional 'other' point, or to state 'consider but not be limited to consideration of...'
 - h. Paragraph 1.16 gives the Authority the power to move back the date on which the condition ceases to be in force, but should also give the power to move back the date on which the interim and conclusions reports are required under paragraph 1.9.

93. Comments on drafting:

- a. A requirement is placed on the licensee to submit a change proposal (paragraph 1.5 (b) (ii) (a)). A change proposal can only be submitted by one licensee, so not all distribution licensees could feasibly comply.
 - b. A requirement is placed on the licensee to facilitate the submission of modification reports so that 'the panel is able to vote'. It is not clear to which panel this is intended to refer – some code panels do not vote on changes, rather the code panels issue changes to parties for voting.
 - c. A requirement is placed on the licensee to submit an 'interim report' and a 'conclusions report'. We do not believe Ofgem intends each distribution licensee to submit a separate report, so this should be clarified to either be a collaborative report or a report from each licensee.
 - d. The terms 'Relevant Arrangements', 'Interim Report', 'Report', 'Conclusions Report' and 'Implementation Date' are capitalised in paragraphs 1.4, 1.5 and 1.8 but are not defined terms.
 - e. Paragraph 1.9 (a) refers to paragraph 1.5 (b) (iii) which does not exist.
 - f. Paragraph 1.12 (a) (iv) refers to 'use it or lose it' conditions but not to 'use it or sell it' conditions which are considered in the consultation document itself (although we note we do not support options for the sale of access rights for the reasons we set out in response to question five).
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Timescales for the review (Q15)

Question 15: What are your views on our indicative timelines? Do you foresee any potential challenges to, or implications of, the proposed timelines and how could these be mitigated?

94. We consider the timescales proposed for the Ofgem-led SCR to be reasonable, but the timescales for industry-led work in the proposed licence conditions are unrealistic and risk repeating mistakes made in the formation of the Task Forces.

Ofgem-led SCR timescales

95. The timescales for the progression of an SCR seem reasonable, provided Ofgem can commit sufficient resource to the leadership of that SCR, and industry can provide sufficient resource to support it in an already congested policy area. We would note that the Targeted Charging Review was launched in August 2017 and Ofgem does not expect to consult until Autumn 2018, with further work to be carried out prior to directing industry to raise modifications, and so will have taken over 18 months from launch to code modifications being raised. The SCR on reforming access and forward-looking charging arrangements will be significantly more complex than the Targeted Charging Review, and so will require significant resource from Ofgem and industry if the two-year timeframe from SCR launch to code modifications being raised is to be met. Such industry resource is more likely to be forthcoming if a comprehensive SCR is progressed, enabling industry experts to focus on a single, coordinated review.
96. Ofgem needs to be mindful of the requirement on distributors to give 15 months' notice of a change to use of system charges. This notice period should not be undermined unless there is clear evidence that the benefits to consumers from doing so outweigh the dis-benefits of undermining the certainty which this notice period seeks to provide. Stakeholders (most noticeably energy suppliers but also large users with retail contracts which include pass through of use of system charges) have previously indicated that the additional notice periods provide for:
- improved forecasting and increased budget certainty, enabling users to better manage their costs;
 - a reduction in the use of system risk-premium in all-inclusive supplier contracts for periods for which charges are published;
 - providing users additional notice to 'shop around' for alternative agreements; and
 - facilitating energy suppliers providing users with a wider range of tariffs (e.g. non-pass-through contracts for industrial users).

Industry-led review timescales, as detailed in the proposed licence drafting

97. If Ofgem proceeds with what we consider to be an unnecessary licence condition, the timescales in its proposed licence modifications are unrealistic. Given a statutory consultation will be required

before the licence change can take effect, there could be very little time left to develop an 'interim report' by June 2019.

98. Ofgem needs to learn the lessons from the Access and Forward-Looking Charges Task Forces. Ofgem was repeatedly told (by network users and consumer representatives) during the progression of the Task Forces that the timescales were such that stakeholders were unable to constructively engage. This rushed approach risks resulting in sub-optimal outcomes, where a better approach would be to take the time required to develop the most appropriate solution.

Stakeholder engagement (Q16)

Question 16: What are your views on our proposals for coordinating and engaging stakeholders in this work?

99. Ofgem's proposals for stakeholder engagement via the Charging Futures infrastructure are reasonable, whilst we note that it will be important that information is presented to stakeholders in a clear and concise manner which enables them to determine the likely impact of proposed changes on their activities.
100. We welcome the proposal to ensure adequate industry input and stakeholder engagement to develop the options and the expectation to consult at key stages. The requirement to continue with one or more industry task forces as well as wider engagement with industry through the Charging Futures infrastructure is not unreasonable. That said, the scope of the work required and the timescales for delivery need to be more realistic than in the previous stage of this project. Unrealistic timescales run the risk of options for future charging arrangements not being worked up and understood as well as they could be, as well as not allowing stakeholders to constructively engage by not allowing sufficient space for consideration of options. This has the potential to introduce the risk of unintended consequences if such future arrangements were to be implemented.
101. We agree that it will be crucial to ensure that network users and wider stakeholders are able to understand and engage with the development and appraisal of policy options. This engagement is more likely to be forthcoming if stakeholders are able to consider and input into all of the proposed changes via a single route, which will only be achieved if all areas of the review are kept within a single SCR with associated Ofgem-led stakeholder engagement. Whilst network companies can use relationships established with larger customers to assist Ofgem with such engagement, we consider that end users, including those who are more passive, with whom network companies do not have established relationships are much more likely to engage with coordinated Ofgem-led rather than separate Ofgem- and industry-led communications.
102. The complexity of this subject must not be overlooked when engaging with stakeholders, and it is vital that material produced for stakeholder engagement is presented clearly and concisely, with

sufficient time then available for stakeholders to develop the necessary understanding of the issues raised.

103. During the period of an SCR and subsequent code modifications, stakeholders will also be extensively engaged with the RIIO-ED2, RIIO-T2 and RIIO-GD2 price control reviews; also requiring in depth understanding of complex concepts. Wherever possible, we would suggest an approach which ties these different strands of closely related work into packages of information which recognise the key links and interdependencies between them, thus enabling stakeholders to constructively engage on the overall development of multiple work streams without needing to undertake their own analysis of the interdependencies.
104. Continuing with the Charging Futures Forum and Charging Delivery Body would be a pragmatic way forward, whilst keeping the scope of the Charging Futures Forum under review in light of stakeholder feedback to ensure it remains fit for purpose.