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

**Octopus Energy submission, September 2018**

Founded in 2016, Octopus Energy is a challenger supplier backed by the £8bn Octopus Group. Our mission is to transform the customer experience of energy through long term good value pricing and exceptional customer service, while speeding the transition to a cleaner energy future. Now serving 350,000 households, we have achieved rapid growth while maintaining a 5 star Trustpilot rating and winning a string of industry awards, and are currently the only energy supplier recommended by Which?.

In March 2018, Octopus Energy launched the world’s first smart half-hourly time of use tariff, Agile Octopus, a technology which has the ability to harness price signals to drive consumer behaviour change. This opens up the possibility of shifting consumer energy demand to match supply peaks in order to optimise the grid, maximising the potential of renewable generation.

Octopus Energy is therefore confident in the potential for the UK to lead the world in smart, flexible energy. We believe that for this potential to be reached, a framework must be created in which value signals and incentives are clearly aligned throughout the entire network to stimulate investment in an ecosystem of renewable generation and dynamic demand management. This will require a wide-ranging review, taking a whole system approach.

**Question 1: Do you agree with the case for change as set out in chapter 2? Please give reasons for your response, and include evidence to support this where possible.**

Yes, Octopus Energy believes that network charging urgently needs reform so that it can:

* Pass on system value signals to connected parties;
* Incentivise investment in flexibility over network reinforcement where beneficial;
* Get ahead of any network capacity constraints that will arise from increased domestic load; and
* Provide consistent signals to parties at all voltage levels.

**Question 2: Do you agree with our proposal that access rights should be reviewed, with the aim to improve their definition and choice? Please provide reasons for your response and, where possible, evidence to support your views.**

Yes. In a capacity-constrained world, clearly defining connected parties’ access rights is crucial to the system.

**Question 3: Specifically, do you have views on whether options should be developed in the following areas as part of a review? Please give reasons for your response, and where possible, please provide evidence to support your views:**

**a) 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?**

Whilst we agree that defining access rights for all users is important to ensure stability and fair apportionment of the capacity available, there are clear practical problems with assigning core access with the option to upgrade:

* There is the potential for this to limit the uptake of clean technologies.
* It is unclear how transfer of capacity constraints would work during change of tenancy.
* What happens when the allocated capacity for a street (substation) runs out? What would be the process for the next connection that wants core or additional access? Would you dilute all others on that substation or go ahead and reinforce the network?
* How would the core capacity limit be policed? Would shut off switches be installed on all properties or would it be done using retrospective penalties? Both of these have implications in terms of implementation.

Octopus Energy would favour using use of system charges to help to ensure capacity limits are honoured. These would be more flexible, easier for suppliers to optimise on behalf of consumers, and much easier to transfer between property owners.

**b) 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?**

Yes. This seems sensible, but as per our answer to (a), careful thought is needed to make sure access capacity and use of system charge signals are aligned.

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

Duration is important to ensure unused capacity is made re-available, as is ensuring that there isn’t significant business risk involved in renewing capacity. In the property sector there are laws protecting leaseholders from being squeezed by free-holders at the point of lease renewal. Something similar may be required for capacity renewals.

Octopus Energy would welcome models in which depth of access (and depth of use) is reflected in charges. This would be contingent on significantly more granular monitoring at the lower voltage levels of the networks.

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

It is important to ensure transmission and distribution are aligned**.**

**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? Where possible, please provide evidence to support your views.**

We do not have any strong view on this.

**Question 5: Do you agree with our proposal that targeted areas of allocation of access should be reviewed? Please give any specific views on the areas below, together with reasons for your response. Where possible, please provide evidence to support your views:**

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

Improving queue management feels like it would only tinker with the deployment mechanism when the aim should be to change the whole system of allocation. However, having a simple, accessible method for initial access is important.

**b) 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?**

We do not have any strong views on this.

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

Ensuring consistency of access cost through time is important. It is the case that the first people connected don't get the best deal. It is also important to ensure reallocation of unused capacity.

**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? Please provide reasons for your response and, where possible, evidence to support your position.**

Yes. A review of DUoS charging is overdue. Any review must:

* Ensure time of use signal;
* Reflect locational system cost where possible;
* Be adaptable to changes in usage patterns over time (i.e. not hard coded);
* Reward reducing peak capacity usage.

**Question 7: Do you agree that the distribution connection charging boundary should be reviewed, but not the transmission connection boundary? Please provide reasons for your response and, where possible, evidence to support your position.**

This is not a key concern for Octopus Energy, but we broadly support the principle that the wider network users should shoulder the costs of any connections that aid it. This also provokes the question of how to balance things fairly between past and future connections.

**Question 8: Do you agree that the basis of forward-looking TNUoS charging should be reviewed in targeted areas? If you have views on whether we should review the following specific areas please also provide these:**

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

Octopus Energy believes that all TNUoS should be reviewed in line with DUoS.

**b) Do you consider that forward-looking TNUoS charges for demand should be reviewed, as outlined in paragraphs 4.24-4.27? Please provide reasons for your response and, where possible, evidence to support your position.**

As previously mentioned, all TNUoS should be reviewed in line with DUoS. There is perhaps potential to have DNOs pay TNUoS on behalf of their network users.

**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? Please provide reasons for your response and, where possible, evidence to support your position.**

Octopus Energy would like to see TNUoS, DUoS and BSUoS all considered as part of a holistic approach to charging and the value of connected parties to the system.

**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?**

Yes. We have no preferred method of how this would be implemented but it is crucial any changes made here are consistent and complimentary to the changes made to DUOS and TNUOS and reflect a whole system approach to charging.

**Question 11: What are your views on whether Ofgem or the industry should lead the review of different areas? Please specify which of SCR scope options A-C you favour, or describe your alternative proposal if applicable. Please give reasons for your view.**

A broader SCR scope will ensure consistency of timelines and approach, and maximise the opportunities for smaller or less sophisticated users of the networks. We agree however that some areas with less far-reaching consequences may be progressed by industry in parallel. We would be happy with Option B or Option C.

**Question 12: Do you agree with our proposal to launch an ‘Option 1’ SCR for areas of review that we lead on? Please give reasons for your view.**

Octopus Energy does not have an opinion on this at this stage.

**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? Please give reasons for your view.**

Octopus Energy has no comments on this.

**Question 14: Do you have any comments on the draft wording of the outline licence condition included at Appendix 5b? Please give reasons for your view.**

Octopus Energy has no comments on this.

**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?**

The indicative timelines are challenging. There is a balance to be struck: while there is a need to get reform right, it is also important that the process does not hold up innovation and investment.

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

It will be important for Ofgem to engage closely with energy retailers, as they are on the frontline of the domestic sector, which is the area of the industry facing the soonest and most fundamental changes.

*We would be happy to discuss the ideas presented above in more detail. To arrange a meeting, please contact Clementine Cowton on clementine.cowton@octopus.energy.*