

Access and Forward Looking Charges

Response to consultation, September 2018



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Dear Sir,

Please find United Utilities (UU) response to your consultation relating to the reform of access and forward looking charging arrangements for the electricity networks.

UU are a FTSE50 company and a large energy consumer, using around 800 GWh of electricity each year to provide essential water and wastewater services across the North West of England.

Since early 2014, we have been working to develop our capabilities to provide demand side response, and currently have contracted services providing frequency response, STOR and through the Capacity Market. We have, for some time, avoided TNUoS and red zone DUoS charges by reducing our demand through the daily peak period, typically with manual interventions to processes as well as through software modifications and timers. We are now delivering fully automated processes to respond to price and other signals to ensure that we can provide our customers with the most efficient service possible.

The threat of regulatory change is impacting our investment in this area and we are only making investments where the time horizon to achieving payback is short (18 months). A future system where flexibility is rewarded is certainly a prize worth chasing, and any guidance or guarantee on future value would be welcomed in helping to maintain investment in this area.

Water companies have significant opportunities to modulate their assets to bring forward, defer or displace demand – typically through pumping or processing more or less water, or by using existing back-up generators (or other behind the meter generation such as CHP) required for critical supply security. Much of this flexibility is inherent – i.e. headroom is required for storm flows and/or ensuring water supplies are robust, or CHP engines are required to provide heat to the sludge treatment process. Crucially, this flexibility also comes with zero carbon cost and can typically be provided at a lower cost than other technologies, such as storage.

Our detailed responses to the question set follows.

Yours sincerely

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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, broadly speaking the case for change as set out in Chapter 2 is clear and is required. Perhaps an area which has not been set out so well is the need for the change to support broader overarching policy objectives, such as the Clean Growth strategy and broader carbon targets.

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, there is a need to review access rights and we support the proposal in general.

However, it should be noted that not all unutilised capacity is not of use (e.g. the 'use it or lose it' proposal). For example, on wastewater networks, storm pumping stations lay unutilised much of the time until a storm requires the pumping station to operate. Dependent on the specific site, there may be requirements for sites to have capacity to pump up to 1 in 100 year flows – meaning that network capacity is upgraded and paid for through both connection and ongoing capacity charges so that it is available to use in the event of a large storm.

Similarly, for resilience purposes in water supply, access rights may be maintained but not utilised unless there are drought events, then reserve water supplies are brought online.

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?
- 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?
- c) Duration and depth of access, discussed in paragraph 3.25-3.32 - would these options be feasible and beneficial?
- d) At transmission or distribution in particular, or are both equally important – as discussed in this chapter?

- a) As a large user we are not affected by this proposal.
- b) Yes, the options as set out should be developed. Flexibility should be rewarded and the incentives for flexibility should ideally be significant enough to change behaviour. For DSR, it would appear that that value is in the region of c. £40k/MW, with reference to the TNUoS price and the TA Capacity Market auction for DSR turndown which cleared at £45k/MW.
- c) Duration of access is important for our asset base which is typically inflexible in its location. Investment in new assets is not ultimately governed by the electricity network – rather, our existing infrastructure, topography and network hydraulics are much more significant locational drivers. Thus, options for evergreen access should be allowed for users with critical infrastructure and significant sunk investment in that infrastructure (water companies, hospitals, railways etc.).
In terms of depth/local access, this is an interesting proposition and should be worked up in more detail. Provision of access only to local tiers of the network could be beneficial in driving local balancing and the role of the DSO if the saving is sufficient enough to warrant the change.
- d) Both are equally important. For users to engage with the networks, pricing should be a simple and clear to understand as possible, so any changes should be based on operating the network as a whole with the aim of simplifying charging for users, whilst incentivising and driving actions which are beneficial to the system as a whole.

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.

Yes, we agree with the links described in table 1.

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:

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- a) Improved queue management as the priority area for improving initial allocation of access, as outlined in paragraphs 3.41-3.44?
- 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?
- c) To review the areas outlined in paragraphs 3.45-3.48 to support re-allocation of access?

- a) Agreed
- b) Agreed
- c) With reference to the points laid out in the response to question 2 on 'use it or lose it' and the potential impact this could have on the ability of us to operate our network during drought or storm conditions, there needs to be some way of ring-fencing 'unutilised' capacity which is essentially reserved for rare events and needs to be available to operate during those times. It could be possible, with the right controls and incentives to utilise such ring-fenced capacity more regularly, as long as it is available for use for its primary purpose. It should be noted that specific users have paid directly for upgrades to the network and any reallocation of that access should be at the discretion of the user. There should also be financial compensation for any redistribution of network access which was paid for directly by a user.

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.

A review of forward looking DUoS should be undertaken in line with the overall review of network charging. In section 4.3, which wishes to move to more locational signals, it is worth noting that some system of grandfathering should be considered, as prior investments have been made without this information available.

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.

Agreed. It would be appropriate for connections to either the transmission network or the distribution network to be dealt with equally so that there is a level playing field between different types of business models, irrespective of where on the network they are located. Again, changes in this area should consider compensation/grandfathering for those who have invested in networks under the current arrangements. For these users to then face higher DUoS charges even in the event of significant upfront connection costs would appear to be unfair.

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?
- 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.

- a) Forward looking TNUoS charges should be considered in the round with other forward looking charges. Simplicity in terms of providing a clear signal which users can respond to should be the aim.
- b) There is value in the current system of triads which has significant enough value embedded within to generate a significant response from demand customers. There should be caution in diluting this signal so much that the value is lost. Some thought should be given to protecting or otherwise grandfathering existing investments where they have been made with triad avoidance as part of the business case. Change to the triad avoidance element will make investment in flexible technologies located behind the meter more challenging until the investment case is made clear/less risky. This element accounts for around 25% of annual net profit.

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.

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In principle, if these areas can help to provide a strong signal to demand customers to operate more flexibly for the good of the system as a whole, it would seem beneficial to include them in the review.
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?
Agreed that this seems to be the best way forward.
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.
Option B, moderate would appear to be a reasonable balance. This should allow some areas to move on at pace, whilst allowing other areas the scrutiny required and 'joining the dots' between the different elements.
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.
Any option needs to allow engagement from users. The work so far has allowed users to engage in what is a complex and difficult area and this should be continued as far as is possible.
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.
No opinion.
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.
No opinion.
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.
No opinion.
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 most significant challenge is ensuring that investment in flexibility does not stall during this process. Regulatory uncertainty is not helpful in developing a business case so the more that can be done in creating certainty for investors wishing to invest in technology which will support the transition to a lower carbon energy system, the better. Assuming the future energy system requires demand customers to be flexible with their demand, first movers in this area could be protected to some extent from future regulatory change. Without some commitment in this area, significant investment in DSR technology is likely to be limited.
Question 16: What are your views on our proposals for coordinating and engaging stakeholders in this work?
Coordination across workstreams and with users is paramount and the work done to date with Charging Futures Forum etc. should be continued and built on.