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

Dear Jon,

SmartestEnergy welcomes the opportunity to respond to Ofgem’s consultation on “Getting more out of our electricity networks by reforming access and forward-looking charging arrangements.”

SmartestEnergy is an aggregator of embedded generation in the wholesale market, an aggregator of demand and frequency services and a supplier in the electricity retail market, serving large corporate and group organisations.

Please note that our response is not confidential.

**Overview**

* + Clearly, the issue of capacity and access rights needs to be settled before anything else. Resolution of all other issues such as queue management, curtailment compensation and charging approach will follow on from this.
  + Compensation arrangements for curtailment should become the norm for all customers where there is an explicit capacity agreement. Firmness can only be defined by the right to compensation.
  + Charges should generally be shallow i.e. little up-front connection and loaded into UoS.
  + We are generally in favour of smart charging. However, time-profiled access could be counter-intuitive as it may reduce flexibility options offered to the System Operator.
  + It is extremely important to ensure that all change is signalled well in advance to ensure that existing plant is not unduly affected

We answer the questions below in the order in which they appear in the consultation document.

**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.

The broad changes (in the area of market and system developments) such as increase in EVs, DG and DER are clearly going to be characteristics of the future. We agree that as a first step the relationship between charges and firmness of capacity need to be laid out. We would be inclined to favour a world where all demand with an explicit connection agreement is firm (with compensation for curtailment) and shallow charging prevails.

The document correctly identifies that transmission arrangements tend to be firm whereas distribution are not. Clearly, consistency is required as the distinction between the two systems becomes more blurred, and firmness needs to be introduced as a concept in the distribution world, such that constraints markets or, at least compensation for constraining off, are introduced.

**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.

We agree that access rights should be reviewed from the point of view of definition but change in this area may not be the highest priority.

**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?

We are not uncomfortable with establishing the notion of a deemed capacity for domestic users. However, whilst the focus seems to be on the added load that electric vehicles can bring, it is important not to discriminate. All domestic customers currently have an implicit right to operate an oven and three bar fire simultaneously (without blowing any fuses) and there are social reasons for such customers not to be charged extra for such capacity. Electric vehicle charging would use similar levels of load (7kW over 5 hours), so they should not be targeted on the basis that they would use more capacity. It is therefore inappropriate to assume a basic domestic capacity as low as 4kW. However, capacity charging should be a combination of peak usage and total usage so overall an electric vehicle owner should pay more in total capacity charges.

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?

With appropriate compensation arrangements above a certain capacity threshold in place for all customers a firm/non-firm distinction is less critical. We also think that time-profiled access risks taking away flexibility from the network. In other words, a time of export tariff may incentivise flexible assets, for example storage, to export at certain times instead of responding to calls for flexibility e.g. FFR.

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

Duration of access may not be worthy of further exploration. Short term access would be prohibitively expensive and the vast majority of developers are going to want access for at least fifteen years. It might as well be enduring.

We think it is important to explore depth of access as part of this work. Customers who are close to local generation should not be charged for the costs of the whole system. We appreciate that this will be complex, but Elexon’s current proposals to enable peer-to-peer trading through Additional BM Units simply will not deliver the reductions in bills that customers are expecting i.e. lower distribution charges for local usage.

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

Proposals in this consultation are largely focused on the distribution level. However, we advocate consistency across transmission and distribution networks.

**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 think that it is very important that there is a cost-reflective assessment DNOs can undertake to assess the cost of curtailment versus the cost of reinforcing the network. DNOs therefore need to seek out and keep all relevant information (especially that related to curtailment actions) to enable this assessment to be carried out.

**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?

Whilst this issue warrants consideration as part of the wider narrative surrounding these issues, it may be more appropriate for the SO and DNOs to conduct any detailed work in this area. However, the more salient point is that there is little value in improving queue management until access rights are finalised for the new environment in which new generation and demand connections will operate.

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 agree that auctions for initial allocation of access would introduce greater levels of uncertainty for project developers and may also encourage undesirable gaming behaviour.

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

We support proposals for the re-allocation of access rights for distributed generation. This is a key component of achieving an actively-managed, smart flexible system. Hopwever, provisions for ‘use it or lose it’ or ‘use it or sell it’ may not be required if an ability to trade in access rights is correctly implemented. That is to say, a solar farm may require more capacity in summer than in winter, so provided that they are financially incentivised to reduce excess capacity, seasonality should drive efficiency (and a reduction in bills) rather than a regulatory obligation.

**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. Consistent load flow modelling may be difficult to achieve in the near term, but the longer this issue is put off, the more distributed generation there will be required to identify and map (and the more difficult it will be) when it is decided that the ‘zonal’ arrangements are no longer cost-reflective enough. There would also need to be an agreed approach to establishing whether areas are ‘generation or demand dominated’ in order to ensure customers are paying for the true costs of their distribution network.

**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.

We certainly agree that there should be a more consistent approach across the networks and support a move towards more shallow charging on the distribution networks. Whilst there is some merit in equivalence, we can see that costs created by significant connections on the transmission network are never going to be shared with local users. We are of the view, therefore, that there should be a threshold above which transmission connection is not shallow. Below this threshold on the transmission network and on the distribution network, charging should be as shallow as possible.

**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?

We can see that there is an issue where GSPs which export are affecting the Transmission network and appropriate charging is necessary in this instance. The most economic way of doing this is to create an internal charge for National Grid to impose on the DNOs. The DNOs would then be incentivised to make the correct economic decisions.

Aside from the issue of exporting GSPs which we have identified, we cannot see that there is any justification within the document for simply “aligning small DGs’ charging with that of larger generators.”

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.

We are generally inclined to agree with the document when it says: “The current approach to charging [non-Half Hourly] demand customers based on their usage during triad periods may be introducing uncertainty, as the timing of triad periods is becoming increasingly difficult to predict.” We are of the opinion that charging needs to move to some kind of two-part charge i.e. taking into account peak usage and total usage.

On the grounds of practicality, we do not think that it is possible to target behind the meter generation. A simpler solution would be to extend the number of periods over which the Triad capacity is calculated so that it is less likely that on-site generation would be used to hide true demand capacity. Indeed, one solution could be to have a Triad arrangement for each quarter of the year, which would mean that peaking capacity would not be able to reduce demand capacity with a small amount of running.

**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.

We think these should be covered in the TCR.

**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?

It would be inappropriate to review the BSUoS embedded benefit whilst not simultaneously considering how BSUoS may be split into residual and forward looking, so that at least some of the embedded benefit may be retained where generation is bringing benefit to the system.

A proper review of BSUoS would also need to consider zonality and we believe that this should be left to a later date because there is too much change being contemplated in the industry at the moment. Indeed, planned modifications proposing to change BSUoS to a fixed charge would also add complexity to any review.

**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.

We prefer an Ofgem-led SCR but we are not completely uncomfortable with the concept of Ofgem directing licensees to raise modifications. However, please see our answer to Q13.

We would support a moderate approach as it is important to include a review of the definition of access rights for larger users but a review of allocation of access rights more generally should sit with the Open Networks project.

**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.

We prefer Option 3: Ofgem leads an end-to-end process to develop code modification(s).

**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. We do not believe that ESO and DNOs are best placed to undertake a review and bring forward modification proposals that they consider have merit in the areas identified, as we do not believe that Ofgem would be presented with a full range of options for decision at the end of the process. Such proposals would be best placed coming from industry or, failing that, co-ordination under an Ofgem-led initiative.

**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 comment

**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?

These timelines seem rushed. It important to allow a couple of years’ notice of any changes to the charging arrangements, but the amount of time allowed in the proposed timelines for consideration of those changes is not sufficient because of the comprehensive nature of the changes and the need to consider impacts and unintended consequences.

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

We feel that the proposals are not comprehensive enough. More stakeholder consultation is required.

Should you require further clarification on this matter, please do not hesitate to contact me.

Yours sincerely,

Colin Prestwich

Head of Regulatory Affairs