

Date: 21 May 2019

Dear Stakeholder,

Update on timing and next steps on Future Charging and Access reforms

We have a wide programme of work to ensure that consumers benefit from the energy system transition and that our regulation and the market arrangements we oversee reflect and enable these changes. The purpose of this letter is to update stakeholders on the timelines and key next steps for reforms to electricity network and balancing charging, which include:

- Electricity Network Access and Forward-looking Charging reform (“**Access reform**”)
 - Ofgem is leading a Significant Code Review (SCR) to develop improved access and forward-looking charging arrangements
 - In parallel, industry is undertaking a review of aspects of allocation of access rights, including improved queue management and the scope for trading;
- Targeted Charging Review (the “**TCR**”)
 - Ofgem is leading an SCR to develop new residual charging arrangements and reform the arrangements which give rise to “embedded benefits”¹
 - in parallel, industry is bringing forward changes to ensure storage pays proportionate charges;
- Balancing Services Charges Task Force (the “**Balancing Services Taskforce**”)
 - Industry is leading a review of balancing services charges in parallel with the Access reform and the TCR.

The **Future Charging and Access (FCA)** reforms are being undertaken as a holistic review of transmission, distribution and balancing charging, with the three elements running in parallel and all engaging stakeholders through the Charging Futures Forum (**CFF**) - the forum and website established to facilitate improved stakeholder engagement on electricity network charging related reforms.

Summary of key changes

The three key changes we are announcing today are -

1. **TCR** - we consulted on reform of the embedded benefits arrangements coming into effect in April 2020 or April 2021. We are now ruling out making these changes in April 2020 and our current preferred implementation date for embedded benefits reforms is **April 2021**.
2. **TCR** - we indicated that our preferred implementation date for new residual charging arrangements was either April 2021 or phasing between 2021 and 2023. We now consider implementation in **April 2023** as another leading option, alongside the other two preferred options.

¹ Embedded benefits is the term used to describe the different transmission and balancing charges for smaller embedded generators (connected to the distribution network) compared to larger generators. Our reforms recommended changes to Balancing Services charges and the Transmission Generation Residual.

3. **Access reform** - we indicated that changes to transmission charges would come into effect in April 2022, and changes to distribution arrangements in April 2023. We are now proposing to implement all Access reforms in **April 2023**.

More information about each of these changes is provided below.

Background

Our energy system is undergoing a radical transformation. We are generating and using electricity in different ways, in different locations and at different times. To facilitate the energy transition we are undertaking a package of reforms to create a smarter, more flexible energy system². Our future charging and access reforms, and our wider work to promote a flexible energy system, will ensure that where market participants can take action to reduce system costs, they will share in those benefits. Our work on RIIO will ensure that the benefits of smarter networks are realised by consumers. We want to do this while ensuring that all users pay a fair share towards the costs of the existing networks and systems, while reducing harmful distortions to the forward-looking, cost-reflective charges.

Four of the aims of this work are:

- ensuring the existing networks are used efficiently and flexibly;
- minimising the cost of any necessary expansion of network capacity;
- reducing harmful distortions to forward looking charges; and
- recovering costs that don't vary with users' behaviour in a fair manner.

The contribution of the **Future Charging and Access** and other reforms to these aims is illustrated below.

Figure 1 – Aims of Future Charging & Access and other reforms

Aim	Future Charging & Access reforms			ESO/DSO reforms ³	RIIO price controls ⁴
	Access reform	TCR	Balancing Services Taskforce		
Ensure networks are used efficiently and flexibly	★	★	To be confirmed	★	★
Minimise cost of expansion of network capacity	★			★	★
Reduce distortions to forward-looking charges	★	★			
Recover residual charges fairly		★			

Access reform – update and next steps

In our Access reform SCR launch letter, we stated that we would target implementation of modifications related to changes to transmission network charges for April 2022, with all remaining changes coming into effect in April 2023.⁵ We have reviewed the plans for Access reform in the light of

² See our joint plan with Government – <https://www.ofgem.gov.uk/publications-and-updates/upgrading-our-energy-system-smart-systems-and-flexibility-plan>

³ Electricity System Operator (ESO) and Distribution System Operator (DSO) reforms include i) clarifying boundaries and mitigating conflicts, ii) enabling competitive markets, iii) tendering network reinforcement as neutral facilitators and iv) embedding whole systems coordination

⁴ RIIO is our approach to ensuring the monopoly companies who run our gas and electricity networks have enough revenue to run an efficient network that delivers what customers need. RIIO stands for Revenues = Incentives + Innovation + Outputs.

⁵ <https://www.ofgem.gov.uk/publications-and-updates/electricity-network-access-and-forward-looking-charging-review-significant-code-review-launch-and-wider-decision>

our overall programme of work to facilitate the energy transition and we now intend to target implementation of all changes, across transmission and distribution, and across access and forward-looking charges, on 1 April 2023. This is the start of the RIIO-ED2 price control period.

We intend to publish two working papers this year. We plan to publish the first working paper this summer and the second paper later this year. The first working paper will focus on potential changes to access rights, distribution network charges and transmission demand network charges. The second working paper will focus on other specific changes to transmission network charges, distribution connection charges and access and charging arrangements for small users.

We intend to consult on our draft Access SCR conclusions in mid-2020, with a decision on final SCR conclusions (including a final impact assessment) in early 2021.

TCR – update and next steps

Residual charges

We consulted on a range of implementation dates for the residual charge reform element of the TCR.⁶ These included implementation in 2020, implementation in 2021, a phased implementation between 2021-23 and implementation in 2023. We will now only be considering implementation in 2021, a phased implementation between 2021-23 and implementation in 2023, when we take our final decision on the TCR.

Other embedded benefits

We consulted on implementing the other embedded benefits element of the reform package in 2020 or 2021. We have taken the decision to remove the option of implementing the other embedded benefits element of reform in April 2020, to allow time to consult on further analysis (see below). Our current preferred option is to implement either partial or full reform in April 2021, subject to consulting on this further analysis.

We have decided to undertake some further analysis given the interactions between our reforms and the Capacity Market. When preparing our November consultation, there was limited time to consider the implications of the Capacity Market suspension and our modelling did not include the suspension in any of the scenarios. Where appropriate, we would always want to test our analysis against a wide range of scenarios and, while in practice we expect the Capacity Market to be reinstated, we consider it is sensible to test our modelling against the unexpected scenario of it not being in place to give greater confidence that we are making a robust decision. We intend to consult on the result of our modelling on this scenario.

We intend to publish a technical consultation on additional analysis in relation to the Capacity Market suspension to support the TCR in the next month. Following this consultation, we then intend to publish final SCR conclusions and direction (including a final impact assessment) this summer. Our final impact assessment will take account of the feedback and analysis provided by respondents to the consultation. This will include further analysis on the implications for deployment of renewables and will ensure consistency in the calculation of the costs of carbon emissions.

Balancing Services Taskforce

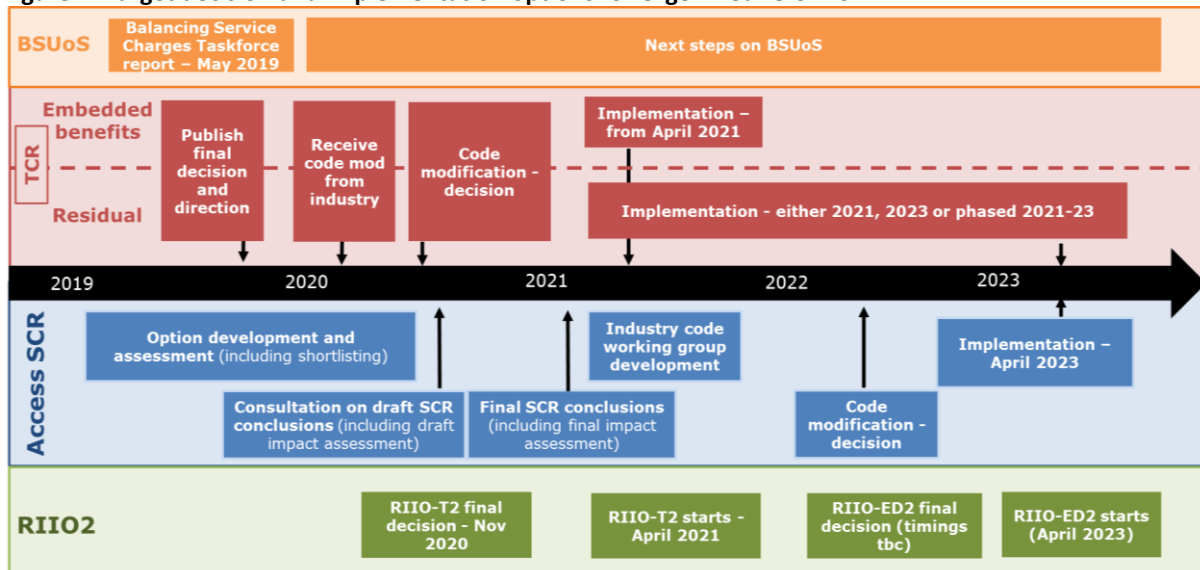
Alongside the reforms we are leading, we asked the Electricity System Operator (ESO) to launch a Balancing Services Taskforce under the Charging Futures arrangements to provide analysis to support decisions on the future direction of Balancing Services Use of System charges (BSUoS).

⁶ <https://www.ofgem.gov.uk/publications-and-updates/targeted-charging-review-minded-decision-and-draft-impact-assessment>

This Taskforce has published its draft report.⁷ The final report will be submitted to Ofgem, and published, on 31 May. We have committed to taking into account the findings of this Taskforce when we take our final decision on the TCR.

Figure 2 below shows the key milestones of the FCA reforms and RIIO-2.

Figure 2: Target decision and implementation options for Ofgem-led reforms



Charging Futures Forum

The Charging Futures Forum (CFF) is the primary place for users of the electricity network to learn, contribute and shape the future of charging arrangements. It is a regular forum designed to provide updates to all industry participants, and allow contribution from all attendees.

We are committed to undertaking our work on **Future Charging and Access** reforms in a transparent and open manner. The CFF has a central role in keeping stakeholders up-to-date on changes to access and charging arrangements. It also gives them the opportunity to influence the work undertaken. We see this as a key forum for ongoing engagement on policy option development and appraisals outside of formal consultation processes.

The next CFF will be held around the end of June and will discuss the final report from the Balancing Services Taskforce, and update stakeholders on the ongoing work on charging and access arrangements. The September CFF will provide an opportunity to discuss and provide feedback on the first Access reform SCR working paper that we intend to publish in summer 2019.

In addition to the CFF, we also host regular webinars to keep wider stakeholders up-to-date on ongoing access and network charging reform. Please contact chargingfutures@nationalgrideso.com to sign up to the CFF distribution list and receive regular updates on future CFF events and webinars.

If you have any views on this letter, please contact us: FutureChargingandAccess@ofgem.gov.uk.

Yours faithfully

Andy Burgess
Deputy Director, Electricity Charging and Access

⁷ <http://www.chargingfutures.com/charging-reforms/task-forces/balancing-services-charges-task-force/resources/>