

Engagement with industry stakeholders

Summary

We have been engaging extensively with industry stakeholders to help us develop and assess our options and ensure we understand the potential impact from different stakeholders' perspectives. This note provides an overview of the stakeholder engagement we have undertaken. This includes specific information about interviews that we conducted with suppliers about their likely response to, and the technical feasibility of, different options.

1.1. This note is set out as follows:

- Section 1: Our stakeholder engagement
- Section 2: Interviews with suppliers on likely response to and technical feasibility of different options

Section 1: Our stakeholder engagement

1.1. We are committed to undertaking this SCR in an open and transparent manner. We need input from a range of stakeholders to develop and assess options for change. To help support the development of the SCR, we have launched a Delivery Group and a Challenge Group.

1.2. The purpose of the **Delivery Group** is to provide knowledge and experience of how the networks are planned and operated, to help develop and assess options. It comprises of network companies, the Electricity System Operator and relevant code administrators (Elexon and ElectraLink). Several Delivery Group sub-groups have been launched to deliver outputs on specific topics (eg access rights, distribution connection charges, small users and network charging models). These sub-groups report to the Delivery Group and have published initial reports on key topics.¹

1.3. The **Challenge Group** provides ongoing wider stakeholder input into the SCR from a range of network user perspectives – this includes representation from large users, generators and suppliers. The group provides a challenge function and ensures that policy development takes into account a wide range of views and is suitably ambitious. We meet with the Challenge Group on a regular basis and in-between meetings we have sought feedback on specific issues via other means (eg surveys and interviews). Feedback from the Challenge Group has been taken into account as part of the Delivery Group's outputs and our internal work.

¹ <http://www.chargingfutures.com/charging-reforms/access-forward-looking-charges/resources/>

1.4. We continue to **engage with wider stakeholders** outside of the Challenge and Delivery Groups. Charging Futures is our main vehicle for engagement on network charging. We would encourage all parties that are interested in learning about, and contributing to, the future of network charging arrangements to sign up to the Charging Futures distribution list.²

1.5. Charging Futures has a quarterly Charging Futures Forum on the future of network charging arrangements. We presented updates on the Access SCR at the January and July 2019 Charging Future Forums. At the September 2019 Charging Futures Forum we will host a workshop on the issues that we discuss in this working paper. In addition to the Charging Futures Forum, we also have hosted several webinars to keep wider stakeholders up-to-date on our work. We intend to host another webinar following publication of this working paper. To attend the Charging Futures Forum or join one of our webinars – please sign up to the Charging Futures distribution list.

1.6. If you have any initial comments or questions on this working paper or how to get involved, then please contact us directly at futurechargingandaccess@ofgem.gov.uk.

Request for information to network businesses

1.7. In December 2018, we issued an information request to network companies to gather a range of qualitative and quantitative evidence relating to existing available network information, model(s) and approaches to network planning. Responses were received from all network companies, with additional information provided in March 2019 in response to clarification questions raised by us.

1.8. The responses received were shared with Delivery Group members (with the exception of any confidential information) to support the development of the SCR reports and publications developed by the working groups to date.³ Subsequent additional data requests have been made by these groups to provide additional evidence to inform this work.

Subgroups formed under the Delivery Group

Advice on network cost drivers

1.9. In May, we published a Delivery Group report⁴ on the drivers of network companies' costs, which undertakes foundational analysis of a number of issues, including whether costs are only driven by peak usage, ways to segment users and impact of losses and reactive power.

1.10. We provided the report to the Challenge Group to review and received feedback from five members, which resulted in the changes to the report to clarify its content.

1.11. The cost drivers report provided a high level view on costs and the subgroup is currently undertaking a more detailed assessment of how costs are influenced by the

² <http://www.chargingfutures.com/sign-up/sign-up-and-future-events/>

³ <http://www.chargingfutures.com/charging-reforms/access-forward-looking-charges/resources/>

⁴ http://www.chargingfutures.com/media/1344/scr-cost-driver-consolidated-report_v21.pdf

location. This is discussed in more detail in the subsection below on the advice on locational pricing and cost model options, but includes:

- Whether there are differences in the season and time of day that local assets peak
- If there is evidence of drivers of costs that would enable a DNO region to be split into smaller segments that reflect location conditions.

Advice on access right options

1.12. Two Delivery Group reports were published in May; SCR Access Report 1⁵, and SCR Access Report 2.⁶ The objective of SCR Access Report 1 was to provide a report on current arrangements of GB network operators to design the system and manage constraints. The objective of Access Report 2 was to outline the range of potential options which may form part of a user's access choice in the future. Specifically Access report 2:

- Outlines the range of possible access choices and the key design choices for each applicable to all network users (generation and demand) at every level of the system.
- Considers cross-cutting issues for new access choices (eg the extent to which access choices are standardised, how cross-system access is defined and how access rights are monitored and enforced).

1.13. To inform our assessment of the options, the access sub-group of the Delivery Group is now working on further deliverables. In particular we want to better understand:

- the feasibility of the ESO/DNOs offering the new access choices identified,
- the benefits to network companies and system operators of improved definition or choice of access rights,
- the value to network users of improved definition or choice of access rights,
- whether alternative access choices would restrict the ability of users to participate in wider markets (eg the Capacity Market, balancing services and new flexibility markets), and
- whether changes are required to the monitoring and enforcement of access rights to accommodate new access choices.

Advice on locational pricing and cost model options

1.14. In May, we published a Delivery Group report on the locational granularity of forward-looking charges. The report considered current forward looking charging regimes applied across the distribution and transmission networks and completed an initial feasibility assessment of potential options for locational charging.

1.15. A draft of this report was provided to the Challenge Group for consultation but no responses were received. The locational granularity report provided an overview of current charging regime issues and potential options, such as regional or archetypical network models, to use as a basis for more locationally granular charging.

⁵ <http://www.chargingfutures.com/media/1338/scr-access-report-1-v20.pdf>

⁶ <http://www.chargingfutures.com/media/1343/scr-access-report-2-v12.pdf> and <http://www.chargingfutures.com/media/1340/scr-access-report-2-annex-2-detailed-initial-option-assessments.pdf>

1.16. Further work is being completed as part of the upcoming Delivery Group report on cost models and forward-looking cost drivers to obtain evidence on the reasoning for locational charging and a detailed feasibility assessment on potential options for locational granularity.

Other stakeholder engagement

Advice on network charging options

1.17. For the development of the charge design options, set out the options ourselves in a Charge Design Options Note (based on an initial review of international experience and relevant literature, summarised in an annex to that note), and sought feedback from both the Delivery Group and Challenge Group.

1.18. We circulated a short questionnaire with a set of questions relating to the contents of the notes to all Challenge Group and Delivery Group members. We received a good level of participation in the questionnaire. We incorporated comments in a Revised Charge Design Note.⁷

Survey of network owners on technical feasibility of charging design and access options

1.19. In April, we issued a survey to the six DNOs and NG ESO seeking their views on the feasibility of the different options, including estimates of costs and implementation timeframes. The responses to these surveys will assist us to assess our basic charging design options and some variants (eg use of curtailment). The access working group have been considering how feasible it is to offer new access options using several different feasibility criteria.

Section 2: Interviews with suppliers on likely response to and technical feasibility of different options

1.2. In June 2019, we carried out interviews with eleven suppliers who are members of our Challenge Group and volunteered to participate. We asked them four categories of questions, in order to understand how they might reflect our charging options in their tariff offerings and the changes they would need to make to their systems. Note that the questions relate to specific elements of our charging design options that we think would require the most significant changes to implement and do not indicate a preference for these charging options. We discuss the findings in more detail below, but the key themes can be summarised as:

- All agreed that technology and automation solutions are needed to maximise response, but there were significant differences in views on timeframes and customer take up.
- There were substantial differences in how suppliers responded for small users (several suppliers noted small and medium non-domestic (SME) also fall into this group behaviour wise) and how they responded in relation to their industrial and commercial (I&C) customers.

⁷ http://www.chargingfutures.com/media/1329/charging-design-initial-options-listing-final-version-publishable_002.pdf

- The majority of suppliers have seen no (or very limited) interest in complex tariffs in the domestic group and would continue to socialise costs for a large part of the market. However, this was not the case for all suppliers.
- Under an agreed capacity charging approach, several suppliers noted challenges with agreeing initial capacities for all customers and monitoring changes in their usage over time.
- There was no support for curtailment of small users, although several suppliers noted they have the ability to manage loads remotely (eg through smart chargers).

Current arrangements

Larger users

1.3. For large users, a number of suppliers offer both insurance-style⁸ and cost pass-through⁹ offers with several suppliers indicating that users can choose which network charging elements to have passed through in their tariff. However, several other suppliers suggested that all their customers on pass through offers want both TNUoS and DUoS charges passed through.

1.4. With regards to the factors that make customers engage with their energy charges, suppliers noted that it was generally companies with dedicated energy managers who were more likely to choose pass through offerings.

Small users

1.5. For domestic users and SME, the current dominant offer is an insurance style offer, although some suppliers offer simple time-of-use offers, particularly for customers with electric vehicles (EVs) and smart chargers. All agreed that technology and automation/direct load control solutions are needed in order for some customers to benefit from more cost reflective charges, but there were significant differences in views on timeframes and customer take up.

1.6. Most suppliers have seen no (or very little) interest in complex tariffs in the domestic group and would continue to socialise costs for a large part of the market. However, some suppliers have been able to provide benefits to customers through simple tariff offerings, which are supported by technology-based solutions.

1.7. Some suppliers said fixed network charges were reflected in retail fixed rates, whereas others said the price cap limited their ability to reflect fixed costs in fixed rates.

⁸ "Insurance-style" refers to offerings where the supplier faces the cost reflective network and wholesale market prices and offers simple retail tariffs (eg a single fixed unit rate) that have a risk premium built in.

⁹ "Cost pass through" refers to offerings where suppliers pass cost reflective network and wholesale market prices directly on to the customer. These offerings may pass through all cost elements or just some of them.

Static and dynamic charges

Larger users

1.8. Most suppliers considered that it should not be too difficult to incorporate seasonality being introduced into their cost pass through offers for large users connected at high and low voltages.¹⁰

Small users

1.9. Several suppliers expressed concerns with the seasonal bill impact on small users if winter peak rates were introduced, as they may be unable to reduce their consumption (eg because they need to heat their house). Several suppliers did note that there are ways for them to design their tariffs to mitigate this impact, including the use of smart technologies. One supplier noted that 'faster switching' means that this could introduce gaming, where a customer chooses a low seasonal tariff during summer and then switches to an averaged year-round tariff during winter.

1.10. When asked about dynamic charging options, the majority of suppliers noted that they already have systems in place (or procure a service) to issue Triad Warnings to customers who have opted in to the service. This means they already have systems that could be used for a Critical Peak Pricing charging approach. However, some suppliers did note that there would be a big impact if expanding it to a large number of small users.

1.11. We received different views from suppliers on how much notice customers would need, although most suggested domestic and SME customers would need a longer notice period than large users. However, some suppliers indicated the most effective way to manage Critical Peak Pricing for small users would be to apply automated solutions, which would be managed by the supplier.

Capacity level with curtailment or exceedance charges

Agreed capacities

1.12. Larger users already have agreed capacities with their distribution network operator (DNO) and face exceedance charges and so responses to the issue of agreed capacities was focused on small users. A number of suppliers suggested there would be administrative challenges with agreeing initial capacities for all customers and then monitoring any changes over time (eg installation of solar PV or a fast EV charger), which would require the customer to increase their agreed capacity. Several suppliers also suggested they would deem the level of capacity for their customers while one noted that they would also build in excess to avoid the risk of their customers exceeding their capacity and facing exceedance charges. Finally, some suppliers also noted the challenges they already face when communicating with their customers, including one supplier who noted they still largely communicate via post, as customers have not opted into email communications.

Curtailment and exceedance charges

1.13. The suppliers expressed very little support for curtailment in general and none of the them supported curtailment of small users. In addition, they did not consider that the

¹⁰ Customers connected to the extra high voltage (EHV) network receive site specific charges under the EHV Distribution Charging Methodology, which already includes seasonality in the volumetric unit rate.

option would even be of interest to small users, although several noted that suppliers have the ability to manage loads remotely through direct load control. One supplier was concerned about curtailment for vulnerable customers, noting they might be the user segment most likely to choose a low capacity limit (ie below their needs) to save money, but would then have a higher risk of being curtailed when they turned their heating on. This was seen to raise significant social equity concerns.

1.14. Regarding exceedance charges, suppliers suggested there were more ways they could spark behaviour charge or innovative solutions, including passing the cost through to customers or using automation or direct load control to reduce usage. There could still be the flexibility for a user to go above their capacity limit, if they were prepared to pay for it, such as a factory which is using more electricity because it is fulfilling a large order and therefore would not want to be curtailed.

Locational granularity

1.15. We received the most mixed views from suppliers on the question of how they would reflect network charges that vary more locationally within a DNO region. Although some suppliers indicated they were most likely to average locational charges, several others suggested they might pass through the difference in their tariffs. Of these suppliers, a factor in the decision was the number of locational zones created (ie the more granular charges, the more likely they would average charges in some way).

1.16. When asked to consider the impact of hundreds or thousands of tariffs, a couple of suppliers suggested it would be easy for them to accommodate them in their current cloud-based systems. However, a larger number of suppliers indicated they would need to undertake major IT system upgrades, which they suggested would need sufficient lead times to ensure the changes work well. One supplier did acknowledge that they will need to make upgrades at some point anyway, given the way the market is developing.

Small users

1.17. When asked about the possibility of a significantly greater number of charges, some suppliers suggested that it might raise media and user enquiries about why they were being charged different prices, but others noted that customers only ever see the prices for the postcode they identify and so would not see the range of tariffs the supplier is managing.

1.18. Some suppliers questioned whether increasing the locational granularity of charges would produce a network benefit, as they did not consider there was much domestic customers can do in response (eg network charges would not influence where they locate). A few suppliers did suggest they thought generation and large demand users might be more likely to respond to locational price signals when deciding where to locate.