

Overarching Working Group – Meeting 13



Access and Forward Looking Charges SCR interactions



The Access and Forward Looking Charges SCR was launched in December 2018.

The SCR aims is to ensure electricity networks are used efficiently and flexibly, reflect users' needs and allows consumers to benefit from new technologies and services, while avoiding unnecessary costs on energy bills in general.

We have been working on the basis of publishing our minded to proposals by the end of this year. However, we have been reviewing this in light of:

- Links with the development of flexibility markets.
- Wider transmission charging considerations.

As a result, we have decided to delay our consultation to next year. We recognise however that this has two key timing consequences:

- **Overall implementation timings**
- **Interactions with DNOs' RIIO-ED2 business planning.**

We want use today's session to discuss the second of these.

We need to consider options now access decision/business plan prep no longer in sync

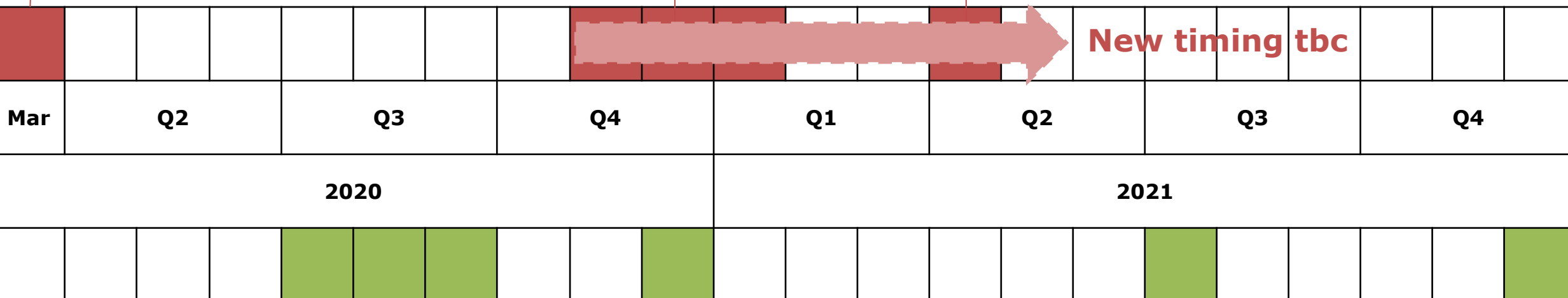
Access SCR

Shortlisting
letter

Minded-to consultation
and consultation period

Final
decision

New timing tbc



Sector specific
methodology
consultation

Sector specific
methodology
decision

Business plan
initial submission
– 1 July 2021

Business plan
final submission
– 1 Dec 2021

RIIO-ED2

No changes planned to ED2 timings

We think the options to be considered include:

1. Basing business plans on a “central” assumption of access outcome
2. Basing business plans on scenarios for access outcomes
3. Manage interactions through load-related uncertainty mechanisms
4. Specific within period re-opener to adjust settlement for access outcomes
5. Adjust settlement in 2022

These needn't be mutually exclusive, for example combinations include:

6. Base business plans on an assumption/scenarios and then use an re-opener if the final SCR outcome departs significantly from these.
7. Use scenarios to isolate which elements of business plans would need to be subject to re-openers.

Are there other options we should consider?

We think the key criteria for assessing options are:

- The extent to which they will help ensure that ED2 provides the right incentives and funding for DNOs in light of the access SCR changes, to drive the best outcome for consumers
- Minimising the extent of work for Ofgem, DNOs and others in feeding into these ED2 decisions

Another important consideration is whether the options become more or less attractive depending on the length of delay on the access SCR

Do you agree? Are there other criteria/factors we should consider?

Option	Will it help right robust ED2 outcome?	How resource intensive?	Are merits depending on length of access delay?
Basing business plans on a “central” assumption of access outcome			
Basing business plans on scenarios for access outcomes			
Manage interactions through load-related uncertainty mechanisms			
Specific within period re-opener to adjust settlement for access outcomes			
Adjust settlement in 2022			
Base business plans on an assumption/scenarios and then use an re-opener if the final SCR outcome departs significantly from these.			
Use scenarios to isolate which elements of business plans would need to be subject to re-openers.			

Devolved, Regional and Local Energy Planning

RIIO-ED2 Overarching Working Group

Scottish Government

- Slides present key points and principles for discussion today.
- Attached excel workbook provides more detailed thoughts synthesising Scottish thinking about Developed and regional energy planning with the LAEPs framework discussed in September

12th November 2020



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What is the challenge?

- UK – **Achieve net zero by 2050** and **reduce carbon emissions by 58%** during the period **2028-2032** (5th Carbon Budget)
- Scotland – **Achieve net zero by 2030** and **reduce carbon emissions by 75%** by 2030
- Bristol – **Become carbon neutral by 2030**
- Glasgow – **Net Zero by 2030**

Different Levels of
decarbonisation
commitment

Different context –
geographic, social,
economic as well as policy

Focus on different
pathways (e.g. for heat:
building electrification,
heat networks, hydrogen)

Different objectives:
lowest cost to taxpayers;
sustainable economic
growth; skills and supply
chain; fuel poverty
mitigation

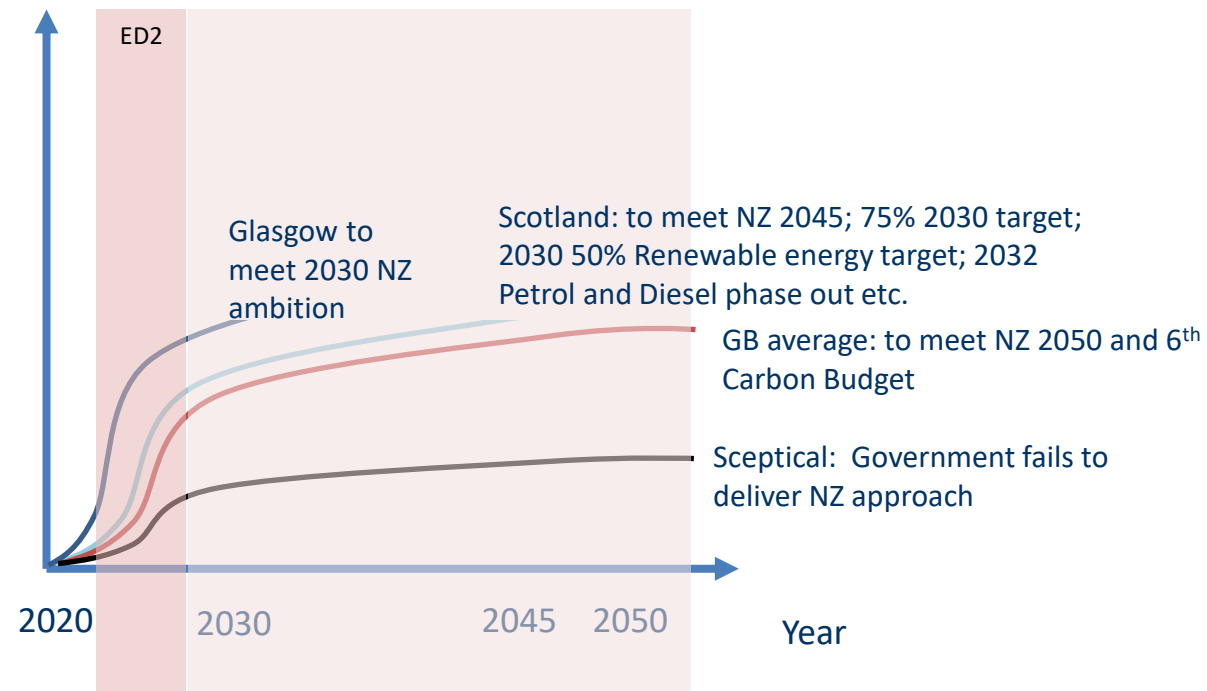


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What is the challenge?

E.g. Number of HPs or Number of EVs (per 1,000 inhabitants)



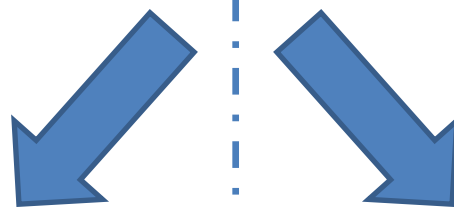
How should this variation in demand within, and beyond, ED2 be reflected in the ED2 business planning process?



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What is needed for ED2?



How are these issues captured in **ED2 Business Plans in 2021?**

- **Need to be practical:** What exists now? what is likely to exist by spring 2021?
- **Should recognise what is good evidence, whatever the format:** Where devolved, regional and local policy will deliver different outcomes and are well evidenced, it is Important that ED2 framework recognises this and DNOs can reflect this in their baseline business plans.

How is ED2 made sufficiently flexible to accommodate developing local and regional planning **throughout ED2?**

- **Need to be progressive:** Uncertainty mechanisms and other forms of flexibility can support DNOs adapting to Devolved, Region and local government, as they evolve.
- **Consider carefully the role of DNOs and Ofgem in energy planning.**
- **At a local level allow demonstrator and pathfinder project to develop** which help us see exactly what local energy planning can look like.



What is needed for ED2 businesses cases?

- Detailed energy planning at a devolved, regional and local level exists in some places today.
- e.g. Scottish, Welsh Government regional government such as GLA and Mayoral areas, and a few, larger Local Authorities
- Very little exists today that fits the LAEPS framework we discussed in September
- Important that where good energy planning exists today, it can be captured in business plans
- Good evidence should be able to be incorporated into DNOs' baseline plans: Value in advice and guidance both to Governments and to network companies on what constitutes good evidence (see suggestion on slide 6)
- Advice for DNOs in developing ED2 business plans likely to be better based on principles rather than a detailed checklist given the variety of energy planning approaches used today at Developed, Regional and Local level.



What is needed for ED2 businesses cases?

Where **strong evidence** exists that a Devolved, Regional or Local energy policy or energy plan will deliver **meaningful variation** from a GB-average scenario across the energy system, and that variation will have **material impact** on electricity networks. DNOs should aim to reflect this in their ED2 business plans.

Strong evidence will include identification of **policy levers**, how change will be **financed**, and commitment from **stakeholders involved in delivery**.

The ED2 SSMD can usefully provide guidance on what would constitute good evidence in each of these areas.



What is needed during ED2?

- The same principles apply, but there is more time to consider the details and develop structures.
- LAEPS and other forms of local energy planning will become more common throughout the 2020s.
- Need to consider the **scope and role of DNOs** in a LAEP other local energy planning process.
- **DNO / Ofgem** should be equally open to considering planning and policy making on any sub-GB scale.
- Our suggestion is to propose guidance for how **Devolved, Regional and Local (DRL) Energy planning** can be used throughout ED2.
- Should be flexibility for DNOs to consider how this sits within their Whole Systems strategy’.



Key Issues to consider

What is the role of a DNO in LAEPs?

- Will DNOs be asked to take a leading role in the development of energy plans?
- To what degree is this about a DNO *responding* to the creation of an energy plan? And to what degree is it asking for involvement in it's creation?
- Guidance would need to be clear on the scope

What do DNOs / Ofgem need for uncertainty mechanisms?

- Identification of uncertainty mechanisms that can respond to the development of an energy plan.
- Clarity on what type and level of evidence can trigger would be needed to trigger an uncertainty mechanism.

What others need for business planning?

- To understand how network investment decision are made and how any uncertainty mechanisms would work from a lay person's perspective
- Clarity on what type and level of evidence they need to provide through an energy plan.
- Awareness of the value and importance of providing that evidence.



Centre for Sustainable Energy and Energy System Catapult. LAEPS Methodology.

Principles

- The use of robust technical evidence produced using analytical techniques which
- consider the whole energy system
- A comprehensive assessment of wider non-technical factors
- A well designed and involving social process which engages appropriate stakeholders effectively,
- A credible and sustained approach to governance and delivery.

Checklist

1. Technical Analysis
2. Quality Assurance
3. Determining Success
4. Engaged Stakeholders
5. Realistic and Deliverable



What has been suggested so far – Centre for Sustainable Energy

A devolved regional or local (DRL) energy plan needs to start from a clear articulation of the ambitions, objectives and / or outcomes for the energy system in a particularly geographic area. There also needs to be clear evidence that the vision has legitimacy, for example reflecting the policy of a democratically elected administration or through an appropriate and open engagement process. The development of a vision for the DRL energy system needs to be independent of the needs of the energy networks sector



The pathway for delivering the ambition is clearly laid out with evidence about what concrete actions are required, who holds responsibility, what will be done and when.



Discussion



Ofgem is the Office of Gas and Electricity Markets. We are a non-ministerial government department and an independent National Regulatory Authority, recognised by EU Directives. Our role is to protect consumers now and in the future by working to deliver a greener, fairer energy system.

We do this by:

- **working with Government, industry and consumer groups to deliver a net zero economy at the lowest cost to consumers.**
- **stamping out sharp and bad practice, ensuring fair treatment for all consumers, especially the vulnerable.**
- **enabling competition and innovation, which drives down prices and results in new products and services for consumers.**