

Practical Considerations: Practicality, Proportionality and Cost

Targeted Charging Review: Significant Code Review

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Update: How we
will assess
Practicality,
Proportionality and
Cost

Feedback on our
proposed
assessment: are
there other aspects
which would be
useful

“We will aim to be proportionate in considering changes to residual charges... we will also have regard to practical considerations.... We will take account of the availability of metering information, along with wider implementation costs, and the desirability of simplicity in tariff structures.”

Definitions and considerations for charge design

Practicality: *The ease with which the options are implemented, the time in which they can be implemented in and the ease of understanding of the resulting charge.*

Cost: *Up-front implementation and ongoing administrations cost for industry, the TOs, DNOs and suppliers.*

Proportionality: *An assessment of the level of benefit a policy option delivers, relative to the baseline and against the other proposed options. This will have a strong link with both fairness and cost.*



End result: A residual charging regime that allows positive consumer outcomes, efficient utilisation of the network and 'fair' revenue recovery

Consideration

- **Implementation timeline**
 - 15 month notice (DCUSA) and whether derogation is required
 - System changes (below)
- **Data/system changes**
 - Changes to supplier, DNO/TO and Elexon systems will be required
 - Update to billing systems or system redesign
 - New data flows likely to be required
- **Data privacy requirements**
 - The HHS project will be considering how data privacy arrangements/access to data is to develop
- **Simplicity of charges**
 - How we balance the complexity vs simplicity in administration and understanding

Information requirement

- **Engagement – Industry/TO/DNO/Elexon/Electralink**
 - Requests for Information will be sent out for information on cost and an initial assessment of the modelled options
 - Qualitative assessment will be required on the potential scale of change required of internal systems
- **Charging Delivery Body input and modelling**
 - Qualitative assessment of the options and distributional analysis
- **Engagement with Ofgem HHS and Smart metering as well as our Supplier Hub team**
 - Assessment on the benefit of new data flows for other projects
- **Internal assessment**
 - Assessed against all of the above factors on an iterative basis

Consideration

- **Upfront costs for industry**
 - Implementation cost for system changes and the requirement for new data
 - Linkage to implementation time
- **Ongoing administration costs for industry**
 - Estimation of annual administration costs
 - Qualitative assessment of efficiency improvements
- **How costs are distributed between different user groups**
 - Assessment according to profiled user types, taking into account any appliances/onsite generation
- **Change in system/whole system efficiency**
 - The system benefits that may/may not be derived from the potential change

Information requirement

- **Engagement with DNO/TO/Elexon/Industry**
 - Requests for information will be used to assess the change required for different options
- **Literature review of previous changes**
 - Examples include P272/Transmit/DCP228 etc.
 - Qualitative assessment of the different options against each other/code objectives
- **Frontier distributional modelling**
 - Distributional analysis will provide estimates on residual redistribution between different user groups
 - Tariff assessments
- **Frontier EnVision modelling**
 - Provide an estimate of system-wide behavior in response to tariff change
 - Feedback and iterative modelling through workshops/CFF

Assessment information - Proportionality

Consideration

- **Allocation of risk between users**
 - The extent to which allocation of risk between network users could lead to inefficient outcomes

- **Impact of change versus the benefit**
 - This will be the culmination of all work streams and modelling
 - Assess the options which addresses the issue in most efficient way

Information requirement

- **Distributional analysis**
 - Tariff assessment
 - Comparison of status quo verses 'vanilla options' and final options

- **Literature assessment and consumer response assessment**
 - Their response to the change can be assessed against its proportionality
 - Possible engagement with consumer groups

- **Qualitative assessment and systems modelling**
 - Frontier whole systems analysis
 - Ultimately, assessment against the relevant code objectives
 - Will have to take into account cost, practicalities and fairness

Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.

We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.