

# Energy UK response to the Ofgem Open Letter titled Electricity Network Access and Forward-Looking Charging Review: Open Letter on our shortlisted policy options

06<sup>th</sup> April 2020

## About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering almost all (90%) of both the UK's power generation and energy supply for over 27 million UK homes as well as businesses.

The energy industry invests over £13.1bn annually, delivers around £85.6bn in economic activity through its supply chain and interaction with other sectors, and supports over 764,000 jobs in every corner of the country.

In this letter, Energy UK is responding to the Ofgem Open Letter titled *Electricity Network Access and Forward-Looking Charging Review: Open Letter on our shortlisted policy options*.

Energy UK is surprised and disappointed to see that the option to introduce financial firm access at the distribution level has not been shortlisted. We encourage Ofgem to explore this option in more detail as without financial firmness, transmission and distribution technologies will never truly be on a level playing field. Without financial firmness, DNOs cannot make an assessment whether reinforcement at a local level is necessary leading to lack of necessary investment or even inefficient investment in the network. Any connection offer a DNO makes will be subject to curtailment which has a material and increasing cost to the user, in particular with the projected change in the demand profile as a result of heat pumps, solar panels, electric vehicles, electric heating etc. as well as the exponential increase in low-carbon technologies. It is vital that DNOs are able to make a cost benefit assessment on whether to reinforce a local area or to curtail a network user. The financial uncertainty surrounding the risk of DNO curtailment will have a material impact on the deployment of generation, including low carbon generation which will be detrimental to reaching the government's 2050 net-zero target.

In addition, without financial firmness distributed connected users will not have access to flexibility markets on the same terms as transmission connected users. This does not seem fair or practical in a smart, flexible, low carbon world. It also certainly doesn't offer a level playing field if distribution connected users are charged as transmission connected users, but without equivalent grid access rights.

As well as advancing efficient network build, financial firmness will also bring investment certainty, bringing down the risk profile of potential build options. This will likely bring the cost of building on the distribution networks down. Without financial firm access DNOs cannot properly recognise the trade-offs between the cost of congestion and investment.

In the open letter, Ofgem state that it is not practical to develop and implement this option before 2023. However, this option is important to a vast number of industry participants and consumers through lower bills and ensuring more efficient decarbonisation. We encourage Ofgem to investigate further and get this right first time. Should Ofgem decide not to take this forward under this SCR framework, any SCR solution will be an interim fix until an enduring solution is found. Instead then, it should be acknowledged that financial firmness is necessary to ensure fair operation for all market participants and a separate work stream be established as soon as possible to ensure its progression.

Energy UK does however welcome the proposal to not develop better definition and choice of access for the smallest users. We share Ofgem's concerns that, due to a lack of understanding about their access requirements, some consumers could end up with inappropriate access levels that do not meet their essential needs. The agreement of access levels with millions of domestic consumers would be highly challenging due to their probable poor understanding of their needs, and due to the need for universal engagement attempts.

It is not clear if any of the options which have not been taken forward have been discounted completely or are options for potential future changes (for example, if the data is not yet available). It would be helpful for Ofgem to specify in each case if an option will or will not be taken any further. If an option is likely to be progressed at a later time, industry would find it useful to see a timetable of other envisaged changes.

Energy UK asks if Ofgem have considered the unintended consequences of the proposed changes. The scale of change (BSUoS, TCR and AFLC) will leave some consumers with very different charges to what they currently face. For example, behavioural changes such as large consumers reducing capacity, moving their supply to off-grid generation or moving their production offshore could be seen in the near future. We would welcome further detail from Ofgem around this topic.

Energy UK welcomes the decision not to further consider dynamic tariffs, both peak and rebate. We agree with Ofgem that the solution is not practical or proportionate. The solution would be complex with DNOs and suppliers struggling to implement it, as they lack the necessary data. There are other, simpler options of achieving similar consumer benefits.

A good step is increased locational granularity (and non-dynamic, known-in-advance, time of day variation, if necessary) of DUoS tariffs. We are therefore content to see that varying charges by primary substations according to estimates of varying cost for the HV/LV network below each primary substation, has been shortlisted (although the required resolution could vary locally according to spare capacity, or lack of the same, on the DNOs' last-mile-assets). There is also a need for anticipatory investment in the DNO (and TO networks) during RIIO-2 to support new low and zero carbon technologies, including renewables, EV charging and electrification of heating. Flexibility will be key to ensuring the networks are as efficient as possible, but that does not preclude the need for sensible anticipatory investment as Ofgem made the case for in the Decarbonisation Action Plan, published in February 2020.

Energy UK welcomes Ofgem's statement that decarbonisation at lowest cost to the consumer is a key objective for them. We look forward to qualitative and quantitative further assessment of which shortlisted proposals package together to elicit the energy market response that is needed to fulfil this aim and support the path to net zero. As for consumers to benefit from cheap, zero carbon energy, investors must have confidence in market fairness and stability.

For both quantitative and qualitative assessments the response of different types of network users connected to different parts of the network and across different areas of GB should be part of the modelling and analysis considerations from the start of the process. Energy UK was pleased that CEPA are accommodating this within their modelling for the quantitative assessment<sup>1</sup> - particularly that this will include renewable generators, which is an improvement on the modelling undertaken for TCR.

Energy UK would welcome further detail on how this will be done in practice. For example; how many locations in GB will be considered, which technology types will be grouped together as "user archetypes" within transmission generation and distribution generation classifications? CEPA also stated that the location of generation may be assumed to change as their market model optimises the location of capacity. How will CEPA/Ofgem rationalise this against real-world intelligence for where different technology types will actually locate based on legal and economic restrictions? For example, onshore wind cannot build in England due to planning restrictions and lack of suitable wind resource. CEPA and Ofgem can therefore assume that the onshore wind to be built in accordance with the relevant FES scenario will be in Scotland and Wales (along with the appropriate grid reinforcements). Where will this real-world intelligence be sought and how will it feed in to the analysis? Further, will CEPA/Ofgem also

---

<sup>1</sup> [CFF webinar](#), 12 March 2020 (Slide 37)

consider the effects of behind-the-meter generation dispatching out of merit in order to earn time-of-use network credits?

Regarding the option area 'Better locational signals through TNUoS charges – embedded generation', previous Ofgem wording of a solution has been to remove the £0 cap on the embedded export tariff. Now Ofgem are asking if embedded generation should be paying similar TNUoS tariffs as transmission connected generation. This is a conceptual change from previous wording as embedded generation would therefore be treated as generation and not negative demand. Energy UK questions if this is the intent of Ofgem.

Energy UK would welcome clarification from Ofgem regarding the potential adjustment of the AFLC SCR timescales as a result of:

- The delay in implementation of Transmission Demand Residual (TDR) charges from April 2021 to April 2022<sup>2</sup>,
- The emergence of COVID-19 and its impact on resourcing both through industry and Ofgem.

Should you have any questions on the above response, please do not hesitate to get in touch.

**Joe Underwood**  
Policy Manager  
Energy UK  
26 Finsbury Square  
London EC2A 1DS

Tel: +44 20 7747 2942  
[joseph.underwood@energy-uk.org.uk](mailto:joseph.underwood@energy-uk.org.uk)  
[www.energy-uk.org.uk](http://www.energy-uk.org.uk)

---

<sup>2</sup> As outlined in Ofgem's decision to allow the withdrawal of CMP 332  
[https://www.ofgem.gov.uk/system/files/docs/2020/03/letter\\_to\\_ngeso\\_re\\_cmp332\\_consent\\_to\\_withdrawal\\_and\\_new\\_direction\\_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/03/letter_to_ngeso_re_cmp332_consent_to_withdrawal_and_new_direction_0.pdf)