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**18 September 2018**

**Citizens Advice response to Ofgem consultation: Getting more out of our electricity networks by reforming access and forward-looking charging arrangements**

Dear Jon,

We are pleased to be able to respond to this consultation. Citizens Advice has statutory responsibilities to represent the interests of energy consumers in Great Britain. This document is entirely non-confidential and may be published on your website. If you would like to discuss any matter raised in more detail please do not hesitate to get in contact.

In summary:

- It is encouraging that this consultation has built on the work of the Charging Futures Task Forces, which is evident throughout the consultation document
- We welcome the proposed Significant Code Review and believe that this should be comprehensive
- We believe that electricity charging reforms should ensure that consumers face fair costs for delivery of an essential service, especially those who are unable to respond to Time of Use (ToU) tariffs or are vulnerable and need energy throughout the day
- We agree that access rights at a domestic and micro-business level should be reviewed. However, significant research is required to ensure that consumers are protected should 'core' use be implemented. We are keen to further understand the research Ofgem are planning to carry out on this topic
- We believe that improved queue management and more efficient use of network capacity at transmission and distribution levels could have benefits for consumers and other network users
- For consistency and fairness, transmission access arrangements and forward looking charges should be reviewed alongside distribution arrangements. There should not be an assumption that transmission arrangements do not need improving

We have outlined answers to the questions in your consultation below.

**Question 1: Do you agree with the case for change as set out in chapter 2?  
Please give reasons for your response, and include evidence to support this where possible.**

The access and charging framework was not designed to cope with the network being used by Electric Vehicles (EVs), Heat pumps (future of heat), domestic generation, intermittent embedded generation on the network. These are technologies which, due to

the nature of their usage profiles, could share network access rather than monopolising network access.

The current network charging arrangements are not consistent across voltage levels and in some cases the charges are no longer reflective of the costs incurred by network companies. This is creating market distortions, leading to inefficient market behaviour and ultimately additional costs for all network users. We recognise that this is due to the speed of change the industry is currently experiencing. We view the proposed Significant Code Review (SCR) as an opportunity for the network charging arrangements to be improved in a comprehensive manner rather than through incremental change via Code Governance. Because of this we welcome the proposed SCR and we are supportive of its aims.

When designing the future network charging framework, we should not only consider what network companies, power generators, and large energy consumers want, but also how household energy consumers want to use their network in the future:

- Research by ClientEarth in 2018<sup>1</sup> found that the majority of the UK public said they wanted to install solar panels (62%) and energy storage (60%) in their homes
- Consumers have a preference for a distributed, community-based energy system, as research by Ipsos Mori for Innovate UK shows (2016)
- The BEIS Energy and Climate Change Public Attitude Tracker found that public support for renewable energy in the UK reached a record 85% between March and April 2018.<sup>2</sup>

Current network capacity needs to be utilised in a smarter way to avoid additional and unnecessary reinforcement costs. Nobody can be sure of the rate of uptake of EVs and heat pumps. Networks need the ability to be flexible and cope with demand. Greater demand side flexibility is also necessary. However, we should be cautious about the level of flexibility we will get from EVs and households in general. We must not forget that networks are there to serve consumers.

Evidence around consumer behaviour indicates that there is a need to be careful with assumptions, for example those in National Grid's Future Energy Scenarios, that large enough price signals will trigger the 'right' response. Behavioural economics shows that people do not make decisions purely from an economic perspective. Consumers will need other signals and practical help to adjust their electricity usage as well. In this vein, Citizens Advice is planning to conduct research (to be completed in 2019) to understand to what extent the idea of providing flexibility with EVs is acceptable to drivers and what conditions and mechanisms would make them more inclined to provide it.

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<sup>1</sup> <https://www.clientearth.org/british-public-supports-urgent-action-and-litigation-on-climate-change-poll-reveals/>

<sup>2</sup> <https://www.gov.uk/government/statistics/energy-and-climate-change-public-attitudes-tracker-wave-25>

Ultimately, shifting electricity demand away from peak times through Time of Use tariffs should result in savings for consumers, but these savings are modest (£19m a year shared between suppliers, energy networks and consumers) without electric heating or EVs. Real time pricing could provide much more value when combined with automated controls<sup>3</sup>.

**Question 2: Do you agree with our proposal that access rights should be reviewed, with the aim to improve their definition and choice? Please provide reasons for your response and, where possible, evidence to support your views.**

We agree that access rights should be reviewed. For most small network users (domestic and micro business consumers), there is currently no 'choice' of the level of network access they require. In some cases, level of access far exceeds the needs of the user which sends an incorrect signal to the DNO to maintain higher levels of network capacity than might be necessary.

Protections need to be in place to ensure that a 'minimum' level of capacity is available to all users which cannot be opted out of. This minimum level, or 'core' capacity, should be set at a suitable level which would allow for a supply of an essential service. We believe that increasing the range of access products for small users, including domestic customers, could be beneficial. Access rights may need to be amended due to change of ownership and we would also question the ability for those in rented properties to select and amend their access level. Flexibility could be created by allowing users to opt in and opt out of alternative access arrangements via contractual arrangements with the local DNO. This could be supplemented with appropriate use of system charges to encourage consumption patterns that reduce network costs (e.g. to reduce peak time consumption through Time of Use tariffs).

Larger network users, at distribution and transmission level, are incentivised to 'hoard' capacity under evergreen contracts, even when the capacity may no longer be required. This provides incorrect investment signals to the distribution and transmission network owners to reinforce the network when capital investment may not be necessary. Ultimately, this cost is passed on to new customers looking to connect to the network or existing consumers.

Increasingly, new generation on the network is intermittent. This provides the ability for different types of generation to utilise the same capacity. The current contractual frameworks at transmission and distribution do not provide the flexibility required to allow sharing of access rights, although we recognise that this is starting to be addressed in the Open Networks project. Freeing up existing network capacity and providing the ability for more flexible connections could result in new generation being connected to the network faster.

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<sup>3</sup> <https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/The%20Value%20of%20TOU%20Tariffs%20in%20GB%20-%20Volume%20I.pdf>

**Question 3: Specifically, do you have views on whether options should be developed in the following areas as part of a review? Please give reasons for your response, and where possible, please provide evidence to support your views:**

- a) Establishing a clear access limit for small users, with greater choice of options (as considered under b) and c) below) above a core threshold – do you agree with our proposal in paragraphs 3.5-3.10 that this should be considered? Do you have views on how a core threshold could be set?**
- b) Firm/non-firm and time-profiled access – do you agree with our proposal outlined in paragraphs 3.15-3.21 that these options should be developed?**
- c) Duration and depth of access, discussed in paragraph 3.25-3.32 - would these options be feasible and beneficial?**
- d) At transmission or distribution in particular, or are both equally important – as discussed in this chapter?**

We are concerned that the introduction of the core usage concept for small consumers could result in a reduction in the existing access rights for these customers. We accept that in the future, capacity may be more constrained due to the take up of new low carbon technologies such as EV or the electrification of heat. However, these constraints are likely to vary by time of day, season and location. A core usage would need to reflect all these requirements and be difficult to determine and implement. For example, it may not be possible to differentiate between high usage due to an EV or high usage for people on an Economy 7 tariff, both of which may appear as off-peak consumption. A significant amount of research and consumer attitudinal work needs to be taken forward on this topic before any decisions are made. There is a danger that, if the core capacity level is not set at the appropriate level, consumers might default to 'cheapest option' thereby not giving them the access they need. Likewise, the potential distribution impacts between those who can afford a larger connection capacity which will enable the connection of EVs, batteries and micro-generation to save on energy costs (the 'haves') and those who will remain on the core capacity (the 'have nots') needs to be further studied. There are also questions around practicality of implementing this proposal. We would welcome working with Ofgem to understand where we can complement our respective research areas.

We agree that the SCR should consider firm and non-firm access, time-profiled access rights and duration. These aspects could offer benefits in the right context, primarily where constraints exist or there is likely to be new connectees that could drive reinforcement in the future. It is important to determine where changes to access rights would be most beneficial and prioritise these areas. We also agree that local access rights would be complex and difficult to implement and should be disregarded.

**Question 4: Do you agree with the key links between access and charging we have identified in table 1? Why or why not? Do you think there are other key links we have not identified? Where possible, please provide evidence to support your views.**

Broadly, we agree with the key links identified in table 1. We agree with the general principle that there is a link between access rights and capacity-based charges. However, for smaller users the capacity requirements can still be reflected in the usage-based charges and this may be more appropriate given the characteristics of these customers.

For large customers it would be beneficial to introduce time of use capacity charges that will encourage customers to profile their agreed capacity and free up network capacity to the benefit of all customers.

**Question 5: Do you agree with our proposal that targeted areas of allocation of access should be reviewed? Please give any specific views on the areas below, together with reasons for your response. Where possible, please provide evidence to support your views:**

- a) Improved queue management as the priority area for improving initial allocation of access, as outlined in paragraphs 3.41-3.44?**
- b) Not to consider the potential role of auctions for initial allocation of access as part of a review at this time, as discussed in paragraph 3.44?**
- c) To review the areas outlined in paragraphs 3.45-3.48 to support re-allocation of access?**

Improved queue management is necessary at both transmission and distribution. This should better utilise existing capacity and allow those network Users who are 'serious' to achieve connections faster.

We agree that auctions for initial allocation of access is a lower priority and should not be progressed as part of the review. There are a number of concerns in this area regarding fairness and parties that are not actively involved in this area being disadvantaged as a result (e.g. hospitals, schools). However, we do feel that this area could create benefits in the future and should not be dismissed entirely.

We agree that developing mechanisms to allow the re-allocation of capacity is a key element to resolving the issue of increased network capacity constraints and using the existing network more efficiently.

**Question 6: Do you agree that a comprehensive review of forward-looking DUoS charging methodologies, as outlined in paragraphs 4.3-4.7, should be undertaken? Please provide reasons for your response and, where possible, evidence to support your position.**

We agree that a comprehensive review of forward looking DUoS charges is necessary. The

current DUoS charging structure is not appropriate given the high penetration of embedded generation, the expected take up of EVs, the potential for electrification of heat and uptake of behind the meter generation.

Low and high voltage connected generation currently receive a credit from DNOs regardless of the impact they may be having on the distribution network. Where these generators are creating costs savings for network companies it is right that they should share in this benefit. However, where embedded generators are driving costs for network companies, this cost should accrue to the generator rather than be paid for by the consumer.

We note that reducing credits or charging embedded generators under DUoS will require the introduction of locational DUoS charging at Low Voltage and High Voltage. We support this approach in principle for generation. However, we would be concerned if this principle was extended to demand customers at LV and HV where the distributional impact could be material and effectively result in a postcode lottery for some demand customers.

**Question 7: Do you agree that the distribution connection charging boundary should be reviewed, but not the transmission connection boundary? Please provide reasons for your response and, where possible, evidence to support your position.**

We agree that the connection charging boundary should be reviewed as the different approach at distribution and transmission is likely to lead to market distortions and impact on investment decisions. We do not agree that this review should be limited to distribution only. To improve fairness and consistency, we believe that reviewing a shallowish connection policy at transmission is a valid option. This would impact a relatively small number of parties compared to distribution and therefore implementation should not be as challenging.

We also highlight a concern that moving to a shallow connection policy at distribution could result in higher DUoS charges for consumers. A shallow connection policy is only possible where locational use of system charges can be applied. This is unlikely to be possible at lower voltage levels and therefore there would be a degree of socialisation under this approach. Any consideration of this approach needs to incorporate a review of the impact on consumers. It would be useful to look historically to see the impact over the last five years if a shallow connection policy had been adopted for generation.

**Question 8: Do you agree that the basis of forward-looking TNUoS charging should be reviewed in targeted areas? If you have views on whether we should review the following specific areas please also provide these:**

- a) Do you agree that forward-looking TNUoS charges for small distributed generation (DG) should be reviewed, as outlined in paragraphs 4.19-4.23?**
- b) Do you consider that forward-looking TNUoS charges for demand should be**

**reviewed, as outlined in paragraphs 4.24-4.27?**

**Please provide reasons for your response and, where possible, evidence to support your position.**

We agree that the forward looking TNUoS charges should apply equally to transmission and distribution connected plant to avoid distortions on investment decisions between network levels. To achieve this, it is necessary to have a consistent charge format across transmission and distribution rather than the current arrangements with capacity based charges for transmission connected generation and triad based charges/credits (capped at zero) for embedded generation. We agree that the capping of triad-based charges at zero is potentially a material distortion and moving to a capacity-based charge would remove this distortion and enable consistency of approach between transmission and distribution.

We agree that the forward-looking TNUoS charges for demand should be reviewed, as outlined in paragraphs 4.24-4.27. We believe that the triad charge has been a valuable tool in the past in managing peak demand and this may still be the case going forward. However, given the issues that have become apparent over recent years such as the reducing charging base leading to the triad price increasing at an exponential rate, it is now appropriate to review whether it remains the right charging mechanism. We note that the triad is well known to large consumers and this should be taken into account when looking at options for reform.

**Question 9: Do you agree that a broader review of forward-looking TNUoS charges, or the socialisation of Connect and Manage costs through BSUoS at this time, should not be prioritised for review? Please provide reasons for your response and, where possible, evidence to support your position.**

The consultation proposes to not look at the methodology for setting forward looking TNUoS charges as it was reviewed recently through Project Transmit. However, we note that since Project Transmit the way in which the forward-looking charges that are derived from the Investment Cost Related Pricing (ICRP) have changed and this should be incorporated into the review. Our concern is that the ICRP produces a relative price differential across GB. This was appropriate when it was combined with the residual to produce a final tariff price in each DNO area. However, the review of the recovery of the residual charge for demand customer and the changes to the triad under CMP264/5 mean that the use of ICRP may no longer be appropriate. It is more important that the ICRP produces the avoided cost signal in absolute terms rather than relative terms to ensure cost reflective price signals are provided to demand and generation customers. We believe a better approach would be to instigate a review of all the powerflow approaches (ICRP, Forward Cost Pricing and Long Run Incremental Cost) to determine the most appropriate approach going forward.

One area that Citizens Advice would like to be addressed within this area is the application of the EU cap of charges for transmission connected plant. This is currently applied to local and wider use assets. However, the decision under CMP261 stated that the cap should apply to wider assets only and excluded local asset costs. Any modifications to the charging arrangements should reflect this decision as a priority.

We agree that the constraints costs associated with connect and manage should be recovered across those generators who have benefited from the arrangement rather than socialised across all users. This area still needs to be addressed, even if not seen as a priority by Ofgem. We would encourage Ofgem to put together a plan for how this will be addressed and the timescales.

**Question 10: Do you agree that there would be value in further work in assessing options to make BSUoS more cost-reflective, and if so, that an ESO-led industry taskforce would be the best way to take this forward?**

We believe that BSUoS should be looked at more closely, particularly whether any aspects of it could be recovered in a more cost reflective manner and whether it should be applied as a credit to embedded generators. The application of BSUoS as a credit to embedded generators is a material cost each year which is ultimately incurred by consumers and should be addressed as a priority. We agree that a ESO-led industry taskforce would be a practical way to take this forward.

**Question 11: What are your views on whether Ofgem or the industry should lead the review of different areas? Please specify which of SCR scope options A-C you favour, or describe your alternative proposal if applicable. Please give reasons for your view.**

We believe Ofgem should lead in all areas considered in the consultation document and therefore favour a comprehensive approach to the SCR (option C). This is because there is a large interaction between access rights (both for larger users and generally) and the other aspects considered with the SCR, particularly use of system charges. The access rights need to be considered alongside the other aspects within the consultation and along the same timescales to ensure a cohesive solution is implemented. Separating out access rights introduces a risk that the solutions developed do not form a co-ordinated industry solution and we therefore encourage Ofgem to adopt a comprehensive scope for the SCR.

**Question 12: Do you agree with our proposal to launch an 'Option 1' SCR for areas of review that we lead on? Please give reasons for your view.**

We agree that Option 1 should be the preferred method for delivering change as a result of the SCR. It is appropriate to pass the requirement to deliver change back to the industry once Ofgem has concluded the SCR. We recognise that Ofgem has the ability to

change the option mid-way through the process, and this option should be exercised if there are significant delays due to industry filibustering.

**Question 13: Do you agree with the introduction of a licence condition on the basis described in paragraphs 5.11 and 5.12 and Appendix 5? Why or why not? Do you have any comments on the key elements set out in table 7 of Appendix 5a, or consider there are any other key elements which should be included? Please give reasons for your view.**

It is not clear that a licence condition is required in order for the relevant companies to progress changes. If it is required, and a narrow or moderate approach is adopted, we believe the licence condition as set out in Appendix 5 should be amended in element 6, to include a requirement for network companies to consider consumer impacts and have regard to these when developing solutions.

**Question 14: Do you have any comments on the draft wording of the outline licence condition included at Appendix 5b? Please give reasons for your view.**

We believe 1.7 should be amended to include the consideration of distributional impacts.

**Question 15: What are your views on our indicative timelines? Do you foresee any potential challenges to, or implications of, the proposed timelines and how could these be mitigated?**

We believe the timescales look reasonable. However, there is a risk that resource across the industry will become stretched by the various reform programmes currently underway as well as the build up and implementation of RIIO-2. There needs to be a consideration of agile stakeholder engagement strategies to avoid stakeholder fatigue throughout this period.

We also highlight that stakeholders should have a reasonable notice period, particularly if delays arise. This ensures suppliers are able to fully reflect the new arrangements and reduces the likelihood of risk premiums on consumers charges associated with the changes.

**Question 16: What are your views on our proposals for coordinating and engaging stakeholders in this work?**

We note that the work under consideration covers a large scope which will be challenging for Ofgem. Coordinating industry resource and encouraging stakeholder engagement will assist in developing good solutions that work for all industry parties. We believe that the task force approach previously adopted by Ofgem brought together a valuable degree of expertise across the wide range of areas considered. We agree that continuing to utilise task forces will be a valuable tool in developing comprehensive and workable solutions.

We also agree that the CFF has been a useful tool to engage with stakeholders and should be continued.

I trust that this response is clear, but would be happy to discuss any matter raised within it in more depth if that would be helpful.

Yours sincerely

**Stew Horne**

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