

Future of charging

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A global economic and financial policy consulting firm.

Since 2001, CEPA's experts have advised governments, regulators, private companies and investors about the design and review of market-based solutions and regulatory interventions to facilitate the transition to a low-carbon future and adaptation to changes in water resource need and availability.

CEPA had been at the forefront of regulatory policy issues related to gas and electricity market design and regulation of energy networks, tariff setting and the design of regulatory frameworks that incentivise efficiency and high performance.



Our work includes:

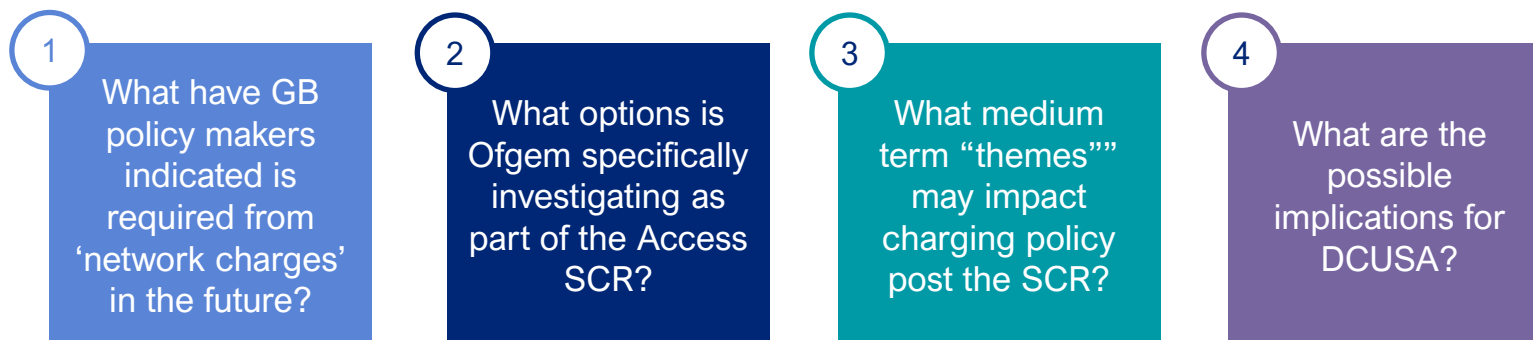


CEPA and TNEI are DCUSA's modelling consultant

Introduction

What is the ‘future of charging’?

- Given the speed of change within the industry and Ofgem’s ongoing Access SCR this is a broad question and a fast evolving one.
- Going to address the question today from a range of different perspectives:



- **Important point** – I speak in a personnel capacity. Not the views of Ofgem or any other stakeholder in the SCR, including CEPA.¹

¹ CEPA-TNEI teams are supporting Ofgem with various aspects of the Access SCR including tariff option modelling (commissioned via DCUSA) and Ofgem’s Impact Assessment.

Policy objectives and issues

ofgem

“We want to ensure electricity networks are used efficiently and flexibly, reflecting users’ needs and allowing consumers to benefit from new technologies and services while avoiding unnecessary costs on energy bills in general..”¹



Department for
Business, Energy
& Industrial Strategy

“There are concerns that the existing network charging and wider market arrangements do not create the right incentives for those connecting to the network, including that they do not reflect the costs and benefits they can create for the network and system as a whole.”²

Expected role and ‘future of network charging’ captured in the SCR principles:

- Arrangements support **efficient use and development of system capacity** (a key part of which is arrangements support decarbonization at least cost to consumers)
- Arrangements reflect the **needs of consumers** as appropriate for an essential service and any changes are **practical and proportionate**

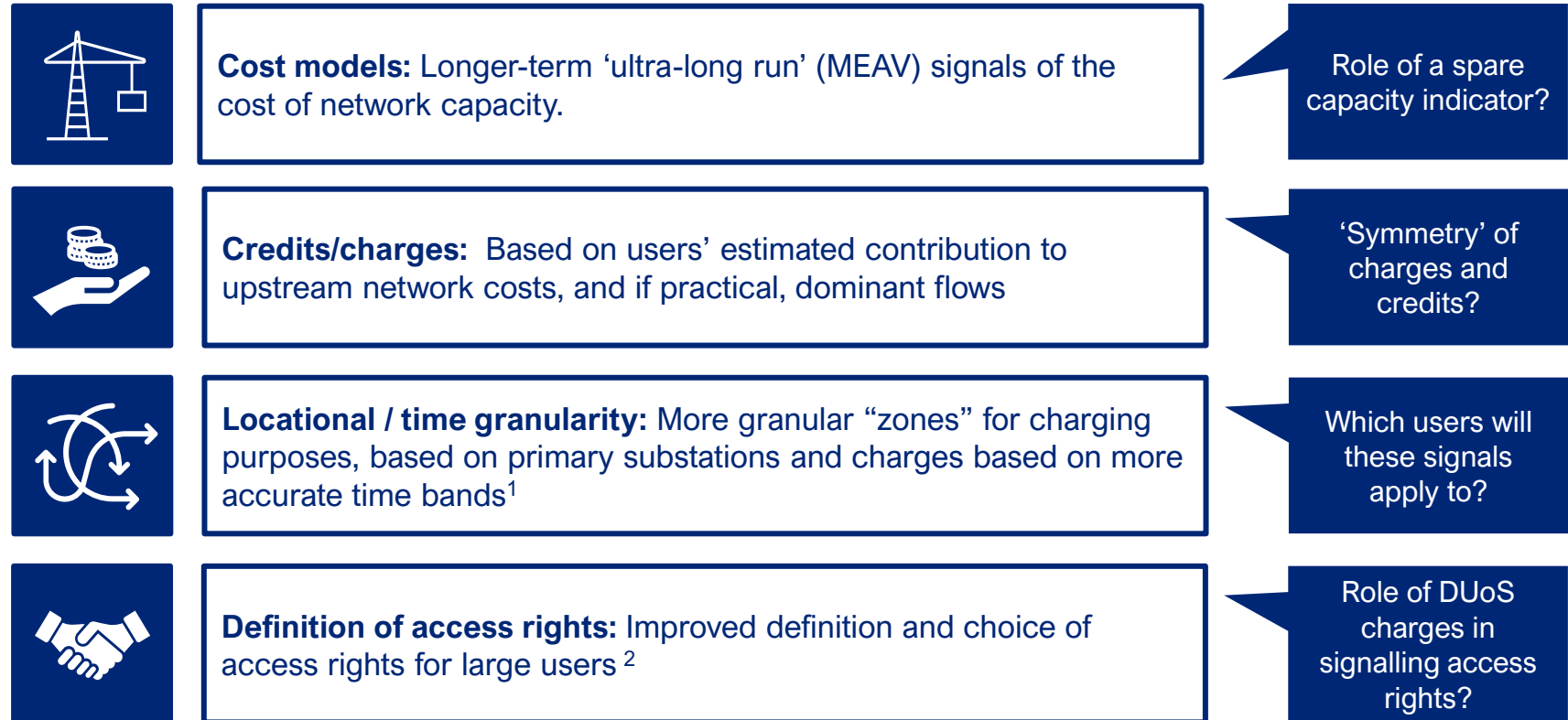
Reconciling policy objectives in network charging never easy. Expect Ofgem to reach **a balanced decision** that leads to a ‘**re-baselining**’ of charges and accommodates adaptations / protections for certain user groups, **particularly small users**.

¹ See Ofgem (2018): ‘SCR Launch statement’

² Ofgem / HM Government (2018): ‘Upgrading our energy system: Smart Systems and Flexibility Plan: Progress Update’

SCR options and issues

Ofgem’s March 2020 Open Letter set out a range of options it is considering for the SCR. Some of the key themes with implications for DUoS charges include:

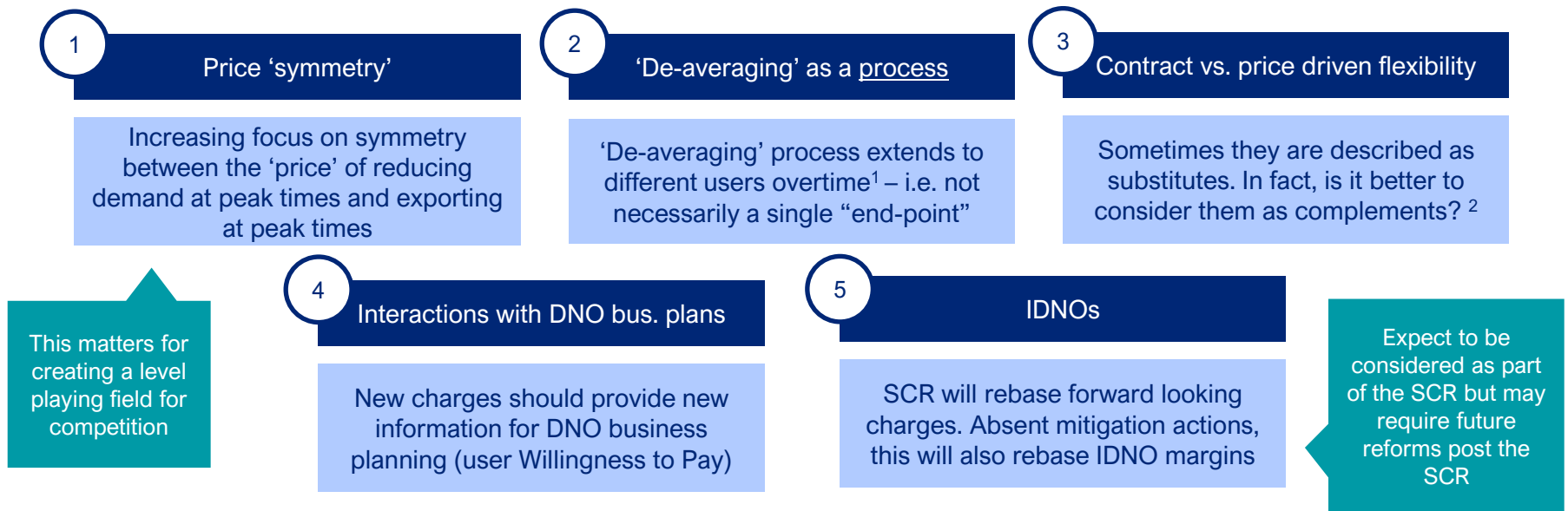


¹ For example, seasonal time-bands (summer and winter peak)

² Options being considered include (but are not limited to) improved approaches for curtailed access rights (non-firm), time profiled access rights and ability to share access between users in the same local area.

Medium term themes and issues

- SCR is likely to result in a **broad set of reforms** to network charges and access rights. But sector is moving so quickly expect **more changes will need to follow**.
- Future change likely to be driven by the scale and the speed of uptake of DERs - in general and by technology - and changes in DNO business processes.
- **Some possible themes...**

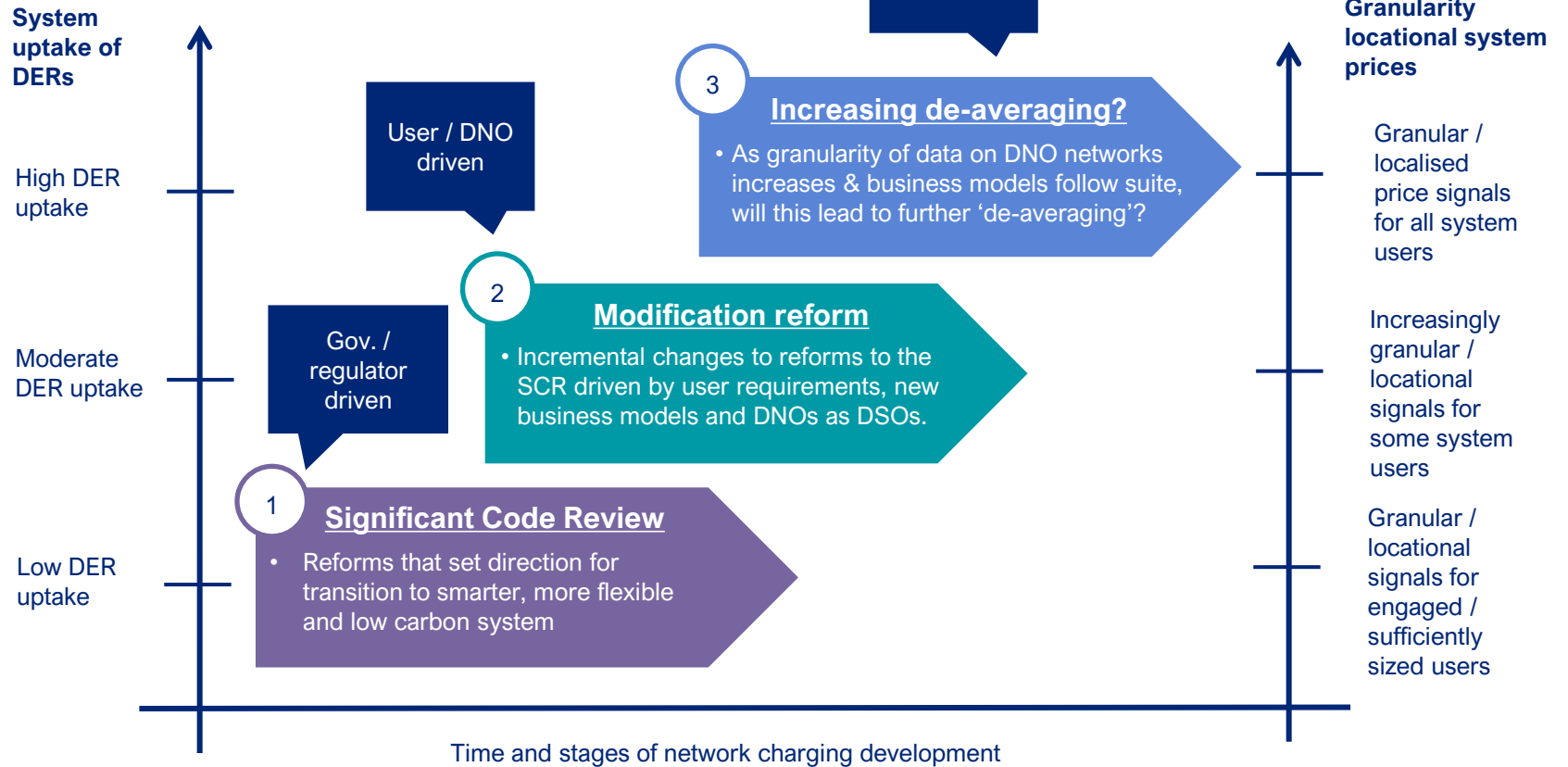


¹ Overtime you may see various modifications to wherever the SCR lands to 'de-average' further and 'reveal value' as new business models and DER uptake develops.

² DUoS signals the value of different access right contracts which drives a level of 'price flexibility' – contracted flexibility "fills the gap" if DNOs are increasingly reliant on flexibility as an alternative to local network reinforcement solutions.

Medium term themes and issues

Network charging as a reform process...



Note: Adapted from Future Electric (Oct 2015) "Distribution systems in a high distributed energy resources future"

Implications for DCUSA

What could this mean for DCUSA?

- Broad reform to charging methodologies – and consequently charging models – following the conclusions of the SCR
- Expect there will still be SCR implementation issues to consider as part of the DCUSA Modification process
- Ongoing incremental reforms through the Mod process as DER uptake evolves and new business models develop (including within DNOs)
- Complexity of future impact assessment in modification – SCR will be a balanced decision that takes into account many different competing objectives and the impacts on different user groups

Future modifications likely to need to meet a similar bar in terms of impact assessment

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