

Regulation and policy update for community and local energy stakeholders (June 2021)

We are producing this document in response to stakeholder feedback to help highlight relevant regulation and policy and provide context as to why it is important to community and local energy stakeholders. The electricity industry is going through a period of rapid development so we can't promise that this will be an exhaustive list, but will hopefully be a useful summary and prompt for further reading. Only the updated sections are included here.

A key June 2021 update for community energy is <https://www.ofgem.gov.uk/publications/decision-energy-industry-voluntary-redress-scheme> where Ofgem has decided welcome applications to these funds from Community Interest Groups, Co-operative Societies and Community Benefit Societies from 2022. The administration of the fund is about to be retendered by Ofgem with an announcement in Autumn 2021 to operate from February 2022. Keep an eye out in this brief as we aim to signpost you to the new grants operator, once they are announced.

Name of regulation / policy	What is it?	Owner	What stage is it at?	Why it matters
COVID-19 Industry implications	<p>Ofgem and the various code administrators have been publishing numerous documents in response to the impacts of COVID-19 on the energy sector.</p>	<p>Various</p>	<p>Update – Ofgem has continued with its programme of improving the mechanisms to support customers and the industry through the pandemic. Ofgem has set out the mechanisms to recover any bad debts arising as a direct result of the Network Charge Deferral (NCD) scheme. It has also completed and published “Consumers’ Experiences with Energy During the Covid-19 Pandemic – Summary of Research Findings” to develop its next steps.</p> <p>Ofgem and the Code administrators have been responding to the significant challenges resulting from the COVID 19 pandemic. A number of derogations have been put in place (See below) and these will be under review as the situation develops.</p> <p>Ofgem - https://www.ofgem.gov.uk/coronavirus-covid-19</p> <p>Ofgem recognised and paid tribute to the network companies for the considerable efforts made in managing the crisis and supporting customers.</p>	<p>These changes have been brought in to recognise the issues which are likely to be created (or have already resulted) from the pandemic and government response.</p> <p>These changes are likely to be kept under review.</p>

			<p>Ofgem has announced that it is currently reviewing the planned work for this year, so it can prioritise protecting consumers during the crisis. They have temporarily paused the publishing of new policy publications on the website, with the exception of legally required releases or information relating to the coronavirus only, until this review has completed.</p> <p>Ofgem are seeking to ensure that companies prioritise work sensibly and respond to the impacts of COVID-19 on their customers, staff and supply chains. Ofgem’s key aims are to ensure that customer needs are met, particularly the most vulnerable, maintain secure, reliable and safe supplies of energy to consumers in the short to medium term; and to ensure the safety and protection of consumers and the workforce.</p> <p>BSC - https://www.elexon.co.uk/about/about-elexon/coronavirus-covid-19-latest-information/</p> <p>Update – ELEXON has continued to monitor the performance of the companies during the ongoing pandemic. From January 2021, ELEXON will no longer plan BSC Changes in accordance with the COVID-19 prioritisation criteria.</p> <p>On 3 April the PAB agreed two temporary derogations from the BSC arrangements which allow electricity Suppliers to input more accurate estimates into ELEXON’s Settlement system for sites where demand is known to have significantly changed due to the lockdown and businesses closing.</p> <p>This will protect Suppliers from additional costs they could incur if Settlement continued to use ‘business as usual’ estimation methods that were not designed to handle such rapid market-wide changes in customer demand.</p>	
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			ELEXON has also suspended a number of performance assurance activities for the foreseeable future.	
DCUSA Change Proposal (DCP) 383 'Provision for Distributors to move meters for a service alteration'	Proposed change under the Distribution Connection & Use of System Agreement (DCUSA) to define a process detailing when a Distributor can move a Supplier's meter during service alteration works.	DCUSA	UPDATE – the DCP 383 Working Group has been created and have met four times between March and May 2021 to develop the proposal.	This change will improve the customer journey through the service alterations process by offering a 'one stop shop'.
<u>Targeted charging review:</u> Significant code review.	This is Ofgem's method to review current industry rules/frameworks and this review will focus on: consideration of reform of residual charging for transmission and distribution, for both generation and demand, to ensure it meets the interests of consumers, both now and in future; and	Ofgem	UPDATE – Three of the seven Connection & Use of System Code modifications related to the Targeted Charging Review have been approved by Ofgem. The decisions on the remaining four modifications are expected over the coming few months. Jan-21 - All Targeted Charging Review related modifications/change proposals for the Connection & Use of System Code (CUSC) and the Distribution Connection & Use of System Agreement (DCUSA) were submitted to Ofgem for the final decision. Ofgem has already approved the four DCUSA changes and one of the five CUSC modifications. In looking at the cross-code implications of the change proposals Ofgem is waiting for the whole suite of these to be submitted before making its final determinations.	To spread the costs of maintaining the electricity grid more fairly providing savings for consumers.

	<p>keeping the other 'embedded benefits' that may be distorting investment or dispatch decisions under review.</p>	<p>The code modifications to implement Ofgem's decision are at different stages of the change process, however some of them are already with Ofgem for final determination.</p> <p>Change Proposals to the relevant industry codes were submitted to the code administrators which resulted in Working Groups being set up to progress these through the change process. Where changes link to other codes care was taken to set up combined Working Groups to avoid the duplication of work.</p> <p>Ofgem published its decision on 21 November 2019 and has decided to make changes to the way in which some of the costs of the electricity networks are recovered, so that the 'residual charges' are recovered more fairly now and in the future. Fixed charges are to be levied on final demand consumers only and will be implemented for transmission charges in 2021 and for distribution charges in 2022. For distribution charges, domestic customers will pay a single residual charge set for each licensed area and non-domestic customers will be charged on the basis of a set of fixed charging bands also set for each Distribution Network Area. Ofgem maintains that its decision is positive news for consumers with the costs of maintaining the electricity grid being spread more fairly and consumers saving £300m per year from 2021, with £4bn-£5bn consumer savings in total over the period to 2040.</p> <p>The TCR outcome requires modifications to be raised against relevant industry codes and Ofgem requires National Grid Electricity System Operator (NGESO) and separately, the electricity Distribution Network Operators (DNOs) to work together and bring forward modification proposals to be progressed through workgroups over the next few months and submitted to Ofgem in time to allow implementation within the</p>	
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<p><u>Access and forward looking charges review: Significant Code Review</u></p>	<p>This is Ofgem’s method to review current working practices and this review will focus on:</p> <ul style="list-style-type: none"> a review of the definition and choice of access rights for transmission and distribution users a wide-ranging review of distribution network charges (Distribution Use of System (DUoS) charges) a review of the distribution connection charging boundary a focused review of transmission network charges (Transmission Network Use of System (TNUoS) charges) 	<p>Ofgem</p>	<p>UPDATE – From a Distributors perspective this Significant Code Review is on hold until Apr/May 2021 while Ofgem carries out further work with a view to reassess the options being considered for Distribution Use of System (DUoS) and Transmission Network Use of System (TNUoS) charging, recognising that delays put the April 2023 implementation date at risk. This could result in a phased implementation approach being taken for elements of this Significant Code Review. Ofgem may issue a “minded too” consultation on their proposals for distribution connection charging reform before the summer break. It is likely that Ofgem will give a general update on their latest thinking when this document comes out. Ofgem’s proposals on distribution use of system charges (DUoS) are expected to follow on subsequently.</p> <p>Jan-21 – Responses were provided to the request for information and Ofgem had been planning to publish its minded to proposals for consultation by the end of this year but has now decided to push this back into 2021.</p> <p>This has an impact on development of the initial RIIO-ED2 business plan and Ofgem is considering in particular how impacts could be managed through re-openers or uncertainty mechanisms.</p> <p>The key reasons for the Ofgem delay are to explore the links with the development of flexibility markets and to have a clear overall</p>	<p>The objective of this Significant Code Review is to ensure that 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.</p>

		<p>vision for how flexibility will be valued. They are gearing up their work on developing this vision – working with BEIS – and think there is value in holding off issuing their minded to proposals on access until it is clearer. In addition, Ofgem think there is a need to consider wider issues that have arisen with aspects of electricity transmission charging.</p> <p>Ofgem issued a request for information seeking to understand the potential implementation costs associated with the policy reform options being considered. Responses due by 14 August.</p> <p>The Delivery Group met in Jun-20 with Ofgem confirming that timings would be broadly the same with an Ofgem consultation on options happening around Nov-20 with a final decision being made in Spring 2021. Ofgem expects to provide a decision on any code modifications by the Spring of 2022 for implementation in Apr-23. As the timescales could prove to be tight there is consideration being given to whether a delay would be appropriate, but this would mean implementing during ED2 and would affect Business Planning submissions and prolongs the uncertainty of the access and forward looking charging regime for stakeholders.</p> <p>Ofgem presented its latest thinking on shortlisting options and advised that the guiding principles when assessing the options were:</p> <ol style="list-style-type: none"> 1. Arrangements support efficient use and development of system capacity. A key part of the assessment against this criteria will be the extent to which the arrangements support decarbonisation at least cost to consumers. 2. Arrangements reflect the needs of consumers as appropriate for an essential service. 	
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<p>Switching – Significant Code Review</p>	<p>Ofgem is implementing changes to switching arrangements that will enable consumers to switch their energy supplier reliably and quickly.</p>	<p>Ofgem</p>	<p>UPDATE – in March 2021 Ofgem published a REC version 3.0 for consultation. The deadline for responding to the consultation is 30 July 2021.</p> <p>Ofgem’s timetable:</p> <ul style="list-style-type: none"> • Ofgem will designate a REC v3.0 in September 2021. 	<p>The rationale for intervention is the current switching arrangements result in negative outcomes for some consumers and were designed in the last</p>

	<p>The provisions underpinning switching will be included in the Retail Energy Code (REC) v3.0 . This version will come into force at the same time as the new switching systems and processes, expected to be summer 2022.</p>		<ul style="list-style-type: none"> • Ofgem launch statutory consultation on switching licence changes and submit modification proposal to relevant code panels December 2021 (the consultation will close in January 2022) • The Code panels submit recommendations on Ofgem’s recommendations in February 2022. • The Central Switching Service (CSS) goes live in Summer 2022. • The REC has drafted a number of consultations to establish the governance and framework associated with the new code. One of the key publications relates to the Performance Assurance Board and the risks associated with the new REC. The PAB has consulted on its perceived retail risks and will be identifying assurance techniques to minimise the impact on customers. 	<p>century and potentially act as a brake on innovation.</p> <p>In the future, the way that registration date and/or the switching process is managed could require changes if say consumers might want to power their houses from one supplier and their cars from another.</p>
<p>Retail Codes Consolidation – Significant Code Review</p>	<p>In February 2019, Ofgem confirmed their intention to deliver a Retail Code Consolidation Significant Code Review. Under this Significant Code Review Ofgem are proposing to transfer most of the content of the electricity Master Registration Agreement and gas equivalent into version v2.0 of the Retail Energy Code.</p>	<p>Ofgem</p>	<p>UPDATE – in April 2021 Ofgem issued its decision on the Retail Energy Code (REC) v2.0 and Retail Code Consolidation and a statutory consultation on the changes to the electricity and gas supply, distribution and the smart meter communications licence required to reflect the consolidation. The consultation closed on the 1 June 2021.</p> <p>Ofgem’s timetable:</p> <ul style="list-style-type: none"> • Ofgem designate the Retail Energy Code v2.0 in July 2021. • Retail Codes Consultation comes into force on 1 September 2021 including the proposed licence changes. 	<p>A number of processes have been moved under the Retail Codes Consolidation to the Retail Energy Code v2.0 which are non-switching such as provisions for Theft of Energy, Green Deal, Metering and priority services register.</p>

<p>DP175 'Alt Han Inventory Information Sharing'</p>	<p>In June 2021, ENWL raised a new proposal to modify the Smart Energy Code (SEC) for the Alternative Home Area Network (Alt HAN) Company to share their inventory information, for the benefit of all SEC Parties moving forward.</p> <p>Distribution Network Operators (DNOs) and Meter Operators (MOPs) are often required to operate on electrical infrastructure, within Multiple Dwelling Units (MDUs). MDUs are owned by Building Network Operators (BNOs).</p> <p>The Alt HAN Company has started the development of an Alt HAN Company inventory. This will capture specific details of MDUs, including the information identifying MDUs. It will also include the details of the building owner or landlord, for those BNOs</p>	<p>SECAS (Smart Energy Code administrator)</p>	<p>NEW - This draft modification proposal was published on the 22 June 2021. This draft modification proposal will be presented to the SEC Change Sub-Committee, for initial comment on 29 June 2021. The Committee can request that the draft proposal undergo that further development or, approve that the Modification Proposal can be raised and proceed to the next stage in refinement.</p>	<p>When operating on BNO infrastructure, DNOs and MOPs often discover asset condition issues that require urgent attention. Whenever a BNO issue is discovered, it falls to the industry party discovering the issue to identify the building owner or landlord, to notify them of the problem.</p> <p>The identification of the building owner or landlord can, in some cases, prove to be considerably difficult. This can lead to a delay to industry Parties completing their works. In addition, this can lead to additional risks to the security of the supply of energy, within the affected building, which will affect the level of service, they provide to their customers.</p>
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	<p>who do not require a Distribution Licence.</p>			
<p>Mandatory Half Hourly Settlement Significant Code Review</p>	<p>Settlement reconciles differences between a supplier’s contractual purchases of electricity and the demand of its customers. Generators and suppliers trade electricity in the wholesale market in half-hourly periods. Currently, most customers are settled on a ‘non-half-hourly’ basis using estimates of when they use electricity, based on a profile of the average consumer usage and their own meter reads (taken over weeks and months).</p>	<p>Ofgem</p>	<p>Update: Ofgem has published its full business case and decision document and concluded that there are significant benefits of moving to MHHS. This decision moves the project into the second phase of development and meetings are starting to take place to discuss the implementation of the new framework. The expected completion date for the transition is October 2024.</p> <p>Ofgem has also published its decision to appoint ELEXON as the manager of the MHHS review, whilst retaining sufficient power to retake control of the processes if the industry does not deliver in the required timescales.</p> <p>Ofgem are consulting on issues relating to the introduction of market-wide half-hourly settlement (MHHS) across the electricity retail market.</p> <p>MHHS will place the right incentives on retailers to develop and offer new tariffs and innovations that encourage and enable more flexible use of energy, for example, time of use tariffs, automation, vehicle to grid solutions and battery storage.</p> <p>Accompanying the consultation document is a draft impact assessment (IA) of the introduction of MHHS. The IA sets out the potential impact of Ofgem’s preferred option for implementation, as well as the other options we have considered. Ofgem has also published a separate paper on the consumer impact of MHHS.</p>	<p>This significant code review will change the way that suppliers bill customers and will also change the amount of data provided to the industry.</p>

