

## Regulation and policy update for community and local energy stakeholders (June 2022)

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 this is not an exhaustive list but will hopefully be a useful summary and prompt for further reading. Only the updated sections are included here noted in blue highlight.

Name of regulation / policy	What is it?	Owner	What stage is it at?	Why it matters
<p><b>RIIO-ED2 Draft Determinations</b></p>	<p>Ofgem's draft Determinations on our ED2 Business Plan for Apr-23 to Mar-28</p>	<p>Ofgem</p>	<p>Ofgem is due to publish its RIIO-ED2 Draft Determinations on 29 June. We understand Ofgem will give all stakeholders an 8 weeks consultation period.</p>	<p>Draft determinations precede Ofgem's final decisions (final determination) on the package of services and funding for these for the 2023 to 2028 period. Draft determinations are a consultation so stakeholders are able to input their views.</p>
<p><b><u>Access and forward looking charges review: Significant Code Review (Access SCR)</u></b></p>	<p>This is Ofgem's method to review current working practices and this review will focus on:</p> <p>a review of the definition and choice of access</p>	<p>Ofgem</p>	<p><b>Update – On the 3 May 2022 Ofgem issued its Final Decision and Direction on the Access SCR, covering two areas of the original scope:</b></p> <ul style="list-style-type: none"> <li>- <b>The distribution connection charging boundary</b></li> <li>- <b>The definition and choice of access rights</b></li> </ul>	<p>The objective of both the Target Charging and Access and Forward-looking charges review this Significant Code Reviews are to ensure that electricity networks are used efficiently and flexibly, reflecting users' needs and allowing consumers to benefit from new technologies and services while</p>

	<p>rights for transmission and distribution users</p> <p>a wide-ranging review of distribution network charges (Distribution Use of System (DUoS) charges)</p> <p>a review of the distribution connection charging boundary</p> <p>a focused review of transmission network charges (Transmission Network Use of System (TNUoS) charges)</p>	<p><b>The original SCR scope also included a wide-ranging review of DUoS charges and a focussed review of TNUoS charges. These areas continue to be developed outside Ofgem's final Decision and Direction on the Access SCR.</b></p> <p><b>Regarding the distribution connection charging boundary, Ofgem has decided to:</b></p> <ul style="list-style-type: none"> <li>• <b>Reduce the overall connection charge faced by those connecting to the distribution network</b></li> <li>• <b>Retain and strengthen existing protections for bill payers</b></li> </ul> <p><b>Regarding the definition and choice of access rights, Ofgem has decided to:</b></p> <ul style="list-style-type: none"> <li>• <b>Ensure a standardised non-firm access option is available for larger network users</b></li> <li>• <b>Introduce clear curtailment limits and end-dates for non-firm access arrangements</b></li> </ul> <p><b>Alongside the decision, Ofgem published a direction to holders of a distribution licence to raise the requisite change proposals to the DCUSA to give effect to its decision. Consequently, four Access SCR related DCUSA Change Proposals (DCP) were raised and then approved by the DCUSA Panel. These will now be progressed through Working Groups:</b></p>	<p>avoiding unnecessary costs on energy bills in general.</p> <p>It could significantly affect community energy projects because it may impact the cost of connections and use of network charges paid by demand and generation customers.</p>
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		<p>Forward-looking Charges Significant Code review: distribution connection charging, the definition and choice of access rights, and transmission charges for small, distributed generators. The deadline for responses: 27 August 2021.</p> <p>Jun-21 - 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</p>	
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			<p>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 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>	
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<p><b>Market-wide Half Hourly Settlement (MHHS) Significant Code Review</b></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><b>Update: Exlexon has raised a number of changes to the proposed baseline milestones following feedback from industry parties. These changes will delay specific milestones in line with previously accepted change proposals.</b></p> <p><b>Exlexon has requested information from the industry parties on the governance arrangements in place to deliver the code review objectives. The readiness assessment was issued in April 22 and the results published in May 22. The overarching message was that the vast majority of parties were not fully engaged with the programme and that Exlexon need to work with the industry to understand and remove any barriers.</b></p> <p>Mar-22 - Ofgem has made a number of appointments to facilitate the MHHS programme including the Independent assessment body.</p> <p>19 Nov Ofgem announced business separation of Exlexon for the MHHS Program to facilitate the industry led format of the SCR.</p> <p>On the 1 November MHHS published its Governance Framework to inform stakeholders that Ofgem is now designating the Governance Framework for 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> <p>It could help community energy groups because widespread half hourly metering is seen as key to unlocking new markets such as domestic flexibility.</p>



			<p>On the 12 August Ofgem published an update on this significant code review stating their intention to submit their first set of Authority-led proposals in respect of code modifications required to put in place the Market-Wide Half-Hourly Settlement (MHHS) implementation and governance arrangements to the relevant panels and administrators of the following industry codes:</p> <ul style="list-style-type: none"> <li>• Balancing and Settlement Code (BSC)</li> <li>• Distribution Connection and Use of System Agreement (DCUSA)</li> <li>• Connection and Use of System Code (CUSC)</li> <li>• Smart Energy Code (SEC)</li> <li>• Retail Energy Code (REC)</li> </ul> <p>Ofgem have set out their intention for the implementation of the MHHS by October 2025.</p>	
<p><b>DCUSA Change Proposal (DCP) 390 'Provision of Isolations for Safe Working on Customers' Electrical Installations'</b></p>	<p>Proposed change under the Distribution Connection &amp; Use of System Agreement (DCUSA) to define a process detailing how a customer can obtain timely main supply electrical isolations to allow for safe working on</p>	<p>DCUSA</p>	<p>Mar-22 – DCUSA Parties voted overall to accept the solution under this change proposal, it was sent to the Authority on 21 December 2021 for final determination. However, the Authority sent back the change proposal in Feb-22 for further work to be undertaken by the working group in respect of conflicts with another change proposal, DCP394 'Allow any REC accredited meter operator to de-energise any metering point'.</p>	<p>This change will help customers, their electricians and installers of low carbon technologies to have connections de-energised/re-energised in a timely manner where work is required on electrical installations. This should give some certainty on the timescales for a connection for all customers.</p>

	<p>their electrical installations.</p>		<p>Dec-21 – Following industry consultation this change proposal was issued to parties for voting on 26 November 2021 with votes required by 17 December 2021.</p> <p>The working group issued an industry consultation to gauge parties views on the change with responses due back by 14 September 2021.</p>	
<p><b><u>Targeted charging review:</u></b> <b>Significant code review.</b></p>	<p>This is Ofgem’s method to review current industry rules/frameworks and this review will focus on:</p> <p>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</p> <p>keeping the other ‘embedded benefits’ that may be distorting investment or dispatch decisions under review.</p>	<p>Ofgem</p>	<p>Mar-22 - The Authority approved the remaining CUSC modifications for implementation on 1 April 2023:</p> <p>CMP343 (WACM2)/CMP340 (Original) - Transmission Demand Residual Bandings and allocation (TCR)</p> <p>CMP335 (Original)/CMP336 (WACM1) - Transmission Demand Residual, billing and consequential changes to CUSC</p> <p>Sep-21 The decisions on the remaining four modifications were expected on 27 August 2021, but Ofgem has advised that this will now be delayed and hasn’t yet provided an update on when the decisions will be published.</p> <p>Jun-21 - Three of the seven Connection &amp; 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.</p>	<p>To spread the costs of maintaining the electricity grid more fairly providing savings for consumers.</p> <p>The objective of both the Target Charging and Access and Forward-looking charges review this Significant Code Reviews are 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>It could significantly affect community energy projects because it may impact the cost of connections and use of network charges paid by demand and generation customers.</p>

		<p>Jan-21 - All Targeted Charging Review related modifications/change proposals for the Connection &amp; Use of System Code (CUSC) and the Distribution Connection &amp; 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.</p> <p>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.</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</p>	
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			<p>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 specified timeframes. Consequently, on the 20 December 2019 the Energy Networks Association, on behalf of NGESO and the DNOs, provided the joint plan to Ofgem setting out how they will work together and collaborate with other relevant industry stakeholders to achieve the timeframes.</p>	
<p><a href="#">Switching – Significant Code Review</a></p>	<p>Ofgem is implementing changes to switching arrangements that will enable consumers to switch their energy</p>	<p>Ofgem</p>	<p><b>Update:</b></p> <p><b>June-22:</b></p> <ul style="list-style-type: none"> <li>Ofgem launched statutory consultations on switching licence changes and submit modification proposal to relevant code panels in</li> </ul>	<p>The rationale for intervention is the current switching arrangements result in negative outcomes for some consumers and were designed in the</p>

	<p>supplier reliably and quickly.</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>		<p>December 2021 for the Supplier licence and February 2022 for the network operator licences (the consultation for Suppliers closed in January and the consultation for network operators will close on the 21 March 2022)</p> <ul style="list-style-type: none"> <li>In May, Ofgem published their <a href="#">Decision on statutory consultations on licence changes for the Switching SCR</a> which include a notice to modify the DNO licence.</li> </ul> <p>Ofgem's timetable:</p> <ul style="list-style-type: none"> <li>The Central Switching Service (CSS), REC v3.0, other consequential code changes and licence changes to take effect on the CSS Go-Live Date of 18 July 2022.</li> </ul>	<p>last 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><a href="#">Reforming the Energy Codes – Significant Code Review</a></p>	<p>BEIS and Ofgem are jointly developing options for improving the 12 gas and electricity codes and relevant engineering standards and their governance (7 code managers and 5 delivery bodies).</p>		<p><b>Update:</b></p> <p>June-22 - This is one of the slower moving SCRs, work to date by BEIS and Ofgem includes:</p> <ul style="list-style-type: none"> <li>In 2019, and invite to a series of <a href="#">workshops</a> and the publication of a first <a href="#">consultation</a> on this SCR proposed reforms in four areas: providing 1) strategic direction, 2) empowering and accountable code management, 3) increase independence of decision-making and 4) code simplification and consolidation).</li> <li>In 2020, the <a href="#">summary of responses to the first consultation</a></li> </ul>	<p>The rationale for intervention is to allow the codes to facilitate the significant changes required to transition to a cleaner energy system, such as code consolidation and simplification.</p> <p>The benefits to consumers and industry would be to lower barriers to competition, improve transparency and accountability, and drive innovation.</p>

		<ul style="list-style-type: none"> <li>• In 2021, the publication of a second consultation, impact assessment an workshop invite on the design and delivery of the reform. In their design they set out their preferred option is for Ofgem to be designated as a 'strategic body' over the energy codes with separate code managers.</li> <li>• In 2022, BEIS/Ofgem published their response to both the 2019 and 2021 consultations and also to set out some high-level details on their legislative proposals.</li> </ul> <p>BEIS and Ofgem updated timetable:</p> <ul style="list-style-type: none"> <li>• 2022 – Engagement on the following topics: <ul style="list-style-type: none"> <li>– Detailed elements of code reform</li> <li>– Roles of Stakeholder Advisory Forums (as industry will no longer have a seat on Code Panels)</li> <li>– Development of a high level plan for code consolidation</li> <li>– Open letter from Ofgem on its intended approach to implementation, transitions and stakeholder engagement</li> </ul> </li> <li>• 2022- 23 - Primary legislation changes</li> <li>• 2023 - Ofgem new strategic function established</li> <li>• 2023 onwards – changes to licences, codes and contracts to facilitate transition</li> </ul>	<p>BEIS and Ofgem believe the new code governance framework, with the right roles and responsibilities, has the potential to play a vital role at this critical time for our energy system by helping to bring all greenhouse gas emissions to net zero by 2050. They also recently stated that Russian/Ukraine conflict underlines the need for national security and to become energy independent.</p>
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<p><b>DUoS Charges Significant Code review</b></p>	<p>Ofgem</p>	<p>Recently Launched</p>	<p>Mar-22 - Following consultation in November 2021, Ofgem have decided to descope the wide-ranging review of Distribution Use of System ('DUoS') charges from the current Electricity Network Access and Forward-Looking Charges Significant Code Review ('Access SCR') and take it forward under a dedicated DUoS SCR with a revised timescale.</p> <p>With immediate effect from Feb 22, Ofgem have decided to launch a separate Distribution Use of System charges SCR in order to take forward a review of this area whilst allowing the Access SCR to be delivered in a timely fashion. This decision retained the overall objective of DUoS reform from the Access SCR - 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.</p> <p><a href="#">Distribution Use of System Charges: Significant Code Review Launch   Ofgem</a></p>	<p>DUoS charges are paid by users of the local distribution grids so impact electricity consumers. DUoS charges in the ENWL area for a typical domestic customer are the lowest of all DNO groups. This reform is about how the allowed revenues set by Ofgem through price control processes are recovered through the price structures for use of distribution system charges.</p>
<p><b>Retail market issues, regulatory reform and affordability</b></p>	<p>Ofgem and BEIS</p>	<p>Recently launched</p>	<p>Mar-22 - The issues seen in the retail market are being addressed by Ofgem through a range of measures including <a href="#">Ofgem: update on stabilising the energy market   Ofgem</a> and other policy steps. Government have moved to assist consumers with affordability, given the substantial increases in the energy price cap <a href="#">Millions to receive £350 boost to help with rising energy costs - GOV.UK (www.gov.uk)</a>. Industry commentators are</p>	<p>Energy bills, driven by wholesale costs are increasing substantially. Various policy measures are being taken, with some commentators anticipating further steps being announced.</p>

			anticipating the price cap may increase yet further when next reset.	
<a href="#">Smart Energy Code DP206 'Allowing Generation Licence Holders to Apply Export MPANs'</a>	<p>The Change Proposal proposer says the Smart Energy Code (SEC) and its supporting technical specifications are currently written, whereby only Export Suppliers that hold an Electricity Supply Licence can apply an Export Meter Point Administration Number (MPAN) to Smart Metering Equipment Technical Specifications (SMETS) Devices. The proposer says this is preventing SEC Parties from exercising their rights under the Electricity Generation Licence, and subsequently limiting choice for domestic customers who wish to generate revenue for their export energy.</p>	SEC	<p><b>Update</b></p> <ul style="list-style-type: none"> <li>- In May 2022, the SEC Change Sub-Committee (CSC) recommended that this Draft Proposal remains in the Development Stage to better understand the impacts this issue is causing. Due to the high number of modifications which have been raised this month the CSC agreed this modification should be added to the waiting list until there is sufficient capacity to progress the Proposal.</li> </ul>	<p>This proposal could amend the SEC to allow companies with a generation licence to also offer a domestic customer with onsite generation a price for their export with a Smart Export Guarantee (SEG).</p>