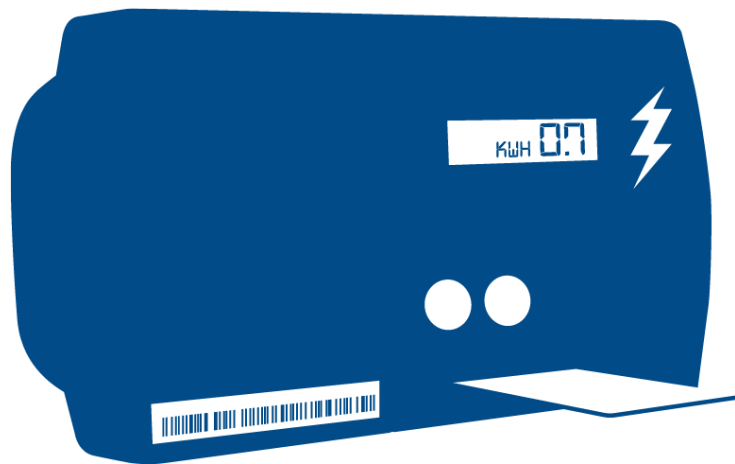


# Citizens Advice response to the Ofgem Access SCR Assessment Methodology consultation

Citizens Advice  
October 2022



# Introduction

We are pleased to respond to this consultation in our role as the statutory advocate for energy for Great Britain. Our response is non-confidential and may be freely published. This consultation addresses various aspects relating to the funding of Distribution Network Operator (DNO) additional costs which may arise from the changes resulting from the Access and Forward Looking Charges Significant Code Review (Access SCR).

## **Scale of additional Access SCR funding and consumer mitigants**

We note the substantial difference between Ofgem's predicted costs arising from the Access SCR and those submitted by DNOs for the purpose of setting baseline allowances and costs assessment for ED2. Ofgem assumed £380 million of additional inefficient network investment over a 17 year period in its cost benefit analysis (CBA) in June 2021 as a result of the changes to connection charges. The submissions by DNOs in August 2022 now suggest additional costs of up to £1.1 billion over a 5 year period.

If the DNO estimates of additional costs are correct, the forecast made by Ofgem is too low with consumers potentially picking up significantly larger socialised costs for connection charges than were predicted. We recommended in our Access SCR consultation response<sup>1</sup> to Ofgem that this was a real risk and that actual revealed costs by DNOs should feed back into the CBA and decision-making process for the SCR to ensure decisions are made on accurate and up to date evidence. Although the decision and direction on the SCR was made by Ofgem in May this year, we recommend that Ofgem seeks to assess the impacts of these baseline allowances on the CBA on which the decision was made. We also recommend that Ofgem considers mitigants that may be used to limit the impacts on consumers, such as reviewing the level of the high cost cap.

## **Move from Active Network Management contracts (ANM)**

The consultation document noted that one DNO has identified that a sizeable number of ANM customers may be seeking to move to firm commitments. Ofgem should monitor closely whether this situation is likely to be replicated in other DNO areas and assess the implications for additional funding requirements for flexibility services or for reinforcement. The proposed RIIO-ED2

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<sup>1</sup> Citizens Advice, [Response to Access and Forward-looking Charges SCR](#), August 2021

uncertainty mechanisms offer a means for any required additional funding to be released to DNOs.

## Questions

### **1. Do you agree with our proposals not to have a UM specifically for Access SCR, but instead to manage this uncertainty through the suite of LRE UMs?**

As we noted in our response to the Ofgem consultation on the RII0-ED2 (ED2) Draft Determinations<sup>2</sup>, we support the approach to use the uncertainty mechanisms (UMs) which were outlined in the Draft Determinations consultation document rather than to establish a separate mechanism for Access SCR-related costs.

### **2. Do you have any views on how best to manage the potential increase in indirect costs?**

It was reported to us by various DNOs that there may be an issue with the proposed ED2 LRE UMs in that they did not have an additional element to account for indirect costs from design or engineering requirements due to the additional Access SCR demand. It is suitable to consider this aspect within working groups to determine the level of additional funding needed. We recommend that the methodology used to set the funding of indirect costs is subject to review during the ED2 period to ascertain whether those additional costs are reflected in reality.

### **3. Do you agree with our proposal to provide two years of ex-ante allowances given the uncertainty in this activity?**

We recognise the uncertainties surrounding the funding of this activity, including the lack of confidence that Ofgem has in the DNOs' ability to correctly estimate the proportion and extent of costs that would be paid by Distribution Use of System (DUoS) charges. We therefore support the proposal to provide only an initial 2 years of ex-ante funding to DNOs and to release further funding as the demand becomes more certain. We recommend that Ofgem undertakes a periodic reconciliation (for example, after the first 2 years) to establish accurate

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<sup>2</sup> [Citizens Advice response to the Ofgem consultation on the RII0-ED2 Draft Determinations](#)

costs that would be brought under the DUoS scheme and to ensure funding has only been provided to DNOs where connections charges did need to be socialised.

**4. Do you agree with our proposed cost assessment approach and RIIO-ED2 ex-ante allowances?**

No response provided.

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