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Dear Andy,

Future Charging and Access programme: consultation on supplementary analysis to November 2018 minded to decision on the Targeted Charging Review

We welcome the opportunity to respond to Ofgem's supplementary analysis.

Our comments relating to the supplementary analysis are outlined in the following sections.

1. Capacity Market Sensitivity analysis

We agree with the conclusion that the case for the proposed changes to network demand charges, or the partial reform of BSUoS would not be undermined should the Capacity Mechanism not be reinstated.

By contrast If the Capacity Mechanism were not to be reinstated, this would further worsen the detrimental impact of the proposal to set the TGR to £zero and further worsen the relative detrimental impact of the proposed full reform of BSUoS, as compared with applying the TCR principles to BSUoS. This is because the impact of these detrimental proposals on competition between GB generation and interconnected generation would be even worse, if their effects could not be at least partially mitigated by the GB Capacity Mechanism. This worsening detrimental effect was demonstrated by Frontier's updated analysis which showed that in the absence of the Capacity Mechanism, then GB power prices would be higher, incentivising greater interconnector imports which would displace generation from GB generators.

2. The Balancing Services Charges Task Force findings

We fully support the conclusions of the BSUoS Task Force that BSUoS should be treated wholly as revenue collection. We fully support Ofgem's previously stated position that, in as far as the purpose of BSUoS is for revenue collection, the same TCR principles for revenue collection should be applied

to BSUoS charges. This would indicate that BSUoS should be collected wholly from final consumption and collected in the form of either a fixed, or capacity-based charge.

We urge Ofgem to move quickly in this regard and in the same timeline as the proposed TCR/SCR changes to revenue collection for TNUoS and DUoS relating to demand residual charges. Further, we would urge Ofgem to urgently and clearly set out its position regarding BSUoS revenue collection and detail what action Ofgem proposes to take, or whether Ofgem would welcome proposals from an industry led process.

3. Updated system costs due to corrected carbon appraisal accounting

We welcome the supplemental analysis regarding sensitivity to carbon price assumptions. We support the conclusion that this element would not change the conclusions of the impact assessment.

4. Clarification on the use of Line Loss Factor Classes (LLFCs) in our 'minded to' proposal

Lastly, we welcome the clarification on Ofgem's intended use of Line Loss Factor Class groupings as per the DUoS tariff groups to segment users. It may be that further refinements are needed to this approach, for example, where Line Loss Factor Classes have small populations that are less conducive to being grouped in this way. We also mindful of Ofgem's position to apply a single charge for extra high voltage users. This too might need further refinement given the fact that not all users at this level could be considered to be the same. Notwithstanding this, we appreciate Ofgem's clarification at this stage. It is helpful to be explicit – particularly where there is the potential for interpretation - to ensure that all stakeholders are fully able to understand the proposals and the possible impacts.

We would be happy to further discuss any of these matters with you.

We support Ofgem's conclusions from this further analysis and continue to broadly support Ofgem's 'minded to' decision of 28th November 2018, as detailed in our consultation response of 4th February 2019. We continue to support Ofgem's 'minded to' decision regarding changing the TNUoS and DUoS supplier charging base to be a fixed, or capacity charge. We also continue to support Ofgem's proposed "partial BSUoS reform" option to charge BSUoS on gross demand. However, we remain not supportive of the proposed "full BSUoS reform" option. We believe that a better alternative would be to apply the TCR principles to BSUoS in an equivalent way to that proposed for TNUoS and DUoS. This would imply collecting BSUoS revenue wholly from final consumption, and doing so via a form of fixed, or capacity charge. We remain strongly opposed to the proposal to set the Transmission Generation Residual to £zero because this would distort competition and further disadvantage GB generators compared with interconnected generators, unless appropriate mitigating measures were put in place. As we outlined in our consultation response in February 2019, it would have been helpful for Ofgem to carry out an impact assessment on each of the TCR proposals individually instead of treating them as a package.

Yours sincerely,

John Tindal, **Regulation**