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

12 July, 2019

Dear Andy

Thank you for the opportunity to respond to your open letter dated 17 June 2019. Uniper continues to support the Targeted Charging Review (TCR), as it seeks to improve network charging arrangements to support the GB going forwards.

We understand why Ofgem has decided to carry out this interim consultation exercise, particularly to clarify and update analysis undertaken as part of the impact assessment. We note that this is in response to issues raised with the initial analysis carried out by Frontier Economics. Whilst we agree with updating analysis to correct significant errors or omissions, we note that there are inevitably always limitations with such predictions due to the complexities and uncertainty surrounding them.

We feel that the changes being considered under the TCR have significant merits which can be justified as a matter of principle. We also believe that changes to the methodologies are long overdue in order to rectify ongoing embedded benefits and continued distortions to cross border trade created by the current method for recovering Balancing Services Use of System (BSUoS) charges. The impact assessment provides a useful analysis tool to inform Ofgem and stakeholders of the likely impacts of reform. However, the outcomes of such analysis should not be the main rationale for making any changes in themselves.

Therefore, we would be concerned if subsequent challenges to the analysis were to result in significant further delay to developing and implementing the changes needed.

Our responses to the specific issues raised in the letter are as follows:

1. Capacity Market sensitivity analysis

We understand why this sensitivity has been carried out, given the potential impact that a permanent suspension of the Capacity Market could have on the industry, however unlikely this may be. We were not surprised, however, that the analysis confirmed that reforms under the TCR would still be beneficial. Removing market distortions should still benefit the market, and therefore customers, in the form of more efficient outcomes. The analysis illustrates that this would be the case.

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2. Taking account of the Balancing Services Charges Task Force findings

We note the conclusions of the BSUoS Taskforce and agree with them. Having established that BSUoS cannot be charged in a manner which provides effective cost reflective signals, the next step is to ensure that costs are recovered in the least distorting manner possible. We feel that this should be addressed as a matter of urgency.

We strongly believe that the present BSUoS methodology creates two main market distortions. Firstly, as GB generation is charged BSUoS, whereas interconnector imports to the GB market are not, this distorts cross border trade in favour of non GB based capacity. Secondly, because certain embedded plant avoids BSUoS and additionally offsets demand exposure to the charge, an effective double embedded benefit is perpetuated.

We believe that the correct solution to both these issues is to charge BSUoS wholly to demand on a gross basis. This could be done through a charge per site, as has been suggested for the recovery of residual charges, or through a gross consumption based charge. We note that the latter could potentially affect participant behaviour, so could be less than optimal, but could be constructed in such a manner to minimise this impact, if consumption based charging was deemed fairer for instance.

As CMP308 is already in progress, it could form the basis of any reform. Therefore, an effective manner to implement the changes needed could be for Ofgem to continue to engage with the assessment process for CMP308 to ensure that an acceptable solution is brought forwards.

3. Updated carbon values

Similar to our views on the new sensitivity analysis around Capacity Market suspension, while we understand why Ofgem needed to carry out updated analysis to correct the carbon values used, we would be concerned if future challenge and updates to the analysis resulted in delays to implementing the changes needed.

4. Clarification of line loss factor classes

We welcome the clarification of how line loss classes could be identified and used for charging purposes.

I hope the above comments prove helpful. Should you need to discuss this further, please contact me in the first instance.

Yours sincerely,

Paul Jones
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