

Energy UK response to Ofgem's Future Charging and Access programme: consultation on supplementary analysis to November 2018 minded-to decision on the Targeted Charging Review

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About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests £12bn annually, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HM Treasury.

Response

Energy UK welcomes the opportunity to respond to the Future Charging and Access programme: consultation on supplementary analysis to November 2018 minded-to decision on the Targeted Charging Review.

Capacity Market sensitivity analysis

Energy UK agrees with Ofgem that it is prudent to conduct additional analysis on the minded-to decision on the Targeted Charging Review (TCR) following the suspension of the Capacity Market (CM). Some members agree the analysis is sufficient. However, all members believe Ofgem could have gone into more detail, particularly around the sensitivity analysis. We are not convinced that Security of Supply (SoS) will be unaffected as a result of the CM suspension. We would welcome additional justification for Ofgem's assumption that the market response to build the appropriate level of generation will be strong enough without the CM in place (in an energy only market).

Additionally, since the initial Impact Assessment (IA), renewables are now able to participate in the CM. Energy UK encourages Ofgem to clarify whether or not they will redo the IA taking this into account.

Balancing Services Charges Task Force findings¹

As noted in our response to *the Balancing Services Charges Task Force Report Consultation*², Energy UK agrees with the final conclusion of the Task Force and supports the overall conclusion that costs included within Balancing Services Use of System (BSUoS) charges should all be treated on a cost-recovery basis. As noted in our response to the *Targeted Charging Review: Minded to decision and*

¹ This position is not supported by OVO Energy – please see their individual response for their position

² <https://www.energy-uk.org.uk/publication.html?task=file.download&id=7174>

*draft impact assessment*³, Ofgem has acknowledged that the principles of network residual charging may be similarly applied to BSUoS charging. Given the findings of the Task Force, we encourage Ofgem to pursue this as an option for collecting balancing charges and provide guidance to industry on the next steps to implement such arrangements.

We encourage Ofgem to accept the findings of the Task Force and apply the principles of residual recovery and levy BSUoS charges as an ex-ante tariff to final demand only. Energy UK notes that a number of BSUoS related work streams have been progressing recently with minimal steer from Ofgem thereby meaning industry are uncertain about the direction policy changes could go. For example, CMP308 'Removal of BSUoS charges from Generation' is progressing despite its overlap with the TCR and may increase volatility or BSUoS charges for suppliers. We encourage Ofgem to provide guidance and direction so change can progress with an appropriate time for consultation and implementation.

Ofgem should also confirm whether an IA on the findings of the Balancing Services Charges Task Force will be conducted and how any changes to BSUoS interact with the TCR proposals.

Updated carbon values

Energy UK agrees with Ofgem that the BEIS appraisal values should have been used in the initial analysis and welcomes the use of these values in the updated analysis.

Final Impact Assessment

Ofgem's initial IA included an assumption that renewable generators will not respond to market changes introduced by the TCR. Whilst the materiality of this assumption is unknown, Energy UK disagrees with any assumption that states that a class of network users will not change their business plans based on fundamental network charging changes. Some of our members support analyses in the public domain^{4,5} which demonstrate how renewable generators may respond to the TGR/BSUoS proposals. Energy UK believes that the updated IA, and all future IAs, should not include this assumption.

Some Energy UK members believe it appropriate to consult on the updated IA ahead of Ofgem publishing its final decision and not to do so would be poor regulatory practice, potentially opening Ofgem up to legal challenge. Other members believe that the current IA is robust and that a further consultation is unnecessary and would unduly hinder the progress of the TCR.

Frontier Economics has undertaken a lot of economic modelling which is welcomed by Energy UK. However, we note some DNOs have raised concerns about what the proposed changes by Ofgem will physically do to their networks. Ofgem should consider the physical issues on the networks as well as the change in flows across the DNO systems. Industry would welcome visibility of any analysis that has or will be done in this area as well as how this will be captured in the wider IA.

Ofgem has provided detailed information on the impact of its proposed charging reform on the charges that different customers will face in different regions of the UK. There is merit in providing a similar degree of granularity of information for different generation types by region which Ofgem should already have. Currently, the information for generators is based on the impact on the anticipated Net Present Value per generation type. This is a useful signpost but could go further to help parties understand the impact of reform. Publishing the information will help industry as a whole better understand the impact of the proposed reforms on generator costs.

Further comments

With the amount of change progressing, there is inevitably a degree of uncertainty in the industry at present. This is not helped by the number of potential options for change under Ofgem's Future Charging and Access programme still on the table. Energy UK believe it is appropriate that Ofgem narrow down

³ <https://www.energy-uk.org.uk/publication.html?task=file.download&id=7021>

⁴ <https://www.oxera.com/publications/ofgem-targeted-charging-review-impact-assessment/>

⁵ <https://www.auroraer.com/wp-content/uploads/2019/05/Aurora-TCR-Public-Report-May-2019.pdf>

the options to enable industry to fully develop the solutions in a timely manner, taking into account all other interactions.

It has come to our attention that some large end users are unaware of Ofgem's Future Charging and Access programme and the impacts it could have on them. This is concerning as some materially impacted end consumers may continue to operate in the market under the status quo arrangements which are most likely going to change within two or three years. We encourage Ofgem to further engage with new and existing materially impacted end consumers to ensure as many as possible are aware of the work stream.

Should you have any questions on the above response, please do not hesitate to get in touch.

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