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Dear Andy

Future Charging and Access Programme – Consultation on Supplementary Information and Analysis to November 2018 Minded To Decision on the Targeted Charging Review

Thank you for the opportunity to respond to this consultation. Please find our comments below.

BSUoS Charging in TCR

We agree with the Task Force conclusion that *'it is not feasible to charge any of the components of BSUoS in a more cost-reflective and forward-looking manner that would effectively influence user behaviour that would help the system and/or lower costs to customers. Therefore, the costs included within BSUoS should all be treated on a cost-recovery basis'*.

The current method of recovering BSUoS costs on a half hourly basis results in a very volatile charge, one that is difficult to predict and subsequently requiring the need for market participants to apply risk premium to try to mitigate the uncertainty. There is very limited scope for market participants and customers to change their behaviour in response to BSUoS.

We would suggest that, given the above, Ofgem should consider under the TCR the option of charging BSUoS using an ex-ante approach (in a similar way to TNUoS and DUoS charging). i.e. this would be a published annual tariff (say, April-Mar), fixed ahead of the charging period and set by NG SO (say, 15 months similar to DUoS. Any over or under recovery would then be recovered by NG SO in a future period through a k-factor type process. Measures would obviously need to be put in place to ensure that NG SO were appropriately financed to manage this cash flow. It would be expected that these financing costs would be cheaper for a solution backed with a regulatory settlement, compared to the cost of capital of parties operating in the competitive market.

While we appreciate that the above is essentially revisiting the proposal suggested in CMP250, rejected by Ofgem in October 2018, Ofgem did state at that time that CMP250 was also dependent on the outcome of the TCR. Ofgem concluded that *'there would be benefits from further analysis of whether the elements of BSUoS which have a cost-reflective element could be enhanced and hence provide stronger forward-looking signals. We think this would help establish the long-term direction for BSUoS'*. There was also concern that 'CMP250 could reduce any existing cost reflectivity in advance of proper consideration of these issues'. Given that the task force have concluded that BSUoS is a cost recovery charge, not a forward looking charge, it therefore seems reasonable to re-consider charging for BSUoS on an ex-ante basis, similar to the other network costs.

We strongly believe that any changes to BSUoS should be treated in a **holistic** manner. **TCR is the ideal place to do this since it provides a much more open form of engagement and transparency for all market participants and customers.** Piecemeal changes through individual CUSC modifications can only address the restricted issue being raised and may result in unintended consequences elsewhere.

We have already highlighted our concerns around the current conflict between CMP308 and TCR. These concerns have been raised both in the CMP308 working group and to Ofgem directly. Ofgem have very clearly stated that BSUoS charging is part of TCR. We do not believe it is therefore appropriate for CMP308 to be running in parallel to TCR. Indeed, implementation of them both separately will change the proposed outcome for renewables compared to if just one of the solutions was implemented. (Please see attached to this letter Appendix 1 - Interaction between TCR and CPM308 (Removal of BSUoS Charges from Generation)).

Any major changes to the way BSUoS is charged should be covered solely within the TCR to reduce the likelihood of unintended consequences / conflicts between approaches. This will allow a more holistic review of how BSUoS should be charged in the future.

Clarification of Line Loss Factor Classes

We appreciate clarification of, and we fully support, the grouping of line loss factor classes / profile classes for TCR to be in line with the methodology used for Distribution Charging. This is a sensible approach.

Other

We would urge Ofgem to provide a clear, detailed and unambiguous decision on the changes they wish to implement through TCR. This will allow Industry working groups to progress it quickly through the process, while providing market participants the clarity they need to understand and model the changes. This will also allow us as a supplier to quickly engage with our customers to explain how these major changes will affect them.

We would be happy to meet to discuss with you and your colleagues the contents of our response.

Yours sincerely

Helen Inwood

Helen Inwood

(by email so unsigned)

Non-Commodity Charging Manager

Enc. Appendix 1

APPENDIX 1

Interaction between TCR and CPM308 (Removal of BSUoS Charges from Generation)

We are concerned that there is a conflict between the 2 changes, which, if both implemented, will lead to different outcomes for renewables if full BSUoS reform in TCR is applied. The impact of those changes are summarised on the following graph, with additional commentary below. We would suggest that the CMP308 proposal should be considered as part of Ofgem's holistic TCR review, rather than being treated as a separate CUSC modification running completely separately from TCR.



As Is (baseline)

If BSUoS is £2.50/MWh, currently transmission connected generation pays £2.50 / MWh. Embedded generation receives a credit of £2.50 / MWh.

CMP308 implementation only

Under CMP308, the modification seeks to remove BSUoS charges from transmission connected generation. If implemented (without TCR in place),

- If BSUoS was £2.50/MWh, transmission connected generation would pay £0.00 / MWh. Embedded generation would receive a credit of £5.00 / MWh.

TCR implementation only

Under TCR (no embedded benefits i.e. partial reform)

- If BSUoS was £2.50/MWh, transmission connected generation would continue to pay £2.50 / MWh. Embedded generation would not receive a credit or pay charges i.e. £0 / MWh.

Under TCR (embedded charged BSUoS i.e. full reform)

- If BSUoS was £2.50/MWh, transmission connected generation would pay £2.50 / MWh. Embedded generation would pay £2.50 / MWh.

Both TCR and CMP308 implemented

Under CMP308 plus TCR (no embedded benefits i.e. partial reform)

- If BSUoS was £2.50/MWh, transmission connected generation would pay £0.00 / MWh. Embedded generation would neither receive a credit or pay charges i.e. £0 / MWh.

Under CMP308 plus TCR (embedded charged BSUoS i.e. full reform)

- If BSUoS was £2.50/MWh, transmission connected generation would pay £0.00 / MWh. Embedded generation would pay £5.00 / MWh.

As can be seen above, implementation of CMP308 will clearly change the outcome of TCR if embedded generation is charged for BSUoS. We would suggest that the two sets of changes should be considered together, and not run in isolation as is currently the case. It is clear that the 2 work areas are very closely linked. The best place to decide on how BSUoS is charged moving forward is through the holistic TCR process.