Dear Andrew,

Future Charging and Access programme – consultation on refined residual charging banding in the Targeted Charging Review

I am writing on behalf of Octopus Renewables in response to the above named consultation and supplementary renewables modelling. We are pleased that Ofgem have procured additional analysis in response to concerns raised previously and continue to engage with industry on these reforms.

We do not have specific comments on the updated proposals for residual charging banding. We remain concerned however that the proposed reforms to embedded benefits (including the proposals relating to TNUoS generator residual) are based on flawed quantitative analysis and assessed on narrow principals which are inconsistent with wider government policy.

<u>Quantitative analysis</u>

The assumptions for renewables drop-out rate made in the Frontier/LCP analysis released on 3rd September are clearly highly subjective. The analysis is complicated by the inconsistency inherent in using as a baseline FES scenarios which are not necessarily aligned to any current or proposed government policy programme, and overlaying an assumption regarding the response of government to counteract the negative impact of charging reform on renewables deployment and hence decarbonisation. We therefore do not seek to comment in detail on assumptions set out in the Frontier/LCP analysis, other than to note that it is not clear to us that the assertion on page 7 of their report that "The net result [of modelling a scenario closer to reality] would leave the incremental impact of the change in investment very similar to that which [they] are modelling" is valid.

We also note one key assumption with which we disagree. The cost assumptions used for various generating technologies appear to remain unchanged irrespective of the charging reform, and in particular the cost of capital is not modelled as changing. We would expect that the negative impact of the currently proposed changes on investor confidence would lead to an increased risk premium for investments into the UK, further increasing system costs beyond the levels modelled and eroding the consumer benefits claimed.

<u>Principles for assessing options</u>

We fundamentally disagree with the focus on consumer benefit over system benefit. Even if consumer benefits do remain after accounting for the increased cost of capital UK infrastructure projects would likely face following these changes, the system costs are significantly increased. This highlights the fact that any consumer savings resulting from the proposed embedded benefit reforms would be achieved purely by appropriating value from existing investors. We do not think such appropriation is sound economics, and in any case deciding on that should be a matter for government (or the electorate in selecting that government), rather than the regulator.

Furthermore a change in regulation which increases carbon emissions by as much as is projected is wholly inconsistent with government policy and with Ofgem's own Strategic Narrative. We understand that Ofgem operates independently from government, however at a time when financial institutions are being pressured to make sustainability a fundamental part of their business models, and recognise the risks and costs of climate change in their reporting, it makes little sense for Ofgem to be sending a signal to the market that short term cash savings for billpayers outweigh longer term carbon emission targets. As such we would urge Ofgem to seek urgent guidance from government as to how its terms of reference might be updated to avoid harmful decisions such as those proposed here being made without full consideration of the importance of decarbonisation.

As ever we would be very happy to discuss any aspect of our response in more detail should that be helpful.

Kind regards,