

To Tim Aldridge
Submitted by email only to TCR@ofgem.gov.uk

5 July 2021

OVO's response to the Ofgem CMP343 Minded-to decision and draft impact assessment

Dear Tim

OVO continues to support the ambitions of Ofgem's Targeted Charging Review (TCR) to ensure that the cost of using the grid is collected fairly. We commend Ofgem's approach in assessing the impacts of various options under CMP343 against the TCR Principles and CUSC Charging Objectives and we welcome the opportunity to provide feedback.

Following our review of the consultation, we strongly disagree with the Ofgem minded-to decision to approve CMP343 WACM2. We consider that WACMs 6-8 with locational adjustment better meet the objectives of the programme. In summary:

- Floor at 0 disproportionately disadvantages North of Scotland customers compared to the locational adjustment option that results in significantly lower costs for North of Scotland Customers and only marginally higher costs for some regions.
- We believe that locational adjustment would be easier than stated to implement and the benefits for customers outweigh any potential complexities.

We have set out our response in more detail in Annex 1.

Should you have any questions or would like to discuss our response bilaterally please feel free to contact us at policy@ovoenergy.com.

Kind regards,

Samuel Van-Arnold
Regulation Manager

Annex 1 - Detailed response to Ofgem CMP343 – Minded-to decision and draft impact assessment questions

Q1 Do you agree with our assessment of the distributional impacts of the flooring approaches?

OVO agrees with Ofgem's assessment of the distributional impacts.

Q2 Do you agree that, of the flooring options presented, flooring at 0 best meets the TCR Principles and Applicable CUSC Charging Objectives?

OVO disagrees that WACM2 best meets the TCR principles.

We believe the locational adjustment option better meets the TCR Principles and Applicable CUSC Charging Objectives. Flooring at 0, when compared with Floor at 0 with locational adjustment, disproportionately affects customers in the Northern Scotland region. Flooring at 0 will result in £38m of additional charges per year falling in Scotland compared to using locational adjustment. We therefore do not believe Floor at 0 meets the TCR principle of Fairness.

We've assessed the impact of implementing locational adjustment. We consider that the changes required to implement locational adjustment are simpler to implement than indicated in the consultation as suppliers already manage multiple tariffs. Further, any potential additional complexity is far outweighed by the lower impact on customers. We therefore disagree with Ofgem's assessment of this option in terms of practicality and proportionality.

Further, the Assistance for Areas with High Electricity Distribution Costs (AAHEDC) recovers costs for The North of Scotland so that distribution charges can be reduced in this region. It seems inefficient to use an option that seeks to place high charges on this region only for the charges to be subsidised through another mechanism. This impact has not been considered as part of this impact assessment.

We consider that the best way to implement locational adjustment would be to apply this to domestic customers only. This reduces any potential distortions or price signals as Domestic customers are unlikely to move due to locational differences in prices, but businesses are.

Q3 Do you agree with our assessment of the distributional impacts of the banding approaches?

No comment - OVO does not have Transmission connected users.

Q4 Do you agree that, of the banding options presented, four bands best meets the TCR Principles and Applicable CUSC Charging Objectives?

No comment - OVO does not have Transmission connected users.

Q5 Do you consider that any of the options presented adequately addresses very small users (including those associated with mixed use sites 4)?

No comment - OVO does not have Transmission connected users.

Q6 Do you agree with our minded-to decision to approve CMP343 WACM2?

No. OVO considers that WACMs 6-8 with locational adjustment best meets the TCR principles and CUSC objectives. These could be enhanced by only applying location adjustment to domestic customers. This supports Ofgem's position as this would prevent the residual charges becoming a price signal as domestic customers are unlikely to move premises whereas non-domestic customers are.

Q7 Do you agree with our minded-to decision that implementation should be delayed by a year, until April 2023?

OVO agrees with the proposal to delay implementation until April 2023. This is a material industry change with a large scale of customer impact between the options currently on the table, and therefore sufficient notice of the scale of the effect (i.e. the final decision on which option is being approved) should be given. We welcome Ofgem's open letter indicating a likely delay as helpful "heads up" to the industry. It would, however, be detrimental to planning and investment if that delay was subsequently shortened.