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Dear Tim,

CMP343 – Minded-to decision and draft impact assessment

We would like to thank Ofgem for the opportunity to respond to this consultation.

When the Final Modification Report was presented to Ofgem, industry was of the understanding that the Network Access and Forward-Looking Charges reform ('Access reform') would replace the negative locational demand signal (credit) in the Northern Zones and Scotland with another charge potentially based on capacity which gave those end users the locational benefit without providing a perverse signal to increase demand at peak. It is our view that WACM2 would represent the best implementation option *only* if it is combined with a subsequent Access reform decision creating a new locational credit.

However, the recent publication of the consultation on Ofgem's minded-to position on Access reform¹ made no specific mention of replacing the locational credit. This apparent disconnection suggests that this aspect of Access reform has fallen through a gap. There is therefore a significant risk of reaching a suboptimal outcome if a decision is taken on CMP343 in isolation from the wider Access reform.

SSE considers that the ideal approach now, in order to avoid such a suboptimal outcome, would be to combine the decision on CMP343 with the wider Access reform workstream. If Ofgem does not deem this appropriate, then the alternative would be to send the mod back for further consideration, taking account of the current uncertainty regarding the development of an alternative to the locational credit.

It is notable that when the mod was consulted upon, some industry respondents (although not SSE) felt that a temporary workaround for one year to maintain the locational credit would be inefficient. Responses on CMP343 were therefore heavily coloured by preconceptions of how the co-dependence with Access reform would play out and this is reflected in comments in the Final Modification Report.

It is now our understanding that the removal of the locational signal and credit for northern demand users will potentially be in place for several years, significantly increasing electricity bills for end users contrary to the locational signals from the DCLF model as well as charges levied on generation.

¹ This consultation was published on 30th June 2021, very close to the end of the consultation period for CMP343. Industry has therefore had insufficient time to properly consider the implications for CMP343 of the minded-to position on Access reform.

If industry had been aware that the misalignment would be greater than one year (i.e. the implementation of CMP343 in April 2022 or April 23 compared to a wider review of charges which might be implemented in April 25 at the earliest) then industry may well have voted differently within CMP343. In particular, this may have led to greater support for the alternatives that included a locational adjustment (WACMs 6-8).

SSE welcomes Ofgem's proposal that implementation of CMP343 should be delayed by one year. This is not only important to provide suppliers with enough advance notice to prepare for the change but, more importantly, to provide adequate time to get the implementation right.

Given that the minded-to decision on CMP343 was issued in advance of the final conclusions reached as part of the Access reform, it is our position that the CMP343 proposal must be assessed on a stand-alone basis against the Applicable Charging Objectives (ACOs) of the CUSC and Targeted Charging Review (TCR) Principles, and compared with the status quo and the other options available. Using this approach, the WACMs which applied a locational adjustment to the fixed charge would in our view be more effective in meeting relevant objectives. Further details are provided below.

Assessment vs TCR Principles

- Fairness: we do not believe that WACM2 (or the alternatives in CMP343 which floor the demand charge at zero) meets the fairness objective as it results in significantly increased charges for all northern and Scottish consumers (domestic and non-domestic) without a corresponding change via the Access reform work.
- Distortions: a floor on the locational charge at £0/kW approach results in a significant reduction in the forward-looking signal for demand customers in Scotland, effectively worsening distortions regarding locational price signals for demand.
- Practicality and proportionality: flooring at zero is impractical and disproportionate as it creates 14 new charging tariffs. In contrast, a locational adjustment approach would only result in *two* additional tariffs corresponding to the two zones in Scotland which currently have negative charges.

Assessment vs ACOs

- Cost reflectivity: options with a locational adjustment are better from the point of view of cost reflectivity as they preserve the level of the locational signal for demand.
- Effective competition: options with a locational adjustment are also better for effective competition due to being more cost reflective.

A further consideration is consistency with locational generation charges. If it is appropriate to remove the locational signal from demand charges then SSE considers that Ofgem should urgently remove the locational signal from generation charges as well.

Separately, we agree that an introduction of four bands best meets the relevant objectives and would also produce a methodology consistent with that for distribution connected sites.

Conclusion

We would support a delayed implementation of CMP343 until April 2023 so that there is enough time to align this proposal with an enduring solution identified as part of the ongoing Access reform discussions. It is critical for Ofgem to provide the industry with confidence that an enduring solution for the forward-looking

element of the demand charge will be implemented in conjunction with other changes proposed by CMP343 so that customers do not have to experience a bill shock from a step change increase in their electricity bill for a short period of time. SSE considers that the best way to achieve this would be to combine the decision on CMP343 with the work on Access reform. Alternatively, delaying implementation of CMP343 to April 2023 also provides an opportunity to send the mod back for further consideration to take proper account of the current uncertainty regarding a replacement for the locational signal.

We would welcome an opportunity to discuss the points raised in this response in more detail and to discuss the co-dependence of any decision on CMP343 and the wider changes developed through Access reform.

Kind regards,
(by email)

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Regulation Manager