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5 July 2021.

Sent by email to: TCR@ofgem.gov.uk

Dear Tim,

CMP343 – Minded-to decision and draft impact assessment

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group.

We provide our response to the consultation questions in the appendix. However, in summary:

- **Approach to Flooring;** we agree that, on balance, the flooring at zero option would best meet the TCR principles and Applicable CUSC Objectives.
- **Approach to Banding;** we agree that introducing four bands at the transmission level would best meet the TCR Principles and Applicable CUSC Objectives.
- **Implementation Date;** we agree that a delay to April 2023 is necessary to allow transmission connected customers more time to respond to the significant changes in charges, and to provide more adequate notice to all industry participants of the final impact of the TCR on TNUoS charges.

We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

George Moran
Senior Regulatory Manager
Centrica Regulatory Affairs & Policy

Appendix: Consultation Questions

Question 1: Do you agree with our assessment of the distributional impacts of the flooring approaches?

Whilst it is not possible to replicate the analysis without the detailed assumptions used for volumes and customer numbers, the commentary and analysis presented are in line with our understanding of the impacts.

Question 2: Do you agree that, of the flooring options presented, flooring at 0 best meets the TCR Principles and Applicable CUSC Charging Objectives?

We agree that, on balance, the flooring at zero option better facilitates the TCR Principles than the other options.

Flooring at zero removes the incentive for users to alter behaviour during peak periods to lower their contribution to recovery of residual costs and is simple to understand and implement. We consider it performs best against the TCR principles of reducing harmful distortions, and of proportionality and practicality. It also performs well against the fairness principle.

The no floor option has the potential to introduce a new harmful distortion by encouraging demand at times of system peak, whilst the locational adjustment option performs poorly against the practicality and proportionality principle and is also inconsistent with the TCR decision to have a single domestic residual for TNUoS.

With regards to the Applicable CUSC Charging Objectives, we also agree that the flooring at zero option will better facilitate the objectives than the other options. Removing the existing distortion in TNUoS will improve competition and better facilitate objective (a), and the relatively simple methodology will facilitate objective (e).

Question 3: Do you agree with our assessment of the distributional impacts of the banding approaches?

As with the distributional impact of the flooring approaches, it is not possible to replicate the impact assessment without the detailed assumptions used for banded volumes and customer numbers. However, the commentary and analysis presented are also in line with our understanding of the impacts.

Question 4: Do you agree that, of the banding options presented, four bands best meets the TCR Principles and Applicable CUSC Charging Objectives?

Based on the new information provided, showing annual consumptions for customers on the transmission network ranging from less than 5GWh to more than 500GWh, we agree that introducing four bands would best meet the TCR Principles and applicable CUSC objectives. We do, however, acknowledge the potentially significant increase in cost this may have on some of the very largest users and agree that a delay in implementation is warranted in these circumstances.

Question 5: Do you consider that any of the options presented adequately addresses very small users (including those associated with mixed use sites)?

We agree that the four-band approach provides the best protection to small users from the CMP343 options available. Whilst we remain concerned about the impact of the TCR decision on

the smallest users in all customer segments, not just those connected at transmission level, we consider that an approach which aligns with that applied to distribution connected customers is appropriate. To provide greater protection to small users connected at transmission level would not be fair to small users in the segments at distribution level.

Question 6: Do you agree with our minded-to decision to approve CMP343 WACM2?

Yes, WACM2 combines a floor at zero approach with a four-band approach at transmission level and so, for the reasons set out above, we agree with the minded-to decision.

Question 7: Do you agree with our minded-to decision that implementation should be delayed by a year, until April 2023?

Yes, we consider a delay in implementation to 2023 is both justified and necessary.

A delay will allow transmission connected customers, particularly the largest consuming customers, more time to respond to the potentially significant changes in charges that would result from the proposed banding approach.

A delay will also provide more adequate notice of the impact of the TCR on TNUoS charges for all users. This is necessary given the time elapsed from the submission of the CMP343 Final Modification Report to the publication of this minded-to decision, which will significantly reduce the expected notice period between the final TCR decision and the original implementation date. Significant changes in industry charging arrangements implemented with insufficient notice have a damaging effect on the regulatory predictability that stakeholders rely on – ultimately to the disbenefit of consumers.