

Energy UK response to Ofgem's CMP343 consultation on minded-to decision and impact assessment

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About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering nearly 80% of the UK's power generation and over 90% of the energy supply for the 28 million UK homes as well as businesses.

The energy industry invests £13bn annually, delivers £31bn in gross value added on top of the £95bn in economic activity through its supply chain and interaction with other sectors, and supports 738,000 jobs in every corner of the country.

Executive Summary

Energy UK welcomes the opportunity to respond to Ofgem's CMP343 consultation on minded-to decision and impact assessment.

Firstly, we welcome, some guidance on delivery of the final piece of the demand residual reform under the TCR.

We first note that the option chosen as a minded to position, that will recover charges from transmission connected sites through 4 bands, is consistent with that of the CUSC Panel vote and delivers a fairer recovery of charges for these sites. It would have been unfair for transmission connected sites who use a fraction of the energy that a larger site consumes to pay substantially more than should had they been connected to the distribution network.

We also agree that an additional year to implement the recovery of transmission demand reform from April 2022 to April 2023 is a prudent decision. Larger consuming sites are likely to need this additional time to fully budget in some of the additional costs they are due to face.

We also note that an additional year to the implementation date will also help those traditional HH metered sites who have not yet understood the scale of change to their TNUoS charge recovery.

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

Yes, flooring appears consistent to not sending conflicting signals that could perversely encourage the consumption of more energy to reduce TNUoS costs and is line with the current CUSC baseline.

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

Yes¹. Flooring at zero is simplest and will not require additional tariffs. It is clearly fair as a cost signal and prevents the introduction of distortions in the market.

¹ OVO have raised disagreements with this approach referring to the impact this will have on charges levied in Scotland. Please see OVO's individual response for further reasoning.

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

Yes.

A banding approach is always going to create cliff edges and over time it may be necessary to introduce further bands to stop wide cliff edges that may encourage undesired behaviour. Sufficient notice would be required for the introduction of additional bands.

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

Yes. Of the banding options presented it is clear that either a single or two-band approach would not have been reflective of fair charges to smaller consuming transmission connected sites.

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

We believe that the 4 band option does address a proportion of smaller users. However we note that there could still be room to introduce further bands that may be more suitable for sites that would find the proposed costs prohibitively expensive and thus discourage connection to the transmission network. Given the disruption introducing extra bands would cause, this should be aligned with price control periods.

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

Yes. Of the options presented, WACM2 better facilitates the Applicable CUSC Objectives and is consistent with the CUSC Panel's view and the overwhelming view of many of the sites connected to the transmission network.

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

Yes. An additional year will assist many suppliers in implementing these changes and anticipating the change in tariffs.

Some of our supplier members have flagged that they had already begun or made changes to their charging infrastructure in line with the expected April 2022 timeline which have now had to be rebuilt. Some suppliers are now also having to manage customers on extended tariffs seeking rebates for the charges built into their tariffs. While Energy UK agrees the proposed April 2023 timeline should be stuck to, earlier notice should have been given of the intention to delay. Ofgem could take this lessons-learned opportunity to ensure sufficiently long notice periods for the upcoming AFLC SCR minded-to decisions.

It is clear that Ofgem have underestimated the time required to develop the detail necessary to support changes to this scale, both to describe new concepts ("Site", "Final Demand") in a fully competent manner, causing a delay in implementation to April 2022, and to resolve details that the Impact Assessment was not able to address (flooring and multiple bands), which is causing a second delay. Given that the AFLC SCR may have similar conceptual shifts (e.g. shared access) and complex technical detail (e.g. completely new DUoS models), Ofgem should be aware of the scale of resources industry will need to provide to implement the decisions of AFLC SCR. Further, early sight of projected charges should be available as soon as possible following Ofgem's decision to allow suppliers to quote and contract with customers as accurately as possible.

Should you have any questions, please don't hesitate to get in contact.

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