

Email to: Ruben Pereira, Policy Manager, ElectricityNetworkCharging@ofgem.gov.uk

19th January 2022

Dear Ruben,

Consultation – CMP308 – Minded-to decision and draft impact assessment

EDF is the UK's largest producer of low carbon electricity. We operate low carbon nuclear power stations and are building the first of a new generation of nuclear plants. We also have a large and growing portfolio of renewable generation, including onshore and offshore wind and solar generation, as well as energy storage. We have around six million electricity and gas customer accounts, including residential and business users.

EDF aims to help Britain achieve net zero by building a smarter energy future that will support delivery of net zero carbon emissions, including through digital innovations and new customer offerings that encourage the transition to low carbon electric transport and heating.

We welcome the opportunity to respond to your CMP308 – Minded-to decision and draft impact assessment, which EDF raised in October 2018, and agree with your minded to approve this modification. We have responded to your questions in the Appendix to this letter but would also like to highlight the following points.

- Removing the BSUoS cost distortion between different Large Generators and other forms of generation, including the distortions between Behind the Meter, Transmission and Distribution connected generators, is important to deliver the full benefits of a competitive market in electricity.
- The proposal better aligns the GB market arrangements with those prevalent in other European countries so will allow GB and continental generation to compete on a more equitable basis by removing the potential for BSUoS to distort cross border trade. In the long run, removal of the identified distortion in the wholesale market will ensure more effective competition which is in consumers' interests: i.e. it will ensure dispatch decisions, and investment in new generation, lead to more efficient economic outcomes.
- Implementation on 1st April 2023 is important as this has been consistently signalled to the industry. This provides sufficient notification to the market; it is more than 2 years since the Second Balancing Services Charges Task Force (TF2) published their final report recommending this, and after the published acceptance of the TF2 report by Ofgem thus setting the clear direction of policy for all to see. Any delay to implementation would now lead to windfall gains and losses.

We welcome the opportunity to discuss this further with you.

If you have any questions, please contact me (simon.vicary@edfenergy.com / 07875110961), or Binoy Dharsi (binoy.dharsi@edfenergy.com / 07790 893 373).

Yours sincerely



Simon Vicary, Senior Manager of Charging Development

Appendix – Questions

1. Do you agree with our assessment that CMP308 better facilitates the Applicable CUSC Objectives?

Yes. We agree that the proposed CUSC mod better facilitates code objectives:

- (a) effective competition – The removal of BSUoS charges from generation would address a number of identified distortions in the wholesale market and so is likely to ensure more effective competition. In particular, there is currently a distortion between Large Generators and other generation within the domestic wholesale market, due to differences in BSUoS charging liability.
- (b) cost reflectivity – Removing BSUoS charges from Large Generators removes a non-cost reflective charge, and so therefore should leave more cost-reflective signals and lead to more efficient economic outcomes.
- (c) developments in transmission business – This modification removes BSUoS charges from Large Generators, bringing it in line with Smaller Distributed Generators and interconnectors. This is important, given the increasing contribution of these generation types.
- (e) promoting efficiency – Simplified arrangements would have a positive impact as they facilitate efficiency in the implementation and administration of the use of system charging methodology.

We also agree with Ofgem that the proposed CUSC mod is neutral on:

- (d) EU compliance – Moving BSUoS charges only to demand does not affect compliance with the Electricity Regulation.

Overall, Removing the BSUoS cost distortion between different Large Generators and other forms of generation, including the distortions between Behind the Meter, Transmission and Distribution connected generators, is important to deliver the full benefits of a competitive market in electricity.

The proposal also supports the UK Industrial Strategy for building a nation fit for the future with investment in skills, industries and infrastructure.

Better aligning the GB market arrangements with those prevalent in other European countries would allow GB and continental generation to compete on a more equitable basis by removing the potential for BSUoS to distort cross border trade.

We believe the proposed implementation approach would also address the concerns raised by suppliers in relation to the potential extension of Ofgem’s tariff cap.

2. Do you agree that charging BSUoS charges only to Final Demand reduces distortions between Large Generators and other forms of generation? Please explain why.

Yes. Removing the BSUoS cost distortion between different Large Generators and other forms of generation (including the distortion between Transmission and Distribution connected generators) is important to deliver the full benefits of a competitive internal market in electricity.

In the long run, removal of the identified distortion in the wholesale market would ensure more effective competition which is in consumers' interests: i.e. it will ensure dispatch decisions, and investment in new generation, are more efficient.

3. Do you have any views on the impact of this proposal on Behind The Meter Generation and its competitiveness?

We believe that removing BSUoS cost distortion between different generators, including the distortions between Behind the Meter, Transmission and Distribution connected generators, which this mod achieves, is important to deliver the full benefits of a competitive internal market in electricity.

4. Do you have any views on our reasoning on this proposal's effect on price signals or generation dispatch?

We agree with your reasoning on this proposal's effect on price signals or generation dispatch, i.e. Removing BSUoS charges from Large Generators removes a non-cost reflective charge, and so therefore should leave more cost-reflective signals and lead to more efficient economic outcomes.

5. Do you have any views on our reasoning on this proposal's effect on competition between different generator types?

We agree with your reasoning on this proposal's effect on competition between different generator types. i.e. The removal of BSUoS charges from generation would address a number of identified distortions in the wholesale market and so is likely to ensure more effective competition. In particular, there is currently a distortion between Large Generators and other generation within the domestic wholesale market, due to differences in BSUoS charging liability.

6. Do you have views on our assessment of the decarbonisation impacts of this proposal, both in respect of emissions from the GB energy system and of overall emissions?

We agree with your assessment of the decarbonisation impacts of this proposal. i.e. If an estimate of the change in emissions outside GB is included, as well as GB emissions, overall carbon emissions are reduced by the proposed change,

7. Do you have views on whether and the extent to which the changes proposed in this modification have already been incorporated into supplier decisions?

Implementation on 1st April 2023 gives notification considerably over 2 years after the Second Balancing Services Charges Task Force (TF2) published their final report recommending this, and the published acceptance of the TF2 report by Ofgem thus setting the clear direction of policy for industry participants.

The Workgroup's discussions since reconvening after the outcome of the Second Balancing Services Charges Task Force have been comprehensive, covering the issues that have arisen. With a single

proposed solution, it has been much easier for industry parties to understand it and we believe that the changes proposed in this modification have already been incorporated into supplier decisions in anticipation of the implementation of this change with effect from 1st April 2023.

8. Do you have views on the impact of this proposal on existing supply contracts, including the possibility of costs or delayed benefits to consumers stemming from windfall gains to industry parties, or double payments?

We believe that the industry has already factored this change into supply and generator contract pricing in anticipation of the implementation of this change with effect from 1st April 2023, thereby avoiding windfall gains to industry parties or double payments.

Sufficient notification, significantly over 2 years after the Second Balancing Services Charges Task Force (TF2) published their final report recommending this and the published acceptance of the TF2 report by Ofgem has been given to industry participants.

9. Do you have views on this proposal's impacts on generator and supplier risks, including on exposure to volatile charges?

The overall impact on risks, and therefore the cost to the end consumer, does not change but instead is reallocated. The CMP361/2 modifications that will fix BSUoS in advance, as recommended by the Second Balancing Services Charges Task Force, are designed to reduce supplier risk and exposure to volatile charges up to 15 months ahead.

10. Do you have views on the interactions between this proposal and other changes in the sector, including other BSUoS charging reform proposals?

This proposal can be implemented separately from any of the other changes in the sector, including other BSUoS charging reform proposals. However, we expect that the CMP361/2 modifications that will fix BSUoS in advance are complementary.

11. Do you have views on the modelled assessment of consumer and energy system benefits? Please provide quantitative analysis and any further information.

The modelled assessment of consumer and energy system benefits seems fair. We do not have any quantitative analysis nor further information that would add to that in our original proposal document, CMP308 workgroup analysis and the Final Modification Report.

12. Is our assessment of non-monetised costs and benefits reasonable? Are there any other factors we should consider?

Yes, your assessment of non-monetised costs and benefits is reasonable. We cannot think of any other factors to consider.

13. Do you consider the consumer and system benefits identified in our consultants' modelling to represent a reasonable view of the potential effects of this modification?

Yes. The modelling seems to represent a reasonable view of the potential effects of this modification.

14. Do you consider that Ofgem has duly considered all relevant consumer and system benefits? Are there any areas which could benefit from further analysis?

Yes, Ofgem seems to have duly considered all relevant consumer and system benefits.

15. Our modelling assumes that CfD adjustment payments designed to compensate contract holders for the BSUoS charges they face will no longer be paid in the event generation is not liable for BSUoS charges. Do you agree with this assumption, and do you have views on our assessment of the risks associated with existing CfD contracts?

Yes. The removal of the identified distortion between Transmission and Distribution connected generators also removes the need for CfD adjustment payments in the event generation is not liable for BSUoS charges.

16. Do you have views on the impacts of this proposal on end consumers, including large users and vulnerable users?

Our modelling indicates that the consumer impacts in the short-term are likely to be neutral. In the long run removal of the identified distortion in the wholesale market would ensure more effective competition which is in consumers' interests: i.e. will ensure dispatch and investment in new generation and transmission is more efficient.

Better aligning the GB market arrangements with those prevalent in other European countries would allow GB and continental generation to compete on a more equitable basis by removing the potential for BSUoS to distort cross border trade.

This change will also simplify the charging and billing arrangements, thus simplifying administration.

17. Do you agree with our assessment that reduced costs to generators are likely to feed through into lower wholesale prices?

Yes, we believe that this is already happening in anticipation of the implementation of this change with effect from 1st April 2023.

18. Do you agree with our assessment that this policy will not have any significant material impacts on vulnerable users?

Yes, we agree with the assessment that this would not have any significant material impacts on vulnerable users.

19. Do you agree with our assessment that this modification is unlikely to lead to any significant impacts on essential services or supply chains?

Yes, we agree with the assessment that this would not have any significant impacts on essential services or supply chains.

20. We would note that increases in demand costs will need to be incorporated into the Price Cap methodology. Do you have any views on this area?

This was noted by the workgroup and is expected so that the change, including the reduced wholesale market cost, is appropriately reflected in the Price Cap methodology

21. Do you agree with our proposed implementation date of 1 April 2023? Please provide your reasoning.

Yes. Implementation on 1st April 2023 gives sufficient notification and is considerably over 2 years after the Second Balancing Services Charges Task Force (TF2) published their final report recommending this and the published acceptance of the TF2 report by Ofgem thus setting the clear direction of policy for industry participants.

We believe that the industry has already factored this change into supply and generator contract pricing in anticipation of the implementation of this change with effect from 1st April 2023, thereby avoiding windfall gains to industry parties or double payments.

It should also be noted that EDF raised this change proposal back in October 2018.

22. Do you have any other information which is relevant to this consultation?

We have nothing to add.