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Consultation on CMP224

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

Response

We agree that CMP224 better facilitates the CUSC applicable objectives than baseline, in particular CUSC charging objective (d), "Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency".

The short forward notice of the tariffs of the original is a drawback, and we believe that the extra notice in WACM1 has more merit. We expand on this, and on why we do not support the WACM2 or WACM3 variants, in the appendix to our response.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,



Mark Cox  
Head of Transmission & Trading Arrangements

## Attachment

The use of 12 months notice of tariffs in WACM1 (compared to the 2 months notice of each year's tariffs in the Original), means extra "bandwidth" is needed to ensure compliance in the context of the historic variability in parameters such as exchange rates. The bandwidth is estimated by the workgroup at 14% below the €2.50/MWh for WACM1 (it would otherwise be 7% below the €2.50/MWh cap for the Original). This bandwidth results in Grid, when publishing the G:D split 12 months earlier as per WACM1, having to applying a limit of €2.15/MWh (instead of the current €2.5/MWh limit).

As to the cost to the consumer of this extra bandwidth : we attempt to estimate it in this paragraph and the next. The workgroup's very detailed view of the impact on Demand and Generation TNUoS out to 2021, is given in the numbers that comprise table 7.7 in Grid's CMP224 Code Administrator consultation document. The extra demand-side TNUoS costs arising from the additional bandwidth that is needed to allow publication of a firm G:D split a year ahead, whilst also being sure of compliance given the range of variability in exchange rates and other variables, is shown as falling within the range £45m to £47m for each of the years shown (comparing the bottom row of the WACM1 data block in that table, with the bottom row of the Original).

If the £47m of extra TNUoS arising from the choice of WACM1 over Original, falls evenly (pro-rata) on domestic and other demand, then given a 45% market share in energy terms of domestic demand, that would imply an extra cost to domestic demand of £21m p.a., which spread over about 26m homes, implies an annual extra cost of about 80 pence per home. Logically, in the course of time this small premium should entirely evaporate, as the generation market will adjust to generators paying slightly less TNUoS, with wholesale prices falling to a slightly lower equilibrium level – the reduction in TNUoS should flow through the consumers. Therefore the impact on consumers in the medium term should be neutral.

On the other hand there are significant benefits to suppliers and generators from an extra year's certainty of TNUoS tariffs, reducing their cost of capital, and enabling more efficient tariff-setting and generation pricing - facilitating economic decisions. There is value of this certainty to end consumer, as explored in a research paper we have previously commissioned on this subject area from CEPA for Ofgem<sup>1</sup>. We consider that these benefits of certainty, although the workgroup was unable to put a value on them, should outweigh any short-term extra consumer costs. Thus, we believe that WACM1, which received the votes of 6 out of 9 CUSC Panellists as the best option overall, has even more merit than the original variation of CMP224.

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<sup>1</sup> <https://www.ofgem.gov.uk/ofgem-publications/50525/cepa-edf-volatility-reportfinal-260912.pdf>

WACM2 and WACM3 both exclude charges for generation-only local spur circuits from the capped amount (varying between them as to whether or not there is the year's notice, that distinguishes WACM1 from the Original). Since the Workgroup's legal advice is that Paragraph 2(1) of Annex Part B of the underling European tariffs regulation is intended to cap total generation TNUoS including generation-only local spur circuits, it follows that neither WACM2 nor WACM3 better facilitate any of the objectives, due to their inaccuracy in excluding such circuits. We thus agree with Ofgem's minded-to position that WACM2 and WACM3 should not be passed.

EDF Energy  
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