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Dear Jon

Getting more out of our electricity networks by reforming access and forward looking arrangements.

Npower welcome the opportunity to respond to this consultation.

We generally agree with the case for change. It is important that the network can be utilised more efficiently moving forward and can meet the challenges caused by new technologies connecting to the system at the lowest cost to consumers.

In combination with the TCR, these are probably the largest changes to Network Charges since market start up. We would urge Ofgem to ensure that there is adequate notice of the charging methodology changes and a long lead time to implementation which will allow customers on 'pass through' contracts / market participants to budget for the changes in their financial planning process.

Suppliers also need this long notice period / clarity around the charging methodology to ensure that they can accurately reflect the new charging arrangements for customers on 'fixed price' contracts. A supplier can only pass through the charges at the time of pricing a 'fixed price' customer. If implementation timescales are short, any charging changes will not be seen by the customer until the time they are next priced – which could be 1-3 years out. Increased transparency of the methodology / longer lead times lowers the risk for market participants and will therefore reduce the need for risk premia being applied to customer contracts.

Our response to the specific questions in the consultation are attached,

Please feel free to contact me if you have wish to discuss or require any clarification on the points we have made.

This response is not confidential.

Yours sincerely

Helen Inwood

H Inwood

Network Charging Manager
(by email so unsigned)

CONSULTATION RESPONSE

Question 1: Do you agree with the case for change as set out in chapter 2? Please give reasons for your response, and include evidence to support this where possible.

Yes, we generally agree with the case for change. It is important that the network can be utilised more efficiently moving forward and can meet the challenges caused by new technologies connecting to the system at lowest cost to consumers.

We are, however, concerned that Ofgem's groundwork for setting the direction of this consultation does not consider the extent of the impacts of the proposals. For example, how these proposals may impact upon the broader government policy of meeting de-carbonisation targets. It is therefore imperative that Ofgem commission an independent and extremely thorough whole-energy-system cost-benefit analysis before making any decisions on the outcomes of this SCR.

Question 2: Do you agree with our proposal that access rights should be reviewed, with the aim to improve their definition and choice? Please provide reasons for your response and, where possible, evidence to support your views.

Yes. We agree that access rights should be reviewed. The current lack of definition and choice of access rights for users does not make the best use of existing network capacity and can contribute to connection queues.

Question 3: Specifically, do you have views on whether options should be developed in the following areas as part of a review? Please give reasons for your response, and where possible, please provide evidence to support your views:

a) Establishing a clear access limit for small users, with greater choice of options (as considered under b) and c) below) above a core threshold – do you agree with our proposal in paragraphs 3.5-3.10 that this should be considered? Do you have views on how a core threshold could be set?

We agree that access for smaller users should be reviewed as part of the SCR. However, we do not agree with Ofgem's suggested approach. It is unclear how this proposal would work in practice as essential usage will vary wildly between different households. Usage can also change within a household if occupants or their circumstances change e.g. family of four move out and single person moves in; occupants stop work and stay at home etc. How would customers – or suppliers / third party intermediaries (TPI) – know what a customer's core capacity should be? Are there consequences of getting this wrong? Any solution requiring customers or their supplier / TPI to declare an appropriate core capacity would require strong consumer protection. How would this information be managed and shared across the industry given that customers move between suppliers? Would this require new data flows? This is not a simple process – as demonstrated by the difficulty the TCR team are currently having trying to establish an appropriate 'domestic customer capacity' for the purposes of residual charging. It would be difficult for customers to understand and it could potentially conflict with higher climate change policy decisions to increase the number of electric cars.

We would suggest that a simple, more practical solution is considered e.g. aligning the core capacity to the basic consumption levels used for pricing (Typical Domestic Consumption Value) or an average consumption?

b) Firm/non-firm and time-profiled access – do you agree with our proposal outlined in paragraphs 3.15-3.21 that these options should be developed?

We agree that this should be investigated as part of the SCR. Improvements to the definition of firmness at distribution level would increase understanding of curtailment risk, thereby increasing certainty on the investment business case for new connection, particularly for new flexibility / distributed energy resources.

This offers an opportunity for some businesses / network users to assist the network while reducing charges, if it is possible for them to do so. We suggest that Ofgem's priority should be to ensure that all network users, regardless of geographical location, should have the option to have firm access arrangements.

Another option that could also be considered is a hybrid option e.g. access is firm at certain times of the day and non-firm at other times. The price payable should be reflective of that arrangement. This will not be suitable for all network users, but may be beneficial to some.

c) Duration and depth of access, discussed in paragraph 3.25-3.32 - would these options be feasible and beneficial?

Duration of access – developers typically desire long term certainty of access so it is unclear if fixed term access products with a duration shorter than 15-20 years would be of value.

Depth of access – restricting depth of access would appear to have the effect of fragmenting the UK energy market. All users of the system benefit from wider system services such as frequency control.

d) At transmission or distribution in particular, or are both equally important – as discussed in this chapter?

It is important to consider charges at whole system level. As such, we consider that undertaking independent and thorough analysis to evidence whether more closely aligning the charges at transmission and distribution will result in a positive SCR outcome is a priority. The aim should always be to avoid undue discrimination of any particular type of network user.

Question 4: Do you agree with the key links between access and charging we have identified in table 1? Why or why not? Do you think there are other key links we have not identified? Where possible, please provide evidence to support your views.

Yes, we agree with the links identified between access and charging. Users with fewer access rights should face lower charges.

Question 5: Do you agree with our proposal that targeted areas of allocation of access should be reviewed? Please give any specific views on the areas below, together with reasons for your response. Where possible, please provide evidence to support your views:

a) Improved queue management as the priority area for improving initial allocation of access, as outlined in paragraphs 3.41-3.44?

Improved queue management is desirable but already under Industry review through the Open Networks Project. This does not need to be included in the SCR. If Ofgem choose to include it then the good work done to date should be used to avoid duplication of effort.

b) Not to consider the potential role of auctions for initial allocation of access as part of a review at this time, as discussed in paragraph 3.44?

We fully support Ofgem's decision not to include this in this review.

c) To review the areas outlined in paragraphs 3.45-3.48 to support re-allocation of access?

We would suggest that Ofgem needs to review the reasons why customers choose to pay for capacity that they are not using before implementing a 'use it or lose it' measure. How would this be fairly monitored?

While 'use it or sell it' could have distinct advantages for the network and network users, a free market could result in problems outweighing any advantages where some parties may seek to hold capacity and sell it when prices are high. Any such market would need to be regulated to ensure that parties are not holding capacity with a view to selling it on when prices are high. These costs would ultimately be paid for by consumers.

Question 6: Do you agree that a comprehensive review of forward-looking DUoS charging methodologies, as outlined in paragraphs 4.3-4.7, should be undertaken? Please provide reasons for your response and, where possible, evidence to support your position.

Yes. The network and the way it is used is changing and will continue to change moving forward. As such, we agree that a review of forward looking distribution charging is therefore worthwhile.

However, there are a number of areas that we wish to highlight:

We would urge Ofgem to recognise the impact of these reforms on customers, their businesses and livelihoods. Such major regulatory changes can cause extremely large changes in use of system charges for customers. This was previously seen when CDCM and EDCM were implemented in 2010 and 2012 - some customers saw increases of up to 400% in their charges.

There could be some large winners and losers as a result of this regulatory review of the charging methodology. Regulatory change should not result in short term windfall gains or losses. Customers on 'pass through' contracts need to have notice of these changes to charges, and to be able to adapt and incorporate into their budget planning cycles. For that reason, Ofgem should look at providing as much notice as possible of the detailed changes to the methodologies as well as a sufficiently long notice period for implementation. Ofgem should also ensure that DNOs continue to provide 15 months' notice of charges. There should not be an option for Ofgem to derogate against this.

Suppliers also need this notice period / clarity around the charging methodology to ensure that they accurately reflect the new charging arrangements for customers on 'fixed price' contracts. A supplier can only pass through the charges at the time of pricing a 'fixed price' customer. If implementation timescales are short, any changes will not be seen by the customer until the time they are next priced – which may be 1-3 years out. Increased transparency of the methodology / longer lead times will lead to reduced risk premia being added to customer contracts.

It is important to recognise that many businesses have made investment decisions based on the current charging arrangements e.g. embedded generation. Sudden large step changes in costs as a result of major regulatory change cannot reasonably be factored into investment business cases, particularly when several step changes occur within a short space of time (CMP264/5). For this reason, we would suggest that Ofgem may wish to consider arrangements such as 'grandfathering' in order to protect these customers or perhaps a phased approach to smooth the

transition between the old CDCM / EDCM cost reflective charging methodology to the new one (similar to that implemented for CMP264/265).

While charging demand and generation customers differently based on whether they are in a demand dominated zone or a generation dominated zone does provide a charging signal, we are concerned that such zones could change due to new customers coming online or going offline. Once connected, a customer or a generator cannot influence what is happening on the network around them – yet under the changes being discussed, they could be penalised for this. There could also be a situation where the price signal changes regularly if zones are prone to moving between generation and demand dominated. The only system users who would benefit from this would be temporary genset companies who could physically move around to avoid charges.

It is important to ensure that DNOs have a consistent approach when defining a 'demand dominated zone' or a 'generation dominated zone' within their areas? Over what timescale is this zonal 'direction' measured for charging purposes? DNOs need to work together in order to provide customers with a consistent approach/ heat map for generation and demand dominated areas. This will indicate for customers and embedded generators where is best to connect and how they will be charged.

There would need to be a cost-benefit case for making CDCM more granular. For example, how would small scale generation e.g. roof top solar PV or behind the meter generation be treated under this scenario? If new metering equipment, IT systems and modelling is likely to be required for high granularity charging (eg at 11kV), the cost-benefit of doing this would need to be proven.

We support a review of the EDCM charging methodology. The models should be more transparent and charges more predictable. As above, the changes should be made with an appropriate transition period to protect customers from large step changes in prices due to regulatory reform.

We have concerns that the outcome of these reforms could impact on over-arching decarbonisation targets.

Question 7: Do you agree that the distribution connection charging boundary should be reviewed, but not the transmission connection boundary? Please provide reasons for your response and, where possible, evidence to support your position.

We support reviewing the distribution connection boundary. We recognise that the current shallowish boundary does not provide DNOs with the right signals on where they should be investing. However, we are unclear as to how the costs of reinforcement one level up will be socialised should Ofgem decide to move to a shallow charging boundary. Is it across the whole DNO area or is it more localised within the generation / demand dominated zone. We would suggest it should be socialised across the whole DNO area since it is unfair for customers who are already connected to be paying a large share of costs if a new customer connects nearby.

Whole system impacts need to be considered so we would suggest that the transmission network boundary should not be out of scope of any review.

Question 8: Do you agree that the basis of forward-looking TNUoS charging should be reviewed in targeted areas? If you have views on whether we should review the following specific areas please also provide these:

a) Do you agree that forward-looking TNUoS charges for small distributed generation (DG) should be reviewed, as outlined in paragraphs 4.19-4.23?

As stated above in response to Q6, it is important to recognise that many businesses have made investment decisions based on the current charging arrangements. For several years now, the

industry codes and methodology have encouraged the installation of DG. Sudden large step changes in costs as a result of major regulatory change cannot reasonably be factored into investment business cases. Small distributed generators have recently had their credits reduced considerably through the CMP264/265 decision. This proposed review could then result in charges rather than credits for such customers. Our DG customers are raising that it may no longer be feasible for them to continue. Clearly it is a concern that regulatory change could swing costs in such a way that projects that were expected to be profitable now become loss making. This will severely impact investor confidence moving forward. We have concerns that the outcome of these reforms could also impact on over-arching decarbonisation targets.

Cross-GSP charging in the way Ofgem have proposed is distortive and not cost-reflective. It could even represent an effective subsidy for large carbon-intensive generators, most of whom are connected to the transmission network. We ask that Ofgem set out a rational justification of their proposals and undertake a whole-energy-system cost-benefit analysis to evidence whether or not it is distortive for Distribution connected network users to pay twice (DUoS and TNUoS) but Transmission connected parties pay only once (TNUoS).

For this reason, we would suggest that Ofgem may wish to consider arrangements such as 'grandfathering' in order to protect these customers or perhaps a phased approach to smooth the transition between the old CDCM / EDCM cost reflective charging methodology to the new one (similar to that implemented for CMP264/265).

There could be some large winners and losers as a result of this regulatory review of the charging methodology. Regulatory change should not result in short term windfall gains or losses. Customers on 'pass through' contracts need to have sufficient notice of these changes to charges, and to be able to adapt and incorporate into their budget planning cycles. For that reason, Ofgem should look at providing as much notice as possible of the detailed changes to the methodologies as well as providing a sufficient transition period.

Suppliers also need this notice period / clarity around the charging methodology to ensure that they can accurately reflect the new charging arrangements for customers on 'fixed price' contracts. A supplier can only pass through the charges at the time of pricing a 'fixed price' customer. If implementation timescales are short, any changes will not be seen by the customer until the time they are next priced – which may be 1-3 years out. Increased transparency of the methodology / longer lead times will lead to a reduction in the risk premia required to be added to customer contracts.

b) Do you consider that forward-looking TNUoS charges for demand should be reviewed, as outlined in paragraphs 4.24-4.27?

Please provide reasons for your response and, where possible, evidence to support your position.

While we agree that there is a need to review forward looking TNUoS charges, please see our responses to Questions 6 and 7. Any changes which will result in large step changes in costs to customers require an appropriate transition period for customers and suppliers.

Triads were deliberately introduced to send a clear price signal to remove system stress at peak times and avoid system reinforcement. Customers have reacted – and invested – to meet price signals encouraged by the current charging regime. The reform of TNUoS residual charges as part of the TCR will significantly reduce the incentive to respond to triad signals. Is this the intention of the overall reforms to keep some sort of incentive for customers to reduce demand at peak times through this Forward Looking Charges Review?

Question 9: Do you agree that a broader review of forward-looking TNUoS charges, or the socialisation of Connect and Manage costs through BSUoS at this time, should not

be prioritised for review? Please provide reasons for your response and, where possible, evidence to support your position.

Yes, we agree with this approach.

Question 10: Do you agree that there would be value in further work in assessing options to make BSUoS more cost-reflective, and if so, that an ESO-led industry taskforce would be the best way to take this forward?

We do not agree. BSUoS is effectively a residual charge, charged across all users ex-post. We do not believe there is further work required at this stage – any attempt to do so could trigger unintended consequences. Attempting to drive behaviours by signalling costs through forward-looking BSUoS charges would introduce a conflict with network charging.

Question 11: What are your views on whether Ofgem or the industry should lead the review of different areas? Please specify which of SCR scope options A-C you favour, or describe your alternative proposal if applicable. Please give reasons for your view.

We favour Option C – a comprehensive SCR. Everything within this major reform is linked and should be looked at holistically. We are concerned that if some areas are looked at separately, this could result in conflicting outcomes. Option C will also allow a wider range of network users to be involved, especially larger demand users. This area of work is of huge interest to those customers, as demonstrated by their attendance at CFF and Ofgem webinars. Npower did our own Access & Forward Looking Charges Customer Webinar on 7th September (<https://www.brighttalk.com/webcast/10003/333365>). We had 125 participants, many of whom were large demand customers. Option C provides more visibility and opportunity to be involved.

Question 12: Do you agree with our proposal to launch an 'Option 1' SCR for areas of review that we lead on? Please give reasons for your view.

Yes, we agree that Option 1 SCR is an appropriate option to raise modification proposals. It is essential that the solution is well defined before the modification is raised. Ofgem need to be actively involved in these modifications to ensure that they are on track and within the scope of the changes required. There should be the opportunity to widen the scope of the SCR if Industry is not making sufficient progress.

Question 13: Do you agree with the introduction of a licence condition on the basis described in paragraphs 5.11 and 5.12 and Appendix 5? Why or why not? Do you have any comments on the key elements set out in table 7 of Appendix 5a, or consider there are any other key elements which should be included? Please give reasons for your view.

We are unclear as to why this new licence condition is required.

Question 14: Do you have any comments on the draft wording of the outline licence condition included at Appendix 5b? Please give reasons for your view.

No comment

Question 15: *What are your views on our indicative timelines? Do you foresee any potential challenges to, or implications of, the proposed timelines and how could these be mitigated?*

We are concerned at the proposed timescales. There are fixed implementation dates, yet no provision is made for any deadlines being missed along the way. Timescales are very tight for this wide ranging reform. If there are delays in the process, there is a large risk that it is implementation timescales that are squeezed. This causes huge financial uncertainty to customers and market participants such as suppliers and generators who have to pay these charges.

As we have highlighted in questions 6 and 8, transparency of what the new methodology changes will be and a long lead time is essential. We would urge Ofgem to recognise the impact of these reforms on customers, their businesses and livelihoods. There could be some large winners and losers as a result of this regulatory review of the charging methodology. Regulatory change should not result in short term windfall gains or losses. Customers on 'pass through' contracts need to have notice of these changes to charges, and to be able to adapt and incorporate into their budget planning cycles.

Suppliers also need this notice period / clarity around the charging methodology to ensure that they can accurately reflect the new charging arrangements for customers on 'fixed price' contracts. A supplier can only pass through the charges at the time of pricing a 'fixed price' customer. If implementation timescales are short, any changes will not be seen by the customer until the time they are next priced – which may be 1-3 years out. Increased transparency of the methodology / longer lead times will lead to reduced risk premia being added to customer contracts.

At the point of raising modification proposals in the second half of 2020, there should be a sufficient level of detail for market participants to be able to predict what the new charges will look like for their customers. Suppliers and DNOs should have enough information available to them to be able to engage with customers on how their charges will change and how they could respond to these changes. Assuming all deadlines are met, we would ask that implementation is April 2023 for all changes, rather than on a phased approach. This will give customers more time to understand and budget for these changes. Suppliers will be able to reflect the changes into contracts. If detailed modifications are not raised in the second half of 2020, then Ofgem should look to move the implementation date. We would urge Ofgem not to derogate DNOs not to provide the 15 month notice period.

Question 16: What are your views on our proposals for coordinating and engaging stakeholders in this work?

We have found the Charging Futures Forum and associated webinars helpful. Npower also had a representative on the Forward Looking Charges Task Force. We welcome the opportunity to engage in such events.