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Dear Jon

**Consultation on "Getting more out of our electricity networks by reforming access and forward-looking charging arrangements"**

Thank you for the opportunity to respond to your consultation on network access. I have set out our response to your consultation questions below.

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

We are broadly supportive of the need to review network charging as set out in chapter 2. However, we are deeply concerned that the tone of this chapter is very much based against small embedded generation. We would encourage the use of more balanced language in future consultations.

In the following paragraphs, I have highlighted below some sections where the style of writing concerns us:

You state that "The rise of distributed generation means that there are already significant areas of the network that are constrained as to how much more they can export" (para 2.1 A). This sentence could equally well have been written as "The fall of demand means that there are already significant areas of the network that are constrained as to how much more they can export." We would favour Ofgem using language like "The rise of distributed generation and the fall in demand means that there are already significant areas of the network that are constrained as to how much more they can export" as it avoids perceptions of bias.

You regularly use the phrase "forward looking" (for example "the forward-looking element of UoS charges..." (para 2.8)). But we find its use confusing. For example, in the context of TNUoS charges, "Forward Looking" is often used to refer to the annualised cost of circuits already constructed (and therefore sunk) for the connection of either generation and/or demand. At other times you refer to the residual cost as being the sunk cost of the network. Clearly there is some overlap between the two. For a meaningful debate we think it would be better to allocate costs to categories such as:

- Sunk/underutilised (less than 100% of the assets capacity is required by SQSS)
- Sunk/required
- Upcoming investment costs
- Investment avoided by the presence of generation and /or demand

You state that "BSUoS charges and recovered from demand and larger generators based on the amount of energy imported or exported onto the network" (para 2.8, final bullet). BSUoS is recovered based on the magnitude metered volume of a trading unit (a group of BM Units). I think it is helpful if you make the BSUoS charging base clearer. Large transmission power stations often draw some power from the network ("works power") and they pay BSUoS on the absolute net amount of power that they import from or export to the transmission system. When they are running, they typically export and pay BSUoS on the net export and when they are not running, they typically pay BSUoS on the import from the transmission system. Typically, the amount of power exported is significantly larger than the amount of power imported although this is not the case for pumped storage where demand has to be greater than generation.

The treatment of GSP groups (consisting of demand and potentially SVA registered smaller generation) is similar. Where demand is greater than generation, the GSP group imports and BSUoS is paid on the net import. When generation is greater than demand, the GSP group exports and BSUoS is charged on the net export (although, within a group, some GSPs may be exporting whilst some are importing).

The treatment to the two classes of user is more similar than your consultation suggests. For both power stations (which often also have some demand embedded within them) and GSP demand groups (which often have some generation embedded in them) the treatment of the BSUoS charge is similar – both class of user pay for the net flow they import from or export to the transmission system.

You state that "additionally, distributed generation do not pay any local UoS charges" (para 2.25) without adding that this is because distributed generation pay upfront the full capital cost of the local network reinforcement. This implies an advantage to distributed generation over transmission generation when the converse is the case.

You state "Small DG does not pay BSUoS" (para 2.27). I believe that this statement is incorrect as CVA registered embedded generation does pay BSUoS. I can provide supporting evidence if required. How BSUoS is paid is a function of BM Unit and trading unit registration.

It is difficult to come away from this section without a perception of bias against distributed generation.

**Question 2**: *Do you agree with our proposal that access rights should be reviewed, with the aim to improve their definition and choice?*

We are supportive of a review of access rights – without a clear product definition, it is difficult to properly allocate costs or ensure that all users have access to a level playing field.

The question of the level of choice a user should have is more complex, and we would be supportive of users being allowed to make an informed choice.

**Question 3**: *Do you have views on whether options should be developed in the following areas ... as part of the review?*

You talk about providing "essential" connection for small (domestic) users at moderate prices. We think that access charges should be designed to deliver the economically correct outcomes. This would mean properly passing on costs and allocating charges in such a way that there is an incentive on all network users to make the "correct" decision, and we think that the initial stages of the work should look at developing an appropriate cost reflective charging mechanism. Once these costs have been identified, we see a second stage of work to look at affordability and social impact, and if adjustments are need to protect vulnerable consumers, to overlay these on an economically robust solution.

With respect to the range of options that you are considering we think that:

i. You talk about time of use tariffs. By putting different charges at different times, it can change behaviour and you can end up with scenarios where the highest use of the network is just before or just after the peak charging period. We think that it makes more sense to set charges based on (say) actual demand levels such that peak demand always occurs in the peak charging period rather than where peak was thought to be when the rules were last reviewed.

ii. We believe that the current access rights (where users can effectively secure network access until such time as they choose to terminate it) are correct, and see little benefit in looking at alternate duration contracts (for example 20-year access rights). We also think that there is benefit in allowing users to fix the price of their access over a longer term.

**Question 4**: *Do you agree with the key links between access and charging we have identified in table 1?*

We are broadly supportive of the links in table 1, with the following comments:

- Firmness: we would suggest giving all users are given the same rights and charging equally for this. Users could then be paid to curtail their access and those users accepting the greatest curtailment would effectively pay less.
- Time profiled: We suspect that demand profiled is more appropriate.
- Duration: We think that it is important to be clear who owns the spare capacity on the network. If users properly fund all the network development then arguably, any unused capacity is owned by the relevant user(s), not the network owner. It would be up to the capacity owner to decide if they wished to sell their short term access rights.

**Question 5**: *Do you agree with our proposal that targeted areas of allocation of access should be reviewed?*

Whilst we agree that allocation of access is something that should be reviewed, we think that it is a separate work area to the other topics being considered. Separating out this topic should create a more efficient process.

**Question 6:** *Do you agree that a comprehensive review of forward looking DUoS charging methodologies ... should be undertaken?*

It is good practice to periodically review if a charging structure is still fit for purpose. We think it would be helpful to set out some examples of a network and its costs and compare these to the charges calculated by CDCM and/or EDCM (as appropriate).

**Question 7:** *Do you agree that the distribution connection charging boundary should be reviewed but not the transmission connection boundary?*

We see the case for reviewing the distribution connection boundary. However, if the review resulted in a different boundary for distribution transmission, we think that a justification for the difference would be helpful.

**Question 8***: Do you agree that the basis of the forward looking TNUoS charging should be reviewed in targeted areas?*

Reading this section, we are very concerned that you seem to consider flows on the transmission system drive costs. For example, you talk about embedded generation increasing flows on the transmission system, and hence the costs of the transmission system.

The amount of power flowing in a transmission circuit does not impose any cost on transmission system; it is not necessary to replace a circuit after a certain amount of power has flowed through it, and increasing the load on a circuit does not mean you need to replace the circuit sooner. The costs of the transmission system are determined by the amount of investment required to ensure the security and quality of supply (and these are set out in the SQSS).

We have significant concerns whether the current operation of the TNUoS charging model delivers cost reflective charges as intended. However, we support the review of TNUoS charges within the scope of the SCR as set out in this consultation, but feel that a separate (and independent) piece of work is required to properly review the cost reflectivity (or otherwise) of the locational signals from the TNUoS model.

**Question 9:** *Do you agree that a broader review of forward looking review of TNUoS ... should not be prioritised for this review?*

We agree with this point (see answer to question 8).

In the consultation you note that some users have expressed concern about the choice of reference node in the TNUoS model (4.32). We are of the view that the current choice of a demand weighted distributed reference is a significant defect for the reasons we have set out to you separately. Notwithstanding, we think that any work to vary the reference node could be undertaken independently to the work outlined here.

**Question 10:** *Do you agree that there would be value in further work in assessing options to make BSUoS more cost reflective? If so, that an ESO lead industry task force would be the best way to take this forward.*

We agree.

**Question 11***: What are your views on whether Ofgem or the industry should lead the review of the different areas?*

We agree with Ofgem's view that the decision is finely balanced and we support Ofgem's proposal (for the reasons set out) of Option A for a Narrow SCR with industry led developments on the other areas. We think that keeping a narrow SCR scope will lead to a speedier progress of the important areas in the scope.

**Question 12:** *Do you agree with our proposal to launch an 'Option 1' SCR for areas of review that we lead on?*

We believe that there is little to choose between options 1 and 2 and would be supportive of either option. We think that the governance around option 3 is less clear and therefore this option is the inferior option.

**Question 13**: *Do you agree with the introduction of a licence condition on the basis described?*

No opinion.

**Question 14**: *Do you have any comment on the draft wording of the outline licence condition?*

We are mindful that there are two competing business models:

- Smaller power networks with local generation. The network facilitates the management of frequency, reserve and maintenance outages of power stations; and
- A large power network with large and remote power stations. The large size of the power stations means that more reserve and response is required. The network facilitates the bulk transfer of energy.

There would appear to be a natural incentive on the network operators to promote the large network model and we end up with a network charging model that supports perpetuation of this (with large, difficult to avoid "residual" costs). We would ask Ofgem to be mindful of this when setting licence obligations and expecting network operators to provide significant input into the analysis. We strongly suggest that Ofgem gives consideration to funding independent analysis.

**Question 15**: *What are your views on our indicative timelines?*

We believe that the timelines are ambitious but achievable provided that the scope of the work remains narrow.

We would encourage Ofgem to provide more guidance on the evidence they request and how it is considered. In previous consultations, Ofgem has often responded with the phrase "we are unconvinced by the evidence". We would find it helpful if Ofgem provided more explanation

around this, along with examples of why Ofgem does find certain evidence convincing. This will allow industry to make more targeted responses to Ofgem "minded to" positions.

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

We feel that task forces are a very useful tool to help develop this work. However, to be effective, they need to be made up of a small number of experts but have cross industry confidence that all views are properly represented. These experts should also have enough time available to dedicate to the task force. Historically, we feel that previous task forces were too large and potentially with some disengaged members. We appreciate that finding the right people to meet the above criteria and be task force members is difficult, but feel that putting effort into it at this stage may lead to a better outcome.

We are also concerned that in some areas you are not considering a broad enough picture. The ESO talks about "the death spiral of overnight summer demand" and the problems that this creates with inertia. The preferred solution appears to be looking at ways to increase demand from pumped storage overnight. We would hope that Ofgem would look at a wider range of options. For example, letting domestic customers optionally run immersion heaters overnight without incurring costs that would have to be paid anyway – CfD, network charges etc. This could allow cheap renewable and nuclear power to displace gas boilers to heat water leading to direct benefit to customers rather than creating a distortion in the wholesale market.

I hope that you find these responses helpful. Please feel free to contact me should you wish to discuss any of the response in more detail.

Yours sincerely,

**Nick Sillito**

**Commercial Director**