

Andrew Self
Targeted Charging Review
Energy Systems Transition team
Ofgem

Dear Andrew,

Targeted Charging Review – Ofgem minded to decision consultation

- **We believe the Targeted Charging Review (TCR) is necessary and timely to ensure that inefficient costs are not passed to consumers.**
- **We broadly support the conclusions reached by Ofgem in its ‘minded to’ consultation.**
- **We support the proposals to level the playing field between transmission and distribution by removing embedded benefits, including the proposal to remove the residual for transmission-connected generation, subject to maintaining compliance with tariff capping requirements.**
- **Further detail is needed on the application to transmission-connected demand and the segments that will apply.**

National Grid Electricity Transmission (NGET) welcomes the opportunity to respond to Ofgem’s minded to decision on its TCR. We are responding to this consultation as the Transmission Owner (TO) responsible for owning, operating, and maintaining the high-voltage transmission network in England & Wales. From April 2019, we will be legally separated from the National Grid Electricity System Operator business, and will operate independently from them. We believe it is important that we engage with you in areas of reform such as the TCR, to ensure a broader transmission view is provided from the perspective of a TO.

We believe the TCR is timely given the pace of change in our industry, affecting both existing and future customers and the technologies wanting to use the transmission and distribution networks. Following legal separation, NGET’s direct contractual interface will be with the System Operator with separate, bilateral charging arrangements that are different to those in the Connection and Use of System Code (CUSC) and the distribution equivalent (the DCUSA). However, the charging methodologies (both forward-look and residual cost recovery) that are defined in the CUSC and the DCUSA play an important role in influencing customers’ investment decisions and therefore how we, as a TO, invest and develop our network to meet their needs. We therefore have a keen interest in how the charging rules evolve as part of this review, to ensure that our investment decisions are underpinned by economically-sound cost signals, and that there is a level playing field between different type of generation regardless of where it is connected.

As a package of reform, we believe that Ofgem has considered the right areas where these signals can be distorted, specifically the formulation of residual charges; charging residuals on transmission-connected generation; BSUoS charges for embedded customers; and the small generation discount. We cover each of these areas in our response.

Residual Charges

We agree customer behaviour should be driven by market prices and forward looking charges, and that customers that benefit from the networks should fairly contribute to the cost of its operation and maintenance.

The process that Ofgem has followed to rationalise the various options seems to reach logical and well-justified conclusions. In particular, we agree consideration of practicalities, such as the availability of metering information or the ability to objectively define segments, should be considered alongside economic purity.

On balance, charging residuals based on the number of installed demand meters is an appropriate way forward, as the opportunity for charge-avoidance is very limited. We agree that residual charges should depend on the voltage level that a customer connects to, as this broadly reflects the extent to which customers connected to lower voltage networks also utilise higher voltage networks.

Treating transmission as a separate segment seems sensible, as it allows the revenues from forward looking charges and the revenues allowed through the TO price controls to be appropriately treated. However, we note that Ofgem intends to identify a number of transmission segments, but the document does not elaborate on what these might be. We would appreciate further clarity on the possible methodology for forming these segments, as well as what they will be.

We would also like to understand how the transmission generation residual tariff is being defined by Ofgem, given there are several interacting drivers that affect this component of charges (including the treatment of offshore assets, tariff capping rules, and the derivation of locational charges). We believe this will better enable stakeholders to participate in future debates on this issue.

Other Embedded Benefits

We think it is crucial that there is a level playing field between transmission networks and distribution networks. This does not necessarily mean the charging methodologies need to be the same but that charges should be cost reflective and avoid any 'boundary effects' between transmission and distribution charging methodologies. As some customers are able choose between connecting to the transmission or a distribution network because of their size and location, we believe their decision should be primarily based on the cost and quality of service that is provided.

We recognise that the current transmission charging arrangements, including BSUoS, have the potential to distort customers' investment decisions. The most significant of these has been addressed by the decision to implement CMP 264/5 in 2017. However, we believe it is right to go further and address the remaining distortions caused by providing transmission-connected generation an unjustified benefit of a negative residual charge (subject to maintaining compliance with European Regulation 838/2010); and allowing embedded generation to avoid BSUoS charges or distort BSUoS charges paid by suppliers. We support an approach that prioritises any intervention to address the largest distortions first. We agree with Ofgem's view that once these issues have been resolved it would no longer be necessary to provide a small generator discount.

Implementation arrangements

We note the distributional effects of the two leading options (i.e. a fixed charge or an agreed capacity charge) vary but are likely to impact certain customers significantly and in particular, customers that triad avoid through co-located generation. We recognise the impact that sudden and unforeseen regulatory changes can have on customers' businesses. Therefore, it is right to consider options that would reduce this impact while also maximising the benefit of reform to end consumers. The two options presented seek to strike this balance.

A further dimension that needs to be considered is the impact that the changes might have on price controls that are currently under review. Specifically, the development of the RIIO-2 frameworks needs to be able to cater for the impact these changes could have on the volume of connections to transmission and distribution networks. Also, we note the Ofgem intends "to ensure that the price controls will ensure that consumers receive any network cost savings arising from more efficient price signals and improved recovery of residual charges". We would welcome further detail on this thinking.

If you would like to discuss further any aspects of this response, please contact myself or Richard Woodward (tel. 07964 541743).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'AV Brown'.

Adam Brown
Revenue & Policy Manager
National Grid Electricity Transmission