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Consultation on refined residual charging banding in the Targeted Charging Review (TCR)

Dear Andy,

This response is on behalf of National Grid Electricity System Operator (NGESO) and is not confidential. In the context of electricity charging arrangements, we are responsible for setting TNUoS tariffs and recovering the costs of system balancing actions from all relevant network users. We are also the lead secretariat for Charging Futures which has been established to help make charging more accessible to all interested parties.

We are broadly supportive of the approach set out in the consultation, with a few areas where we believe consideration is required of the practicalities of implementation. We cover these at a high level in this cover letter with more detailed information in the appendix.

We are supportive of the proposal for non-domestic demand residual to have a fixed charge option with some segmentation. Our preference however is for the hybrid approach, where users who have an agreed capacity could be charged a per kW charge, and smaller users have a fixed charge with refined segments. This approach would be more reflective of system usage and easier to implement as detailed in the appendix. For domestic premises, we note that a single charge is suggested and we would be keen to work with Ofgem to understand this, and the effect on fuel poor or otherwise vulnerable consumers in more detail.

If we were to move to a refined segment option at transmission, implementation timescales need to be considered. As April 2021 is now just over a year and a half away, it would be difficult for us to update our systems and processes in time due to the significant increase in the number tariffs we would be required to calculate and the material change in the data we require to do so. We note that Ofgem did introduce another TCR implementation date of 2023 in its letter¹ dated 21st May 2019 which would be much more realistic for us, and, we believe, wider industry, to achieve.

We are not comfortable with the approach to non-domestic banding indicated in the consultation but, we are supportive of updating the non-domestic bandings in line with price controls. This would allow more certainty for users, however consideration is required of to whose price control (ESO, DNO or TO) this would align.

We support the definition of final demand provided in the consultation, however implications of this on the current storage CUSC modifications (CMP280/281/319), as well as those raised under the BSC and DCUSA need to be considered. These modifications are focussed on storage but would have to be broadened in light of the definition to include all demand required for generation as interim demand. We have provided this view to CUSC and BSC Panels.

We look forward to working with both Ofgem and industry on the detail of how the TCR is implemented in practice and are happy to raise the supporting CUSC and BSC changes.

If you would like to discuss our response, please contact Harriet Harmon at harriet.harmon@nationalgrideso.com in the first instance.

Yours sincerely,



Colm Murphy

Head of Electricity Market Change Delivery
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¹ https://www.ofgem.gov.uk/system/files/docs/2019/05/may_charging_open_letter_final_21-may.pdf

Appendix

As set out in our cover letter, this appendix contains the detail of our view on the proposals dated 3rd September 2019. Whilst there are no specific questions listed in the consultation, we have split our considerations into topic areas for ease of review.

Application of TCR principles – demand residual charging:

1. We continue to agree that an unavoidable residual charge is in the better interests of consumers and support Ofgem's view that different treatments across non-domestic and domestic arenas are appropriate, in the absence of all consumers having allocated capacities. For the purposes of this appendix, all references to 'residual' are in the context of the non-domestic market, unless otherwise stated;
2. The principles of fairness and reducing harmful distortions are partially met through the new proposals – we are mindful that creating any 'boundary' within charging will lead to consumers trying to be on one side of it in particular. Within the Access and Forward-Looking Charges SCR we are considering the extent to which boundary issues across the HV/EHV and EHV/Transmission boundaries can be addressed, and we are concerned that the bandings offered by Ofgem in this latest consultation will lead to similar issues which will require resolution in future. On that basis, we believe that the principle of reducing harmful distortions is not fully met by the new proposals;
3. We are also mindful in particular of the principle of practicality and proportionality. We do not believe that creating 17 residual charges (14 for metered non-domestic connected at distribution, 1 for the same but at transmission level, 1 for domestic potentially and another 1 for UMS) is necessarily practical or proportionate. The incremental benefits to be realised from the complexity inherent in this approach, compared to those to be delivered through something more linear are not clear and it is hard, therefore to agree that the current proposals are proportionate.

LV Banding:

4. The consultation presupposes that no site on the LV network has an agreed Maximum Import Capacity (hereafter "MIC"). In practice, this is not the case. Looking at DNO LC14 statements, there are £/kVA charges in the LV network, which are only levied on sites with MICs, and as such we do not believe that voltage alone is the correct basis for any banding; we have included within this appendix our preferred solution, which utilises MICs;
5. It is not clear from the consultation what the metric for volume is; whilst industry has some data available, there is a significant difference between using industry standard data such as Estimated Annual Consumption (EAC) and a Supplier's own view of what a consumer has used (billed consumption). EACs change each time a NHH meter is read, and it is therefore possible for a site to be in one band one month then another the following month. Billed consumption is only available ex post, and if used, would enable Suppliers to effectively create their own Use of System liability by putting forward their own data rather than industry standard. Initiating a system whereby Suppliers can create their own UoS liability would be entirely inappropriate, given the financial incentive it would create to distort billing to achieve commercial aims. We believe that further clarity on this point should come from Ofgem through this SCR rather than being resolved through the resultant code modification process.

HV/EHV Banding:

6. The information in Figure 3 of the consultation indicates 'cliff edges' between bandings, in DUoS terms. Assuming the same is true in TNUoS, consumers are very likely, in our view, to change their behaviour to move to the cheapest possible band. From a policy perspective, we agree that cost-recovery charges should not influence consumer behaviour and are concerned that the approach to banding indicated in the consultation will drive consumer behaviour in the larger end of the non-domestic space, potentially to the detriment of micro businesses and domestic consumers who will pick up the shortfall. We believe that this

shortfall being paid by smaller consumers who are less able to load shift is a clear distortion and that it is the absolute intent of this SCR to prevent such a scenario – we are concerned this could instead exacerbate it.

The link to Price Control;

7. We agree that the bandings should be linked to RIIO, however we do not agree that a site, once in a band, should continue to be charged, irrespective of its behaviour/characteristics, within that band until the next price control period. There are several considerations here:
 - a. Change of use – where a site undergoes change of tenancy, the use of that site can change. It is our understanding that it is not uncommon for non-domestic premises to be converted into domestic sites, or for those premises to change from, for example, a manufacturing plant to a warehouse. In either case, the incoming consumer should be charged according to their characteristics, not those of the previous occupier;
 - b. Information – for a site to be in a particular band, and for that site to then change supplier and be offered an appropriate price, it would be necessary, we are given to understand, for the incoming supplier to be aware of which price band that site was in. Without a central repository/database of this information, there is a material risk that suppliers will price consumers based on incorrect information and will either increase their risk premia to account for any errors, or will seek to recharge consumers by changing their prices (assuming their contracts allow). This is not in the best interests of consumers;
 - c. RIIO – ESO's next price control starts in 2021, for DNOs it is 2023 – the dates of price controls will not necessarily be aligned in future, meaning that a consumer could be in one band for one UoS charge and in another for a different charge. This is likely to cause confusion and uncertainty, especially for very small businesses who may not be equipped to deal with the complexities of the electricity industry.
8. The bandings themselves should be set at the point of price control, reviewed after a specific number of years (so as to avoid discrepancies between transmission and distribution treatments) and should not be subject to open governance. The review, undertaken collectively by the relevant network licensees, should consider the extent to which the bandings are still appropriate in light of system/network developments, user behaviour and an assessment of whether they will continue to recover charges in a progressive manner over the following years. Final approval of any changes should rest with the Authority. This would ensure that consumers and suppliers have a degree of certainty over the medium term as to their exposure. The risk of leaving the bandings open to a code modification process is that the bands could move mid-contract, or could materially shift such that consumers see step changes in their charges from one year to the next.

NHH TNUoS:

9. Per the terms of the CUSC, there is no NHH residual charge in current arrangements. The NHH tariff is effectively a zonal residual in itself, recovering charges that cannot be assigned to known HH volumes. The NHH tariff is based on consumption over 4-7pm, every day, year-round. It is not currently avoidable, other than to say that if a supplier's NHH sites use fewer MWh, the supplier will face a smaller total £m charge;
10. We are not clear, based on the SCR publications to date whether there is an expectation that the ESO will create explicit NHH locational and residual charges under these proposals. Any requirement for specific charges will necessitate a new charging methodology for NHH, one which sets locational signals by reference to volumes not capacity, significantly increasing the implementation timescales for any reform. We do not believe that the introduction of specific NHH tariffs is warranted.

Data availability:

11. We have been unable, within the timeframes of this consultation, to model any of the potential TNUoS tariffs resultant of these proposals. We note that the consultation itself focuses on DUoS, but we are mindful that, in percentage terms (of the relevant UoS charge), the residual element of demand TNUoS far exceeds that of DUoS. Ending active triad avoidance as a means to avoid residual charges is a key point in the benefits case

for the TCR reforms and as such we are surprised that there is no modelling of TNUoS within this consultation;

12. More broadly, we do not have any of the data required to assess the effect of these proposals on TNUoS tariffs. We believe it is critical that industry is able to make quantitative as well as qualitative assessments of proposals and are therefore very keen to understand how we can – prior to any TCR decisions being made by the Authority - obtain data at a national level to best assess the effects on tariffs in a robust way.

Alternative approaches:

13. In our response to the TCR consultation published in November 2018, we outlined that a fixed charge would be appropriate for sites without a MIC, and that a linear £/kVA would be appropriate for those with one;
14. We are still of the view that banding based on capacity is unnecessary. A linear £/kVA charge would provide equity, in that all sites with a MIC are charged in the same progressive manner and on the same basis, and equality, in that two sites with the same MIC would face the same charge;
15. As outlined in paragraph 4, we do not believe that voltage alone is the right basis for banding, however we do believe that industry-held data is appropriate – the following subsections will expand on our current views;

CT/Whole Current Metering

16. Sites have either Current Transformer (CT) metering, or whole current (WC). Voltage of connection is not a determining factor in these arrangements and it is possible for a HH site to have either;
17. Currently, HH sites with CT metering are either in Measurement Class C or E, and have a MIC. Non-domestic HH sites with WC metering are either in Measurement Class C or G, with only the former having MICs. The distinction between these Measurement Classes is whether the site has a HH peak of 100KW, with those above being assigned to Measurement Class C. All HH domestic sites are in Measurement Class F where their volume is <100kW;
18. NHH sites, which can equally be WC or CT-metered, are all in Measurement Class A. As the move to HH settlement continues, these NHH sites are moved to one of the above Measurement Classes based on their characteristics;

MICs

19. Based on the information contained within paragraphs 16 – 18 above, the table below illustrates which sites do, and do have MICs:

Measurement Class	Descriptor	MIC?
A	All NHH - WC/CT, Domestic and Non	No
C	HH settled, >100kW demand, WC/CT	Yes
E	HH settled, non-domestic, CT, <100kW	Yes
F	HH settled, domestic, WC/CT, <100kW	No
G	HH settled, non-domestic, WC, <100kW	No

20. Given the above, we believe that it is possible, and appropriate, to have multiple ways of categorising consumers, without creating layers of complexity that could act as barriers to entry for new or smaller suppliers.

Our proposed solution:

21. Sites in Measurement Classes C and E would have a linear £/kVA charge for both TNUoS and DUoS; these £/kVA arrangements are already established in DUoS charging and therefore would likely be familiar to both suppliers and relevant consumers. As outlined above, we believe this approach is fair and provides equity and equality, and is practical to implement;
22. Sites in Measurement Class A can be split by Profile Class to segment domestic and non-domestic sites. NHH sites with a Profile Class of 3-8 (non-domestic) could be charged either in one band, or one band per Profile

Class. It would also be appropriate to pair this group of sites with the HH sites in Measurement Class G, to provide a consistent approach to charging both pre- and post-HH settlement; for domestic sites, we would propose pairing those in Measurement Class F with those in Measurement Class A with a Profile Class of 1-2, with the similar benefit of consistency in arrangements following the conclusion of the SCR into HH settlement. We believe that these bands would be sufficiently granular to ensure that similar businesses pay similar charges, without being so granular as to create new layers of complexity and industry cost.

Final demand:

23. We welcome Ofgem's confirmation that final demand is all demand which is not required for the operation of a generating station, and we fully agree that this is a non-discriminatory approach which will benefit the broader industry, rather than just storage providers;
24. We are, however, mindful that this is a significant departure from the status quo in terms of the code modifications raised across the CUSC, DCUSA and BSC and we do not believe that 2021 for this new approach is achievable;
25. We have confirmed to the CUSC and BSC Panels that we do not believe the current modifications should be implemented, although we will of course do so should the Authority approve them. In practice, if the current storage modifications are approved, and Ofgem determine that only final demand should pay residual charges, industry will have to raise modifications to reverse the changes made for storage. In practice, we will have introduced a new distortion into the market by only implementing the policy position for a small number of generators, pending a further change which would then resolve that distortion;
26. It will not be possible to make small incremental changes to extant storage legal text to accommodate all generating stations, rather there will need to be broader changes to the charging methodologies – we do not believe such changes can be implemented for 2021.
27. Equally, if the Authority approve the storage modifications for a 2021 implementation date but consider 2023 for all generation, we will have a charging methodology in place for around a year for storage which then needs to be 'undone' for all generation. We do not believe the benefit to the small number of storage parties from having a temporary storage-only solution has been assessed, but we are mindful that all parties pay for the code modification processes, and for changes to Elexon, NGESO and DNO systems and as such the cost being socialised will be borne by consumers. It is not clear whether the benefit derived by storage providers will exceed this cost, or the extent to which the total value of that benefit will be realised in lower prices to consumers over the interim 1-2 year period.

BSUoS and the Transmission Generation Residual (TGR):

28. We note that the current consultation does not contain updated proposals on the application of BSUoS, or on the removal of the TGR. We urge the Authority to publish decisions on these two elements as soon as is practicable, if necessary in advance of the decisions on the treatment of DUoS and TNUoS demand residual charges. Industry are materially affected by the decisions made in these regards, and in the case of the TGR, which is a significant credit today, need considerable notice to be able to prepare appropriately for a change in liabilities.

Timescales for implementation:

29. We are concerned that there is a potential for significant changes to demand residual charges to come into effect from April 2021, and that this timescale may no longer be achievable, depending on the solution. In practice, we do not believe that this is now possible without the Directions issued by the Authority being extremely specific such that they effectively detail the entire solution and are delivered in the immediate term. In the absence of such specificity, many details will be left to a Workgroup to resolve, adding significant time to the process and removing a potential 2021 delivery;
30. We have previously communicated to Ofgem that we would require a minimum of 12-18 months to implement the TCR solutions; as we still do not have all requisite detail of the solutions to be implemented, we are unable to commence any meaningful systems and process impact assessments;

31. We continue to believe that a 2023 implementation timescale is the right approach, given the alignment this would achieve with cost-reflective charging reform, as well as wider market access and updated positions on HH settlement reforms.
