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Getting more out of our electricity networks by reforming access and forward-looking charging arrangements
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Dear Jon,

Thank you for the opportunity to respond to the above consultation. This response is made on behalf of Uniper UK Ltd.

Uniper is an experienced international energy company focused on power generation, energy trading, transportation, and storage, as well as a provider of specialist power engineering services. In the UK we own seven power stations comprising over 6GW of flexible installed capacity, as well as a fast churn gas storage site. As such Uniper is the fifth largest generator in GB and is making a major contribution to ensuring security of supply and providing a bridge to the energy market of the future.

We are generally supportive of the aims and direction of the proposed review. We believe that it is important that charging and access rights should be made more consistent so that the wide variety of parties and technologies which participate in the electricity market can do so in a fair manner.

We believe that Ofgem is right to embark on a Significant Code Review to address these issues. We believe that any issues identified should be progressed fully under the SCR rather than relying on fragmented workstreams under different governance. This would allow a more coordinated approach to the work and manage scare industry resource in the best way.

Our responses on the individual questions raised in the consultation are as follows:

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, the increased use of distributed assets to provide capacity, energy, balancing and network services means that the trading arrangements and market rules need to be made consistent across all market participants to ensure fair and efficient competition. The need for this has become apparent from the wide variety of participants who now take part in capacity auctions and are awarded capacity agreements, or who provide balancing and other system services. Similarly, the interest shown by parties who represent distributed assets in initiatives such as Project TERRE, and the associated

work to bring such parties into the Balancing Mechanism, shows how the diversity in providers of balancing services is increasing.

Network access and charging arrangements need to be in place that ensure that parties do not receive unfair advantages or disadvantages in competing in the market. The three priority areas which have been identified appear sensible. Reforms will need to be prioritised in order to ensure that change is deliverable in reasonable timescales.

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.

As technology such as electric vehicles and heating is adopted more widely, then it seems clear that access rights will need to change to ensure that distribution networks in particular can cope with the increased local demand this would entail; perhaps through encouraging load shifting by households rather than building additional expensive infrastructure. Charges need to evolve in anticipation of this, rather than just in response to an issue once it has arisen. Retrospectively making changes once such technology is in wide usage is likely to cause inconvenience and cost to customers who anticipated a different set of arrangements being in place when they decided to invest in these assets. Therefore, it appears sensible to seek to review, and where appropriate revise, the definition of access rights as has been proposed.

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?

Yes, it would appear sensible to review current access rights for smaller users who may require higher level of network use than other similar users due to using technologies such as electric vehicles. Whether this entails setting a core threshold for all users with different access rights over and above this for those who need them, or whether there are different access products for different sizes of customer should be considered as part of the review.

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 would support a review of the firmness of rights on the distribution networks and transmission network. Of course, if different levels of firmness are introduced then the charging arrangements would need to ensure that the value of less interruptible rights is reflected in the charges parties pay. The interaction of access rights with other mechanisms such as imbalance pricing and perhaps the capacity mechanism will need to be considered too, to ensure that those parties with a less secure access rights are treated accordingly, and not necessarily in the same manner, as those with firm access rights.

For instance, at present a transmission connected generator whose access is constrained on the transmission network has a bid accepted in the balancing

mechanism rather than being exposed to imbalance prices. However, a generator with less firm access rights is likely to have a clause included in its connection agreement requiring it to reduce output at its own cost if there is a network constraint which relates to the lower level of access provided.

It may be worth exploring whether it would be possible to time profile access rights such as developing peak and off-peak access products. Some attempt at this has been made in the TNUoS charging arrangements for generators, where some charges are allocated depending on a generator's likely impact on the network at peak times and at other times of the year.

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

It is less clear whether these proposals would be helpful. At present, users have an annual rolling evergreen access right until they serve notice that they no longer want to take that right up. The relevant notice period required to reduce capacity on the transmission network provides some signal to the system operator about future access requirements, but perhaps not as much as it would prefer in order to help plan future system requirements. This is why this issue was looked into as part of Project Transmit with a view to increasing the amount of commitment provided by transmission users. However, this was not pursued further mainly due to the inability of users within a dynamic competitive market environment to give those levels of commitment with any degree of certainty. To many parties increased user commitment were seen as a closure tax providing no meaningful signal to network operators.

In terms of different depths of access, we believe that this would be difficult to justify on an integrated network such as in GB. All users of the total network, even those who would regard themselves as only trading locally, benefit from the stability that the system provides for everyone and from the competition in the wider energy market that the networks facilitate. Customers who truly only purchased power from local providers would be subject only to the price competition that the limited range of providers could bring, and would need to make their own arrangements to provide a stable and secure supply. While the wider network provides these benefits to all parties, it seems appropriate that all users should pay for this. However, we recognise that this may be an issue which is addressed through how residual charges are allocated to parties rather than the forward looking investment related charges.

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

It would seem appropriate to look at rights on both the distribution and transmission networks, although it does seem as if the majority of issues identified by the Baringa analysis relate to issues with arrangements on the distribution networks, or parties connected at the distribution level.

We note that one of the areas identified for review is whether distribution connected users should be able to obtain firmer access rights on the transmission network. If this is pursued, then as we mention in our response to question 3b) above, consideration will need to be given to this right interacts with balancing arrangements, particularly in the event that an issue on the distribution network effectively prevents a party from gaining access to the transmission system and for instance puts that party into imbalance.

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.

We largely agree with the assessment. However, in relation to time profiled access rights, it is not necessarily the case that profiled rights would be less costly than round the clock access rights. For instance, a time profiled access right which provides access during peak times may be as costly to provide as round the clock access, if it is these peak conditions which drive most of the investment in the network concerned.

In respect of the entry in the table referring to depth/local charges, as we mention above it is not just the access to alternative power when the local generator is offline which is important. Local trading of energy will be affected by both counterparties' ability to access the wider market if they choose. This allows them to access much of the benefits of the wider competitive market, even though they only trade locally. This benefit needs to be paid for in some manner to prevent free riding. Again, this may be an issue for residual charging arrangements rather than forward looking 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?

It appears that allocation of access rights on congested parts of distribution networks is a particular challenge which could be facilitated by improvements in queue management methods. We agree that targeted auctions should not be pursued. The experience with gas has shown that outcomes from auctions have the ability to considerably affect a network company's cost recovery, meaning that participants can be exposed to increased volatility of residual charges. They are also relatively complex to implement.

Connect and Manage type arrangements on the transmission network have been effective in getting more plant onto the network. This is because subsequent network constraints form little or no part of the consideration of whether these plant should be connected. However, this comes at the expense of increased constraint costs when they are socialised, as has happened to date.

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 agree that it would be best not to pursue this. As we mention above, experience in gas market does not support using auctions to allocate initial access. It was also firmly opposed by industry during the Transmission Access Review process when it was last proposed for adoption in allocating generation TEC.

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

In principle, it seems sensible to explore options as to whether it would be possible to implement use it or lose it (or use it or sell it) requirements, to promote reallocation of access rights. The main issue with this will be how interchangeable rights on different parts of the network are with each other. Experience with the reallocation of TEC on the transmission system has shown that the use of an exchange rate is necessary, as a generator giving up 1MW of capacity on one part of the system could free up more or less than that at a different part of the network.

For distribution networks with a larger number of smaller participants, this might result in a very complex set of arrangements, to understand the different interactions of multiple exchanges of capacity taking place at one time. Of course, this may be even more complex if participants hold different types of access right such as peak/off peak and at different depths of access.

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.

It is worth considering whether locational signals can be improved on the distribution networks. Demand and generation users are becoming more interchangeable in terms of competing to provide balancing service and capacity, and therefore network charging needs to be provide consistent signals to ensure there is no class of participant or particular location receives an unfair competitive advantage through the network charges. At present embedded generation mostly receives credits from DUoS signals, even though in a more dynamic network you would expect generation in some areas to drive network investment and therefore should pay a forward charge. Of course, there will always be a trade-off to be struck between the cost reflectivity and the predictability of charges. This could be explored through the review.

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 believe that there would be some benefit in exploring whether the connection boundary for distribution should become shallower. This would be consistent with proposals to review forward looking charges in DUoS. Stronger locational signals are needed when the boundary is made shallower, to compensate for the loss of investment signal that a deeper charge provides.

If stronger locational charges are brought in, consideration will need to be give as to whether any parties paid long term deeper connection charges and whether they would be eligible for a partial refund, if they are now going to be exposed to use of system charges aimed at recovering similar costs.

Keeping the shallow nature of the transmission connection boundary appears appropriate. It is unlikely to be able to become shallower and we do not believe that would be appropriate to revert back to a deeper charging regime.

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?

Yes this would seem to be good idea. Being exposed to a negative demand forward looking charge should not be a problem as in principle it should be the same as the positive generation forward looking charge. Nevertheless, there are inconsistencies caused by applying different charging zones and by flooring negative charges at zero on the demand side which could be improved upon.

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

Again, it may be worth looking at whether signals can be made more consistent between generation and demand, as they are competing more and more in the provision of wholesale services such as balancing and the capacity market.

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.

We agree that both of these issues should not be progressed as part of the review.

The evidence so far, through work carried out to assess CUSC modification CMP250, is that BSUoS does not provide effective signals to affect beneficial participant behaviour. We therefore agree that BSUoS should be recovered using similar principles as adopted for residual charges. This should extend to removing BSUoS charges from generation, as it currently provides a distortion in trading over interconnectors between GB generators and those in other market areas who are not exposed to similar charges. We therefore believe this aspect should be pursued as matter of some urgency.

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 believe that making BSUoS more cost reflective is a priority at the moment. It could be something which could be looked into at a different point in time. However, we do not agree that the industry should look into this as a separate taskforce as suggested. The existing commitment required from the industry for this review, the targeted charging review, plus to support initiatives such as extensive changes to balancing arrangements through projects MARI, TERRE and the SNAPs work etc, means that industry is unlikely to be able to support this at present.

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.

As we mention above, we do not believe that the industry is in a position to carry out additional work on top of extensive existing commitments. Additionally, if a number of reviews are taking place under different governance, it will be more difficult to ensure that ideas are developed in a coordinated manner. Therefore, we believe any issues up for review should be carried out under the SCR and Ofgem's stewardship. We would be more supportive of option C, but removing item f) as an issue for consideration at all at this moment.

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.

Option 1 seems appropriate. Even after a review has concluded there is often a lot of work needed to define the detail. Involving the industry directly at that stage through the normal industry modification governance arrangements will allow that to happen.

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.

As we mention in our response to question 11, we believe that all issues under review should be progressed under an SCR. If this were the case, then there would be no need for the licence obligation as proposed.

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 thank you.

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?

Although, the timescales seem quite prolonged, we note that processes like Project Transmit took a significant amount of times to progress to implementing code changes. The timetable as set out for the breadth of work necessary appear ambitious. However, it is probably better to be ambitious at this stage and look to extend timescales if it becomes clear that this is necessary at a later date.

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

We would be supportive of continued engagement through the charging futures infrastructure as a starting position for communication with stakeholders. We believe that it will be important to involve all interested parties in work to develop options for change. Therefore, it would be preferable if more inclusive arrangements for engagement with stakeholders could be developed than those provided through the taskforces under the initial stages of work on this review. Such workgroups could

become open to wider numbers of stakeholders. Also, there could be better and more timely access to working papers and agendas, plus more regular updates on the progress being made and the options being considered.

I hope you find the above comments helpful. Please do contact me in the first instance should you wish to discuss this further.

Yours sincerely

Paul Jones
Senior Regulation Manager
Uniper UK Limited