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12th July 2019

Consultation on supplementary information and analysis to November 2018 minded-to decision on 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 Transmission Network Use of System (TNUoS) tariffs and recovering the costs of system balancing actions (through Balancing Services Use of System (BSUoS) charges) 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 welcome Ofgem's wide engagement through the Charging Futures Forum. This has been well received by stakeholders and has helped to inform the debate. This engagement is essential, particularly for smaller parties who will be impacted by changes to the arrangements but don't have the capacity to follow industry proposals in detail helping manage investor uncertainty.

We support the additional analysis as well as clarifications which Ofgem have published as part of this consultation and we look forward to seeing any additional feedback on outputs from the balancing services charges task force. We will cover each of Ofgem's consultation questions in turn:

- We agree that additional analysis was required to understand the consumer benefit's case for the TCR in the event that the capacity market is not reinstated. We are comfortable with the assumptions made in the analysis.
- The balancing services charges task force has been a success, bringing together industry representatives under the leadership of the ESO, to deliver a comprehensive report in a timely manner that has received broad support from stakeholders to date. We see two potential routes for the next steps on balancing services charges.
 1. If the same principles for balancing services charges are to be adopted as have been outlined in the TCR for the residual TNUoS charge, an additional code modification will be required. Under this option, we must be mindful of CMP308 which seeks to put all BSUoS recovery solely on demand but does not seek to amend the structure of the charge, nor the period over which it is recovered.
 2. If the methodology and charging base for BSUoS charges are still to be determined, we are happy to lead a targeted task force to develop the appropriate principles for balancing services charges on a cost-recovery basis and how and when this change could be implemented.
- We believe the updated analysis which updates the carbon values to the BEIS values for carbon is more appropriate.
- The clarification of line loss factor classes is helpful. When comparing the use of line loss factor classes with using agreed capacity, as per our February response¹, we still believe that using agreed capacity best reflects a consumer's use of the network, is less likely to be the subject of industry change and is difficult to avoid without physically changing the volume of electricity they could physically take from the system.

We would finally also like to take the opportunity to express our support for Ofgem's letter² dated 21st May 2019 which brings together both charging significant code reviews holistically under Future Charging and Access (FCA) and introduced another TCR implementation date of 2023. We believe a holistic implementation plan is needed across changes in the energy sector, with sufficient lead times, to allow parties to understand and react to the changes. This should include both Ofgem's FCA reforms and our work, as set out in our road maps, to ensure embedded generators

¹ <https://www.nationalgrideso.com/document/137686/download>

² https://www.ofgem.gov.uk/system/files/docs/2019/05/may_charging_open_letter_final_21-may.pdf

can participate in the same balancing markets as transmission connected generation. We therefore believe 2023 is the most appropriate date as parties would have access to the same revenue streams and pay their fair share of charges.

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 Connection and Use of System Code (CUSC) changes.

If you would like to discuss our response, please contact Jenny Doherty at Jennifer.Doherty@nationalgrideso.com in the first instance.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Colm Murphy', with a large, sweeping flourish above the name.

Colm Murphy

Electricity Market Change Delivery Manager
Future Markets