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NGESO Targeted Charging Review Direction - Delivery Plan

Dear Frances,

Aligned with Ofgem's direction[1] from the 21st November 2019, we are writing to you to set out our implementation plan for the Targeted Charging Review (TCR).

In brief we would like to set out in this letter our:

- desire to realise consumer benefits associated with the TCR as soon as possible;
- concerns around the practicality of implementing the demand residual reforms for 2021 and propose a 2022 date is more realistic
- request for a follow up meeting early in the new year

As we have set out in all of our consultation responses, we see the TCR as a significant step forwards for charging arrangements and we agree with the principles you have set out. The consumer benefits outlined in your decision are also significant and we are keen to ensure that consumers can realise any associated benefits as soon as possible. We have however continuously noted the need for a 2023 implementation date as this would provide sufficient lead times for parties to understand and react to the changes. A holistic implementation approach in 2023 would have brought together the TCR, the Access and Forward-Looking Charges code review and our work to ensure embedded generators have the same access to markets and revenue streams as transmission connected generation. Whilst we recognise the rationale for April 2021, we are disappointed with Ofgem's decision for a 2021 implementation date at transmission for the TCR.

There are three key areas of the TCR which the ESO will need to facilitate; Transmission Generation Residual (TGR) to zero, Balancing Service Use of System (BSUoS) to charge Suppliers on a gross basis and the demand residual reforms.

As set out in the project initiation document (PID) submitted by the ENA on 20th December, we are comfortable that we will be able to deliver on TGR to zero and BSUoS being charged to Suppliers on a gross basis by 2021 if the modifications and information flows progress to the timescales set out in the PID. We would like to highlight that for charging BSUoS on a gross basis we will be implementing a new solution, requiring new data flows between ourselves and Elexon, and subsequent system changes. We do not expect that the outcome of the second task force will be implemented by April 2021, as this is likely to cause a significant impact on industry which at this time cannot be forecast by industry parties. Therefore, we have planned to implement the gross BSUoS charges approach in 2021, followed by the outcomes of the taskforce in a subsequent charging year.

For the demand residual, we have been working with other industry parties to create the joint PID as the ESO alone cannot implement the residual reform. It is essential that we continue working closely with Ofgem, DNOs, Elexon, ElectraLink and suppliers as well as engaging with impacted users until the TCR is implemented to ensure its success. The PID contains two versions of the plan, we believe the more realistic and achievable plan is for implementation in 2022, however we have jointly created a plan which provides a solution to deliver for April 2021, this is subject to all of the significant risks, assumptions and interdependencies set out in the PID. Due to the number of interdependencies,

[1] https://www.ofgem.gov.uk/system/files/docs/2019/11/cusc_direction_1.pdf

and the scale of the change for which multiple parties are accountable for, there is a significant risk that April 2021 may not be possible and would like to highlight a few specifics:

- Timing – the 2021 plan has no contingency on timings, this is due to us running several elements in parallel to meet the short timescales. This therefore means that almost every deliverable is on the critical path and timings cannot slip without making April 2021 unachievable. This is true of the ESO's milestones as well as Ofgem's and industries. We therefore may need to consider whether the implementation date for the demand residual needs to change to April 2022 as a mid-year change will not be possible due to the structural nature of the change.
- Systems - Based on a proposed solution to the TCR, we believe that we can deliver system change in 12 months, with an additional two months for testing. To meet the April 2021 date we therefore would need to start building our systems in February 2020. This would be work that is at risk until the modifications are approved by Ofgem. In the PID we have highlighted that the latest date to receive approval from Ofgem is the end of June, which would result in 5 months of working at risk. This raises two concerns for us, firstly that there is a greater chance of failure as if the outcome of the modification process is different than the original solution, we will be up to 5 months behind schedule and unable to meet 2021. Secondly, we would never work without knowing the solution in normal circumstances as it could result in significant stranded costs.
- Data availability – Data is one of the key work streams set out in the PID, this is essential for tariff setting and our customers have told us that there is a need to give industry visibility of tariffs as soon as possible. Particularly this has an impact on suppliers setting tariffs, at the moment they are unable to forecast demand charges, which may result in some of the consumer benefits stated in the decision document being eroded. We are committed to giving visibility of this information as soon as possible but this is unlikely until Spring 2020 at the earliest.

Due to the parallel activities of the 2021 delivery plan and the associated high risk nature of this plan, in addition to the challenge this poses to wider industry, we respectfully recommend that an implementation date of April 2022 would be more realistic. However, given the Ofgem direction we remain committed to meet the aspirations for a 2021 implementation. We would be grateful if we can set up a meeting early in the new year to discuss this.

Yours sincerely

J. Twomey

John Twomey
Acting Head of Future Markets