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CMP343 – Ofgem consultation on minded-to decision and impact assessment

The webinar will begin shortly

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CMP343 – Ofgem consultation on minded-to decision and impact assessment

14 May 2021

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nationalgridESO

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If you could have one of these superpowers, which one would you choose?

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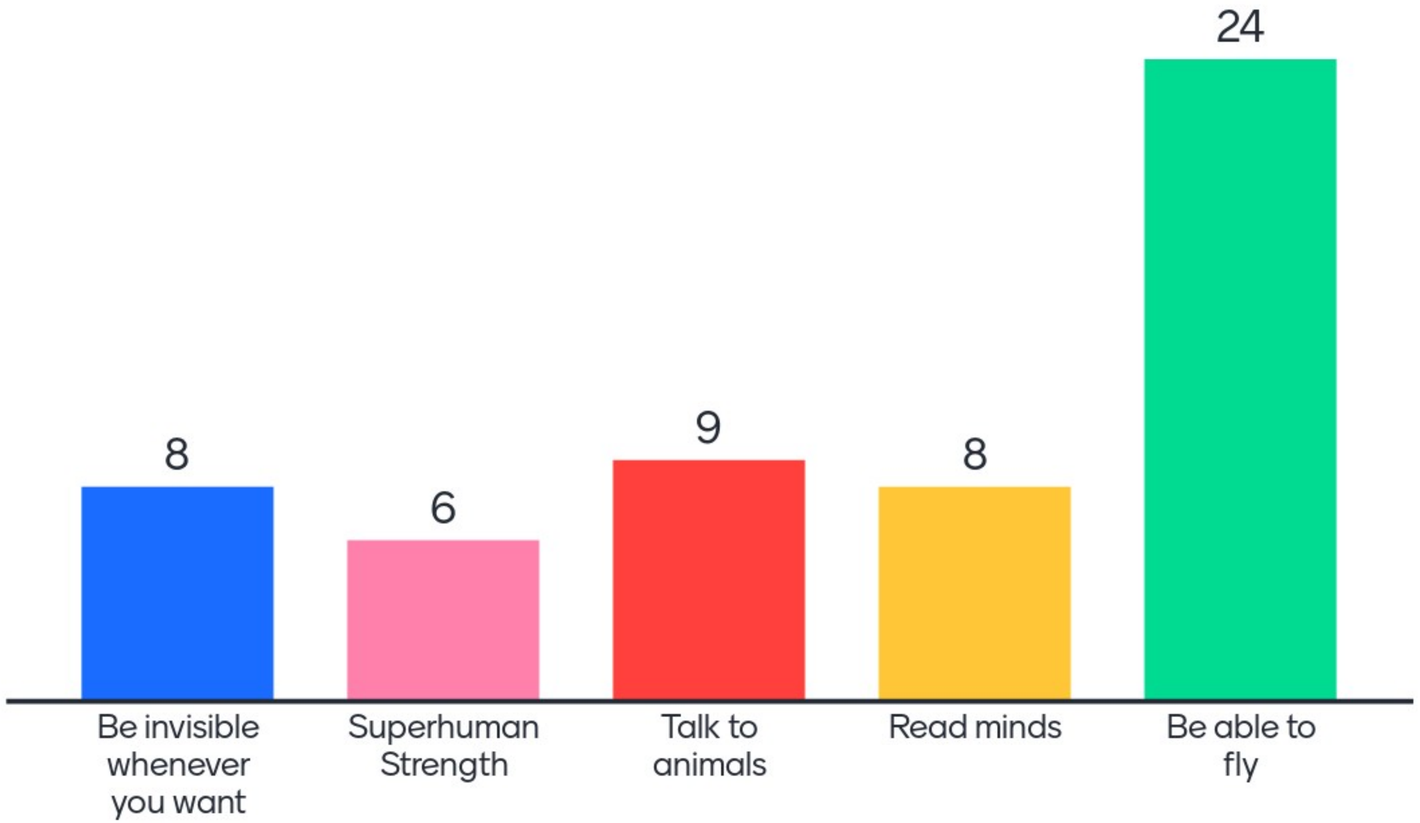

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Which category best describes your organisation?

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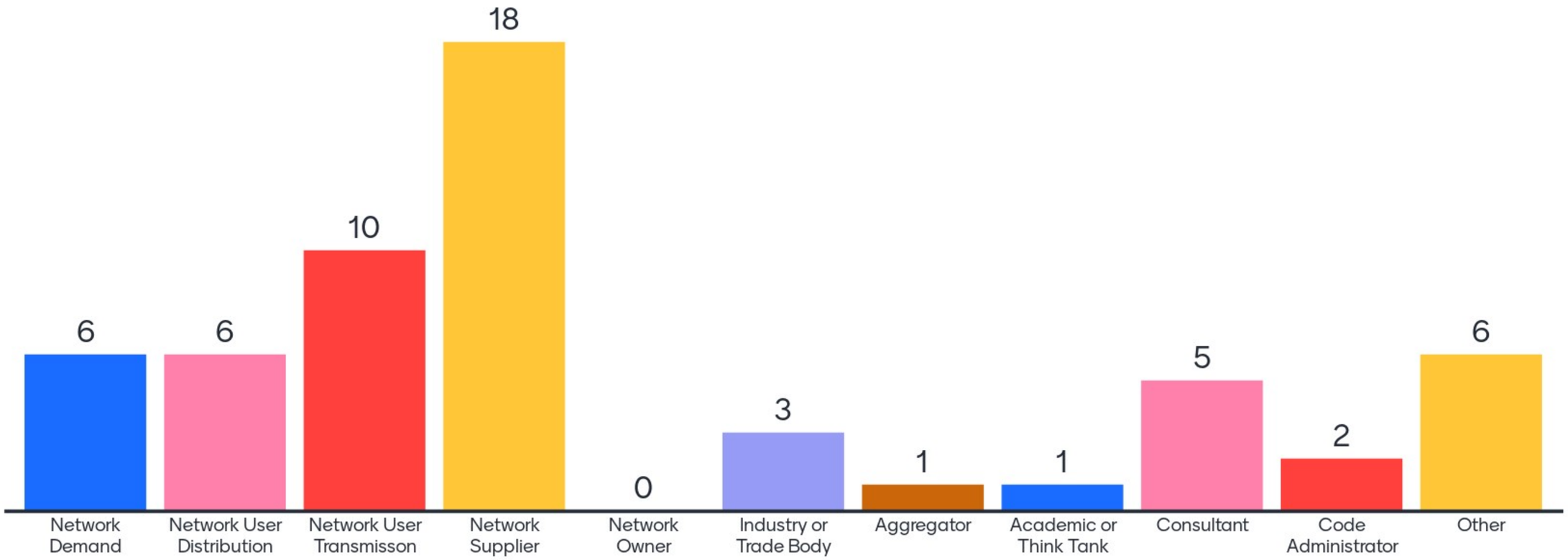

Purpose and content

Purpose

We are hosting this webinar to explain the contents of our consultation on CMP343 to help stakeholders when submitting formal consultation responses.

Content

- Background and context
- CMP343 options
- Approach to flooring
- Approach to banding
- Assessment against CUSC charging objectives
- Implementation date
- Q&A

Background and context

TCR background

- The Target Charging Review included a review of how residual network charges are set and recovered.
- The TCR aimed to ensure these charges are recovered in a way that meets the TCR Principles of:
  - reducing harmful distortions;
  - fairness; and
  - proportionality and practical considerations

- The TCR reforms mean that only Final Demand consumers will be liable for residual charges.
- These charges will be fixed on a £/site/day basis determined by which charging band any Final Demand consumer falls within.

Targeted Charging Review: Recap of decisions affecting demand users

Charge elements	Paid by	TCR decision	Implementation timing
Transmission Demand Residual (TDR)	Large demand users (transmission-connected)	Fixed charge (£/site/day) ***Code workgroup to develop banding approach***	**April 2022 or 2023**
	Non-domestic demand users (distribution-connected)	Banded fixed charge based on connection voltage and maximum import capacity or net consumption (£/site/day)	
	Domestic consumers	All users pay same fixed charge	
Distribution residual	Non-domestic demand users	Banded fixed charge based on connection voltage and maximum import capacity or net consumption (£/site/day)	**April 2022**
	Small users	All users within distribution zone pay same fixed charge	

Outline of Ofgem consultation on CMP343

- We directed the ESO to consider whether a single TDR charge for all transmission connected consumers or alternative banding options would be appropriate, giving particular consideration to very small consumers.
- We are consulting on the distributional impacts of the flooring and banding options presented by the CMP343 workgroup.
- We plan to issue a decision in August 2021.

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CMP343 Options

Explanation of flooring options

- TCR reforms separate out the forward-looking locational and the residual components of the transmission demand charge.
- There are three proposed options for dealing with any negative locational (or 'forward-looking') signals (by DNO region):
  - 'Floor at 0' – those with a negative signal face a £0 forward-looking charge and the residual pot for all consumers is reduced.
  - 'No Floor' – the negative forward-looking charge is maintained, with the difference added to the residual 'pot'.
  - 'Locational adjustment' – the forward-looking charge is floored at 0. Residual charges in affected areas are reduced in a way that attempts to preserve this locational signal. The negative locational is converted to a lower p/site/day residual.
- The flooring option will also affect TDR distribution-connected final demand sites.

Explanation of banding options

- A single band means that all transmission connected consumers would face the same TDR charge.
- A two- or four-band option would differentiate this charge according to annual consumption or voltage level.
- All consumers within the same band would pay the same as one another.
- Banding will only affect the TDR for transmission-connected sites.

CMP343 complete set of options

Proposal	Flooring	Bands	Source data (for bands)	Panel voting (out of 8)	
				Better than baseline	Best option
Original	Floor	1	N/A	7	3
WACM1		2	Consumption	7	
WACM2		4		8	4
WACM3	No floor	1	N/A	3	
WACM4		2	Consumption	3	
WACM5		4		4	1
WACM6	'Floor with locational adjustment'	1	N/A	6	
WACM7		2	Consumption	6	
WACM8		4		6	
WACM9	Floor	2	Voltage	7	

CUSC panel most support

Our minded-to decision is to approve WACM2 with implementation delayed by a year to April 2023

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Approach to flooring

Estimated TDR tariff impact of flooring options

TDR £/site/year		Flooring approach			
		Floor at 0	No Floor	Locational Adjustment	
		GB-wide		Lowest (All N. Scotland)	Highest (Various)
Domestic		27	30	6	30
LV No MIC	Band 1	12	13	2	13
	Band 2	65	71	18	72
	Band 3	156	171	47	172
	Band 4	488	535	179	534
LV MIC	Band 1	848	929	299	967
	Band 2	1,544	1,692	498	1,724
	Band 3	2,476	2,713	775	2,784
	Band 4	5,635	6,176	1,701	6,450
HV	Band 1	3,658	4,009	2,671	4,489
	Band 2	12,780	14,006	5,186	14,441
	Band 3	26,067	28,567	13,067	29,454
	Band 4	68,297	74,848	32,727	77,601
EHV	Band 1	30,398	33,314	23,714	31,442
	Band 2	156,057	171,026	86,815	166,873
	Band 3	328,651	360,175	142,584	357,715
	Band 4	817,126	895,504	330,754	893,097
Transmission	Single band	675,605	740,408	338,373	772,328

Unmetered	p/kWh	0.79	0.87	0.14	0.87

- Under floor at 0 and no floor, there is a consistent charge per band across GB.
- For no floor the residual charge is c.10% higher than under floor at 0.
- The locational adjustment results in differential charges by demand zone.

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Illustration of distributional impact of flooring options

- The distributional impact of flooring can be estimated by comparing the locational adjustment TDR with that under floor at 0.
- A no floor or locational adjustment approach would have a larger impact in reducing charges for the minority of consumers in zones with a negative forward-looking charge; and a smaller impact on the majority of consumers who would face higher TDR charges as a result.

Demand zone	Average locational adjustment residual charge (across all users) relative to floor at 0
North Scotland	-58%
South Scotland	-45%
Northern England	-15%
North West England	-2%
Yorkshire and North Wales & Mersey	1-3%
East Midlands, West Midlands, Eastern, Southern, South West England and South Wales	5-9%
London and South East England	10-11%

Summary assessment of flooring options against TCR principles

TCR Principle	Floor at 0	No floor	Locational adjustment
Reducing harmful distortions	Does not introduce new distortions	Potential to incentivise demand at times of system peak	Potential to distort residual charge
Fairness	More equitable with the same charge across GB	More equitable with the same charge across GB, more justifiable by maintaining undiluted forward-looking signal	Complex, performing worst for simplicity, transparency and predictability
Practicality and proportionality	Relatively straightforward, maintaining flooring status quo	Relatively straightforward	Complex, with 14x as many tariffs and no means to redistribute negative residuals

Approach to banding

Estimated TDR tariff impact of banding options

TDR £/site/year			Flooring approach			
			Floor at 0	No Floor	Locational Adjustment	
Banding approach	Approx. upper bound (GWh/yr)	Band	GB-wide		Lowest (various)	Highest (various)
One Band			676k	740k	338k	772k
Two - consumption	140	Band 1	356k	390k	0	417k
		Band 2	2,558k	2,803k	1,241k	2,756k
Four – consumption	30	Band 1	121k	133k	57k	133k
	85	Band 2	431k	473k	181k	478k
	140	Band 3	848k	930k	337k	944k
		Band 4	2,558k	2,803k	1,241k	2,756k
Two - voltage	<=132kV	Band 1	366k			
		Band 2	812k			

- Under a single band, all users would pay the same charge across GB (or by DNO region with the locational adjustment approach).
- With banding by consumption and flooring at 0, the top 15% of consumers would pay c.£2.56m/year.
- A four-band approach (using consumption data) would bring the greatest variability in charges by consumer size.

Illustration of distributional impact of banding options

- Under a single band, there is the largest range in effective unit charge, from £1/MWh for the largest user to £471/MWh for the smallest user.
- Introducing a band for the top 15% reduces this range to £15/MWh for the largest users.
- But with two bands, there is still a notable range for the remaining 85% of £246/MWh.
- Only with four bands is the range for the bottom band appreciably reduced, to £81/MWh.
- Though this is still much larger than for all the other bands.

Estimated effective TDR unit charge for smallest and largest users in each consumption banding option

£/MWh	Band	Smallest users	Largest users	Range
1 band		471	1	470
2 bands	1	248	3	246
	2	18	4	15
4 bands	1	85	4	81
	2	14	5	9
	3	10	6	4
	4	18	4	15

Summary assessment of banding options against TCR principles

TCR Principle	Single band	Two bands (consumption)	Four bands (consumption)	Two bands (voltage)
Reducing harmful distortions	Groups all users together, but relatively high charges for the smallest	Some separation, but smallest and largest users both face relatively high charges	Best able to group similar users together	Does not appear to group similar users together and could introduce new distortions
Fairness	Equal charge across all users, but lack of equity given range in size of users	Lack of equity for 85% of users	Most equitable by separating out different sizes of users with justifiable link to energy consumption	Does not distinguish by consumption level and distinction unrelated to voltage required by a site
Practicality and proportionality	Most straightforward	Less straightforward, but fewer bands than the approach at distribution	Less straightforward, but proportionate to the approach at distribution	Relatively straightforward, and stable

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Assessment against CUSC charging objectives

Summary assessment of options against applicable CUSC charging objectives

Proposed Solution	Floor	Bands	Does the proposal better facilitate the ACO (Flooring / Banding)?		
			(a) Effective competition	(c) T-business development	(e) Implementation efficiency
Original	0	1	Yes / No	Neutral / Neutral	Yes / Yes
WACM1	0	2	Yes / Neutral	Neutral / Neutral	Yes / Neutral
WACM2	0	4	Yes / Yes	Neutral / Yes	Yes / Neutral
WACM3	NF	1	No / No	Neutral / Neutral	Neutral / Yes
WACM4	NF	2	No / Neutral	Neutral / Neutral	Neutral / Neutral
WACM5	NF	4	No / Yes	Neutral / Yes	Neutral / Neutral
WACM6	LA	1	Neutral / No	Neutral / Neutral	No / Yes
WACM7	LA	2	Neutral / Neutral	Neutral / Neutral	No / Neutral
WACM8	LA	4	Neutral / Yes	Neutral / Yes	No / Neutral
WACM9	0	2 (V)	Yes / No	Neutral / Neutral	Yes / Neutral

Minded-to decision

V = voltage
NF = No Floor
LA = Locational Adjustment

All options are neutral against ACOs (b) and (d)

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Implementation date

Implementation date minded-to

- We are minded-to delay implementation to April 2023.
- The principal reason for delay would be to allow consumers more time to respond to the changes in charges that would flow from our minded-to decision relative to those signalled in our TCR IA.
- We are minded-to consider that a one year delay to implementation would be in the interest of consumers.
- We are keen to take into account the concerns of large users and address them in a robust way.
- We are also keen to set out a clear intention on our minded-to position to provide as much certainty as possible to affected parties.
- We welcome views on this proposed delay in your consultation responses.

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Consultation closes on 5 July 2021
TCR@ofgem.gov.uk

Q&A

Harriet Harmon, Ofgem
Tim Aldridge, Ofgem
Grahame Neale, ESO
Jon Wisdom, ESO

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Ask me anything

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0 questions

0 upvotes

Feedback

> How did we do?

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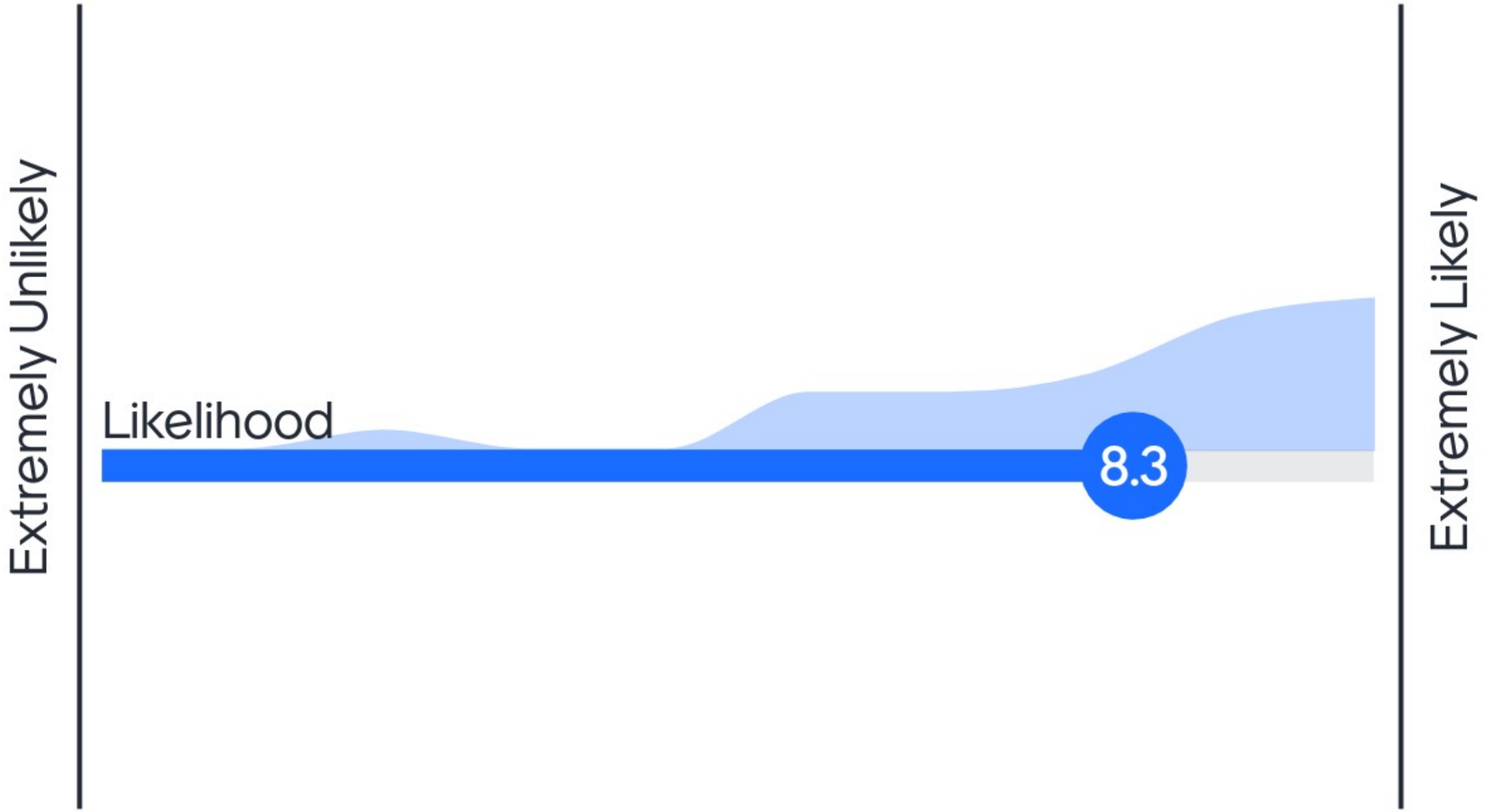
On a scale of 1-10, how likely are you to recommend this event to a friend or colleague?



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On a scale of 1-10, how likely are you to recommend the secretariat of this event?

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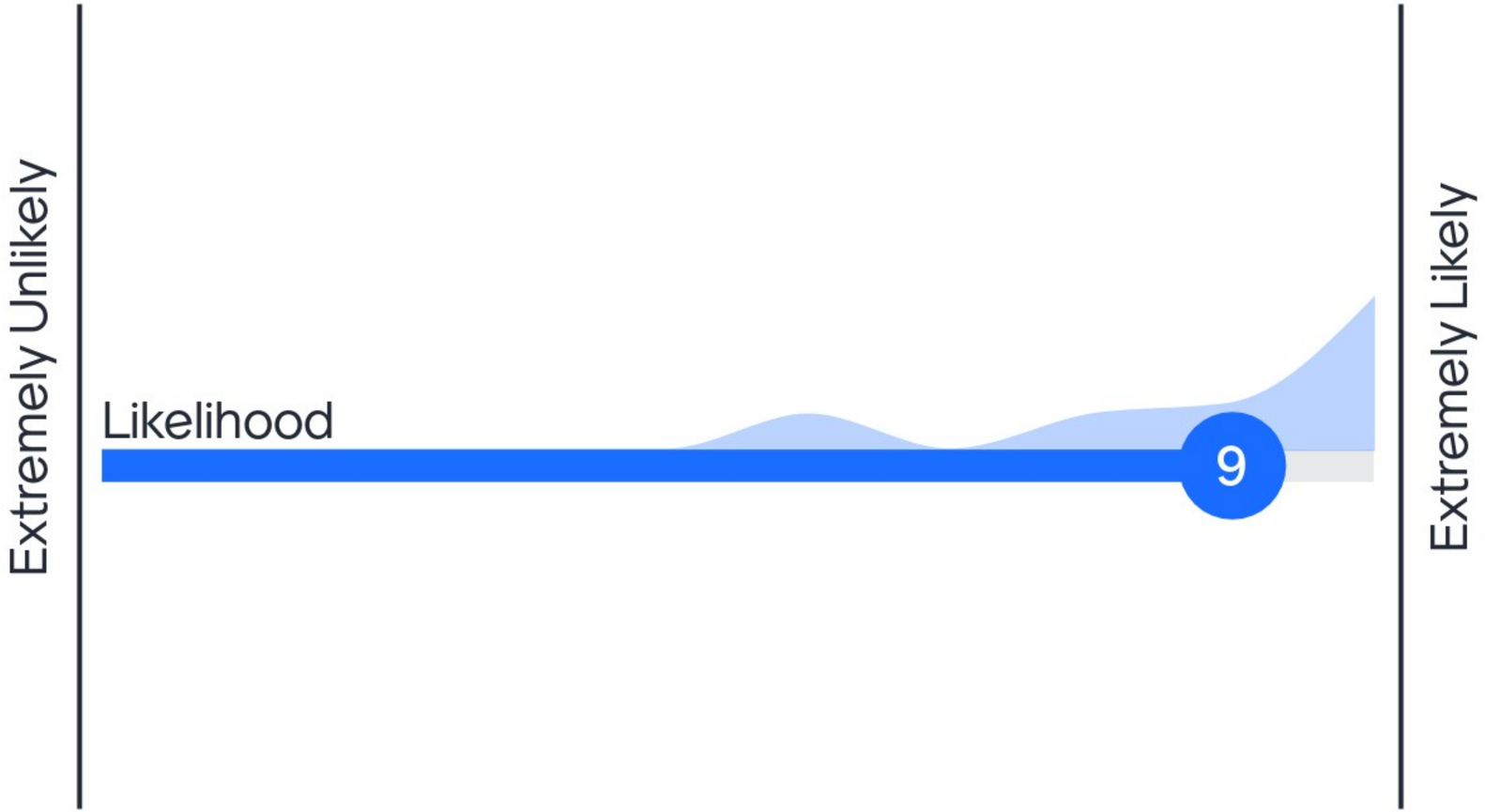

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Thanks