

**Code Administrator Consultation Response Proforma****CMP418: Refine the allocation of Dynamic Reactive Compensation Equipment (DRCE) costs at OFTO transfer**

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com) by **5pm** on **21 March 2024**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration.

If you have any queries on the content of this consultation, please contact [cusc.team@nationalgrideso.com](mailto:cusc.team@nationalgrideso.com)

Respondent details	Please enter your details	
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<b>Which best describes your organisation?</b>	<input type="checkbox"/> Consumer body <input type="checkbox"/> Demand <input type="checkbox"/> Distribution Network Operator <input type="checkbox"/> Generator <input type="checkbox"/> Industry body <input type="checkbox"/> Interconnector	<input type="checkbox"/> Storage <input checked="" type="checkbox"/> Supplier <input type="checkbox"/> System Operator <input type="checkbox"/> Transmission Owner <input type="checkbox"/> Virtual Lead Party <input type="checkbox"/> Other

**I wish my response to be:**

(Please mark the relevant box)

☒ **Non-Confidential** (*this will be shared with industry and the Panel for further consideration*)

☐ **Confidential** (*this will be disclosed to the Authority in full but, unless specified, will not be shared with the Panel or the industry for further consideration*)

**For reference the Applicable CUSC (charging) Objectives are:**

- That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;*
- That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which*

are compatible with standard licence condition C26 requirements of a connect and manage connection);

- c. That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;
- d. Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency \*; and
- e. Promoting efficiency in the implementation and administration of the system charging methodology.

**\*\*The Electricity Regulation referred to in objective (d) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.**

**Please express your views in the right-hand side of the table below, including your rationale.**

Standard Code Administrator Consultation questions		
1	Please provide your assessment for the proposed solution against the Applicable Objectives?	Mark the Objectives which you believe the proposed solution better facilitates:
		<div>Original <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E</div> <p><b>Objectives a) and b): negative</b> The proposed solution artificially shifts costs from generation to final demand, and will differentiate between generators (including existing versus future offshore generators). This creates distortions through costs not being appropriately allocated.</p> <p><b>Objective e): negative</b> The proposed solution has a negative impact on cost-reflectivity as it artificially moves costs from generation, where the cost is directly incurred and specific, to final demand, where it will be recovered via a residual charge. It will result in additional administrative burden, including via the requirement to continue the existing and new approaches for charging in parallel as it will apply to new assets only.</p>
2	Do you have a preferred proposed solution?	<input type="checkbox"/> Original <input checked="" type="checkbox"/> Baseline <input type="checkbox"/> No preference

		We do not support implementation of this proposed Modification as it is negative against the Applicable Objectives, and therefore prefer the Baseline.
3	Do you support the proposed implementation approach?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No  We do not support implementation of this proposed Modification.
4	Do you have any other comments?	<p>There are no grounds provided within this proposed Modification for costs to be moved from the Generator to Final Demand – other than it will reduce Generator charges and thus be favourable to Generators.</p> <p><b>No benefit to consumers is demonstrated and no useful analysis has been provided of the consumer impact via increases in the Transmission Demand Residual (TDR).</b> The outline CBA (Annex 7) states both that consumer costs can be expected to decrease and to net off. Annex 9 describes a fictional consumer benefit case for the solution versus a BSUoS costs counterfactual, specifically stating that “<i>this is not the solution proposed within CMP 418</i>”. This analysis should be disregarded in assessing consumer impacts. Further, ESO analysis under the consumer impact heading within the workgroup report has not been presented and “<i>will not necessarily be analysed</i>” (p.14).</p> <p><b>Cost-reflectivity will be reduced as the specific cost per project is passed on via the TDR.</b> We note that CM085 states that CMP418 seeks to socialise DRCE costs through wider TNUoS charging and that any issues with how reactive equipment is funded should be a feature of this Modification. CM085 also highlights whole system benefits from the use of DRCE related to offshore wind – not demand only benefits.</p> <p><b>CfD bids already incorporate the cost and are the relevant, existing mechanism to recover it.</b> The Modification and analysis (Annex 7) suggest that CfD bids will reduce by moving charges to final demand, but there can be no certainty of this and consumers may pay twice to fund the same Generator cost. Further, CfD bids are directly connected to the asset in question and the Net Zero / renewable policy aim.</p> <p>This Modification makes clear that <b>the perceived defect as such sits elsewhere within the arrangements</b>, i.e. with the initial funding, transfer, ownership and ongoing</p>

		<p>cost recovery of the DRCE assets. The functioning of those financial flows is not a CUSC matter, as mentioned in the initial proposal presentation (Annex 4), and “<i>the implementation of costs is an interpretation applied by NGESO</i>”. Refinements to the mechanism or to codify the charging of Generators more appropriately appear more justified options than shifting costs to consumers via the demand residual. Grid Code compliance is a requirement for export and should fall on upstream parties.</p>
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