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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@nationalenergyso.com by **5pm** on **19 February 2025**. 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@nationalenergyso.com

| Respondent details | Please enter your details | |
|--|--|--|
| Respondent name: | Kirsty Ingham | |
| Company name: | Centrica | |
| Email address: | Kirsty.ingham@centrica.com | |
| Phone number: | 07557 612242 | |
| Which best describes your organisation? | <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:

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- a) *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;*
- b) *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 C11 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 and the ISOP business*;*
- 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.*

* See Electricity System Operator Licence

**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 | | |
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| 1 | Please provide your assessment for the proposed solution(s) against the Applicable Objectives? | Mark the Objectives which you believe the proposed solution(s) better facilitates: |
| | | Original <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E |
| | | Objectives a) and b): negative 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. |

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| | | <p>Objective e): negative</p> <p>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.</p> <p>We continue to prefer the Baseline as the solution.</p> |
| 2 | Do you believe that the amendments have met the deficiencies of the Send Back letter? | <p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>The amendments have been very careful to avoid addressing a critical deficiency defined in the Authority Send Back letter, namely consumer impact and windfall benefit to generators. This analysis and use of language is disingenuous, perhaps even contemptuous, in providing a figure for ‘net impact’ on consumers. The same result of £35.8m per annum ‘net impact’ can obviously be reached simply by running the calculation as provided, but starting with the 15 GW of existing capacity. It appears that the figure has purposefully not been presented in this manner. The £35.8m is in fact the ‘windfall’ that existing generators will derive from CMP418 if the proposal is implemented as currently defined.</p> <p>The calculations of ‘net impact’ themselves are based on opaque inputs and assumptions. We can’t conclude if this analysis is comprehensive or balanced, or meets with the request for a “<i>more detailed and holistic assessment</i>” by Workgroup.</p> <p>CfD bids already incorporate the cost and are the relevant, existing mechanism to recover it – hence there will be a windfall for existing generators from CMP418. 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</p> |

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| | | <p>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 the perceived defect as such sits elsewhere within the arrangements, i.e. with the initial funding, transfer, ownership and ongoing 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> <p>Any cost increases to consumer bills, at the current time in particular, should be avoided – especially when such increases lead directly to artificial material gain for certain market participants.</p> |
| 3 | Do you support the proposed implementation approach? | <p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>The Workgroup appears to have avoided the issue of generator windfalls with a confused discussion of retrospectivity. No charges need to be reopened: the existing regime under CUSC for existing generators would need to continue, as they benefit from their existing CfD arrangements.</p> <p>To avoid windfalls, the cost of DRCE should continue to be recovered from offshore TNUoS charges for existing</p> |

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| | | <p>generators on an enduring basis and certainly for the lifetime of their CfD contract.</p> <p>The change to recover costs via TDR would be forward looking only, and apply to new generators bidding for new CfD contracts only.</p> <p>An alternative would be to make amendments to CfD contracts to address the windfall. Similar measures were enacted after changes to the BSUoS charging regime. However, contracts may be difficult to amend, not be amended in a timely manner and not amended to match the cost transfer precisely, which may be to the detriment of consumers and competition.</p> |
| 4 | Do you have any other comments? | We do not support implementation of the proposed Modification. |