

**Annex 9 - Clarification sought by Workgroup from Ofgem****Email from Workgroup to Ofgem 16 January 2020****CMP332 Workgroup Questions for Ofgem – responses required by 24 January 2020.**

- Workgroup considered the combined effect of the proposed residual changes and the existing negative locational charges. The Workgroup would like to ask Ofgem to consider if the locational signal should be floored at £0/kW? Do Ofgem want the Workgroup to find a solution to this issue or is this part of the ongoing AFLC SCR?
- Due to the above point there may be a need for changes to CUSC 14.17.3\*. Does Ofgem consider this within the scope of this modification?

*\* CUSC 14.17.3 states "Gross Demand charges are based on a de minimis £0/kW charge for Half Hourly and £0/kWh for Non Half Hourly metered demand"*

- Workgroup recognise that the bands apply for the entire ESO (or DSO?) price control period and users cannot move outside bands within such price control period. If Line Loss Factors-Class (LLFC) is to be used to identify which band a user is in there will be impacts on normal LLFC processes which are as follows:
  - Amending existing LLFCs to align with bands - this will result in significant volumes of LLFC changes; and
  - Where an existing user changes LLFC within a price control period they may only move to an LLFC within the same band. If the required line loss Factor and TCR fixed charge band combination does not already exist, the DNO will need to create a new LLFC reflecting all changes required but the new LLFC is allocated to the same band as the user is already in.

Does Ofgem consider this acceptable or should the group consider alternative options?

- Workgroup are proceeding on the basis of 24 months data to determine which band a User sits in. Is there any scope to use a shorter data timeframe?
- Workgroup note there will be a revised disputes process in CUSC and DCUSA where e.g. a User feels they are in the wrong band. However, consumers retain the right to make a complaint, about the ESO or DSO, directly to Ofgem for a final decision within two months – have Ofgem factored this into their resource planning and what quantity of disputes do they expect?

**Email from Workgroup to Ofgem 30 January 2020**

At the Workgroup meetings on 28 and 29 January 2020, Ofgem made clear that they have made no assumption in their modelling to floor the locational tariff to £0/kW. The majority of the Workgroup concern here is that having negative locational changes would mean users would be paid TNUoS for their use of the transmission system over TRIAD and create a perverse incentive for Demand Users to consume more.

As the SCR is not expected come into effect until 1 April 2023, and given the materiality of the impacts on the locational tariff, the Workgroup felt that interim solutions to cover the period 1 April 2021 to 31 March 2023 should be brought forward as part of CMP332.

Therefore, the Workgroup have looked at other options, which are set out below. At this stage the Workgroup are keen to establish the following for each of these options:

- a) Are these options within the scope of Ofgem's ongoing Review of Access and Forward-Looking Charges Significant Code Review (SCR)?
  - b) If these options are within the scope of the ongoing SCR, are i) Ofgem happy for Workgroup to progress these as part of the solution(s) for CMP332? or ii) do Ofgem want the Workgroup to not develop these any further?
1. **Flooring the locational tariff at £0 only**
    - i. Impact: Minimal change to the current locational methodology
    - ii. Concern: Distributional effects of ~ £200m on the Residual value as 8 of the 14 Grid Supply Point Groups are forecast to have negative locational tariffs.
  2. **Gross flooring transmission demand charges taking into account locational and residual tariffs**
    - o Locational signal calculated by capping volume of capacity for the site to be charged for the 2021-2022 and 2022-2023 charging years based on National TRIAD in the 2019-2020 charging year.
      - i. Impact: Removes the behavioural incentive to increase demand at TRIAD.
  3. **Calculate and apply the locational tariffs over a larger number of half-hourly periods e.g. non-half hourly methodology (annual consumption between 4pm and 7pm) to half hourly i) across GB or ii) just zones with negative locational charges.**
    - i. Impact: Dilutes the signal to consume within the TRIAD.
  4. **Maintain locational signal but push demand tariffs above £0.**
    - i. Impact: Maintain relative locational price signal as per current methodology
    - ii. Concern: Reduces residual from £2.6bn to ~ £1bn"