

Energy UK response to Electricity Network Access and Forward-Looking Charging Review: Demand-weighted distributed reference node

30th April 2020

About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering almost all (90%) of both the UK's power generation and energy supply for over 27 million UK homes as well as businesses.

The energy industry invests over £13.1bn annually, delivers around £85.6bn in economic activity through its supply chain and interaction with other sectors, and supports over 764,000 jobs in every corner of the country.

In this letter, Energy UK is responding to the Ofgem consultation regarding the demand-weighted distributed reference node.

Energy UK supports reviewing the demand-weighted distributed reference node (DDRN) and encourage Ofgem to commit this to a thorough Impact Assessment (IA). We highlight that the DDRN is a complex issue and could be difficult for smaller and less engaged parties to properly grasp in the timeline given. A full IA, as part of the AFLC SCR with timely industry engagement and consultation, is needed in order for industry to properly comprehend the impact and potential benefits. Failing this, Ofgem could exclude this from the AFLC SCR so industry can progress the work. Whichever direction this takes, Ofgem need to make a clear, articulated decision.

As directed under the TCR, CMP327 was raised to remove the TGR and was amalgamated with CMP317 which aims to redefine which elements of generator TNUoS are included in the calculation of average generator charges. It has however already been demonstrated that these modifications may exceed the €2.50/MWh cap a few years after coming into force¹. This results in a need to address EU regulation 838/2010 in a different manner. Additionally, as a result of CMP317/327 many generators would be subject to higher charges making them significantly less competitive than their European counterparts. Should a change to the DDRN be deemed beneficial through a thorough IA, we note that this will interact with the TCR decision but, clearly, any changes to the DDRN need to be reviewed and decided upon on their own merits. Ofgem should be aware that wider implications of changes to the DDRN will interact with other changes resulting from the TCR and the eventual impact should be examined carefully.

Should a change to the DDRN be deemed beneficial through a thorough IA, careful consideration should be given to its implementation, with respect to other related work streams.

When investigating the DDRN, we encourage Ofgem to also review all possible options in changing the DDRN, not just those listed on the Reference Node Workshop Slides presented to industry on 19th March 2020². Other options include (but are not limited to) assessing the feasibility of using a single reference node approach, as well as assessing a move to an average of £0/MW generator transmission charges ($G_{av}=0$).

¹ https://www.ofgem.gov.uk/system/files/docs/2019/12/full_decision_doc_updated.pdf : end of paragraph 4.77

² Slide 10 of https://www.ofgem.gov.uk/system/files/docs/2020/03/reference_node_workshop_slides_19320.pdf

Should you have any questions on the above response, please do not hesitate to get in touch.

Joe Underwood

Policy Manager
Energy UK
26 Finsbury Square
London EC2A 1DS

Tel: +44 20 7747 2942

joseph.underwood@energy-uk.org.uk

www.energy-uk.org.uk