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Serving the Midlands, South West and Wales

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*Our ref* *Your ref* *Date*
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Dear Judith

## Targeted Charging Review: a consultation

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc in response to Ofgem's consultation on the proposed Targeted Charging Review.

We are supportive of Ofgem's review of residual charges. However our preference would be for a holistic approach to network charging that includes the assessment of residual charges alongside the forward looking charging element. For example there is a risk that changes to charging treatment of storage may not survive in the longer term once the full charging methodologies are reviewed and any changes implemented.

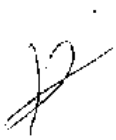
We are concerned that the current fragmented approach to reviewing network charging could result in solutions being recommended in one area which have unforeseen consequences in other areas. We would support an overarching group comprising all parties, focused on clear objectives and timelines and limited in size to a manageable working group size.

We agree that simplicity should be a strong driver for residual charge calculation and also network charging in general. Please see attached paper "A Simple Approach to Distribution Network Charging" which sets out WPD's proposed option to move towards a simpler approach combining capacity charges with ancillary charges.

Please see below our responses to the specific questions raised in the consultation dated 13 March 2017.

If you wish to discuss any of the aspects of this response in further detail please contact Simon Yeo at syeo@westerpower.co.uk telephone 0117 9332349

Yours sincerely



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager

**Question 1: Do you agree that the potential for residual charges to fall increasingly on groups of consumers who are less able to take action than others who are connected to the system, is something we should address?**

Yes

**Question 2: If so, why do you think, or do not think, action is needed?**

If no action is taken it will lead to distortion in the market as a group of consumers are unable to take action and therefore under current charging regimes they will bear an increasing share of distribution costs, especially given that a large proportion of distribution charges are levied on unit rates and not fixed charges. The implication is that distribution charges are avoidable for those customers that can reduce consumption at particular times or replace it with own generation.

**Question 3: We are proposing to look at residual charges in a Significant Code Review. Are there any elements of residual charges that you think should be addressed more urgently? Please say why.**

No, not at this point in time. However, our preference would be for a holistic approach to network charging that includes the assessment of residual charges alongside the forward looking charging element.

**Question 4: Are there elements of the approaches in other countries that you think could be appropriate for GB residual charges?**

There are a range of issues facing other countries such as revenue deficits in Spain which has not been a problem to date under the UK regulatory regime but also the issue of significant DG growth and the potential for costs being avoided by one set of users and transferred to another, which is seen as a potential problem in the UK.

The solutions so far tend to centre on a move towards more fixed and capacity charges being implemented.

It is also interesting to note that there seems to be a shift towards less complex methodologies for example in California one of the conclusions is "important to strike balance between reflective charging and simplicity", in Victoria "no locational signals are being provided to minimise complexity" and the Netherlands "reviewed the charging arrangements in 2008 mainly to simplify them".

**Question 5: Are there other approaches that you know about from other jurisdictions, that you think offer relevant lessons for GB?**

See above.

**Question 6: Do you agree that our proposed principles for assessing options for residual charges are the right ones? Please suggest any specific changes, or new principles that you think should apply.**

They seem a sensible balance. The issue with having an increased number of charging principles is that the differences between them can become blurred and this makes the usefulness of them in assessing options more difficult. We agree simplicity should be a strong driver for residual charge calculation and also network charging in general.

**Question 7: In future, which of these parties should pay the transmission residual charges: generators (transmission- or distribution-connected), storage (transmission- or distribution-connected), and demand, and why? What proportion of these charges should be recovered from each type of user?**

See below.

**Question 8: In future, which of these parties should pay the distribution residual charges: generators (transmission- or distribution-connected.), storage (transmission- or distribution-connected), and demand, and why? What proportion of these charges should be recovered from each type of user?**

Residual charges are intended for revenue recovery – i.e. to ensure complete recovery of allowed income. They do not relate to any specific set of costs, but to common costs that can't be attributed to any specific user. However, the level of residual charges can be reduced if more costs are allocated through the charging methodology. There is a case to further analyse costs such that more can be allocated before the residual charges are then allocated.

To the extent that the requirement for common costs are thought to decrease as generation and storage offsets demand, then there is a case for levying residual charges on demand only. However, to set alongside that is the need for a reduction in whole system distortions and so ideally the same consistent approach should be applied across distribution and transmission.

**Question 9: Do you support any of the five options we have set out for residual charges below, and why?**

The move to a fixed charge, either option B (a fixed price charge) or C (fixed charge set by connected capacity), would seem to be the right way forward to meet the three principles identified. In effect the customer is paying an access charge before usage. Option C in particular is an interesting idea in that it would imply customers who had own generation would only be able to avoid the fixed charge by having a smaller fuse and taking the risk that if their generation fails they wouldn't be able to access the grid to the extent they would like.

A hybrid approach for example combining option B for residential users and option C for half hourly metred customers might have potential.

**Question 10: Are there other options for residual charges that you think we should consider, and why?**

There is an option to move towards a simpler approach combining capacity charges with ancillary charges – please see attached paper "A Simple Approach to Distribution Network Charging".

**Question 11: Are there any options that you think we should rule out now? Please say why.**

Option A - charge linked to net (kWh) consumption, a very similar method to current, should be discounted as this does not lead to a satisfactory solution to key objective of residual charging in leading to a reduction of distortions arising from distribution charging.

Option D – gross kWh consumption - this would seem difficult to implement in practice as knowing and recording generation output from behind the meter sources is problematic.

**Question 12: Do you think we should do further work to analyse the potential effects of the charging arrangements for smaller EG (called 'embedded benefits')?**

The general issue with the TDR (TNUoS demand residual) has been identified and is being actioned under CMP264/265, but as identified in the consultation there are other benefits for the smaller EG. It would seem appropriate to analyse the potential effects of these benefits before deciding whether they are creating distortions or not.

**Question 13: Do you think changes are needed to the current charging arrangements for smaller EG, and when should any such changes be implemented?**

The analysis needs to be carried out first and any changes need to be signalled well in advance of any implementation.

**Question 14: Of the embedded benefits listed in our table, do you think that any should be a higher or lower priority?**

At this stage it would seem sensible to look at the whole picture and all the embedded benefits.

**Question 15: Do you think there are other aspects of transmission or distribution network charging which put smaller EG, or any other forms of generation or demand, at a material disadvantage?**

None aware of.

**Question 16: Do you agree with our view that storage should not pay the current demand residual charge, at either transmission or distribution level?**

Yes; the import on storage is unlike normal demand in that the primary purpose of storage is for the provision of energy or flexibility services and not as an end user of electricity.

**Question 17: Do you agree with our view that storage should not pay BSUoS on both demand and generation?**

Yes

**Question 18: Which of the BSUoS approaches describe is more likely to achieve a level playing field for storage?**

It would be helpful to carry out an impact assessment on a few sample sites to assess the impact of the approaches.

**Question 19: Do you think the changes in this chapter should be made ahead of any wider changes to residual charging that may happen in future? Do you agree with our view that these changes should be implemented by industry through the standard code change process?**

If they can be progressed in isolation and the changes are sustainable given that methodologies are currently under review, then a shorter time frame before implementation would seem fine. Utilising the existing standard code change process should be reasonable as it provides plenty of visibility and consultation around the changes.

However, the key point that needs to be established and understood first is whether any changes to charging treatment of storage would survive in the longer term once the full charging methodologies are reviewed and any changes implemented.

**Question 20: We would welcome your thoughts on the potential make-up of a CCG. Please refer to the potential role, structure, prioritisation criteria and assessment criteria.**

At the current time there are a number of different groups looking at network charging and this provides a very real potential for "going off track" or solutions being recommended in one area which have unforeseen consequences in other areas. As such an overarching group is an essential way forward. The makeup should be cover all parties but should be very focused on clear objectives and timelines and so should be limited in size to a manageable working group size i.e. no more than 10 people.

**Question 21: Do you agree with our proposed delivery model, including its scope?**

Experience has shown that unintended consequences can occur from any change to the charging methodologies and this is something that this process needs to be mindful of. As such our preferred approach would be that the scope is as wide as possible – ideally a full review. However, this should be with clear scopes and objectives and a much focused timeline. These are issues facing networks and customers in the near term and so require solutions in that time frame.

**Question 22: Do you agree that our proposed SCR process is most appropriate for taking forward the residual charging and other arrangements for smaller EG discussed in this document?**
Yes, but see answer above.