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Dear Judith

Targeted Charging Review: a consultation

The Scottish Government welcomes the opportunity to comment on Ofgem's proposed approach to a targeted review of network charging. I understand that you recently met with Scottish Government officials to discuss the consultation document. I would like to build upon this by highlighting two points of importance.

As set out in our response to the '*Open Letter on Charging Arrangements for Embedded Generation July 2016*', we share the view that a significant code review is the appropriate mechanism for changes that will be consequential for the whole GB electricity system.

Principles for decision making

The Scottish Government agrees with the proposed principles for assessing the options for changes to charging. We consider that a further principle should be "*ensuring change is supportive of a move towards a smart, flexible electricity system.*" It is vital that changes made to current charging arrangements do not impede work being undertaken in this space by Ofgem and others or make the implementation of a flexible energy system more difficult in the near to medium term. This principle would support Ofgem in considering the wide range of changes required as our electricity system evolves and which are likely to impact on the nature and size of cost-reflective and residual payments and the role of the signals (and, therefore, distortions to these signals) that the charging regimes are trying to create.

The document notes that the Targeted Charging Review (TCR) will only consider the distribution of residual payments within the transmission and distribution use of system charging mechanisms, and that the review will fit within Ofgem's broader programme. Greater clarity would be welcome on how this review will support a holistic approach to charging and what further work Ofgem expected to undertake under its Flexibility and Future-Focused Strategy work streams.

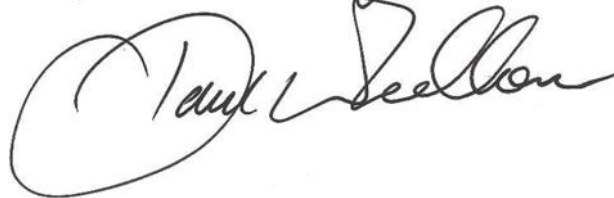
The potential make-up of the Charging Coordination Group

Given the range of parties to be affected and the interaction and overlap of the multiple reviews, projects and consultations underway in relation to charging, we agree that a structured and coordinated approach is essential.

In line with the principles of fairness and proportionality, we fully support industry wide input and representation in both the TCR and the Charging Coordination Group. We feel it is important that there is appropriate representation for the full range of stakeholders including smaller parties and consumer groups which lack the technical or financial resources in engage fully in these issues.

We encourage Ofgem to consider ways in which these groups can be enabled to participate both in the TCR itself and in the broader issues about network charging which the Charging Coordination group will engage. To aid this, we recommend that opportunities to participate are inclusive of all fourteen regional distribution services areas and that there is a focus on accessibility in terms of both the geographical location and methods adopted for consultation events. This will support the involvement of consumer and community groups and an array of small-scale businesses.

I would like to take this opportunity to offer the assistance of the Scottish Government and its agencies in assisting with the review. I encourage you to remain in contact with Scottish Government officials and draw upon our resources and offer of assistance to help support an inclusive approach to the review.

Kindest regards


PAUL WHEELHOUSE