

Anesco Limited  
The Green, Easter Park  
Benyon Road, Reading  
Berkshire, RG7 2PQ

tel: 0845 894 4444

Targeted Charging Review  
10 South Colonnade  
Canary Wharf  
London  
E14 4PU

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**RE: TARGETED CHARGING REVIEW CONSULTATION**

To Whom It May Concern,

In response to the recent consultation on the targeted charging review: minded to decision and draft impact assessment, please find enclosed our formal response on the proposals.

As a key player in the renewables and storage market, we would welcome the opportunity to discuss our response further with you.

Yours sincerely,



Steve Shine OBE  
Executive Chairman  
Anesco Ltd  
0845 894 4444  
[steve.shine@anESCO.co.uk](mailto:steve.shine@anESCO.co.uk)

**Anesco Limited**

Registered office: The Green, Easter Park, Benyon Road, Reading, Berkshire, RG7 2PQ

Registered in England No. 7443091 • VAT No. 107 4253 40

[www.anESCO.co.uk](http://www.anESCO.co.uk)

# **CONSULTATION ON THE TARGETED CHARGING**

## **REVIEW: MINDED TO DECISION AND DRAFT**

### **IMPACT ASSESSMENT**

#### **QUESTION 1. DO YOU AGREE THAT RESIDUAL CHARGES SHOULD BE LEVIED ON FINAL DEMAND ONLY?**

Overall, yes, we would agree that the residual charges should be levied on final demand only taking note that for assets such as storage, this should not count as final demand as it should be categorised as an intermediate user which stores electricity for later consumption. We understand Ofgem shares the same view and thus we agree with this proposal on this basis. Where storage cannot be classified in this way, we urge Ofgem to address this issue with the utmost urgency.

We do however disagree with the proposal to change to a fixed residual charge as we feel this will disincentivise energy efficiency in the market for those demand customers looking to reduce their own consumption through the deployment of low carbon technologies. This would cause a distortion in the market which Ofgem are inherently trying to avoid.

In addition, we feel that before Ofgem make their final decision on these reforms, they should carefully consider the importance of implementing an objective solely for the purpose of ensuring we transition to a low carbon energy network. We have serious concerns that Ofgem's current objectives as energy regulator, do not tie in to the objectives of the government as set out in the UK's Clean Growth Strategy. Ofgem may be looking to protect the interests of consumers, however if they do not take into account the Clean Growth Strategy in the long run, the consumers will pay for the consequences in the future.

#### **QUESTION 2. DO YOU AGREE WITH HOW WE HAVE ASSESSED THE IMPACTS OF THE CHANGES WE HAVE CONSIDERED AGAINST THE PRINCIPLES? IF YOU DISAGREE WITH OUR ASSESSMENT, PLEASE PROVIDE EVIDENCE FOR YOUR REASONING.**

We understand the duty Ofgem holds to protect the consumer and in the short term the principles have been assessed adequately, however we are concerned that long term changes and effects as a result of the energy transition have not been addressed at all.

In the wider context of our UK carbon targets, if a fixed charge is proposed, it would score low in its ability to incentivise the deployment of low carbon generation and energy efficient behaviour. In fact, this proposed new regime would almost certainly incentivise disconnection from the grid network entirely. This would increase distortions with charging regimes considerably.

Rather than introducing price hikes to those who are responsible for providing benefits to the network, should we be reviewing wider reforms on the network itself? Is RIIO2 being structured appropriately in order to ensure the network operators are incentivised in the correct way to promote flexible generation and balancing services to ease network constraints? These are the questions that we feel have not adequately been addressed.

We feel that a capacity charge would potentially provide a fairer outcome for the purpose of low carbon technology deployment and energy efficiency. The reason is that there remains to be an incentive to reduce consumption. We understand that Ofgem believes there could be an issue with customers relinquishing capacity in order to reduce charges, however this is very much dictated by the DNO (or DSO's) and thus we do not believe it would be a considerable distortion.

Ofgem must consider the final picture, where do we see electricity energy growing to with EV and heat driving significant growth? This growth in electrical power is only logical if the energy is from renewable sources, the government are clear with this in the Clean growth strategy. Energy from wind and sun is the cheapest way to create this extra energy with by far the lowest whole life cost, incentives to do this have been removed on the basis of market forces, but barriers and disincentives are discouraging this energy source for short term gain and the anti-lobby by the fossil fuel generators and nuclear at the threat of much cheaper energy and fast responsive flexibility from significant storage in the network. Ofgem must plan for the long term, they must consider de-carbonisation as a benefit to all customers, they must help the UK have a clear strategy to deliver the Clean Growth Strategy and not be influenced by short term impacts on some customers at the cost of longer term social benefits and reduced costs for all. DNO's if not helped by local generation and storage will require significant reinforcements in the future, this will cost the consumers much more than private investors installing their own energy sources behind the meter.

**QUESTION 3. FOR EACH USER, RESIDUAL CHARGES ARE CURRENTLY BASED ON THE COSTS OF THE VOLTAGE LEVEL OF THE NETWORK TO WHICH A USER IS CONNECTED AND THE HIGHER VOLTAGE LEVELS OF THE NETWORK, BUT NOT FROM LOWER VOLTAGE LEVELS BELOW THE USER'S CONNECTION. AT THIS STAGE, WE ARE NOT PROPOSING CHANGES TO THIS ASPECT OF THE CURRENT ARRANGEMENTS. ARE THERE OTHER APPROACHES THAT WOULD BETTER MEET OUR TCR PRINCIPLES REDUCING HARMFUL DISTORTIONS, FAIRNESS AND PROPORTIONALITY AND PRACTICAL CONSIDERATIONS?**

We believe that the focus needs to have a much wider and more holistic approach. Rather than simply classifying users in accordance with their voltage level, Ofgem should be considering the overall benefits that are being brought about. There is also a risk that customers may try to obtain a different connection in order to avoid certain charges. If this subsequently meant that there was a decrease in development of key infrastructure, this would create unfairness and distortions in a market which would ultimately affect the end customer.

Focus should be given on where the location of the constraints are, who is able to alleviate these and how can they be rewarded to continue to perform for the long term interests of the network and wider consumers.

**QUESTION 4. AS EXPLAINED IN PARAGRAPHS 4.41, 4.43, 4.46, 4.49, 4.80, WE THINK WE SHOULD PRIORITISE EQUALITY WITHIN CHARGING SEGMENTS AND EQUITY ACROSS ALL SEGMENTS. DO YOU AGREE THAT IT IS FAIR FOR ALL USERS IN THE SAME SEGMENT TO PAY THE SAME CHARGE, AND THE MANNER IN WHICH WE HAVE SET THE SEGMENTS? IF NOT, DO YOU KNOW OF ANOTHER APPROACH WITH AVAILABLE DATA WHICH WOULD ADDRESS THIS ISSUE? PLEASE PROVIDE EVIDENCE TO SUPPORT YOUR ANSWER.**

We strongly disagree that it is fair to charge all users in the same segment the same charge. It may meet Ofgem's objectives in the short and perhaps even medium term, but in the medium to long term, we believe there could be severe negative consequences for the UK and consumers as a whole and it does not fall in line with the UK's Clean Growth Strategy.

We are currently undergoing an energy transition where renewable and flexible technologies have been recognised as being an essential mix as part of the UK's energy infrastructure. These technologies are still evolving (as indicated by the subsidies which had to be introduced) and unfortunately they are now being met by barriers and challenges slowing down, and in some changes even halting deployment altogether. With the announcement of these charging reforms, investor confidence is yet again diminishing due to the ongoing uncertainty and there will undoubtedly be further implications on deployment of these technologies as a result. BEIS and Ofgem should be incentivising those who are actively taking the initiative and innovating to reduce their consumption. Equally, assets which can relieve constraints on the network should not be penalised, but recognised for the additional value they bring. We appreciate that some aspects of the forward looking charges should account for this, but the residual charges are the lion share and hence we will undoubtedly witness a drop in deployment of renewable technologies and demand side management/energy efficiency measures.

We also believe, having had direct contact with stakeholders in the market, that introducing fixed charges across different segments will incentivise demand users to disconnect from the network which will worsen the outcome on those more vulnerable who are unable to adjust their consumption in the same way. We may even witness this at a domestic level. Anesco have directly installed systems for domestic consumers which has demonstrated how little consumption is required when integrating multiple complementary technologies together. We believe that the future of our localised markets is likely to drastically change in the near future and may even reach a point when connection to a network is no longer required. We would welcome further discussions with Ofgem on this and can share data if required.

If we all agree that de-carbonisation is key for all people, we must look to the most efficient energy sources delivered in an efficient manner with some real certainty and commitment from government and OFGEM, network providers and large generators are determining the short term strategy, their interest is driven by their shareholders not the Clean Growth Strategy. The constant changes to regulation are making the UK unattractive for investment. The appearance of treating renewables worse than existing fossil fuel generators is short sighted. Reducing Climate change is a World Objective, we need to encourage investment in this future, rather than focusing on what appears to be short term political gains.

It is not the government spending this money for a low carbon objective, it will be the government however picking up the fines when we don't achieve our carbon targets, or probably the customer, as it was in water for the Thames super sewer that avoided government fines at the cost of Thames customers.

Ofgem's remit can not only be protecting the bills to customers in the short term, it will not and has not driven the correct and efficient strategies from the DNO's or National Grid. Ofgem must have targets in carbon reduction and must look at cross government strategies to achieve low carbon, self-sufficient, lower cost energy for all in the UK.

Ultimately, we feel that in the long term Ofgem are not implementing the correct measures to safeguard customers. There should be wider reforms of the networks with the correct incentives put in place to avoid having to introduce further subsidy regimes in future, which would again come at an additional cost to the consumer.

**QUESTION 5. DO YOU AGREE THAT SIMILAR CUSTOMERS WITH AND WITHOUT ON-SITE GENERATION SHOULD PAY THE SAME RESIDUAL CHARGES? SHOULD BOTH TYPES OF USERS FACE THE SAME RESIDUAL CHARGE FOR THEIR LINE LOSS FACTOR CLASS (LLFC)?**

We strongly disagree that customers with and without on-site generation should pay the same residual charges as it goes against the UK's Clean Growth Strategy as outlined in our response to question 4 above.

We need to incentivise those who use their own funds and who can subsequently relieve constraints on our networks to ensure longevity of our system and ensure the lowest possible costs to consumers in the long term.

**QUESTION 6. DO YOU KNOW OF ANY REASONS WHY THE EXPECTED CONSUMER BENEFITS FROM OUR LEADING OPTIONS MIGHT NOT MATERIALISE?**

We believe that there is likely to be consumers benefits in the short term as a result of the proposed leading options put forward by Ofgem. As discussed within our response to question 4, we believe that in the longer term, consumer benefits will actually worsen for those most vulnerable as a result of these changes.

We would also raise concern at the impact an increase in EV's and decarbonisation of heat will have on the network causing a requirement for further reinforcements. If technologies which can relieve and ease these constraints are not being recognised or incentivised correctly, there will be severe consequences on the networks. This would subsequently increase costs to the consumer.

**QUESTION 7. DO YOU AGREE THAT OUR LEADING OPTIONS WILL BE MORE PRACTICAL TO IMPLEMENT THAN OTHER OPTIONS?**

We agree that the fixed charge, followed by the capacity charge, will undoubtedly be easier and more practical to implement. It is also likely to provide greater transparency in the market. We do not however believe that these advantages outweigh the need for greater and better incentives for low carbon technology deployment and demand side management/energy efficiency.

**QUESTION 8. DO YOU AGREE WITH THE APPROACHES SET OUT FOR BANDING (EITHER LLFC OR DEEMING FOR AGREED CAPACITY)? IF NOT PLEASE PROVIDE EVIDENCE AS TO WHY DIFFERENT APPROACHES TO BANDING WOULD BETTER FACILITATE THE TCR PRINCIPLES.**

Despite us not agreeing with the proposals, we acknowledge there has been quite in depth analysis into current consumption patterns to assist with the banding. One concern we would highlight however is that higher consumption users on a domestic level are typically larger households. These households have an incentive to reduce their energy bills, but even with these measures they may still be higher demand users. We would therefore recommend that consumption patterns are modelled carefully and if Ofgem's primary objective is to protect the most vulnerable, they need to ensure that the overall strategy is in line with this.

We would also ask whether there should be further incentive schemes made available for vulnerable consumers to help finance low carbon and energy efficiency measures beyond those implemented through the ECO scheme. Anesco have suggested that solar and storage to some of these customers should be part of the ECO measures, especially in electrically heated homes.

**QUESTION 9. DO YOU AGREE THAT LLFCS ARE A SENSIBLE WAY TO SEGMENT RESIDUAL CHARGES? IF NOT, ARE THERE OTHER EXISTING CLASSIFICATIONS THAT SHOULD BE CONSIDERED IN MORE DETAIL?**

We believe that residual charges should not be based on fixed charges across a segment as detailed in our previous responses. The approach suggested is not in the long term interest of consumers and the UK's Clean Growth Strategy.

**QUESTION 10. DO YOU AGREE WITH THE CONCLUSIONS WE HAVE DRAWN FROM OUR ASSESSMENT OF THE FOLLOWING? A) DISTRIBUTIONAL MODELLING B) THE DISTRIBUTIONAL IMPACTS OF THE OPTIONS C) OUR WIDER SYSTEM MODELLING D) HOW WE HAVE INTERPRETED THE WIDER SYSTEM MODELLING? PLEASE BE SPECIFIC WHICH ASSESSMENT YOU AGREE/DISAGREE WITH.**

We strongly disagree with the conclusions that have been drawn on the modelling and assessments. Anesco have extensive experience and direct contact with many different stakeholders in the industry and can confirm the following;

- Assumed limited behavioural impact on low carbon technologies – We believe this is incorrect and there will be a significant impact on the uptake of low carbon technologies. To enable investment in these technologies, confidence in the revenue streams and market is paramount. Unfortunately, there is a lot of uncertainty and with the removal of subsidies, high operating costs and limitations/restrictions in revenues combined with a lack of visibility, it is unlikely that there will be a limited behavioural impact on low carbon technologies. Early indications from existing investors would suggest that investment in such technologies is likely to fall with the introduction of these charging reforms unless additional incentives take effect. Other countries are becoming far more attractive than the UK for large investors.
- Impacts for users with on-site generation – We believe the negative impacts on demand users with on-site generation will be significant. These users have invested their own funds to ensure that constraints are relieved on the network and thus charges are reduced. They should be rewarded, not penalised.
- Potential for load disconnection – We strongly believe that the introduction of these charging reforms will provide significant incentives to disconnect from the network. As detailed in a previous response, we believe this could also occur on a domestic scale.
- Impacts on energy efficiency investments – We agree that energy efficiency measures will also be affected as there will be less investment. This goes against our UK objectives as part of the Clean Growth Strategy and will cause dramatic consequences for consumers in the long term.

We are concerned that two FES scenarios have been considered as part of the modelling – Steady Progression and Community Renewables. We disagree that we should be modelling Steady Progression as this is the scenario where we do not meet our UK carbon targets. This should not even factor into the possible outcomes as it cannot be a possible outcome for the UK.

We also disagree with the statement that carbon emissions will reduce because on site gas engines will be replaced by more efficient CCGT's. We should be focusing on the end game of being as carbon neutral and efficient as possible, this means our strategy should extend beyond deployment of CCGT's.

**QUESTION 11. DO YOU AGREE WITH OUR PROPOSED APPROACH TO THE REFORM OF THE REMAINING NONLOCATIONAL EMBEDDED BENEFITS?**

If Ofgem are minded to reform the embedded benefits, our serious concern is the impact on the investment case for distribution connected low carbon generation. We need more certainty in the market to ensure that investment can occur for these technologies without the need for subsidies. Anesco constructed the first subsidy free solar farm in the UK, but we are yet to see a significant rollout of further sites. The intention to remove embedded benefits will set back the business case for investing in these projects when the investment case for deploying "subsidy free" was gaining more confidence in the UK. It is therefore hugely disappointing to see confidence set back yet again through more uncertainty.

We see a benefit for co-locating intermittent distributed renewable generation with storage to ensure flexibility and balancing on the networks when it is required. It is therefore disappointing that yet again these assets are likely to be penalised despite their overall benefits to the networks. Key to this is that there are no additional incentives to replace the removal of embedded benefits. **We would question why such valuable flexible and low carbon assets are not being rewarded and why inflexible and high polluting generation is not being penalised?**

We would ask Ofgem and BEIS to question the economic implications of not installing enough low carbon and flexible generation? Will this mean that the UK becomes increasingly dependent on overseas generation? Will it mean that we have to keep coal online past 2026 to ensure there is sufficient security of supply in the UK? Ultimately it is likely to mean that the UK will not reach the required carbon targets which will incur fines and in the long run, this will be felt by the consumer. If the charging reforms could supposedly save £4-£15bn on reinforcement costs, we should reward the assets that can actively relieve constraints/help balance the network in their own right. We should be acting now in order to secure a sustainable, flexible and efficient low carbon network. In order to act now, we need to provide security and confidence to investors.

**QUESTION 12. DO YOU AGREE WITH OUR PROPOSAL NOT TO ADDRESS ANY OTHER REMAINING EMBEDDED BENEFITS AT THIS STAGE? WHICH OF THE EMBEDDED BENEFITS DO YOU THINK SHOULD BE REMOVED AS OUTLINED IN XX? PLEASE STATE YOUR REASONING AND PROVIDE EVIDENCE TO SUPPORT YOUR ANSWER.**

We disagree with the proposals to any of the embedded benefits for the reasons outlined above. We need to maintain incentives, alternative solutions must be carefully considered.

**QUESTION 13. ARE THERE ANY REASONS WE HAVE NOT INCLUDED THAT MEAN THAT THE REMAINING EMBEDDED BENEFITS SHOULD BE MAINTAINED?**

Yes, please refer to response for question 11.

**QUESTION 14. DO YOU AGREE WITH OUR PROPOSED APPROACH TO TRANSITIONAL ARRANGEMENTS FOR REFORMS TO: A) TRANSMISSION AND DISTRIBUTION RESIDUAL CHARGES B) NON-LOCATIONAL EMBEDDED BENEFITS? PLEASE PROVIDE EVIDENCE TO INDICATE WHY DIFFERENT ARRANGEMENTS WOULD BE MORE APPROPRIATE.**

We have concerns on the overall timescales for the proposed reforms. If Ofgem are of the belief that losses experienced by low carbon generation and demand side response customers via residual charges can be recouped via reforms to forward looking charges, then the two regimes should be implemented together. There should not be a 2 year transitional gap between the two reforms. This also falls in line with our belief that there needs to be a more holistic approach to the reforms if they are not to be implemented for another 3-4 years.



**QUESTION 15. DO YOU AGREE WITH OUR MINDED TO DECISION SET OUT? IF NOT PLEASE STATE YOUR REASONING AND PROVIDE EVIDENCE TO SUPPORT YOUR ANSWER.**

For reasons set out in our responses to the questions above, we would disagree with the proposals for fixed residual charges, removal of embedded benefits and the proposed timescales for transition.

We need to start taking a longer term approach to reforms to our network which is in the best interest for the consumer in the long term whilst also ensuring we have the best outcome for our low carbon energy strategy.

**QUESTION 16. FOR OUR PREFERRED OPTION DO YOU THINK THERE ARE PRACTICAL CONSIDERATION OR DIFFICULTIES THAT WE HAVE NOT TAKEN ACCOUNT OF? PLEASE PROVIDE EVIDENCE TO SUPPORT YOUR ANSWER.**

We think your preferred option for fixed charges will be one of the easier ones to practically implement, however for reasons we have set out above, **this does not make it the right decision to take forward.**