



BEAMA response - Ofgem Targeted Charging review- 4th February 2019

BEAMA is a trade association representing manufacturers of electrotechnical infrastructure products and systems, from transmission and distribution equipment to the environmental systems and services in the built environment, with over 200 members ranging from SMEs to large multinationals. BEAMA members' products provide a sustainable, safe, efficient and secure UK energy system. We support our members in ensuring that the UK has a strong electrotechnical industry that is recognised as an essential part of modern society and brings invaluable economic, social and environmental benefits.

BEAMA members are strongly opposed to the decision to fix residual charges as outlined in this consultation. We urge Ofgem to delay this decision and review this against all elements of the charging system. Any changes to the charging regime should be implemented at the same time and in the best interest of the consumer, but without damaging the future market for flexibility and storage in the UK.

The Targeted review states that residual charges will be set at a flat rate by 2021/22 for each profile class within a specific network. So, all customers will be charged the same. This could be heading towards a hybrid charging system, where we have a forward-looking element which will be more reflective of usage. The issue we have identified is the timing of reform for residual and the forward-looking elements would result in a year or two with no network benefits for flexibility and storage, as reform for forward charging is planned to come in later. Our assessment of the benefits relating to fixing residual charges sooner against the potential loss in market capacity for flexibility and storage has raised significant concerns across the industry and appears to conflict with Government's overall ambition set out in the Smart Systems and Flexibility Plan.

BEAMA is not alone in supporting this view and has co-signed a letter with other Industry associations in support of deferring this change until all charging changes (Targeted and Forward) can be made together, thus providing certainty for the UK industry.

BEAMA responded to BEIS in consultation on the review of the Smart Systems and Flexibility Plan in January outlining several areas where our industry is experiencing the negative effects of an unstable regulatory environment. This is not the basis on which investment decisions can be confidently made. Decoupling the targeted charging review from the forward-looking review leaves a big gap in the market, which is very destabilising. This, coupled with the changes to the Renewables Obligation and FIT, is adding to the investment uncertainty our members are experiencing. To effectively develop a technology market in the UK and decarbonise the energy system regulatory reform needs to be co-ordinated and market incentives implemented with certainty, the timing of which is critical.

We have provided more detailed responses to specific questions from this consultation below. And we look forward to hearing from Ofgem on this important matter.

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.

BEAMA see a fundamental issue in the allocation of whether charges are forward or residual. These currently seem to be arbitrary. The proposal is to remove Triad charges because it incentivises users to reduce their maximum demand. This would seem to be the very definition of a forward charge but it is part of the 80% residual transmission charges. Removing Triad charges will remove a strong incentive on customers to reduce their maximum demand and, presumably, increase winter peak load and the need for the purchase of additional capacity via the capacity market. There are few ways that customers can actually reduce the network cost as these are largely fixed by the regulated allowances, Triads are one element of network charges that are forward looking and do result in lower overall system costs. It is therefore hard to understand the logic in removing them.

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.

This is a question of choice of fairness and is, to some extent, subjective. Whilst it is clear that charging everyone who benefits from the availability of the power networks the same is arguable fair, it is also hard to argue that the extent to which customers use the networks should not be an element of their cost. One can argue that longer-term the decision to fix residual charges is less fair as this will limit the opportunities for flexibility and storage in the market and therefore the opportunity to reduce overall system costs. While Ofgem might look to fix residual charges changes to residual and forward charging need to be implemented at the same time.

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)?

This depends on your definition of 'fairness', see Q4 and Q7. It could be argued that customer behaviour behind the meter is no business of Ofgem, DNOs or Suppliers. On that basis, customer who make the same demands on the network should pay the same, whether they achieve that by being frugal, purchasing energy efficiency appliance, or self-generating. If customers with self-generation fail to maintain this and make higher demands, that should be captured via maximum demand charges or volume related charges.

6. Do you know of any reasons why the expected consumer benefits from our leading options might not materialise?

Shifting to a flat rate charge for residuals will remove an incentive for energy efficiency. We are unable to offer a quantitative estimate and note that Ofgem are also unable to provide a figure and, on that basis, have dismissed the impact.

7. Do you agree that our leading options will be more practical to implement than other options?

In a world of pre-SMETS metering, for residential customers there are a limited number of options for levying network charges, either p/kWh or a flat charge (or a combination). Post smart meter roll out more refined options will be available, such as maximum demand charges. Again, this would suggest that Ofgem should delay the changes to the residual charges until smart meters are fully available.

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.

Ofgem is not consulting on any options other than full introduction in 2021 or phasing in from 2021 to 2023. We strongly disagree with the decision not to consult on introducing the changes in parallel with the changes expected from the SCR. There is a good argument for reforming the residual charges and related benefits if this is done in line with the introduction of benefits from forward charging. However, at present, Ofgem is proposing to remove significant benefits from an important developing sector of the energy industry without having any compensatory benefits in place. This risks a serious attack on the embedded generation, storage and DSR sectors a couple of years before Ofgem will introduce charges aimed at promoting them. The supply chain cannot cope with this unsettled approach to regulatory reform.

BEAMA does not accept Ofgem's interpretation of its financial analysis. The figures from the analysis show that the poorest energy users will face £20/y higher charges under the new arrangements and significant beneficiaries will be high energy users with an annual saving of £44. This is not a group that needs priority help and their benefits should not justify such an attack on a nascent and vital industry sector.

16. For our preferred option do you think there are practical considerations or difficulties that we have not taken account of? Please provide evidence to support your answer.

It is not clear how reactive power charges will be affected through the transition, there is no discussion of these in the consultation. As for embedded benefits, it is again possible that existing benefits will be removed and the power factor correction industry negatively impacted prior to the SCR introducing new charges that would re-introduce these benefits.