

Targeted Charging Review: Minded to Decision and Draft Impact Assessment

Submitted by:
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FAO Andrew Self
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Dear Andrew

Re: Ofgem consultation “Targeted charging review: minded to decision and draft impact assessment”

Please find below our response to the questions set out in your consultation referenced above.

AMP Clean Energy Urban Reserve is a developer and operator of decentralised flexible generation. All our sites are connected to the GB distribution network and we target sites that are close to urban or commercial centres of demand where we can deliver the most benefit to consumers. The Ofgem minded to decision potentially has a large impact on our sites and we do not believe that the proposals are cost reflective or equitable.

The proposal to recover the residual element of network charges using a fixed charge and by grouping import customers based on LLFCs effectively places our sites on an equal footing with other “standard” demand customers. However, the import for our sites is generally small as the sites are primarily used to export rather than import. Also, the import required for our sites does not tend to have a material impact on the distribution networks as the networks have been sized to our export capacity which is far in excess of the import capacity. Consequently, grouping the import from generation alongside “standard” demand customers is leading to our sites incurring a disproportionately high charge. This high charge is not justifiable given the small import requirements for our sites and the negligible impact the import from our sites has on the network.

We have set out our views on the consultation questions in the responses below. We request that Ofgem look to amend the minded to decision to ensure the import from embedded generators is not exposed to the residual element of network charges. We have suggested how the minded to decision can be amended to address these concerns and we urge that these are fully considered before a final decision is made.

Please contact me directly if you would like to discuss any of our responses in more depth.

Yours sincerely

Mark Tarry





**Ofgem consultation “Targeted charging review: minded to decision and draft impact assessment”
– Response to questions**

1. Do you agree that residual charges should be levied on final demand only?

We agree that residual charges should be levied on final demand only.

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.

While we agree that the proposals should be judged against reducing harmful distortions, fairness and proportionality and practical considerations, we do not believe that the preferred solution of fixed charges adequately meets these criteria. In particular, the grouping of customers using LLFCs to split the residual charge does not result in a cost reflective allocation between customers. This is because the LLFCs do not provide sufficient granularity particularly at High Voltage, Extra High Voltage and transmission where each customer segment contains a wide range of customers. This results in all customers within each segment facing the same charge regardless of their size and impact on the network. This unfairly impacts on small embedded generation where the import capacity tends to be very small relative to other import customers within the same customer segment. We believe such an outcome is not consistent with the principle of fairness and proportionality.

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 agree that residual charges should only apply to voltage levels at and above the voltage of connection.

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 do not agree that the preferred solution to use fixed charges is a cost reflective basis for recovering the residual charge. We believe the second option which allocates the residual charge on capacity appears a more cost reflective solution particularly for larger consumers.



In the minded to decision, the principle argument used in favour of a fixed charge is that the residual element should not be avoidable. This implies that capacity charges can be avoided in the same way as a unit-based charge. However, although a site's import capacity can be managed, there are implications for a site if the capacity is reduced. There is no guarantee that the capacity can be recovered at a later date without incurring a potentially substantial reinforcement cost. This in itself forms a barrier to most consumers from reducing their import capacity and leads to capacity hoarding by some users. Conversely, if a customer can be incentivised to reduce their import capacity, the relinquished capacity is available to the DNO to re-allocate which promotes the efficient allocation of capacity between network users.

The proposed segmentation of customers on LLFC is too broad, particularly for HV, EHV and transmission connected generation. The impact is twofold. Firstly, it disadvantages generation with a small import compared to other generators at the same voltage level with a larger import. Secondly, it groups the import of generators along with standard demand customers whose import requirements at the same voltage level are likely to be far greater. We believe that Ofgem should amend the minded to decision to exempt generation from paying the residual charge on their import. This solution would place all generators on an equal footing.

Alternatively, the use of capacity charges for higher voltage levels combined with a fixed charge at lower voltage levels would result in a more cost reflective solution than using fixed charges. This would be consistent with the current approach adopted under the CDCM where CT metered customers incur a capacity charge but WC metered customers do not.

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 agree that similar customers with and without on-site generation should pay the same residual charge to avoid those customers without behind the meter generation paying for the network that is being relied on by all users.

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

The expected consumer benefits may not materialise if the unintended consequence of this change is to restrict the development of small embedded generation. There is a need for more flexible plant located close to centres of demand and given the expected increase in intermittent generation and low carbon technologies such as EV, it is important that this plant is built in a timely manner.

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

Yes we agree that the two leading options will be the most practical to implement.



8. Do you agree with the approaches set out for banding (either LLFC or deeming for agreed capacity)? If not please provide evidence as why different approaches to banding would better facilitate the TCR principles.

See our response to question 4.

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?

As per our response to question 4 we believe that import from generation sites at each voltage should be treated separately to other consumers that make up a customer segment. The import for these generators should be exempt from the residual charge.

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 have no view on this question.

11. Do you agree with our proposed approach to the reform of the remaining non-locational Embedded Benefits?

We agree that the transmission generation residual should be removed. This residual is becoming increasingly negative and creating a market distortion. Given the removal of the embedded benefits for embedded plant it would not be reasonable to allow a market distortion in favour of transmission connected plant to develop.

We agree that the BSUoS charge needs reviewing and that a taskforce is a good way to develop changes to BSUoS. However, we note that the process has not been inclusive and some participants such as ourselves were not able to join the taskforce even though the proposed changes have a material impact on their organisation.

Any changes to BSUoS should be measured against improving cost reflectivity. One of the drivers of the increase in BSUoS is the costs associated with managing the system due to intermittent generation. It seems unreasonable that non-intermittent generation that is helping to offset this intermittency should be charged for this cost. The BSUoS taskforce should consider identifying this cost and levying it on intermittent generation.

In addition, there are benefits to the system operator from the diversity of a large number of smaller embedded plant. The system operator currently needs to hold reserve in place in case of a failure by



the largest unit on the system. The reserve requirement will be geared to larger transmission plant in case they fall off the system. If BSUoS is cost reflective, it would seem reasonable that larger transmission connected plant should incur a large proportion of this element of cost.

Finally, if the principal of a level playing field is to be applied consistently, then embedded generators must also be able to fairly participate in the Balancing Mechanism and other grid services, such as Black Start, which transmission connected plant benefit from. We note National Grid's steps to set up a Distributed Resources Desk however the volumes remain very low and much more needs to be done to ensure all generators (big or small, transmission connected or distribution connected) are dispatched when they are in merit and in areas where demand for power is greatest.

To date, anecdotal evidence would suggest that cheaper offers posted in the Balancing Mechanism by small distribution plant are often "overlooked" with National Grid choosing to call more expensive offers from larger plant. Therefore, the factors that determine the acceptance of offers in the Balancing Mechanism must be clearly and transparently set out and National Grid's decisions to call generators must be periodically audited by the regulator to **ensure fairness and best value for the consumers**.

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 agree that the remaining embedded benefits are not material and do not need to be addressed.

13. Are there any reasons we have not included that mean that the remaining Embedded Benefits should be maintained?

We believe that an in-depth assessment of the impact that embedded generation has on the system operator is required before the allocation of BSUoS can be determined.

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 believe that a transitioned implementation for the residual will provide the most effective way to implement the proposed changes. Changes to BSUoS should not be implemented prior to April 2021 as we do not believe that an April 2020 implementation date gives sufficient time for the issues to be fully explored.

15. Do you agree with our minded to decision set out? If not please state your reasoning and provide evidence to support your answer.

We do not agree with the minded to decision as detailed in our answers to answers to 4, 9 and 11.





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.

There is a practical consideration for the preferred option of fixed costs on how to segment the customer base. The current proposal of using LLFCs is too coarse and needs refining. However, any banding of customer has issues around where the boundary is set and customers moving between segments to their own benefit. We believe that our proposed solution for embedded generation to have a separate customer segment where the residual charge is not applied is implementable from a practical perspective.

