Energiekontor
UK Ltd

FAO: Andrew Self
Ofgem
TCR@Ofgem.gov.uk

Date: 1st February 2019

Your reference: N/A

Dear Mr Self,

**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.

Energiekontor UK is a developer and operator of renewable generation in the UK. We have a portfolio of existing onshore wind farms and a large pipeline of new projects. Our sites connect at both transmission and distribution and we are concerned that the proposals set out in the consultation could materially impact our business. For those projects at a development stage these changes could impact our decision to progress these sites.

We have set out our views in the responses below, but overall, we believe that the proposal to levy a fixed charge on the import of generation is not cost reflective or equitable. The import capacity of our windfarms tends to be very small compared to the export. It does not seem reasonable that the import from our windfarms should be classified along with standard demand customers. For example, a typical import customer at EHV has a maximum import capacity of c20,000kVA compared to the import for a windfarm which can be less than 100kVA. We request that Ofgem look to amend the minded to decision to ensure wind generation is not exposed to this excessive charge. 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 at our Leeds office if you would like to discuss any of our responses in more depth.

Yours sincerely,

**Richard Lill**

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# 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.**

We are concerned that grouping customers using LLFCs to split the residual charge based on net consumption does not result in a cost reflective allocation of the residual element of network charges. We believe that 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 wind 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 proposed solution is a fair and equitable basis for recovering the residual charge. The second option considered it to use capacity to allocate the residual charge element and this appears a more cost reflective solution particularly for larger consumers.

The argument against using capacity as a basis for allocating costs is that the residual element should not be avoidable. However, we believe that Ofgem's assumption that capacity charges can be avoided in the same way as unit-based charges is not a good comparison. When a customer reduces their import capacity, there is no guarantee that it can be recovered without incurring significant reinforcement costs. From a network perspective, large customers releasing capacity is beneficial to network companies and other users and ultimately results in avoiding unnecessary reinforcement.

The proposed segmentation of customers on LLFC is too broad, particularly for HV, EHV and transmission connected generation who typically have a small import. It is not equitable for the small import of a generator to incur the same residual charge as a large factory. 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 rather than favouring generation with a larger import requirement over those with small imports such as windfarms.

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 that proposed. 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 as they both require access to the network. It is not reasonable to expect customers without behind the meter generation to pick up the network bill for those who have installed generation but still rely on the network.

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

As set out in our response to question 4, the proposed solution is likely to lead to a high fixed charge levied on generators and will have a disproportionate impact on small generators at each voltage level compared to larger generators at the same voltage level. For example, a windfarm connected at transmission would pay the same as the import to a coal power station, even though their import capacity would be much smaller. This would impact on investment decisions and could reduce the amount of small generation (particularly renewables) connecting to the system.

**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 do not believe the proposed segmentation by LLFC is appropriate. The import from generation sites at each voltage level should be treated as a separate customer segment and exempted 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 do not agree that the transmission generation residual should be removed. At present TNUoS charges for transmission connected generation are reduced by the negative residual. The purpose behind the 2.5euro/MWh cap is to ensure a relatively level playing field across member states of the EU. This issue is becoming increasingly important with greater interconnection and the introduction of TERRE. We note that generation plant in GB is trying to compete against plant, particularly in France which generally incurs a lower transmission charge. Therefore, any increase in GB generation TNUoS will reduce the competitiveness of GB generators.

We agree that the BSUoS charge needs reviewing. We believe that this charge should be levied on demand only and not charged to generation. This would improve the competitiveness of GB generation overseas.

**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?**

No, but it is important to take account of the impact on the business plans of embedded generation when considering the solutions for changing embedded benefits.

**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 will provide the most effective way to implement the proposed changes.

**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 and have set out our reasons above.

**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 believe that this change along with the other large areas of regulatory uncertainty due to the SCR on access and forward-looking access is creating a difficult environment for investors and developers. We urge Ofgem to provide certainty on these issues as soon as possible and provide a long lead time for implementation to allow industry parties to adjust their business strategies accordingly.