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Andrew Self,  
Targeted Charging Review Team,  
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Monday, 4 February 2019

**Targeted Charging Review: minded to decision and draft impact assessment - consultation response**

Thank you for the opportunity to respond to Ofgem's minded to decision and consultation on the Targeted Charging Review. This response is made on behalf of Estover Energy Limited (Estover) a developer, investor and manager of sustainable power and infrastructure projects.

As a developer of, and an investor in, renewable generation projects, typically small scale and embedded, Estover is very concerned about the proposals. Our specific concerns are in relation to the potential additional costs to be borne by our customers due to the change in residual charging, and the potential loss of revenue and cost increases for our existing and future generation projects. Not all our responses exactly fit within the questions you asked in the consultation however we have made some general comments and answered questions 5 and 11 specifically.

**General Comments**

As a general comment we would say that significant changes to the charging regime, like the ones proposed in your consultation, represent unwelcome and retrospective changes to the basis on which investments have been made. This applies both to our customers, who may have invested in or contracted with generation plant (or invested in energy management systems) on the basis of the prevailing charging regime, as well as to our own investment in embedded generation.

Estover therefore disagrees that the reforms will not have a meaningful impact on investor confidence. The minded to decision states that 'we do not consider any increase in cost of capital to be likely, as potential for change in charging arrangements is well established'. It is true that network charging arrangements are subject to open code governance and that implementation of these changes is likely to happen five years after the Targeted Charging Review was first announced. However, the gap between the implementation of the TCR and that of the Access reform SCR is likely to reduce the market for flexibility and on-site generation as well as creating significant uncertainty as market participants wait for the Access reform's changes to be implemented. We consider that this will mean significantly higher risk for investment and that investors will consequently require higher investment returns.

Estover would also question your view on the current "distortions", we think that there is a strong case to say that a party that does not use the wider electricity system very often (or indeed at all) should pay less in the way of residual charges than a party who uses the wider system all the time. Therefore, the current system may not be a distortion at all.

**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**



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**another approach with available data which would address this issue? Please provide evidence to support your answer.**

Estover does not think that it is fair for all customers within a band to pay the same. Whilst we understand that Ofgem is seeking for a new mechanism for recovering residual charges, we would say that there is a significant difference between a party who uses a considerable amount of energy from the wider system, compared with a party who has little use or no use. This is implicit in your proposed “volume allocation” for both the fixed charges option and the capacity option where the volume consumed is used to allocate the residual transmission charge between segments, so why not individual customers within a segment?

Estover also thinks banding by connection voltage is arbitrary and unfair and could distort investment decisions.

**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)?**

Estover disagrees with both these statements and thinks that charging similar customers with and without on-site generation the same residual charges will unduly discriminate against those customers who have made investments in on-site generation. Customers who only rely on the wider network occasionally should not have to contribute to the same extent as those who use the wider network on a continual basis.

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

Estover disagrees with Ofgem’s minded to decision on this aspect of the consultation. Although reform of the remaining Embedded Benefits was signalled during the CMP264/5 discussions and in the early stages of the TCR, this was relatively recent. Investment in embedded generation has been underway for many years on the apparently settled basis of embedded benefits and not being liable for charges relating to use of the transmission system including BSUoS. Triad benefits have already been removed or substantially reduced and changes to BSUoS will further undermine projects financially and negatively impact on confidence in investing in GB projects.

Furthermore, the introduction of Generation BSUoS charges for embedded generation was not indicated earlier. Therefore, it is not the case that investors and market participants could have reasonably expected, and priced in, these changes. Further to this, we consider that the introduction of BSUoS charges significantly cuts across the scope of both the ongoing P308 modification to move all BSUoS charging to demand as well as the new BSUoS taskforce. We believe that if reform is taken to BSUoS charging, only the partial reform should be implemented. Any further changes should only be made if fully justified through the work of the BSUoS taskforce and the broader changes to forward-looking charges through the Access SCR.

Yours Sincerely,

Gillon Dobie  
Project Developer  
Estover Energy