Response to consultation regarding *Targeted Changing Review*

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Dear Andrew Self

Please see below our response.

1. Do you agree that residual charges should be levied on final demand only?
    - *Yes, this seems a pragmatic approach since the alternative of recovering fixed charges from generator parties would simply result in higher market prices.*
    - *It would also discriminate against the holders of FiT CfDs who would be unable to recover the cost allocated to them*
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.
    - *The analysis in section 4, table 6 seems reasonable but does not consider under "fairness" the impact on parties who made prior investment decisions based on the information available and structure of charges at the time the investment was made.*
    - *We also do not see that the "variations" on the basic options (which are in the minded-to decision) are assessed against the basic options and cannot see the rationale for changing the options, other than simply reducing the amount to be recovered from domestic consumers.*
    - *We 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.*
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?
    - *Not that we can see at the moment.*

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 don't think that it is fair for all customers within a band to pay the same. Whilst we recognise that you are looking for a new mechanism for recovering residual charges, we think there is a significant difference between a party who uses a considerable amount of energy from the 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.*
   - *We also think the banding by connection voltage is arbitrary and unfair and could distort investment decisions.*
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 don't think that it is fair for customers with and without on-site or private wire generation to pay the same. Whilst we recognise this is recovering residual charges, there is a significant difference between a party who uses the wider electricity network every day and for all their needs, compared with a party who has invested to meet some or all of its needs from own generation or contracted on-site/private wire generation, who will only occasionally require imports from the system.*
6. Do you know of any reasons why the expected consumer benefits from our leading options might not materialise?
   - *We do not think the analysis shows any significant benefits from the reform. Section 5 identified consumer cost savings, these are acknowledged to be uncertain and to the extent they arise, some are actually just transfers from other parties. Where these transfers affect previous business decisions (such as investments made by generators and consumers contracting with on-site generation for example) retrospective changes to the regulations will ultimately have a consumer cost as they increase business uncertainty.*
   - *The systems savings appear rather modest over a 21 year time horizon and are predicated on CCGT generation displacing small gas engines in the Capacity Market (CM). We don't see that this will necessarily be the case and particularly given the current suspension of the CM we don't consider this to be a robust basis for a decision to implement it.*
7. Do you agree that our leading options will be more practical to implement than other options?
   - *No, we do not support this or any other change to embedded benefits.*

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.

- *Banding is arbitrary, it penalises past decisions made in good faith and could lead to distortions in future decisions by investors*

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?

- *Volume consumed from the network*

10. Do you agree with the conclusions we have drawn from our assessment of the following?

   a) distributional modelling
      - *This analysis is not complete or correct as it does not factor in the effect on the supplier residual from the proposed removal of the (negative) generator residual.*

   b) the distributional impacts of the options
      - *No meaningful information is provided for comparison purposes for EHV connected customers*
      - *No attempt was made to estimate the number and/or contracted capacity of generators with on-site or private wire customers and, as recognised in the Frontier Economics report this could materially understate the charges applicable to EHV customers*

   c) our wider system modelling
      - *As noted above the systems savings appear rather modest over a 20 year time horizon and are predicated on CCGT generation displacing small gas engines in the Capacity Market (CM). We don't see that this will necessarily be the case and particularly given the current suspension of the CM we don't consider this to be a robust basis for a decision to implement it.*

   d) how we have interpreted the wider system modelling?
      - *In the implementation section it is noted that 50% of the benefits identified over a 21 year period actually arise in the first three years. This suggest that the issue being addressed is not material in the long term and question if such a major reform, with significant distribution effects, should be implemented to solve a short-term problem.*

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

- *Embedded benefits were introduced to recognise the system benefits of generation at lower voltage and we do not see any assessment of the extent to which this is no longer the case.*
- *Whilst it is asserted that there are significant distortions we don't see any evidence for this, most recipients of the BSUoS embedded benefit are "price takers" who do not influence the market price, embedded benefits were seen a valid long-term income stream, factored into generators' investment decisions, in some cases many years ago.*

- *Ultimately it is consumers that meet all of the cost of the electricity system and making a reallocation from embedded generators to consumers does not in itself reduce the cost. Indeed, it likely to increase cost due to the regulatory uncertainty. Past investments in embedded generation were made in good faith and on the basis of these benefits remaining in place, any further changes should be prospective and not retrospective, i.e. grandfathering should be considered.*

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? Please state your reasoning and provide evidence to support your answer.
    - *We do not support this or any other change to embedded benefits.*
13. Are there any reasons we have not included that mean that the remaining Embedded Benefits should be maintained?
    - *We do not support this or any other change to embedded benefits.*
14. Do you agree with our proposed approach to transitional arrangements for reforms to:
    a) transmission and distribution residual charges
        - *If implemented, phasing should be over a minimum of three years and allow for sufficient time for parties to plan their businesses. Allowing for progression of the necessary changes into industry documents, we don't see that the start for any of the proposals should be before 2022.*

    b) non-locational Embedded Benefits?
        - *We not agree that these should be implemented at all*

    Please provide evidence to indicate why different arrangements would be more appropriate.
15. Do you agree with our minded to decision set out? If not please state your reasoning and provide evidence to support your answer.
    - *No, for the reasons set out 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.
    - *Some distribution connected sites with on-site or private wire generation may have multiple connections to the distribution system. If your proposals are implemented, it should be done in a way that ensures there is no "double charging" of such sites i.e. for both the consumer demand connection and for the generator connection that can also supply the consumer*

Best regards,

Tim Forrest
Managing director, CI Biomass