



Andrew Self,
Targeted Charging Review,
Energy Systems Transition,
Ofgem.

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Dear Andrew

Ref: Consultation on the Targeted Charging Review

I am writing on behalf of the Major Energy Users' Council (MEUC) a consumer led body representing the interests of many industrial, commercial, retail and public sector organisations and for whom the use of electricity and gas is a significant factor in their operations' costs. The total electricity consumption of our members is approximately 30% of the non-domestic UK load.

I would like to begin by making a few general comments about the Targeted Charging Review from an industrial and commercial consumer perspective, especially as our members provided a significant amount of the I&C data used in the modelling.

The MEUC neither support nor oppose the triad charging methodology as some members use the system to reduce their costs, while others must pay the charge as they are unable to vary their demand. We would however point out that it is a methodology that has served the industry well for the past 20 years helping to reduce peak demand and safeguard the system. National Grid Electricity System Operator (NG ESO) produce a report each year, which estimates that triad avoidance reduces the peak demand by 4% (2 GW). However, the original triad principle of 'those causing the peak demand should pay for the system' still applies.

Replacing the triad methodology will remove this 4% contribution to peak demand and speaking to a senior manager in the National Grid Power Responsive team, they confirmed that they have not been asked how they will address this shortfall, nor what the possible cost would be. One way would be to add this volume to the existing requirements in the suspended Capacity Market (CM) raising the total by a further 2 GW, again talking to National Grid this would lead to the auction settling at a higher price.

A rough estimate of the current cross-subsidy of triad avoidance would be 2 GW times £45/kW giving a £90 million amount to be shared following the removal of triads. However, settling the CM auctions at the next level up will lead to an increase of over £250 million or a nett increase of £160 million. I may have missed in the consultation where this overall increase in costs is highlighted as a result of the proposed change and its impact on all charges.

Before leaving the charging methodology I must mention the disturbing increase in transmission charges over recent years and proposed increases over the next 5 years,

which according to National Grid, *"this is due to a declining charging base for HH and NHH tariffs and increasing proportion of total revenue being recovered through demand tariffs, due to the cap on generation tariffs."* I can understand how the increase in embedded generation will reduce the amount of electricity carried by the transmission system, however I must question the process of capping generation especially as most wind generation is being built remote from the area of demand. This gives a false impression of the true cost of the various sources of generation. I realise that the consumer must pay whatever method is used but the gas method of the producer paying for delivery to the national balancing point gives a better indication of the energy cost.

Moving on to the two options being considered, a fixed charge or an agreed capacity charge. Most members I have spoken to find that you have provided insufficient information to assess which of the two options would impact them the least. I have therefore resorted to the following table using values from your presentation of the allocation of transportation charges to the various sectors of the market comparing the existing with your two proposals;

	Existing charges	Fixed charge	Capacity charge
DOMESTIC	47%	38%	43%
LV ND	30%	32%	47%
HV ND	19%	23%	7%
EHV/T ND	4%	7%	3%

I must question the results produced and therefore the validity of your modelling. If we ignore the need to contract for more capacity at peak and concentrate on just the increased revenue provided by the removal of triads, I would expect the maximum benefit to any sector to be 4% with this being domestic and LV. To see your preferred option benefiting domestic only with all other sectors seeing increases makes me question the accuracy of the modelling or the parameters set, particularly as the benefit to domestic consumers is more than double at 9%. A change of this magnitude would come on top of the recent red/amber/green changes made to distribution charges that benefited domestic consumer with a similar 9% reduction in their transportation costs.

Clearly the assumptions made when the model was first run, and the results shared at the end of August were incorrect as both schemes under consideration increased domestic charges by 3% and 26%. Whatever adjustments were made subsequent to that run have clearly erred in the opposite direction and corrections need to be made before setting new charging criteria.

Examining the results of the capacity charge option are even more confusing seeing very large users' costs reducing so significantly and LV having to bear the brunt of increases.

Next, I must raise the question of unintended consequences of the proposed changes to transportation charges. MEUC has all 10 of the water companies currently going through their price control with Ofwat, all of whom are active in chasing triads. One company estimated that removing triads and the alternative options could increase their energy

cost between £8 million – £12 million/annum that will have to be passed on to domestic customers and others through their water bills.

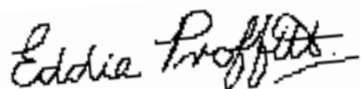
We also have most of the large food producers and food retailers who are active in triad avoidance whose increases in cost will have to be passed on through increases in food prices.

Another issue raised by members is that of resilience. In the case of water companies, I understand it is a licence condition that they have resilience in their system that will include dual electricity supply to all their key sites. This some DNOs treat as a single supply while others treat them as separate supplies. The booking of capacity for both feeds in the latter case will adversely affect their charges with the booked capacity option. This set up of dual supply is quite common in industry and commerce.

Finally, I will address the timing of changes. We have been told in the second part of the consultation that access arrangements will bring benefit but not until two years after the proposed implementation of the above changes. I would urge that as the current methodology has prove "fit for purpose" for the previous 20 years, then all changes agreed should take place at the same time.

If you require any further explanation of our views, I will be happy to provide them.

Yours truly,

A handwritten signature in black ink that reads "Eddie Proffitt". The signature is written in a cursive style with a horizontal line underneath the name.