

LENL Response to Ofgem consultation questions

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

We agree that the approach to levy charges on final demand customers only, appears to be appropriate. Ofgem frequently make reference to ‘the level playing field’, this option appears to satisfy this principle.

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 principles, namely the reduction of harmful distortions, fairness and proportionality and practical considerations, appear to have been met in assessing the impact of the changes. Although, we are concerned that IDNOs appear to be an afterthought, as the impact on them merits only a brief mention in the TCR.

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?

None suggested at this stage of the consultation.

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.

Ultimately, whichever differentiator is chosen will have users that are at the upper and lower limits of each band; broadly users within the same LLFC, certainly at the lower voltage levels, have a similar demand requirement on the network. Varying the charge for high capacity commercial users may see lower capacities agreed/declared, resulting in lower charges paid by the user, but they may still exceed capacity, so the network faces the same demand whilst achieving lower residual charge revenues.

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 customers with & without onsite generation should face the same charges; when on-site generation customers are not generating their expectation is that the network will fully supply their requirements, so they should pay equally for equal availability.

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

Benefits may fail to materialise for a number of reasons. For example, the political landscape may change resulting in policy change/ reversal. In the TCR It is stated that some households, deemed to be vulnerable, may see bill increases; as a result, we find it difficult to proportionalise this when talking about 'benefits' to consumers.

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

The fixed option seems the fairer of the two. It ensures residual charges are collected at the demand point of use, negates cost avoidance and is currently, the most practical and lowest cost option to implement for Distribution Network Owners.

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?

We are in agreement, no further suggestions.

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?

LLFCs are assigned to all MPANs so every connection has one and they are recognised across the industry: their use is likely the most straightforward and cost-effective manner of implementation.

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?

As the modelling has been undertaken by an external consultant there will have been a degree of subjectivity. However, it does appear that reasonable and verifiable assumptions have been made.

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

A this point in time; these proposals do not directly impact us.

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.

A this point in time; these proposals do not directly impact us.

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

A this point in time; these proposals do not directly impact us.

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.

a) If these proposals were to go ahead the phased option 2021-2023 seems to be a common-sense approach. This should allow all parties to make any necessary changes to billing system and ways of working.

b) At this point in time these proposals do not impact us.

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 agree, the approach appears to considered and fair.

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.

The proposed phased implementation, with full implementation by April 2023, would appear to benefit all parties.