Targeted Charging Review: Minded to decision and draft impact assessment

Consultation response from Limejump Ltd

4th February 2019

limejump

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Response to the Targeted Charging Review minded to decision and draft impact assessment

Dear Targeted Charging Review Team,

This submission is made on behalf Limejump Ltd in response to the above-mentioned Consultation.

Limejump is an award-winning energy tech company, connecting trading and data abilities with customers who generate and manage energy assets through to the National Grid to optimise value throughout. Limejump, based in London, manages the largest portfolio of batteries in the United Kingdom.

Please see below for our responses to the key questions raised.

We support building a transparent set of network charges where market participants are charged their fair proportion. We believe to achieve this a holistic review of all network charges is needed so there are no unintended consequences of making an isolated change. All changes should then be introduced together so the market has a full understanding of the total impact. There needs to be an appropriate mix of network charges which provide market signals supporting the low carbon agenda and the optimum level of flexibility needed on the system as well as a means of recovering fixed infrastructural costs.

With these principles in mind, we believe there is a risk with the current plan to redefine Residual charges ahead of completing work on the Access and Forward-Looking Charges Significant Code Review (SCR). Instead once the SCR has set out its proposed changes, we believe the total network changes should be considered. We also believe the categories of network charges used as part of setting allowable revenue for RIIO2 should tie into the categories of network costs recovered.

We are happy to meet to discuss our feedback in further detail.

The information is provided to the best of our knowledge and is done so in good faith.

Yours sincerely,

PRINT NAME: Melanie Ellis
Position: Head of Regulatory Affairs

Consultation Questions & Answers

Q1: Do you agree that residual charges should be levied on final demand only?

A1: We think that to assess whether Residual charges should be recovered on a final demand only basis, the market needs to understand what costs make up Residual costs. Not having reviewed Residual network charges before, we found these charges difficult to map to the 'as-is' process. It would be useful if allowable network revenues (set under RIIO2) could be split into the same categories when recovering them in the market. Currently the network charge categories are Residual and Forward-Looking Charges (FLC). The way in which Residual charges are currently calculated is by deducting FLC from the total allowable network revenues. If it was clear that Residual costs arose from network infrastructure costs and maintenance of that infrastructure, then it would seem logical to recover them from all end users.

Q2: 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.

A2: We agree with the principles of reducing harmful distortions, fairness and proportionality and practical consideration was given to the seven options under reviewed.

Q3: 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?

A3: We agree that the current rule should be maintained, and charges not made for voltage levels below the user's connection.

Q4: 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.

A4: We support the Fixed charging approach as it best meets the desired principles. We understand the need to allocate based on already agreed segmentations and agree that the use of LLFC are easy to implement.

Q5: 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)?

A5: For LLFC with wide bands it may be necessary to consider further sub classifications prior to implementation to ensure the bandings don't create distortive behaviour.

Q6: Do you know of any reasons why the expected consumer benefits from our leading options might not materialise?

A6: We have not reviewed the Frontier analysis in huge detail but note that the work was undertaken prior to the Capacity Market ruling which placed the market in a state of Standstill. As a result, the expected benefits could be significantly impacted depending on the European Commission's findings and will need to be revisited once a final ruling is known.

Q7: Do you agree that our leading options will be more practical to implement than other options?

A7: We agree that the leading options are the most practical way to implement the Residual cost.

Q8: 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.

A8: Where a site has multiple MPANs there should be an adjustment to ensure it is not charged more than once. Also see our comments in question 5.

Q9: 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?

A9: Yes, plus see comments above.

Q10: 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.

A10: We have the following observations from your assessment:

- As a result of the proposed Residual changes there is increased investor uncertainty which in our view will persist until investors can fully understand the impact of all changes on Network charges including the Forward-looking charges and the finalisation of RIIO2.
- As mentioned earlier, the Capacity Market Standstill means there is uncertainty over investment and the impact on the future of the Capacity Market structure and prices.

Q11: Do you agree with our proposed approach to the reform of the remaining non-locational Embedded Benefits?

A11: We believe that both the proposed changes to Residual charges and BSUoS benefits for embedded generators has come as a surprise to the market and undermines the business cases on which these assets were built as well as investor confidence for new investment.

We believe that only partial reform should be implemented, and this should not be introduced before 2021. Any other reforms to BSUoS should be considered by the task force who is feeding into OFGEM and should then be consulted on.

Q12: 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.

A12: We agree with the proposal not the consider the remaining Embedded benefits at this stage.

Q13: Are there any reasons we have not included that mean that the remaining Embedded Benefits should be maintained?

A13: We are not aware of any reasons why the remaining Embedded Benefits should not be maintained.

Q14: 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.

A14: We believe that the TCR should be implemented at the same time as the SCR so participants understand the full impact on network charges and can make informed investment decisions. As the SCR is due to be implemented in April 2022 and April 2023, we suggest the TCR is aligned to these dates.

The changes to other Embedded Benefits should also be aligned to network changes. This seems logical as the BSUoS task force is considering whether BSUoS charges should also be split into Residual and Forward-Looking Charges and therefore relies on the results of the network reviews.

Q15: Do you agree with our minded to decision set out? If not please state your reasoning and provide evidence to support your answer.

A15: As discussed in our cover letter and earlier answers, we believe that Residual Charges should not be considered in isolation to other network charges, should be explicitly defined and linked to specific RIIO2 definitions and allocated on a fixed charge basis. We believe that partial reform to BSUoS should be introduced and a further consultation on the proposals following the BSUoS task force findings. In our view, the TCR and SCR should be reviewed holistically and implemented at the same time. This will provide certainty for current and future investment.

Q16: 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.

A16: Other than the points raised earlier we are not aware of any other practical considerations.