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Targeted charging review: minded to decision and draft impact assessment- RWE Response

Dear Andrew

RWE welcomes the opportunity to respond to the Ofgem consultation on the “Targeted charging review: minded to decision and draft impact assessment” published on 28th November 2018 (the Consultation Document). We are responding on behalf of RWE Supply and Trading GmbH and RWE Generation plc (RWE). This is a non-confidential response.

Ofgem’s Targeted Charging Review is an opportunity to review comprehensively the way in which the residual costs are recovered from users of electricity networks. We welcome the extensive work undertaken by Ofgem in examining the issues and support the conclusions reached. We agree that fixed charges represent a non-distortive means of cost recovery while capacity charges may, in some circumstances also provide opportunities for users to manage their liabilities for these fixed charges. We note that the substantial customer welfare benefits that could arise as a consequence of the proposed reforms.

On embedded benefits, we note Ofgem’s detailed proposals to reform the arrangements and look forward to working with Ofgem and the ESO in the review of balancing services charges. We note the specific proposal to set the transmission generation residual to zero subject to maintaining compliance with EU Regulation 838/2010, which we believe will require detailed investigation to ensure that an appropriate cost-reflective modification proposal is brought forward. In this context we would support an approach which introduces consistent locational charging between generation connected to the transmission and distribution networks (noting that transmission charges do not currently recover any locational revenue from demand).

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On a more general point it is essential that a forecast of residual tariffs under these proposals are produced by National Grid and circulated as soon as possible to make sure that users are aware of the potential impact and can make appropriate investment decisions.

With regard to implementation of the proposals, it would be less disruptive if any changes to the treatment of the residual were considered together with changes to locational charges. This could be achieved through modifications to industry codes that were consistent across the charging regime and also reduce duplication of effort where there is overlap (e.g. between changes to the CUSC and DCUSA where these are similar).

Our answers to the specific questions raised in the Consultation Document are included in Annex 1. If you have any comments or wish to discuss the issues raised in this letter then please do not hesitate to contact me.

Yours faithfully

By email

Bill Reed, Market Development Manager

Annex 1: Response to the specific questions on the Consultation Document

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

We agree that residual charges should be levied on final demand charges. The approach is consistent with ensuring that the costs of the electricity networks are recovered in a manner best designed to ensure that all similar customers will pay a fair share of the costs of the networks regardless of actual usage (subject to adequate protections for vulnerable customers). In addition, the approach will minimise any potential wider market distortions in the energy and capacity markets.

It is important to ensure that as part of these reforms that the remaining “locational” tariffs (without any residual) are cost reflective. In this context Ofgem should ensure that the charges levied for generation and demand are consistent in terms of locational signals and proportionate in relation to the locational revenues (i.e. that the locational signals and revenue recovered should be similar whether connected to transmission or distribution networks for both generation and demand). In addition, the methodologies for deriving locational charges should also be consistent across transmission and demand so that there is a level playing field for all users of the total system (transmission and demand).

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.

We agree with the approach adopted by Ofgem in assessing the impacts of the changes with respect to the principles set out in the Consultation Document/

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?

The proposals in the consultation document seek to differentiate customers according to defined “classes” of customer for the purpose of allocating residual charges. In this context the use of voltage levels of the network to which a user is connected to classify customers at higher voltages is a pragmatic and simple solution which can be implemented relatively easily. Therefore we support this approach for residual charges.

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 agree that it is fair for all users in the same segment to pay the same charge, and the manner in which Ofgem have set the segments.

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 similar customers with and without on-site generation should pay the same residual charges. This meets the test of fairness and equitability with respect to final demand where similar classes of users (demand) pay the same charge. It will also address concerns about the potential for “embedded benefits” to distort the wider energy and capacity markets. We agree that demand users in the same Line Loss Factor Class (LLFC) with and without embedded generation face the same residual charge.

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

We have no evidence that the expected consumer benefits from the leading options might not materialise

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

We agree that the leading options are a pragmatic solution for the recovery of residual charges from customers and relatively easy to implement. Connection voltage and Line Loss Factor Class are well known and understood and are used within current billing arrangements.

We note that the approach based on customer capacity may be more complex, but that there is a strong economic incentive on parties to ensure that residual charges are recovered efficiently.

8. Do you agree with the approaches set out for banding (either LLFC or demanding for agreed capacity)? If not please provide evidence as why different approaches to banding would better facilitate the TCR principles.

We agree with the approaches set out for banding (either LLFC or agreed capacity).

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?

We agree that LLFCs are a sensible way to segment residual charges.

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? Please be specific which assessment you agree/disagree with.

We agree with the conclusions drawn from the assessment of a) distributional modelling b) the distributional impacts of the options c) Ofgem’s wider system modelling and d) how Ofgem have interpreted the wider system modelling.

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

We agree that reform of the remaining non-locational embedded benefits is required.

The proposed reform of the Transmission Generation Residual requires detailed investigation to ensure that an appropriate cost-reflective modification proposal consistent with Regulation 838/2010 is brought forward. In this context we would support an approach which introduces consistent cost-reflective locational charging between generation connected to the transmission and distribution networks (noting that distribution connected generation pay/are liable for demand locational tariffs

which do not recover any locational costs overall). We also believe that consideration should be given to the separation of demand location charges into Peak and Year Round Charges in a manner that is consistent with the approach considered under Modification Proposal CMP271 (work which is currently on hold in the light of the TCR).

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.

We agree with the proposal not to address any other remaining Embedded Benefits at this stage.

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

We do not believe that there are any reasons not included in the Consultation Document that mean that the remaining Embedded Benefits should be maintained.

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.

We agree with the proposed approach to transitional arrangements for reforms to: a) transmission and distribution residual charges b) non-locational Embedded Benefits.

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 with the minded to decision set out

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.

We do not believe that there are practical considerations or difficulties that Ofgem have not taken account of with respect to the preferred option.