WESTERN POWER DISTRIBUTION
Serving the Midlands, South West and Wales

TCR@ofgem.gov.uk

Avonbank
Feeder Road
Bristol
BS2 0TB

Telephone 0117 933203
Email pbranston@westernpower.co.uk

Andrew Self
Targeted Charging Review,
Energy Systems Transition
10 South Colonnade
Canary Wharf
London E14 4PU

Our ref *Your ref*

Date
28 January 2019

Dear Andrew

Targeted Charging Review: minded to decision and draft impact assessment

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc.

Whilst there are some areas where we agree with Ofgem, there are a number of areas where we wish to highlight concerns around the impact on customer bills.

To discuss this further please contact Simon Yeo at syeo@westernpower.co.uk

Yours sincerely

PAUL BRANSTON
Regulatory & Government Affairs Manager

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

Residual charges should be levied on demand customers; the system has predominantly been created historically to serve demand customers. Therefore as the residual to a large extent represents sunk costs it seems appropriate to levy on demand customers. However as we go forward this assumption as the distribution network becomes more generation centric, will be less relevant.

If the definition of final demand is to not include intermediary demand i.e. exclude demand energy used for anything that is not for final end use, this could be difficult to implement for generation sites with a small import which could be used for either small final use or for operational requirements of the generation plant.

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.

Yes.

Possible requirement for greater granularity for segmentation at extra high voltage and transmission level

Our analysis we have undertaken suggests that HVS customers will face significantly increased charges. As such greater granularity in the segmentation of the EHV customers would seem appropriate.

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?

This first sentence is not correct. Within the current CDCM the same scaler is applied regardless of whether a customer is connected at HV or LV. Under the proposals the same situation would occur.

Within the EDCM the first sentence is correct, however under the proposals there would be a change as residual charges would be the same across all EDCM voltages.

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.

Yes we agree that it is fair to prioritise equally within the charging segments as long as the method for defining the charging segments is at the right level of granularity. However, there could be a case for some greater granularity within the business currently half hourly metered sector such as HV.

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)?

Yes we agree. Customers should not be able to avoid residual charges through on site generation.

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

The minded to decision document and the associated appendices and impact analysis state that there will be consumer benefits but apart from fairness, and transparency WPD cannot see any link to the new way of charging and monetary benefits. There seems to be no detailed analysis or evidence monetary benefits will occur. There is however theoretical arguments that negative benefit will occur as level of usage is given less of an incentive.

However, if the magnitude of the perceived benefits is reliant on the size of the residual, it should be noted that the Access SCR will alter the level of residual and therefore impact on this analysis.

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

Yes, although there could be a large amount of price disturbance for some customers.

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.

Yes we agree that the approaches should be banded. Although not by LLFC as the LLFC is designed for losses and is not appropriate for this. WPD has the situation where we have multiple LLFCs for one tariff type or one LLFC for multiple tariff types. Also, LLFs have changed use over time – there are examples where previously domestic unrestricted codes are now used for EHV sites.

The banding should be done using the tariff types with possibly grouping all the Domestic customers together otherwise disproportionately high charges could be levied on some small usage two rate customers. This task of segmentation will be easier should DCP268 be approved which reduces the number of distribution tariffs.

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?

See above answer. The LLFC is designed for losses and is not suitable for segmenting residual charges. WPD has the situation where we have multiple LLFCs for one tariff type or one LLFC for multiple tariff types. Also, LLFs have changed use over time – there are examples where previously domestic unrestricted codes are now used for EHV sites.

Tariff names as they exist within the CDCM should be used.

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.

For part b we agree with the CDCM impact assessment but think the EDCM one is flawed. The EDCM figures take the residual pot and divide by the number of customers irrespective of whether they are a generator or not. If you remove the generators from the number then the residual revenue fixed charge for the South West is 9 times the amount shown, South Wales 5 times the amount shown, Mid East 5 times the amount shown and Mid West 4 times the amount shown. Clarity around what is final demand is required.

In terms of wider system modelling, it is not clear how this has been determined or what the split is across the different types of cost such as wholesale charges or network charges.

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

No comment.

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.

No comment.

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

No comment.

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.

In terms of transition then if that is over an extended period of time then current "losers" and "winners" will be in the same situation albeit at a lower monetary level.

It would be better to signal the complete change and implement in a "big bang" approach possibly with implementation at the same time as the Access SCR to provide consistency.

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

The approach we favour is to calculate the CDCM segmentation on a volume basis as described in the proposals but to then use capacity as a way of allocating residual for customers with a maximum import capacity (MIC) and a fixed charge for all others. Within the EDCM MIC would be used to allocate out the residual.

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 use of LLFs is an issue as mentioned above.

Further to that, difficulties may also arise with the implementation due to the inter dependency with the Access SCR. The outcome of which could significantly change the level of residual but also the mechanics since if the costing model currently used in the CDCM (THE 500MW model) changes this will impact on the scaling level but also the split of the residual between CDCM and EDCM. Depending on how segmentation is determined within the EDCM, then changing the underlying methodology in the EDCM could change the data/detail available which is used to calculate the segmentation.