Targeted Charging Review Response
1st February 2019

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

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 three stated principles do not include any consideration of the urgent need for decarbonisation of energy generation in the UK. You state that your over-arching objective is to *"protect the interests of existing and future energy consumers"* but your analysis does not support this as it does not consider the beneficial impact (both in terms of carbon and cost) of energy consumers avoiding demand peaks on the grid, which the current charging arrangements incentivise and the proposed arrangements will not.
   Your analysis is based on the assumption that avoiding charges made during demand peaks is a form of market distortion which leads to investment in inefficient generation. Without the incentive to do this provided by the current charging arrangements, the winter peaks in demand are likely to be significantly larger, leading to a need for greater centralised generating capacity with access to the balancing market. The price on the market will spike considerably higher than currently and this will incentivise investment in less efficient and likely higher carbon generation. The distortion that 'causes inefficient investment' simply shifts elsewhere. This will have a greater detrimental effect on the UK energy market and carbon emissions as such investments will have a longer life and will effectively lock in greater carbon emissions in to the future.

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?**

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.**
   There are a significant number and variety of users within line loss factor classes such as HV whose demands on the network can be considerably different. It is not fair to charge them all the same and there could be some differentiation within LLFC at this level to provide a fairer solution. The current proposals mean that a user with lower demand than the segment average will pay a larger proportion in fixed charges than currently.
   An alternative would be to charge according to the carbon intensity of the network at the time of use. This carbon intensity data is available, and work has been done to understand this at the distribution network level as well.
   https://www.carbontrust.com/news/2018/02/new-carbon-tracer-app/
   This would continue to incentivise using energy at off-peak times, reducing the load on the network, reducing the need for network reinforcement and reducing the carbon intensity of grid electricity. It also supports one of the strategic reasons for introducing Smart Meters to

homes and SMEs, to allow people to use energy more flexibly and flatten the demand profile, reducing network costs. Although residual costs are generally stated to be designed not to provide an incentive for network users, they are and will remain a significant cost and therefore should be considered as able to provide an incentive.

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, ultimately customers with sufficient on-site generation will be able to disconnect from the grid.

6. **Do you know of any reasons why the expected consumer benefits from our leading options might not materialise?**
   Yes, the 2GW reduction in peak time energy consumption that currently happens in order to avoid these charges will not occur. This will lead to spikes in prices on the market which will cost suppliers more in terms of imbalance charges. These will ultimately be passed on to consumers.

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

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.**

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?**
   LLFC can be subjectively applied and cost management consultancies make a business from challenging these with DNOs to reduce costs to consumers. If charges will be based on LLFCs, it is likely that consumers with the capability to, will look to optimise the LLFCs that are applied to their sites to reduce charges. This will not be a fair approach. The HV LLFC, and possibly other segments as well, should be broken down further to reflect the range of demands within this segment.

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.**
    The wider system modelling does not take in to account the benefits to the system from consumers avoiding network charges and therefore flattening the demand peaks on the grid. An alternative way of incentivising flexibility will be required to achieve the decarbonisation of the grid required. The costs of this have not been accounted for.

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

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.**

13. **Are there any reasons we have not included 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.**

15. **Do you agree with our minded to decision set out? If not please state your reasoning and provide evidence to support your answer.**
    See responses to earlier questions. The approach needs adjustment to more fairly segment customers than purely by LLFC. The costs (financial and carbon) of losing the incentive to flatten winter demand peaks needs to be accounted for.

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.**
    You have not accounted for the fact that the current charging method incentivises the flattening of demand peaks which reduces the need for higher carbon centralised generation. This will increase costs (financial and carbon) to consumers.