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Dear Andrew

**Re: Future Charging and Access programme – consultation on refined residual charging banding in the Targeted Charging Review (TCR)**

Thank you for the opportunity to respond to [your consultation](#). This is a SIMEC response on behalf of the [GFG Alliance](#). The Alliance encompasses power generation, metals and engineering, mining, financial services and property. We have a large generation and industrial demand portfolio across GB and are materially exposed to transmission and distribution network charges. The metals and metal products we produce are subject to international competition, which severely limits our ability to pass through cost increases our competitors aren't exposed to. Energy costs materially affect our production costs, exceeding 20% of Gross Value Added (GVA) at several sites. Affordable network charges are essential to our and GB's industrial businesses.

**Summary views on the consultation**

We have major concerns with the “refined” residual charging proposals set out in your consultation. Our concerns relate to the lack of information on what the fixed residual charges would be in *all* regions of the country (not just Northeast England), the poor performance of the proposals against the TCR objectives, whether the proposals are capable of delivering forecastable, transparent charges and the material and unwarranted shifting of the cost burden onto large and energy intensive consumers. We set out the specific failings of the latest proposals against the TCR principles below.

***The introduction of charging bands within a voltage level fails the reducing distortions principle***

Under Ofgem's revised proposals, users have strong incentives to reduce capacity in order to drop into a lower charging band, even though this would make no economic sense absent the charging bands. The bands also create disincentives on users near the top of a charging band to increase capacity, even if doing so made good economic sense without charging bands. Those large industrial consumers that are most economically challenged may also undertake inefficient disconnections in response to unaffordable increases in network charges arising from the charging bands. Aside from the obvious negative impact on jobs and local economies this would have, a closed site (or a site with reduced capacity) would make no (or less) contribution to residual network charges, meaning incrementally higher residual charges for all other network users.

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### ***The introduction of charging bands fails the fairness principle***

The proposal to implement “fixed by volume” residual charges already shifts the cost burden away from domestic consumers to industrial and commercial users versus the status quo. The introduction of charging bands within a voltage level leads to further concentration of residual network costs onto the largest, most energy intensive users. By definition, energy intensive users are more exposed to energy costs than other type of user. It is unfair to concentrate residual charges on the most cost sensitive category of user, particularly when smaller commercial and domestic users are far less likely to change their behaviour in response to higher residual charges than energy intensive users. The ability of large industrial users – who cannot pass through cost increases their international competitors aren’t exposed to – to pay higher residual charges must not be taken for granted in the TCR. Energy affordability is a fundamental issue for large industrial consumers in GB.

### ***The introduction of charging bands fails the proportionality and practicality principle***

We have significant concerns about the implementability, transparency and forecastability of the latest TCR proposals. The status quo methodologies for transmission and distribution charges allow users to make reasonable estimates of their future charges, and network companies do similar via their published forecasts. We cannot see how the proposed banding methodology can be truly transparent and forecastable, as it relies heavily on discretionary judgements about how many charging bands there should be, how the boundaries are set and what level of residual charges should be apportioned to each band. It also seems an excessively complicated way to be (essentially) deterministic about residual cost contributions. If a particular distribution of residual charges is sought from the outset, it would be better to simply state the proportion of residual charges that must be contributed by particular groups of users. Although this approach would be somewhat arbitrary, it would at least be transparent and forecastable. We do not believe the banding approach would be.

### **Way forward**

The November 2018 TCR proposals were superior to the current proposals against the TCR objectives. If there are fundamental reasons why the November 2018 proposals can’t be implemented (e.g. because they put too much cost on smaller users connected at HV and EHV level) a more fundamental rethink of the residual charging methodology is required. It is unfair and distortive for the TCR to reduce costs for domestic and smaller HV and EHV users, as this inevitably means a dramatic increase in costs to large HV and EHV industrial users, who are most likely to change their behaviour in response to higher charges and least able to afford increases. If Ofgem believes residual charges for smaller HV and EHV users should be reduced (versus the November 2018 proposals), domestic and other LV users must bear some of the burden. It may be that hybrid charges need to be looked at, where some residual charges are recovered on a per meter basis, or users without an agreed capacity are assigned a deemed agreed capacity based on their fuse size. Such metrics would rebalance residual costs away from the largest, most price sensitive users, who are most likely to modify their behaviour in response to residual charges and least able to absorb cost increases.

We appreciate that these views present challenges to Ofgem's intended issuing of a TCR SCR decision in the next couple of months. However, we believe the current proposals, without significant modification, are unfit for purpose. More time will inevitably be needed in the industry development phase if the TCR SCR decision is deficient, so it is better to address the issues before a final SCR decision is taken.

Finally, given the high likelihood of material changes in charges for some users following any SCR decision, we reiterate our view that phased and/or delayed implementation is an essential part of any TCR reforms. Implementation should be no earlier than April 2023.

Please contact me if you wish to discuss any aspect of our response.

Yours sincerely,

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