



25 September, 2019

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By email: [TCR@ofgem.gov.uk](mailto:TCR@ofgem.gov.uk)

Dear Andy

**Stakeholder feedback on refined residual charging banding in the Targeted Charging Review**

Thank you for your letter to stakeholders of 3 September on the refined proposals for reform of residual charges as well as for the opportunity to meet with Andrew Self and the TCR team at the open meeting on 13 September.

As you know Veolia contributed to both the minded-to and supplementary consultations. Then as effectively the largest 'small energy player' (300 MW decentralized generation and 15 MW distribution connected demand at all voltage levels) we joined with the Association of Decentralised Energy (ADE) to raise practical issues affecting its members at subsequent meetings with Ofgem.

*Applying the Options*

*-- Final Demand*

We welcome the clarification on p2 of the open letter that by final demand, Ofgem means "electricity which is consumed other than for the purposes of generation or export onto the electricity network." The policy intent is clear but final confirmation is needed to ensure licence exempt embedded generators will be excluded from the charging base, as there are challenges around tagging supplies made for the purpose of generation when the consumer does not hold a Generation Licence. Our preferred option for EHV sites is to rely on DNOs as the EDCM already contains a mapping of export to import sites. For HV, we strongly believe that a Director's Declaration is the most sensible solution.

*-- Multiple MPANs*

We also welcome the clarification that it is not Ofgem's policy intention to "apply multiple fixed charges to single sites" however based on a conversation between Thomas Cahill of Veolia and Andrew Self of Ofgem on the 13th September it is our understanding that Ofgem intends to use the concept of "site count" in the CDCM to determine the boundary of a site for the purpose of fixed charging. In reality "site count" (or "MPAN count" as it is unhelpfully referred to in the CDCM) relates to *supplies* (ie connection agreements).



For historical reasons, many of our industrial sites have multiple MPANs as they have expanded over time - one geographical site with one postcode may now have a number of connections. We are concerned that these installations will see a huge increase in cost due to the legacy way in which the network has been configured (as explained before, sometimes the DNO imposes multiple supplies as a condition of connection for safety reasons ie local Grid stability).

*Worked Example: Dagenham Plastics reprocessing facility*

- 12,000 tpa food grade rHDPE produced every year at state of the art reprocessing facility with the capacity to handle all London's plastic milk bottles.
- £1M+ capital investment in Essex economy, 20 jobs created
- Facility consumes 6,335 MWh of electricity per year
- Two incomers connected at HV, HH metered, first has registered capacity of 1,500 kVa, second has 2,000 kVa. Two "sites" for the purposes of the CDCM

Estimated current whole residual cost*	Nov 18 Ofgem Lead Option (Fixed Charge HV HH metered)**	Sept 19 (Refined Fixed charge: 2x1,400kVA-2,500 kVA band) ***	Nov 18 Agreed Capacity Charge (3,500 kVa) □
£58,590	£71,408	£119,128	£38,920

\*Being equal to 80% of Triad charge in winter 2018/19 and 30% of DUoS charges in calendar year 2018

\*\*£12,221/MPAN + TNUoS £23,483/MPAN

\*\*\*Figure 3, 3rd September 2019 Letter

□ Figure 35, p45, DISTRIBUTIONAL AND WIDER SYSTEM IMPACTS OF REFORM TO RESIDUAL CHARGES (LCP/Frontier), November 2018

Our plastics reprocessing site in Dagenham which is regarded as a showpiece sustainable investment in the green economy will see its charges increase by 150% as a result of the refinement. This cannot be proportionate and runs directly counter to Ofgem's policy intention.

*Refined proposal for non-domestic customer segmentation*

We welcome the importance Ofgem has placed on distributional impacts in the refined proposals for its leading option (September 2019) compared to the initial proposals (November 2018). The introduction of banding in the HV and EHV brackets is helpful because it recognizes the variety of different users connected at these voltage levels. Whereas Line Loss Factor Class is a reasonable tool for apportioning costs between the voltages, it is an arbitrary way to distribute them between users at a given voltage level and we are pleased that the refined proposals reflect this. However, although the refinement reduces the inequity of the "one size fits all" approach first proposed in November 2018 for HV and EHV users by making the charges more granular, it is likely to create harmful distortions by allowing some users to make considerable savings by reducing their connection capacity by a small amount, pushing costs onto other users.

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We continue to believe that the most equitable approach is the Agreed Capacity Charge. If the intent of banding was to make the charge more granular and therefore more equitable, then the desired fairness could be better achieved by moving to a capacity charge, which neatly fits the “pay for what you use” test. In terms of equity, the agreed capacity charge will allow lots of users to make small savings rather than the fixed charge with banding option which will see a few users making huge savings.

Considerable progress has been made as a result of the TCR consultation thanks to the face-to-face dialogue between Ofgem, Veolia and ADE and we would therefore suggest another meeting in the near future to go through a worked example - we could arrange for this to take place at one of our affected sites if this is convenient.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M Curtois', followed by a horizontal line.

Martin Curtois  
External Affairs Director