

4 May 2017

re: Ofgem consultation on “A Targeted Charging Review”

Dear sir or madam,

Thank you for the opportunity to respond to this consultation on what is a crucial issue in the development of the future energy system. Veitch Cooper Ltd is a consultancy focussed on Distributed Energy Solutions and, among other things, has developed a community energy project on behalf of Fintry Development Trust, funded by the Scottish government and aimed at defining the commercial arrangements needed to underpin local energy projects, and to provide a template for future similar projects.

Our involvement in this project has given us some early insights into some of the issues raised in the consultation and the full project findings will be published once the project is complete next year.

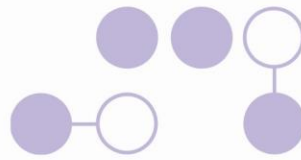
As context, we would reiterate why we believe that community energy is important. Where communities have a direct interest in their own local generation (whether a windfarm visible from the village or the local farmer’s biomass generator) then this can serve as the catalyst for a wider interest and a readiness to help balance the system to make best use of that local energy. Clearly cost remains for most consumers the over-riding consideration but in a market where Ofgem and the CMA have both identified significant problems with getting consumers to engage, the important role that community energy can play should not be ignored.

Moreover one of the particular concerns that Ofgem raise about behind the meter generation is the fairness issues given that typically only those who are better off are able to benefit. Community energy is an important route for enabling a wide cross section of society, including those in fuel poverty, to benefit from local renewable energy. This is a particular area of focus for Veitch Cooper who are actively developing several projects aimed at addressing energy inequality.

In establishing the Fintry project we had hoped, based on the experience of those in Veitch Cooper Ltd who had previously worked in the utility sector, to be able to achieve savings in network costs given that local balancing could be expected to reduce pressures on the local distribution network. Following discussions with the relevant DNO in the area we have concluded that there is no opportunity at this point for such savings to be achieved within Fintry (given the particular locality is not currently subject to grid constraints). We have however agreed to work with the DNO (SSEN) to monitor the performance of the network including for example the impact on losses of more local balancing in order to collect evidence to help inform future changes to network charging which might better facilitate local energy. We would be happy to share that information in due course.

As a company, we have consciously decide not to go down the private wire path as we recognise that this would simply be duplicating existing infrastructure and cannot make sense from a “GB plc” perspective. Furthermore, from a community energy perspective, it tends to increase rather than reduce end user charges which in turn increases fuel poverty. However, we have only been able to take this





stance at this time as the project is not essentially commercially driven but is funded by the Scottish government to increase learning about the practical benefits of community energy projects.

In order to avoid a situation where local energy projects are incentivised to adopt private wire solutions it is vital that Ofgem considers carefully the network charges that should apply to local energy projects. It should be stressed that this issue is specific to local energy – it would not be cost effective for private wire solutions to be implemented if the generation and demand were remotely located. The cost of installing a private wire over a short distance is relatively cheap but in looking at the equivalent network charges no account is taken of distance, which creates a distortion in the signals provided. Distance is a driver of certain costs (including losses which are not factored into charging at all at the minute). In the absence of a methodology for reflecting these factors in the cost reflective elements of charging there is a strong case for using the residual charge to prevent such distortions whereby private wire solutions can look artificially cost effective (as they avoid both the network and policy costs).

Moreover given the wider consumer benefits from local energy (in terms of engagement) and wider societal benefits (which may be outside Ofgem's remit but are recognised and supported by Scottish government) there is a case anyway for structuring the residual charge so as to support local energy.

While the indication from the Ofgem consultation is that its preferred route for solving the problem would be to increase the costs faced by private wire and other behind the meter solutions, this may ultimately turn out not to be practical or politically acceptable. Moreover, absent a change in the way that policy costs are dealt with there would still be an incentive for companies to pursue such solutions.

We working with DNOs to develop virtual private wire solutions which would mitigate these effects by, in effect, reducing the residual element of the charges in situations where DNO infrastructure already exists that could provide a solution and there is the prospect of a private wire solution being developed which would lead to an increase in the costs the DNO would need to recover from other customers. Such virtual private wire solutions would seem to address exactly the issue raised in the consultation and to do so in line with the principle that residual costs should be allocated so as to minimise distortions (ie should be apportioned to customers who do not have a choice). To date these proposals do not seem to have been a priority for Ofgem but we would appreciate that this is may be because Ofgem is wanting to look at the issue more broadly. We therefore encourage you, as part of this review to explicitly consider the potential for DNOs to be able to offer virtual private wire tariffs as part of business as usual.

Providing flexibility, and possibly funding, for DNOs to test such approaches (through charging derogations or regulatory sandbox decisions) would be helpful in addressing the issue in the short term, ahead of the review being completed, as well as hopefully providing some evidence and learning to support that review.

Yours sincerely,

Maxine Frerk
Regulatory Expert, Veitch Cooper Ltd

