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DONG Energy response to the Targeted Charging Review: A Consultation

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DONG Energy is one of the leading energy groups in Northern Europe. Headquartered in Denmark, we have an interest in several European markets and cover a wide range of energy sector activities. In the UK, we are the market leading developer and operator of offshore wind farms, as well as a supplier focussed on flexibility and demand side response.

Our ref. Ofgem Response - TCR: A
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We appreciate the opportunity to respond to Ofgem's consultation on the Targeted Charging Review. We have provided a summary of our views, and answers to your specific questions in our response. Please note that some of our answers cover multiple questions.

Summary

Overall, we view that now is the right time to initiate a wide, holistic review of charging in Great Britain (GB). The charging rules covering GB were designed before the significant changes we have seen on the system, including Offshore Wind and the OFTO regime, electricity storage, large volumes of variable generation, the massive growth in embedded generation and flows of electricity reversing and moving from the distribution networks to the transmission network. We are concerned that taking a piecemeal approach to reviewing transmission charging will not lead to sufficient change to reflect these developments, and we will continue to see the charging regime drive inefficient, perverse and non-cost reflective outcomes.

We would suggest:

- You undertake a full holistic review. Furthermore, it is hard for us to judge your programme of work until we and other stakeholders understand what will be in scope of your "Future Focus" programme
- Consider the role and impact of the offshore regime and offshore local tariffs, as well as how this interacts with the

- generation/demand split and the potential consequences of the United Kingdom (UK) leaving the European Union (EU)
- Any review of demand tariffs needs to consider the triad regime, and that the Connection and Use of System Code (CUSC) modifications CMP271, 274 and 276 should be absorbed into the TCR and reviewed. Triads have driven significant volumes of demand-side response and any future charging system needs to follow these principles and drive the right behaviour from users

Why we propose to review residual network charges

Question 1: Do you agree that the potential for residual charges to fall increasingly on groups of consumers who are less able to take action others who are connected to the system, is something we should address?

Depending on the future structure of the charging system, we view that it may be possible for all charges, not just residual charges, to fall on less active consumers.

Question 2: If so, why do you think, or do not think, action is needed?

Our view is this question would be more appropriately answered through a holistic review, to consider the roles and impact of embedded generation, and prosumers in the future electricity system, rather than by taking a piecemeal approach to reviewing the residual charges of the current system.

Question 3: We are proposing to look at residual charges in a Significant Code Review. Are there any elements of residual charges that you think should be addressed more urgently? Please say why.

Currently both the TNUoS demand residual (TDR) and TNUoS locational charges are charged as a single charge, through triads. Your review does not make it clear what your views are on triads, and if the demand residual and locational charge are split up, on what basis customers would face these charges.

Triads have proven to be a strong driver of demand side response (DSR), providing an effective commercial incentive for users of the transmission network to reduce their impact on the network and drive down costs.

For various reasons, including triad periods becoming harder to predict, several CUSC modifications have been proposed (CMP271, 274 and 276) that cover triads and how they could work in the future. In our view, it is not appropriate to split up demand charges and solely consider the residual, especially without considering the triad regime. Our view is that if you review the demand residual,

it is essential that the whole demand charging regime and triads are considered together.

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Experience in other countries

Question 4: Are there elements of the approaches in other countries that you think could be appropriate for GB residual charges?

Answer set out in our response to question 5.

Question 5: Are there other approaches that you know about from other jurisdictions, that you think offer relevant lessons for GB?

At this current point in time we have no comment on these areas. We view it is worth noting that any comparisons can't be done in isolation and should consider how the whole charging regime works.

Our proposed principles for assessing options

Question 6: Do you agree that our proposed principles for assessing options for residual charges are the right ones? Please suggest any specific changes, or new principles that you think should apply.

These principles seem reasonable to us. We would encourage that under these principles you explicitly consider the impact on security of supply, and ensure the charging system is as much as possible future proof. Any changes should also consider your statutory duty to support decarbonisation and the evolution of the electricity system: charging should not inhibit the development of future sources of electricity, renewables and the shift towards more active, empowered consumers.

Some options for setting residual network charges

Question 7: In future, which of these parties should pay the transmission residual charges: generators (transmission-connected or distribution-connected), storage (transmission- or distribution-connected), and demand, and why? What proportion of these charges should be recovered from each type of user?

We respond to questions 7-11 in our response listed under question 11.

Question 8: In future, which of these parties should pay the distribution residual charges: generators (transmission- or distribution-connected.), storage (transmission- or distribution-connected), and demand, and why? What proportion of these charges should be recovered from each type of user?

Question 9: Do you support any of the five options we have set out for residual charges below, and why?

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Question 10: Are there other options for residual charges that you think we should consider, and why?

Question 11: Are there any options that you think we should rule out now? Please say why.

We do not currently have strong views in this area. Which users should pay for the charge will depend on the nature of the residual and how it is calculated. As set out in our other answers, we view this issue will be easier to handle if a holistic review is undertaken.

Benefits for smaller embedded generation, relative to other generation

Question 12: Do you think we should do further work to analyse the potential effects of the charging arrangements for smaller EG (called 'embedded benefits')?

We view that further work must be taken to ensure that charging arrangements and embedded benefits are fit for purpose. The current arrangements for embedded benefits assume that electricity produced by an embedded generator "avoids" the transmission network and hence both doesn't pay transmission charges, and receives a payment as "negative demand". This assumption does not necessarily hold on the current system, and will apply even less to the electricity system of the future. Making piecemeal changes, such as CMP264/265, does not reflect the benefit or impact of embedded generators accurately. A holistic review needs to be taken to ensure that the benefits and costs of embedded generators can be considered fairly.

As an example of one of the key drivers for a holistic review; the charges now faced by embedded generators do not depend on whether they impact the transmission network, they depend on their metering arrangements. A small embedded generator on a site that never exports may be impacted by your CMP264/265 decision, depending on their metering, even though it only acts as negative demand. On the other hand, an embedded generator at an exporting Grid Supply Point will still receive significant embedded benefits while arguably having a similar impact on the transmission network to a transmission connected generator.

Question 13: Do you think changes are needed to the current charging arrangements for smaller EG, and when should any such changes be implemented?

As set out above, our view is yes. We consider a holistic review, even though it will take time, is the most appropriate mechanism to ensure there is certainty, predictability and cost-reflectivity within the GB charging regime.

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Question 14: Of the embedded benefits listed in our table, do you think that any should be a higher or lower priority?

As set out above, we view that looking at the individual charges and making piecemeal changes, instead of considering how the whole charging regime affects embedded generators, will lead to inefficient outcomes.

Question 15: Do you think there are other aspects of transmission or distribution network charging which put smaller EG, or any other forms of generation or demand, at a material disadvantage?

This is a significant question where we do not currently have any strong views. It may be appropriate to review and harmonise some of the arrangements that exist between transmission and distribution connected users.

Our views on residual and BSUoS charging for storage

Question 16: Do you agree with our view that storage should not pay the current demand residual charge, at either transmission or distribution level?

We think it is hard to provide a definitive view on this question without a firmer understanding over how future residual charges will be designed and calculated. If the residual is a charge for ensuring the TOs earn their revenue, we do not agree with your position that storage should pay the generation residual but not pay the demand residual; any electricity that flows through storage will have paid for the residual both when it is generated, and when it is consumed. On that basis, we view that either storage should not pay at all, or it should only pay the residual on the electricity it consumes ie. its self-consumption. However, if the residual is a different charge, for example one that reflects a general cost of being connected to the transmission network, it may be appropriate that storage should pay some costs.

Question 17: Do you agree with our view that storage should not pay BSUoS on both demand and generation?

Our current view is that storage should not pay for costs it does not cause. On that basis, we would view that it may be appropriate that storage should not pay BSUoS, or only pay for self-consumption.

We note that many stakeholders have called for BSUoS charges to be reviewed. If BSUoS charges are reviewed this would be an appropriate time to consider a more detailed view of how storage should pay for BSUoS.

Question 18: Which of the BSUoS approaches described is more likely to achieve a level playing field for storage?

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We do not fully understand this question. In our view, it would be appropriate to consider how storage should be treated under settlement in-line with what charges it should face, and that these issues will be difficult to consider separately.

It may also be necessary to consider approaches outside the two you have outlined, such as new definitions under the Balancing and Settlement Code (BSC) to handle the unique nature of storage.

Question 19: Do you think the changes in this chapter should be made ahead of any wider changes to residual charging that may happen in future? Do you agree with our view that these changes should be implemented by industry through the standard code change process?

Our view is that changes could be made now through the industry process to achieve a more-cost reflective outcome. These changes will be easier to make once storage has been defined in legislation. Further changes should then be covered through a holistic review.

Our approach to taking these changes forward

Question 20: We would welcome your thoughts on the potential make-up of a CCG. Please refer to the potential role, structure, prioritisation criteria and assessment criteria.

Our answer below covers questions 20 and 21.

Question 21: Do you agree with our proposed delivery model, including its scope?

We don't have strong views currently. We would appreciate having more information on how the CCG will function, its responsibilities, its powers and how it will coordinate the various charging workgroups that are ongoing in industry.

Question 22: Do you agree that our proposed SCR process is most appropriate for taking forward the residual charging and other arrangements for smaller EG discussed in this document?

Considering the potential scope of changes, especially if you undertake a holistic review, our view is an SCR is the appropriate mechanism.

If you have any questions on our response please feel free to contact me (amos@dongenergy.co.uk, 020 7811 1055).

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Yours sincerely

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