

5<sup>th</sup> May 2017

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Dear Tim

**Re: Consultation response on Ofgem's Targeted Charging Review**

ESP Utilities Group ("ESPUG") welcomes the opportunity to provide input into Ofgem's decision as to whether a Significant Code Review ("SCR") should be undertaken to consider if changes to residual charges within the current charging methodology are required. ESPUG is the parent company of electricity distribution licensee ESP Electricity Ltd ("ESPE") which operates as an Independent Distribution Network Operator ("IDNO"), owning and operating 'last mile' networks that are principally provided to new developments.

Whilst the general feedback questions provided within the consultation would have given insight into the more detailed aspect of the Targeted Charging Review ("TCR"), ESPE believes that Ofgem should consider expanding the scope of the TCR and therefore we have included a high level response below.

ESPE agrees in principle that an SCR is needed, however we believe that the overall scope of this review should be expanded to consider both forward-looking charges and the charging methodology as a whole, rather than focussing heavily on residual charges. If all aspects of the CDCM/ECDM are considered within the review, this should enable a higher degree of accuracy in charges for customers and ultimately less scaling within the methodology to ensure DNOs match their allowed revenue. This, in turn, will mean less residual revenue to be included within future charges.

Currently residual charges are not being applied fairly across all consumers, as evidenced by the examples within the consultation. The benefits of expanding the scope would be a decrease in duplication of workstreams and a combined approach to the charging review ensuring all changes are considered and developed as a whole. ESPE would welcome, if not through this SCR, a proposal which supports bringing together related workstreams.

The current CDCM/ECDM methodology also contains the flaws on a larger scale (with respect to residual charges) that have been highlighted by Ofgem. A prime example is that if generation is installed behind the meter, the customer obtains a much lower energy bill than the cost that the customer actually imposes on the network. By being connected to the grid, the customer still requires the DNO to provide a network connection, capacity and possible reinforcement on the grid whilst paying a fraction of the cost. Most of these network costs are recovered within the consumption revenue of the methodology, meaning that these

costs are then borne unfairly by other customers (some of which are fuel poor customers who cannot afford to purchase generation).

ESPE believes that if an SCR is conducted, Ofgem should focus the review on the overall charging methodology (not just the residual charges) and work closely with the CDCM/ECDM Review Group to ensure a new fairer methodology is provided. This will ensure the customers' bills are reflective of the cost of being connected to the network.

Yours sincerely,

Matt Johnson

**ESP Utilities Group Ltd**