

Targeted Charging Review: a consultation, 13.03.2017

E.ON Response

Executive Summary:

- 1.1 We welcome Ofgem's consultation on whether an SCR is required as we agree that an SCR will better facilitate charging changes than separate reviews and code changes. We do not believe, however that the potential scope noted within the consultation is broad enough, nor do we wholly agree with the content thereof.
- 1.2 Whilst we believe that an SCR is appropriate, we do have some concerns regarding the nature of this consultation which, ostensibly, should be solely a matter as to whether industry agrees with Ofgem's case for an SCR and whether it therefore agrees that one is required. We note that much of this consultation discusses potential solutions, which seems somewhat premature as we would expect such discussions to be a significant part of any SCR and strongly feel that it is important for industry and Ofgem to work collaboratively on creating solutions to any relevant charging issues.
- 1.3 Ofgem have considered some changes for storage technologies but have stated that they believe such changes should be taken forward by industry. We disagree with this approach. It is vital that any SCR is thorough and industry-wide, capturing all relevant technologies, and we therefore urge Ofgem to include storage in its scope to avoid disjointed and/or isolated conversations on charging.
- 1.4 As we have confirmed in our recent response to Ofgem's consultation on CUSC CMPs 264 & 265, we strongly disagree that the current transport model creates cost-reflective locational costs at an absolute level, and therefore cannot agree that the scope of this SCR should, in relation to TNUoS, be limited to residual charges. Further, whilst Ofgem have stated that such residual charges should be effectively unavoidable, we are of the view that as residual charges currently account for the vast majority of demand TNUoS recovery, it would be prudent to examine all components of the total TNUoS charge to ensure that there are not elements within the residual charge which should – in principle – be avoidable and therefore included in the locational/forward-looking charge. We also note the work undertaken by industry and Ofgem in relation to DCUSA DCP228 which looked to resolve defects within the DUoS scaling charge (hereafter referred to as 'residual' for consistency with TNUoS). DCP228 requires a significant amount of system and/or contract changes for industry to manage and we believe that the question of demand residual charges could have been addressed through DCP228, rather than being picked up separately; this approach has led to duplication of effort and increased cost to industry which, we believe, supports our view that a holistic approach is the best way to resolve charging defects.
- 1.5 Whilst the existing threshold for embedded generation (hereafter 'EG') is not expressly mentioned by Ofgem as being in scope for review, we are not convinced that it is appropriate to preclude it from any future discussions. Ultimately the range of EG is very wide and consideration is needed as to whether a 300kW Solar PV installation should be treated, from a charging perspective, in the same manner as a 90MW Biomass plant.
- 1.6 We are mindful, too, of the existing discussions being held following: the launch of National Grid's charging review, the joint Ofgem/BEIS Call for Evidence on flexibility and Ofgem's recent



consultation on the Future Role of the System Operator, as well as the existing code change proposals being progressed through industry. It is essential that industry is joined up in its approach to resolving any potential defects regarding charging and in creating innovative responses to emerging technologies. Any SCR should, in our view, be an over-arching review which takes into account and unifies the currently disparate conversations regarding the role of EG in the market.

1.7 This response does not contain any confidential information. Should you have any questions regarding, or wish to discuss any aspect of, this response, please contact Harriet Harmon, Policy & Contracts Manager, E.ON UK Plc. via email to: harriet.harmon@eonenergy.com

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 than others who are connected to the system is something we should address?

We agree with the view that where one group of consumers has reduced and/or avoided entirely certain charges, the resultant shortfall is invariably picked up by consumers who have not done so. However, we don't believe that the scope of Ofgem's activity in this area should be limited to the residual charge. In our recent response to CUSC CMPs 264 & 265 we stated that we did not agree with any assertion that the locational elements of TNUoS were cost-reflective at an absolute level and, by extension it therefore cannot be the case that the residual charge is only for cost-recovery. We cannot, therefore support the scope of any potential SCR being limited to residual elements.

We believe it is essential that Ofgem and industry take a holistic view of changes and reach a solution which resolves all noted defects without the need for further work. We note that DCUSA DCP228 was approved by Ofgem last year and is due to take effect for the 2018/19 Charging Year. DCP 228 specifically reviewed the DUoS demand residual charges and, arguably could have picked up the application of such charges in its scope. We believe that where industry changes do not cover known defects, prolonged periods of pricing uncertainty for customers are created, and significant duplication of effort is required by all parties.

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

We believe, and have long maintained, that a full and thorough review of TNUoS charges is required. We are of the view that there are currently distortions, including but not limited to EG, which would be best addressed by a robust assessment of the charging structure in its entirety. We do not believe therefore that the scope of the SCR outlined in this consultation is sufficient to resolve all distortions. Further, any review which is too narrow in scope risks creating unintended consequences which then have to be addressed through further code changes, thereby significantly increasing the time and effort required to resolve one noted defect. Consequential changes can create significant uncertainty for customers and industry alike and can therefore have a direct effect on cost.

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.

We don't believe that any particular aspect of charging should be given urgency over the others. However, per our response to Q1 we don't believe that the scope of the SCR should be so narrow as to only include residual charges.



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

E.ON operates in other jurisdictions and therefore has experience of external markets, however we don't believe that like-for-like comparisons can easily be made. Whilst Ofgem has looked at countries with similar level of investment, arguably, unless elements other than investment levels – such as Market Participant roles and customer behaviour – are also directly comparable (as it is these elements which may have the greater impact on the future state of the market) such comparisons can only provide a prompt for discussion, rather than a potential solution.

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

Please see our response to Question 4.

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.

We broadly agree with the noted principles but believe that their application across all elements of charges, not just the residual is important in terms of resolving the issues noted in the consultation.

Specifically in terms of **fairness**, which is a principle E.ON supports, we would say that there are many consumers who have already made significant capital investments in on-site generation and have historically received embedded benefits. As with any investment, there are costs and benefits which would have been modelled over a period of time, a period which is extremely likely to be longer than the timescales Ofgem are working to. For the major fiscal benefits to be removed from these customers in relation to their existing EG creates a situation where many customers, potentially ranging from Micro Businesses through to Energy Intensive Industries, will face significantly increased costs, for which they could not have accounted. Whilst we accept that there is certainly a fairness question about cross-subsidisation of EG by non-generating customers, we are mindful that by resolving a current perceived fairness issue, we should not create a new one.

We further note, separately to the principles, that Ofgem have mentioned the regulatory stances, with one aim of ensuring, “*where market participants rely on services from other parts of the energy system, access and charging arrangements are non-discriminatory*”. We believe that the exclusion of storage from the SCR will exacerbate an already disjointed review of charges. We agree with Ofgem's assessment that the current charging arrangements make it difficult for storage to compete with other generators, which arguably contradicts the above aim, but we firmly believe that the charging arrangements for all EG should be in scope of the SCR. It does not feel appropriate to isolate any one participant or to preclude them from the discussions on charging. If, however, Ofgem believe that storage should be reviewed separately then we would urge Ofgem to ensure that all elements of charging are reviewed so as to ensure consistency of approach with other technologies.

We believe that the principle of **cost-reflectivity** is essential when looking at generation connected to either the transmission or distribution networks. For demand users, cost reflectivity is of course important but, as it would not be appropriate for a domestic consumer who resides in a remote part of GB to bear the actual cost of their connection, industry needs to consider how demand users' charges can be apportioned appropriately, including what is appropriate prior to, and post- a move to full HH demand, and taking into consideration the differences between the domestic and non-domestic markets.

Question 7: In future, which of these parties should pay the transmission 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?

We strongly believe that the scope of this consultation should be whether or not an SCR is required, and, if it is, what should be in scope thereof; questions regarding potential remedies should be picked up after a full review of charges. It is not appropriate now to attempt to determine how a charge should be apportioned when we have not yet determined whether the charge itself is correct.

The noted purpose of a residual charge is effectively to 'top up' the shortfall between allowed revenue and the forward-looking charges so it shouldn't be the main revenue recovery method. Per the DCLF model, HH residual demand transmission charges are the vast majority of the revenue recovered from HH demand, for the 2017/8 charging year. We believe that it would be prudent to look first at the disparity between total revenue and forward-looking TNUoS charges, because we do not consider that the existing ratio of residual to forward-looking elements is tenable and are not, therefore, comfortable that it is appropriate to concentrate solely on residual charges.

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?

Per our response to Question 7, we believe that the scope of this consultation should be whether or not an SCR is required, and that questions such as this should be picked up after a full review of charges.

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

In line with our previous answers, we believe that any options for assessment need to be produced collaboratively with industry through the SCR process and that this consultation should be to support Ofgem in determining whether to launch an SCR. We do not therefore offer any commentary on the listed options at this time as we will examine any potential solutions raised through the SCR with an appropriate benefits case and consideration of cost.

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

Our view is that charges should be reflective of the costs that market participants create for Network and/or System Operators. Until we are certain that the forward-looking/location charges are cost-reflective, it is difficult to consider what options there may be for residual.

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

As a principle, we believe that any option which is being, or has been determined without due consideration of the distributional effects, and/or without holistic analysis should not be implemented.

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')?

Ofgem has published its minded-to decision on CUSC CMPs 264 & 265; we believe that these changes should be picked up as part of any SCR as, whilst they have progressed to a late stage in the code change process, we do not believe that it would be prudent to make significant changes for EG charging now, then again following this SCR. We do not believe that the solutions offered through CMPs 264 & 265 have been analysed appropriately. Further, BSC P349/A which seeks to implement



these CMPs is currently – at time of drafting – proposing a solution which is particularly impactful to Suppliers and may well take longer than the noted timescales to implement. We would urge Ofgem to consider these changes within the SCR.

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

Whilst the existing threshold for embedded generation is not expressly mentioned by Ofgem as being in scope for review, we are not convinced that it is appropriate to preclude it from any future discussions. Ultimately the range of EG is very wide and consideration is needed as to whether a 300kW Solar PV installation should be treated, from a charging perspective, in the same manner as a 90MW Biomass plant.

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

We believe that all aspects of the TNUoS charge should be in scope; whilst the residual charges seem to be a high priority at present, they are inherently linked to locational charges and therefore the two must be considered in parallel.

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?

Whilst not specific to charging, we believe that a review of Ancillary Services is key in encouraging investment in smaller generation and storage. Our view is that the current arrangements act as a barrier to entry for potential providers of Ancillary Services and that we risk a lack of investment in relevant EG/storage technologies. Our expectation is that the market is likely to rely heavily on EG and storage in providing flexibility – our concern is that without Ancillary Services being reviewed in full, once embedded benefits have been removed, there will be little benefit to companies to invest in such technologies and therefore we may see fewer assets being built and therefore a less flexible system. We are aware of the work being undertaken by National Grid in this area and would ask Ofgem to support National Grid in bringing about any changes to the provision of Ancillary Services as quickly as possible to resolve the current distortions.

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 agree with Ofgem's assessment that there is a disparity between storage and other types of generation and we believe that such a disparity can act as a financial disincentive for take up of storage. Whilst we acknowledge the different approaches between storage and other generators, we don't believe that any final determination can be made as to potential remedies without a robust cost/benefit analysis showing the impact of changing any charging arrangements. We are also of the view that removing the demand residual charge from storage would not create a level playing field against other generators if the removal was done in isolation without consideration of the cost-reflectivity of the locational charges.

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

We agree that storage should not face both sets of charges however we do think that all elements of charging for storage should be reviewed.

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

As outlined in our response to Question 4, we don't believe that it's appropriate to look at any solutions for charging at this stage; when industry does come to look at storage it is important that it does so in a way that allows for innovation, rather than looking at a pre-determined list of options.

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?

We are comfortable that the review of BSUoS for storage is addressed through the standard code change process, although we believe that for all other Use of System charges, it would be better to include storage within the scope of the SCR rather than treat them in isolation, in order to avoid potential duplication of effort and/or consequential amendments.

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.

We agree in principle with the establishing of a CCG however we are mindful of the following:

- The group should be part of the formal governance arrangements within industry;
- Clarity is required on the exact remit of the CCG, that is whether it would act as a steering committee, a decision-making forum, an intermediary between workgroups and Ofgem;
- We are not clear on the proposed interaction between the CCG and code change workgroups or existing fora; that is: does the CCG receive the output of the DCMF (for example); does it create input to the DCMF; can it issue instructions thereto? We believe it's important to answer these sorts of questions well in advance of members of such groups being appointed;
- Attendees/members of the CCG are – broadly – likely to be the same individuals sitting on code change workgroups and/or charging methodology fora so Ofgem will need to consider how we can avoid duplication of effort and support attendance of these CCG meetings;
- Ofgem should consider here how it achieves the balance between a wide range of market participants/roles in the CCG against creating a group that does not become so large that it cannot effectively act as a decision-making forum.

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

It is important that there is sufficient lead time for Suppliers to enact the outcome of any SCR, in order to mitigate as far as possible the impacts to consumers. Generally for large-scale changes, Suppliers will need >12 months' notice, even where they have been directly involved in the discussions regarding such changes, because it may be imprudent to make significant system or contractual changes prior to the final requirements being known.

We are mindful that there are multiple code change proposals in progress across industry at present; when combined with a potential SCR, National Grid charging review and changes to the role of the DNO, these changes create a protracted period of uncertainty for industry. Suppliers routinely forecast future UoS charges, and known changes – such as DCP 228 – can be factored in, however without certainty on the outcome of any particular change proposal or series thereof, Suppliers can find it extremely difficult to maintain accurate forecasts. This can have detrimental impacts on consumers as they are in receipt of these forecasted charges, either through their energy prices or, for larger non-domestic consumers, directly, with reconciliation occurring once the actual outturn is known. Where forecasts are rendered inaccurate, customers can find their charges changing mid-contract, their renewal prices being significantly different to their current price, or their reconciled Use



of System costs being of significant variance to the amount already paid, all of which could be financially detrimental.

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?

We do believe that an SCR is the correct way to resolve the issues noted in the consultation document and believe that a thorough review of charges has been required for some time. We cannot, however agree that the scope of this proposed SCR is appropriate. We strongly disagree that the existing TNUoS locational charges are correct and therefore cannot comfortably accept the scope of any review extending only to the residual charge. We believe that any SCR looking at UoS charges should be holistic, rather than focussing on one element. We would urge Ofgem to consider a wider scope.