

BEAMA Response to the OFGEM Targeted Charging Review

BEAMA welcomes the opportunity to address this important issue. As the future development of the electricity network will be based on a market approach, the allocation of costs will have a profound impact on how the networks develop. If the country is to meet its targets for decarbonizing electricity it will be important to realise the potential for flexibility to reduce costs. Much of the financial benefits of flexibility relate to reducing network costs so that any arrangement for network charging will have to make those savings available to the parties enabling them. Although these are issues that will be addressed in the SCR, principles adopted now will bear upon that review and should be kept in mind at this time.

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?

BEAMA recognizes that this could be a problem but to some extent this is a fact of life. If better off customers choose to install more efficient fridges they will also reduce their contribution to residual charges and we do not think that this would demand the solutions suggested by OFGEM. In this case, there would be little justification for customers who invest in energy efficient products being charged higher network fees because others could not afford to make this investment. Customers should be charged for their use of the system, including a capacity charge; if they reduce their volume demand but continue to require the same maximum demand then this would be reflected in their charges.

At root this reflects that currently network charges are not truly cost reflective and for customers with simple non-half hourly metering (NHH), it is not possible to make them so. This situation will not change until smart metering is widely installed, which would suggest deferring this exercise until 2020.

It must also be pointed out that the distinction between 'forward' and residual' charging is very slight for NHH customers as both appear together on their bill as part of their p/kWh charge and there is no way that it could be argued that customers will respond to the forward and residual elements in different ways. If OFGEM does look to re-balance residual charges it should do so in such a way that, as better data becomes available via smart metering, this is automatically made use of to create appropriate drivers for customers.

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

Customers should be charged for their share of the costs but this should be based on their impact on the network, measured at the supply meter. Currently this can only be done on a kWh basis for NHH customers. In the near future, smart meters will allow capacity charging for all consumers and this should be the basis for charging. This would also immediately address the accusation that the network costs for energy storage are unfair and meet an urgent need without requiring any major changes to legislation

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.

No, dealing with this issue will require a detailed analysis of network costs that can only be done as part of a Significant Code Review (SCR). One measure, covered later, that might

merit immediate action, would be to remove residual network charging for generation. All network costs passed to generators are simply passed onto the end customers as part of their kWh charge and, indeed, eliminating these charges might lower customer costs as there would be fewer margins passed on. This would also immediately relieve storage of a large part of its network charges and meet an urgent need without requiring any major changes to legislation.

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

No, the UK should not be governed by decisions made in other countries, as we are looking for innovation, we should feel free to develop our own solution. It is appropriate, however, to learn the lessons of decisions made elsewhere. However, the OFGEM paper “INTERNATIONAL REVIEW OF COST RECOVERY ISSUES” lessons learnt for Nevada would seem to provide strong support for the approach being supported by BEAMA.

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

BEAMA is not aware of any examples not covered in the supporting OFGEM report.

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.

In general, these are hard to argue with, although their implementation will be very difficult. There is a concern that OFGEM’s analysis seem very different to real life. Over forty-two percent of DNUoS charges come from residential customers and these are passed through in their bills as a simple p/kW charge with no distinction between forward and residual elements. If forward charges are meant to be distorting and residual are not, it is hard to see how they can be charged on the same basis, or, if they are charged on the same basis, how they can be expected to have different effects.

Also, the question of practicality is going to be deeply affected by the smart metering roll out and it seems perverse to carry out a review at this time that does not allow for the imminent availability of more usage data. Not taking account of the availability of HH data (or maximum demand data) will mean that in a few years, the conclusion of this review will either be very wrong or will have to be revisited. Given that one key lesson learned from Nevada was that: *“Every rate change undermines stability and increases risk. In particular, rate changes tend to have a very large impact on investment decisions in co-located DG, compared to a relatively minimal impact on residential and commercial demand investment decision. Changes should be made in the context of long term, predictable rate design, and should consider investor confidence.”* This supports the case for not making a change now, or making a change that will simply become more accurate when HH and maximum demand data becomes available.

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?

BEAMA supports the removal of residual network charging from generation, i.e. energy users should pay for these. In practice, network costs levied on generators are simply

passed onto the end customers as part of their kWh charge and, indeed, eliminating these charges might lower customer costs as there would be fewer margins passed on. This would also immediately address the accusation that the network costs for energy storage are unfair and meet an urgent need without requiring any major changes to legislation. As they are 'residual' charges it must follow that there are no locational or other cost drivers to be reflected in the charges, hence it should make no difference how they are passed to end users.

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?

As above, users should pay for distribution residual charges.

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

In future there will be increasing pressure on network capacity and charges should be designed to avoid reinforcement. This would argue for capacity charging. However, not all parts of the network will be constrained and any charging regime will have to be fair for users in that part of the network. This argues for the hybrid approach, but not as set out; more a composite of capacity and volume charging.

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

No.

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

BEAMA does not believe that gross consumptions should be used. Customers should only be charged for their measured impact on the network, i.e. export and demand; this is what is measured at the meter not behind it. Arguments for gross charging simply reflect a lack of appropriate data for doing this properly, which is not a good enough reason. We have explained above why a change now that does not reflect the imminent availability of HH and maximum demand data will result in unnecessary and disruptive changes.

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')?

BEAMA supports further analysis. These questions should be included in the SCR so that decisions can be based on a proper understanding of costs and benefits of all elements of the network.

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

BEAMA argues that network charging should be cost reflective so it follows that this decision should be based on the outcome of the SCR and no decision can be made without a proper understanding of costs.

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

As for Q13.

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

As for Q13.

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

BEAMA agrees with this measure, however, as set out in answers to Q7 and Q8, by taking away transmission and distribution residual charges for generation, this will automatically achieve this end.

It is important to note that the point of storage is to operate out of phase to actual demand patterns; i.e. consume when power is more available and discharge when it is not. The entire purpose of network connected storage is to reduce network costs but, given the current charging methodology, there are only limited and static methods to reflect this at distribution level through the red amber etc. charging regime. If network storage is going to have a commercial basis that makes it attractive to other parties than the DNOs then network charging must recognize and reward this service. For distribution connected storage, this will require time and locational resolution for network charges.

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

BEAMA agrees with this.

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

Charge BSUoS based on gross imports or export as this would ensure reflective and fair charging that is based on usage.

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?

BEAMA considers that to defer these changes until the SCR would prevent storage gaining a sound commercial footing until then. Care must be taken though, that an artificial market is not created that is reversed following a full review in the SCR. Changes should, ideally, improve the financial situation of storage services with the potential for further improvement following the SCR. The financial impact of these changes will be relatively small so that their effect on end customers will not be significant for the period until the SCR decisions.

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.

The Charging Coordination Group (CCG) should include all relevant stakeholders, including end customers' representatives, innovators of new network or relevant network connected equipment (or their representatives) and new service providers. OFGEM should recognise



that this is a very complicated topic and that time and resource should be put aside to help non-industry experts to properly understand this work.

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

Basic principles should not be decided before there is meaningful engagement with all stakeholder groups.

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?

BEAMA agrees with this.