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### **Targeted Charging Review consultation – ESB response**

ESB welcomes the opportunity to respond to this consultation.

Given the fact that the residual element of network charges has increased significantly over recent years and is set to increase further in the future we welcome Ofgem's commitment to a review at this time. A summary of our views on the proposals outlined in this consultation can be found below.

- There are no easy answers to the issue of residual charging and there are clearly multiple potential solutions. Much detailed analysis must be carried out to ensure the right options are selected and at this stage all options should be considered, including remaining with the status quo
- The principals set out in this consultation are rather abstract and will only gain meaning if Ofgem can develop a robust set of criteria against which to measure them
- CMP264/265 are already addressing some key concerns regarding the charging of smaller embedded generation and we would advise against any further action on EG charging until the outcome of this has been seen
- Any proposals related to the treatment of storage should be carried out through standard industry processes where possible
- We support the initiation of a Significant Code Review and believe that, provided the make-up of the group is correctly balanced, a Charging Coordination Group will help manage the wider interactions and implications of this work

The rest of this document provides responses to the consultation questions.

We would be happy to discuss any responses in more detail and look forward to engaging further with Ofgem and industry as this work continues.

Regards,  
Will Chilvers

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**ESB response to consultation questions:**

**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 support the principal of fair and transparent charging across the network with appropriate signals to incentivise behaviours that reduce overall network costs. It is clear from the current charging methodology that the residual charging is driving behaviours for which it was not designed, with adverse impacts on certain network user groups. Given this we agree that the current cost recovery mechanisms should be reviewed to determine if there are more appropriate recovery methodologies available.

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

We are not necessarily of the view that action is needed if by action Ofgem mean a change to the methodology. We would rather support a review of the methodology and would not like to pre-judge the outcome of any review.

**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 note the work carried out by CMP264/265 and Ofgem's minded to position on these issues regarding residual charging. To ensure market stability and reduce the potential for unintended consequences we believe no other measures should be taken in the interim period

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

It is clear that different jurisdictions have taken multiple approaches to this issue. Although the information provided on the treatment in different jurisdictions is of interest it is clear that each has a different set of issues that it is trying to address and therefore cannot be seen as a direct comparison for GB charging. As the work on residual charging continues it would be interesting to expand on the case studies provided, in particular providing more detailed analysis of how changes to the charging regime altered consumer behaviour and if there were any unintended consequences related to the changes. It is only by seeing this that we would be able to provide full comment on how appropriate some of these approaches might be in the GB context.

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

Not at this time.



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**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 of themselves the principals set out are rather abstract, we would therefore encourage Ofgem to give more detail on how successful achievement of these principals might be measured. Below we have given our view on the metrics that success would be measured by.

#### Reducing distortions

We agree that reducing distortions should be a major consideration in any SCR. As Ofgem have highlighted throughout the consultation document the residual element of network charging is not designed to incentivise behaviour, we therefore believe that in order to comply with the principal of reducing distortions all proposals should be measured against two criteria:

1. Will the proposed option lead to significant changes in the behaviour of any parties?
2. Would the proposal lead to windfall gains or losses for any class of user?

If the answer to either of these two questions is yes then it is clear that the proposal is causing a distortion. Although removing distortions entirely is not possible the favoured options should be those that have the least impact when assessed against the questions above.

In relation to distortions we would also note that the options considered should where possible avoid being used to push forward policy objectives such as smart meter roll-out or reducing reliance on peaking generation in the capacity market. Any solutions that push a particular policy goal necessarily lead to distortions and should therefore be avoided where possible.

#### Fairness

Fairness is a difficult concept to define and as pointed out in the consultation what appears fair to one user may appear unfair to another. Given the difficulty in defining fairness we believe that this principal should be based on three overarching aims:

1. Transparency and visibility – whatever option is implemented it should be done so in a manner in which all parties can see the impact it will have on them and other system users both now and in the future.
2. Value – all charges must where possible reflect the value that each class of user gains from access to the system
3. Representation – during the process all user groups should be actively engaged in the process to ensure their views are heard with no one group of users views being favoured over others

#### Proportionality and practical considerations

Sometimes doing the right thing is difficult, therefore although we support the aim of ensuring stability and simplicity it is important that these principals are not carried through at the expense of the others. Ultimately our concern would be that this principal will lead to cutting corners and ultimately this will only store up issues for the future, at which time it will create more instability and



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complexity. If this process is to be embarked upon industry should be fully committed and prepared to implement the best, not the simplest, outcome.

#### Cost reflectivity

Although we agree that cost reflectivity is not part of the residual charge and therefore should not be included in the principals of the review we would urge a parallel review to ensure that what the residual charge is made up of is indeed correct. It may be that some elements of charging that currently sit within the residual could actually be transferred to the cost-reflective element of the charge. It is important that when dealing with the residual it is only the truly non-attributable elements that are included in the review.

**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?**

Ultimately the recovery of network charges represent a zero sum game with any charges put on generation being passed back to the consumer through the wholesale energy price. Given this we feel that the most efficient method of recovering residual charges should be that all cost elements are levied on consumers. This would lead to a reduction in the wholesale market price and better allow suppliers and consumers to manage transmission residual costs.

**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 per the above.

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

It is obvious that there is no perfect solution to this issue and each of the five options present their own benefits and challenges. At this early stage of the process it is vital that both Ofgem and industry keep an open mind as to which option or options might ultimately be most appropriate and would therefore not like to comment at this time.

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

We note that there is no explicit 'status quo' option presented in the 5 options for residual charges. Clearly any review of charges will have to be measured against the current baseline and it may transpire that this is the most appropriate option once all analysis has been carried out. It is important that this is recognised as an explicit option when assessing potential changes.



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

See response to Question 9.

**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')?**

Whatever the solution implemented for CMP264/265 it is likely to have a major impact on the dispatch patterns of smaller EG and we believe it would be prudent to delay any further changes to embedded benefits until the full impact of the CMP264/265 changes are understood. Carrying out further changes at this time, or even signalling that further analysis will be done is likely to create more confusion for a generation class that is already experiencing a significant level of uncertainty. As a wider pool of investors and additional sources of funding now contribute to the required investment in GB generation both Ofgem and BEIS need to be mindful of the impact that unnecessary uncertainty will have on these required sources of finance to the market in terms of their views on the stability of energy policy and their appetite for further investments.

**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 per the above.

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

Any further review of embedded benefits should be carried out in a holistic manner with no prioritisation for some over others. Prioritisation is only likely to lead to further uncertainty.

**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?**

We believe the list in Table 2 of the consultation document list all the material aspects of network charging related to EG

**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 would agree that storage is currently paying a higher portion of network charges than other users and that this should be addressed. The commercial drivers and configuration of storage facilities align more closely with generation system users in as much as they are assets that provide services to the system and demand users rather than the final point of electrical consumption, we would therefore agree that they should face the same network charges as generation assets and be exempt from the demand residual.

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



We do not agree with Ofgem's view of the treatment of storage as it relates to BSUoS. BSUoS charges are levied on a £/MWh basis and reflect the actions taken by system users in any given half-hour period. If a storage asset is taking an action in a half-hourly period, be that importing or exporting it should face BSUoS charges as its actions are affecting the balance of the system and should therefore face costs as all other users do. Netting off opposite flows or charging BSUoS on a gross basis for storage assets will not provide a true reflection of the impact that these users are having on the system. It may well be the case that this leads to storage assets paying more in BSUoS costs than other users but the simple fact is that they are using the system more than other users and therefore should face the additional costs.

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

See response to Question 17.

**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?**

Open code governance allows industry parties to bring forward proposals of this type at any time and if storage providers feel that there is justification for bringing forward such proposals they should be free to do so.

**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 believe that the model set out for the CCG is appropriate and would encourage Ofgem to do all they can to ensure that industry participants are drawn from as wide a group of interested parties as possible.

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

The proposed delivery model appears appropriate at this stage but as the scope of both the TCR and wider review become more clearly defined Ofgem should be open to amending the model

**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?**

Given the wide reaching implications of the work proposed a SCR would appear to be the most appropriate mechanism in which to pursue the issue of residual charging and EG arrangements.