



5 May 2017

Judith Ross
Energy Systems Integration
Ofgem
9 Millbank
London
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Dear Judith

Targeted Charging Review Consultation

This letter contains the response of Alkane Energy Limited (Alkane) to the above consultation.

We support a SCR, rather than a TCR, on charging. The SCR must cover the whole charging regime and it must progress work on other distortions in parallel. Alkane is a member of the Flexible Generation Group and broadly supports the response made on behalf of that Group to this consultation.

Our response is brief as we simply do not have the resources to be able to properly analyse and consider all these consultations and respond effectively. The volume of regulatory consultations we have faced over recent weeks and months, several on similar issues to this is overwhelming. Even when we have sought to engage with Ofgem and with the regulatory process such as in the CMP264/5 Workgroup and resulting consultations, and in the raising of CMP276, we have found the processes highly inefficient and Ofgem willing to proceed on the basis of unreliable analysis.

Alkane, individually and via FGG, has highlighted some of the issues in its responses to CMP264/5 and Ofgem's open letters, but thus far with little noticeable impact. We are increasingly of the view that Ofgem has, specifically in relation to smaller EG over the last twelve months, not acted in line with its principles of promoting fair competition, acting consistently and proportionately. During the CMP264/5 process Ofgem has refused to commit to even put forward this consultation on a limited TCR despite pleas from across industry to do so twelve months ago, yet in its minded to decision on CMP264/5 it has seemed content to intend to take a decision of major commercial impact to businesses like Alkane's based on inaccurate evidence supporting its "points of principle" targeted at a specific sector in a deliberately discriminatory way.

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Ofgem's demands to set an "accelerated timetable" for the CMP264/5 process, and the restrictive prejudicial defect definitions, prevented proper analysis of the issues and appropriate solutions. Yet Alkane's attempt to raise CMP276, which was put forward specifically as a non-discriminatory temporary charging alternative to CMP264/5 which a TCR/SCR took place, has faced delays as Ofgem has demanded a degree of evidence beyond reasonableness on a minor point of process.

We remain in total support of net charging as the only simple and non-discriminatory way to recover transmission system costs, and suggest that a per meter charge or similar standing charge is the way to avoid excessive embedded benefits. We think some form of peak demand/capacity charge remains appropriate, indeed essential, and we think some form of energy charge for some costs also appears appropriate.

Above all we agree this whole area needs looking at in some detail and the progress of CMP271/4 has demonstrated the complexity and challenges of finding an appropriate charging structure. We agree with the options set out as to how residual charges may be recovered, and the thrust of the arguments expressed by Ofgem about the response of system users to the method of charging and the risk of unintended adverse consequences.

In the context of Ofgem's stance on CMP264/5 we were amazed to read paragraph 5.5. *"Ofgem has also developed a set of 'regulatory stances', which include two aims that we think are particularly relevant to our proposed SCR:*

- *that all market participants should compete on a level regulatory playing field, on cost and non-cost issues;*
- *that where market participants rely on services from other parts of the energy system, access and charging arrangements are non-discriminatory."*

In the context of the prejudicial defect definition and minded to decision of Ofgem on CMP264/5, we would be intrigued to see Ofgem address this specific statement either in its final decision on CMP264/5 and/or in its response to this consultation and specifically comment on Ofgem's consistency in its regulatory actions.

We are very concerned that the TCR scope does not address the inadequacy of locational charging within the Transmission Charging framework. It has become abundantly clear to us that the locational element of TNUoS is so far removed from the reality of the transmission costs actually incurred that it is not fit for purpose. It is the failure of locational charges to recover a fair proportion of new transmission system investment from those transmission users causing that investment that is forcing up so called residual charges to the degree forecast, and is a major contributor to the issue that Ofgem is seeking to address in this TCR. Ignoring this in the scope appears a major flaw.

We support Ofgem taking full account of the need to protect vulnerable customers. However, we think that vulnerable customers should be handled totally separately and a charging regime that focuses on them risks the tail wagging the dog. Cost reflectivity demands that those causing costs should pay those costs. If costs of transmission system enhancement caused by green energy delivery cannot be afforded by vulnerable customers who use similar volumes of energy to other customers in their sector, this should be separately handled by a vulnerable customer discount. It should not be a factor affecting the structure of transmission charging.

We hope Ofgem finds the above comments helpful and would be happy to clarify or expand upon points made, subject to our initial point i.e. the constraints we face as a small company in delivering meaningful impact to multiple material regulatory changes that affect our business. There seems little recognition of the magnitude of the regulatory overhead now affecting us.

Yours sincerely

A handwritten signature in black ink, appearing to be 'PJ' or 'Paul Jenkinson', written in a cursive style.

Paul Jenkinson
CEO

