



Our Ref: DT/DK

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BY EMAIL:
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Dear Judith

TARGETED CHARGING REVIEW CONSULTATION

Thank you for this opportunity to give our opinions on your plans for a targeted charging review. Banks Group are a developer of renewable, property and mining projects. We presently have over 80MW of onshore wind generation capacity operational. This is all presently embedded generation within distribution networks in Yorkshire and the North of England. We are presently constructing 3 further onshore wind farms two of which will be transmission connected in Scotland. This will take Banks Group renewable generation portfolio to over 220MW. Please see our comments and thoughts below:

Can the Review be Broader?

We are a part of a significant change that has happened over the last 20 years in electricity generation, distribution and supply. The UK's achievements in increasing the amount of renewable generation and the subsequent reduction in carbon emissions are significant and should not be underestimated. With this background of a radically changed electricity system and a charging methodology that no longer fits we suggest that Ofgem consider a broad review of the charging methodology. The targeted charging review proposed in the consultation may deal with some issues but due to the complex and interlinked nature of electricity charging there is a significant risk of unintended consequences.

Can Transmission and Distribution Costs be Challenged and Incentivised more Effectively?

The proposal document does nothing to challenge the actual costs of the transmission and distribution network operators. We appreciate these are regulated revenues but are additional actions required to ensure these regulated businesses are incentivised to deliver the services that the country requires at the lowest cost? It is probably too early to know if RIIO is really delivering yet. We don't understand why lower use of the networks over time does not lead to lower costs (see paragraphs 3.18 and 3.23).



Don't Risk Investment

Your principles should also include a point on considering the implications on investors. Long term investment decisions are made on the basis of stable and managed charging methods. This country needs long term investment in infrastructure.

Be careful not to disadvantage renewable generation or rural customers

Many types of renewable generation (wind, hydro, wave and tidal) and rural customers cannot generally change location to reduce what they pay. Ofgem should carefully consider the implication of its actions on the UK's ability to use its assets and not penalise already connected customers. Use and further development of renewable generation is essential for delivering the required carbon emission reductions.

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 on the system is something we should address?

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

These are really complex questions. We don't fully agree that there are distortions in the way that you present them. The UK has been really successful in encouraging behind the meter generation and thereby reduced carbon emissions and energy flow through the distribution and transmission networks reducing losses, demand peaks and in some cases the need for reinforcement. We have also encouraged embedded generation which has also reduced carbon emissions and energy flow through the distribution and transmission networks reducing losses, demand peaks and in some cases the need for reinforcement. Residual charges seem to relate to the assets built by distribution and transmission companies over many years that now need to be paid for alongside their operation to give us as generators and consumers connections and access to electricity.

As the use of the network changes what a connected generator or consumer pays for should relate to the services that customer uses. The industry should move from a volume based charge to charging on the basis of both volume and an 'insurance' element. The methodology should be based on the same principles at transmission and distribution e.g.

Volume related costs and services

- Energy – energy used or generated (kWh) over a period. Available when required. Distribution and Transmission charges should be charged on both import and export volume not the net of the two. This charge should include balancing charges.

Insurance related costs and services

- Capacity or peak Capacity – Capacity of the connection (kW). The ability to import or export up to a certain power. This may also be affected by asset class or connection voltage. Linked to network size.
- Connection – A connection to the transmission or distribution network. Insurance service reliability of connection includes frequency control, black start and security level of the connection.

The industry will need to decide what the relevant costs and values are for these services when allocating the residual charges. This is a significant piece of work and aligns with our request for a broader review. If ofgem really want to be transparent these costs should vary with location but this will increase costs hugely for rural consumers and generators and those at the extremities of the country. We recommend that the method for allocation of residual charges should be location independent.

Question 3: We are proposing to look at residual charges in Significant Code Review. Are there any elements of residual charges that you think should be addressed more urgently? Please say why.

We prefer a broader charging review rather than picking out some aspects on their own and attempting to deal with them individually.

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

Yes

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

We have only seen the examples in your consultation which include some interesting ideas.

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.

No, we would propose the addition of

- Supporting investment certainty
- Encouraging low carbon generation

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?

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?

Please see our answer to Questions 1 and 2 above.

Connected customers on each network should pay for it based on the services that they use and the value of those services.

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

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

Options C and D are probably the closest links to actual use and costs of the network but a hybrid arrangement may be even closer. Users should pay for volume based costs based on net generation and net demand based on their activity. Again please see our answer to Questions 1 and 2 above.

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

No comment.

Questions 12: Do you think we should do further work to analyse the potential effects of the charging arrangements for smaller EG (called 'embedded benefits')?

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

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

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

Our wind farms have offset demand and therefore reduced the use of the transmission network and reduced losses. They have to date received equivalent benefits to that of demand reduction and we believe that this was fair. We do not support the changes proposed in your minded to position on CMP264/265 and we believe this change reduces investor confidence. Changes to embedded benefits should be considered as part of a broader review of charging that can assess and mitigate unintended consequences.

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

Yes.

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

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

No. This relates to system balancing and should be charged on both MWh in and out.

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 implemented by industry through the standard code change process?

No comment.

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.

Please see response to question 6 on principles. We would request that the CCG includes at least one Independent generator representative.

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

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?

Please see are above requests for broader charging review.

Thank you again for the opportunity to comment. Please contact me if you would like to discuss further.

Yours sincerely



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