

# Targeted Charging Review

## RenewableUK consultation response

May 2017

---

### About RenewableUK

RenewableUK represents over 440 organisations across the value chain in onshore and offshore wind, wave, and tidal industries. In 2015, these technologies generated 12% of the UK's electricity needs, representing 52% of the electricity generated by all renewable technologies during that year.

Our membership spans transmission- and distribution-connected generation. As of 2015 there was a total of 13.2 GW of wind power installed in Great Britain<sup>1</sup>. 7.8 GW of this is visible to National Grid<sup>2</sup> (transmission connected generation and embedded generation holding a BEGA). We therefore estimate that in 2015 there was 5.4 GW of embedded wind connected to the distribution networks.

### Summary

Overall, we support Ofgem's proposal through this Targeted Charging Review consultation and in conjunction with its 2017/18 Forward Work Programme to establish in Q1 and Q2 2017/18 –

- Its proposed approach to market and regulatory reform including future charging arrangements;
- Its joint plan for a smart, flexible system; and
- The Charging Coordination Group in order to provide a strategic approach to the need for significant reform.

Within this context, we support the need to review fair recovery of residual charging from 2017/18 onwards and therefore, support the ambition behind this consultation and behind the proposed Significant Code Review.

### Recommendations

We would ask that the following is considered when finalising the scope of the Targeted Charging Review –

- Reform must aim to create a fair and level-playing field that is technologically-agnostic and consistent for all network participants. A focus on changes for specific technologies or specific types of network participant will not create the best value for consumers.
- Fair cost recovery of the residual can only be achieved through both ensuring that it is constituted only of costs fixed in the short to medium term and that all participants contribute in an equitable way. We ask that Ofgem publishes a transparent analysis of the components of the residual and whether some elements should more appropriately be considered as variable in the short to medium term.
- As part of a TCR, there is a need for further detailed review of the impact of embedded generation and differing access rights between distribution and transmission networks
- The interactions between the TCR and the reviews underway in parallel should be considered within an expanded scope for the proposed SCR

---

<sup>1</sup> RenewableUK (2017) UKWED

<sup>2</sup> National Grid (2017) TEC Register and embedded register

## Response to 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?

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

All users connected to the system should pay a fair contribution to the common costs that cannot be allocated to individual users. Within this, it is critical that the risk of adverse distributional effects, including increasing charges on vulnerable customers, is mitigated.

To mitigate this risk, it is important that the residual appropriately consists of only those charges relating to costs that are fixed in the short to medium term. To ensure this, Ofgem should publish a more transparent analysis of the constitution of the residual and, where appropriate, consider moving some elements into the forward-looking charges. We consider that this should include the following –

- The significance of the generation cap of €2.50/MWh as a driver for the residual;
- The appropriate rate of return for transmission owners as regulated entities

There are a number of approaches to addressing these distributional effects. We ask that Ofgem works with the Government to explore these approaches.

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 consider that residual charging should be considered in the round and do not consider that any elements should be considered in advance and in isolation.

With respect to the scope of the SCR, we consider that it is important that Ofgem clearly set out how this will interact with reviews that the Charging Coordination Group will govern and for which, they will produce modifications.

As aforementioned, the future-focused strategy and the joint Spring 2017 Plan between BEIS and Ofgem will be published in 2017/18 Q2<sup>3</sup> – setting out Ofgem's high-level approach to the future of network charging.

If one also considers, for example, the TSO/DSO Review, this work aims in 2017 to establish the level of commonality between transmission and distribution charging arrangements and options by which to achieve it as well as developing further DSO flexibility products and flexible connections among other actions.

As a result, a number of reviews will be developing high-level policy followed by Ofgem-led modifications at the same time as is currently proposed for this TCR's SCR. Given this, we consider that there is merit in expanding the scope of the SCR.

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

---

<sup>3</sup> Ofgem (2017) [Forward Work Programme 2017-18](#)

In considering international residual charging examples, their methodology for setting forward looking charges needs to be borne in mind to avoid unintended consequences in learning lessons for GB. Ofgem should proceed with diligence, keeping in mind that other jurisdictions' residual charges are just one part of their charging regime and cannot be separated out to be considered in silo as a comparison to the current GB model.

All changes and the impacts of these should be communicated in a regulator-led fashion.

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

No comment.

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 consider that the principles are correct.

Transparency of residual charges should be added as a principle with the aim of ensuring that it is clear which costs are allocated to the residual as common.

Predictability should also be added as an important principle. This would relate, for example, to the manner in which changes are phased into implementation to ensure that shocks are avoided.

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?

**AND** 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?

This question should follow rather than precede a review of forward-looking and cost recovery charges. This consultation should not pre-empt this more detailed consideration and should also be mindful that certain key drivers may change in the short term; in particular, the generation cap of €2.50/MWh following the Article 50 negotiations and any review of negative locational transmission charges.

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

We consider that Options A-C and E should be explored.

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

No comment.

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

We consider that Option D is unlikely to be practicable to administer and so should not be explored.

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')?

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

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

Any changes to network charging arrangements should be considered and implemented across all network users and the interaction between them.

This should involve, as stated in our response to the minded-to position on CMP264/5, a more detailed consideration of the impact of embedded generation on the network – rather than relying on National Grid's Informal Review Paper.

However, we do not consider that it is appropriate for this Targeted Charging Review to make isolated changes for only one set of users.

For example, BSUoS arrangements for embedded generators is identified as an area where reform may be possible regarding embedded generation in advance of wider review. In the first place, the characterization of BSUoS charging with respect to embedded generation is not correct within this consultation. BSUoS charges are passed onto embedded generation and therefore it is not the case that such network users only receive payment. This is only one example of the complexity of this area and therefore, it is important that reform to BSUoS is considered carefully and across all types of users. Through this work, net charging principles merit consideration and this option should not be excluded from the wider review.

Similarly, a more detailed understanding of the appropriate treatment of exporting GSPs should be also considered within this work.

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?

Generation on the distribution network is put at a material disadvantage to transmission-connected generation through –

- Weaker access rights;
- A deeper infrastructure connection boundary; and
- Considerable difficulty in participating in the ancillary services and balancing services markets

We strongly welcome National Grid's consultation on balancing services in Q1 2017/18 and the TSO/DSO Group's ambition to develop their vision for ancillary services by December 2017.

We also welcome the TSO/DSO Group's ambition to consider connection boundaries and the feasibility of any changes, given their complexity and the likely disruption, as part of its work.

Access rights should be considered as relevant to review of network charging arrangements in line with the principle that changes should aim towards convergence of transmission and distribution charging set out for this Targeted Charging Review.

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

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

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

The ability of storage technologies to compete on a level-playing field is crucial to supporting the transition to a smart, flexible system and we strongly support the ambition to remove barriers to its deployment.

However, this must be carefully balanced with the need to ensure that changes to network charging are made on a technology-agnostic basis. As we have noted in our response to the call for evidence on flexibility, it is important that network participation is technology-agnostic and is considered on contracted behaviour rather than that assumed of specific technologies or classes of technology.

We ask that therefore Ofgem focuses upon ensuring that review of these issues is undertaken in a timely way across network users.

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?

Changes should be made following the review and associated issues rather than in advance.

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.

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

**AND** 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 strongly support the creation of the proposed Charging Coordination Group.

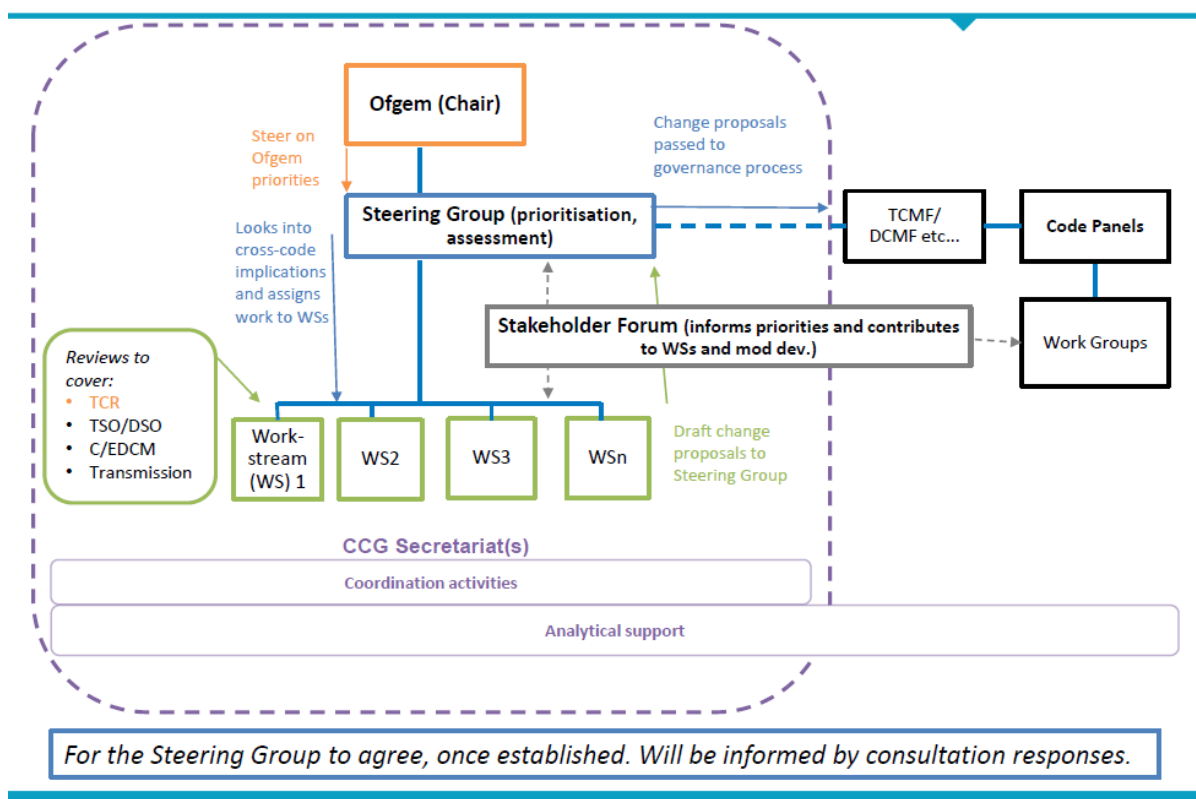


Figure 1: Ofgem (2017) Targeted Charging Review workshop

In its role in ensuring a strategic approach to changes, we consider that it is important that the overarching principles to which all the reviews aim is well understood and prior to the CCG beginning to take decisions.

As noted in the Forward Work Programme 2017-18<sup>4</sup> and in line with our comments above, we expect the phased delivery to be as follows –

- The plan for enabling a smart, flexible energy system, including price signals and how Ofgem and BEIS intend to take forward network charging issues, to be published jointly with the Department for Business, Energy and Industrial Strategy by June 2017 (or now September 2017 given purdah);
- The proposed high-level strategic approach to market and regulatory reform in response to the energy systems transition, the 'future-focused strategy', by September 2017;
- Given its importance, the aim should be to establish the CCG by Summer 2017

We expect the TCR and SCR to be carried out thereafter during 2017/18.

We ask that the following are also addressed as further near-term priorities for network reform as Work stream 5 –

- Access rights; and
- User commitments

<sup>4</sup> Ofgem (2017) [Forward Work Programme 2017-18](#)

There should be particular emphasis upon how smaller or new players can participate in the process. We consider that National Grid's stakeholder forum could play a valuable role in this regard.

To avoid the risk of code modifications being substantively revised after such a consultative process as occurred during Project TRANSMIT and on condition that the CCG coordinates a broadly participative process for the modification development, we consider that Ofgem-led modifications is likely to be preferable to industry-led modifications.

We support the use of a Significant Code Review for these changes.