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Andrew Self,
Head of Electricity Network Charging, Ofgem
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Dear Andrew,

Re: Targeted charging review: minded to decision and draft impact assessment

Thank you for the opportunity to provide comments on this important review of network charging arrangements.

ExxonMobil supports the need to ensure that charging arrangements remain appropriate given the current and anticipated future changes to the way networks are used and supports Ofgem's minded to decision as set out in the consultation document of 28th November 2018.

Should you have any questions relating to our response, please don't hesitate to contact us.

Yours sincerely

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Consultation questions

1. Do you agree that residual charges should be levied on final demand only?

Yes, we agree that residual charges should be levied on final demand only. Ultimately these costs are paid for by end consumers and levying the charges on final demand only minimises the risk of market distortions in cost pass through.

2. Do you agree with how we have assessed the impacts of the changes we have considered against the principles? If you disagree with our assessment, please provide evidence for your reasoning.

We found the qualitative assessment of options made against the main principles of the TCR to be comprehensive. We agree that predictable, stable, simple charges do indeed contribute to improved perception of fairness and efficient and transparent price signals within the market. We agree that the fixed charging option would be most practical to implement as there would be no new metering requirements as the charges can be determined by the LLFCs widely accepted in industry.

3. For each user, residual charges are currently based on the costs of the voltage level of the network to which a user is connected and the higher voltage levels of the network, but not from lower voltage levels below the user's connection. At this stage, we are not proposing changes to this aspect of the current arrangements. Are there other approaches that would better meet our TCR principles reducing harmful distortions, fairness and proportionality and practical considerations?

We support Ofgem's proposal to resist changes to current arrangements regarding charges levied on voltage level. We would not support users incurring charges for lower levels of the network as this would go against the fairness principle of the TCR.

4. As explained in paragraphs 4.41, 4.43, 4.46, 4.49, 4.80, we think we should prioritise equality within charging segments and equity across all segments. Do you agree that it is fair for all users in the same segment to pay the same charge, and the manner in which we have set the segments? If not, do you know of another approach with available data which would address this issue? Please provide evidence to support your answer.

We agree that it is fair for all users in the same segment, based on LLFCs to pay the same charge. This reduces the amount of revenue reallocation that could arise as a result of any network reform from the TCR. It also reduces the potential for distortionary effects by removing the ability to reduce individual contributions to residual charges through inappropriate behavioural change.

5. Do you agree that similar customers with and without on-site generation should pay the same residual charges? Should both types of users face the same residual charge for their Line Loss Factor Class (LLFC)?

6. Do you know of any reasons why the expected consumer benefits from our leading options might not materialise?

No, we believe that if implemented as proposed, these reforms will deliver the anticipated benefits to consumers, with minimal scope for unintended consequences.

7. Do you agree that our leading options will be more practical to implement than other options?

Yes, we agree that the leading option is simple and transparent for users and can be implemented without the need for additional metering or data.

8. Do you agree with the approaches set out for banding (either LLFC or deeming for agreed capacity)? If not please provide evidence as why different approaches to banding would better facilitate the TCR principles.

We agree that using LLFC would be the most practical method of banding users as the classification approach is already accepted within industry.

9. Do you agree that LLFCs are a sensible way to segment residual charges? If not, are there other existing classifications that should be considered in more detail?

Yes we agree that LLFC are a sensible, simple and practical way to segment residual charges. We would not support users incurring charges based on number of MPANs as this may provide distortive

incentives to changing metering arrangements and could go against the fairness principal of the TCR.

10. *Do you agree with the conclusions we have drawn from our assessment of the following? a) distributional modelling b) the distributional impacts of the options c) our wider system modelling d) how we have interpreted the wider system modelling? Please be specific which assessment you agree/disagree with.*

We have no reason to disagree with Ofgem's assessments.

11. *Do you agree with our proposed approach to the reform of the remaining non-locational Embedded Benefits?*

We have no reason to disagree with the proposed approach.

12. *Do you agree with our proposal not to address any other remaining Embedded Benefits at this stage? Which of the embedded benefits do you think should be removed as outlined in xx? Please state your reasoning and provide evidence to support your answer.*

Yes, we agree with the proposal.

13. *Are there any reasons we have not included that mean that the remaining Embedded Benefits should be maintained?*

We believe that the current justification is comprehensive.

14. *Do you agree with our proposed approach to transitional arrangements for reforms to: a) transmission and distribution residual charges b) non-locational Embedded Benefits? Please provide evidence to indicate why different arrangements would be more appropriate.*

We see no reason for a phased implementation of the reforms.

15. *Do you agree with our minded to decision set out? If not please state your reasoning and provide evidence to support your answer.*

Yes, we agree with the preferred option of fixed charging set out in the minded to decision.

16. *For our preferred option do you think there are practical consideration or difficulties that we have not taken account of? Please provide evidence to support your answer.*

We are not aware of any further issues around implementation of these proposals.