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Mr Andrew Self
Ofgem
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Dear Mr Self

**TARGETED CHARGING REVIEW ("TCR")
CONSULTATION RESPONSE**

Please accept this letter as our response to the "Targeted Charging Review: Minded to decision and draft impact assessment" published on 28 November 2018.

Whilst the objectives of the TCR are laudable in several ways we feel strongly that the outcomes of the TCR will be undetectably small to the average consumer but may severely disadvantage UK business and encourage the wrong behaviour in the goals towards decarbonisation, energy efficiency and more competitive UK business.

Ofgem has played a leading role in encouraging positive behaviour of businesses and consumers to date in achieving decarbonisation of the UK and in supporting the inevitable move to decentralised energy management and generation. The TCR appears to seek to reverse that trend instead focusing on supporting the National Grid's sunk costs rather than encourage its evolution and transition.

In Overview:

- We take issue that the Energy Justice Principles are in any way sufficient or complete enough to warrant being the basis for the TCR. These "Principles" – Reducing harmful distortions, Fairness and Proportionality and practical considerations - ignore many other material factors set out in other Ofgem policy statements and about the general goals of decarbonisation, the need for flexibility on the grid - and cannot be considered in isolation from wider energy policy.
- A core factor in this review appears to be that the "more and more businesses and households have their own generation in the form of solar panels or wind turbines or more traditional types of generation"....and with further adoption happening (threatened!), which will exacerbate the charging structure. This adoption trend is the result of past Government policy and households and businesses have chosen to invest in those energy assets as a result of the mechanisms introduced to encourage their adoption, or simply that they provide a competitive advantage for business to reduce its operating costs. Ofgem should be

proud of its success in achieving the level of adoptions seen to date, and should be further encouraging the trend. Through these investments the cost of the grid is being reduced, as without them the grid would need to be an order of magnitude larger. The large scale adoption of “positive technologies” is not a justification to implement protective measures to reverse the trend, or to remove the economic benefit of their investments by the imposition of effectively retrospective charges.

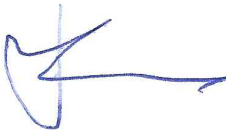
Indeed according to a recent article by Roger Harrabin (Environment Analyst for BBC) “generation per person is now back down to the level of the 1984 (around 5 MWh per capita). His report says the use of renewables reduced fossil fuel energy by the equivalent of 95 terawatt hours (TWh) between 2005 and now. And last year renewables supplied a record 33% share of UK electricity generation. But in the meantime, humble energy efficiency has contributed to cutting energy demand by 103 TWh. In other words, in the carbon-cutting contest, efficiency has won – so far. And what’s more, efficiency is uncontroversial, unlike wind and solar. We need to do more of this, and encourage it, not discourage it by removing or reducing its benefits.

- TCR is based on the premise of what may happen to reallocate “fixed” grid costs to the residue of grid users after vast numbers have abandoned the grid and cuts their costs. The truth is that those who have actually left the grid completely are very small, those who have reduced their demand on the grid (or even reduced peak time demand) is also small against the total population, and that energy efficiency adoption behind the meter is in its infancy. There isn’t a “pain” pressure to take measures at this stage, and TCR is an overreaction to a problem that doesn’t yet exist.
- TCR does not appear to be considering the emerging trend in other countries of increasing local micro-grids as their centralised grids become too uneconomic to expand. Local micro-grids in UK could play a major role in stabilising local energy supplies, improving the resilience of supplies and harnessing further benefits from renewables. TCR is seeking to protect the central concept of “one” national grid and seeing to protect the costs of that.
- The TCR gives strong indications of reversing benefits from historic investment in onsite generation by the application of fixed charges or charges based on final demand, rewarding those “laggard” businesses who have failed to take any material steps to improve their energy efficiency or consumption. Ofgem should be encouraging businesses to become more energy efficient and invest in the best energy infrastructure so they become more competitive in their global markets. TCR threatens to undermine business competitiveness, if businesses see their investments “equalised” with their competitors, who have not invested in energy efficiency, or their competitiveness in international markets is eroded through a “redistribution” of costs domestically.
- Inter-connector suppliers, large generators and small generators play different roles in the UK energy grid and have different values to the grid. Inter-connectors and large generators are not suitable for providing the flexibility that the grid increasingly requires, particularly with the increasing percentages of intermittent renewable energy in the energy mix. Embedded benefits play a role in encouraging geographically targeted generation or storage, which helps to stabilise the grid and delay costly reinforcement. The removal of embedded benefits will provide an unfair advantage to inter-connectors who do not presently benefit from them, and hence will penalise UK based large and small generators alike. This is not the sort of post-Brexit dividend that is needed.

- There would appear to be clear biases within the document in favour of certain technologies (CGGT) and against others (CHP), without justification or understanding of the benefits of them at different scales, which should not be used as a basis for taking decisions.
- Much of the thesis of the TCR appears to be based on a notional concept of "avoidance", seeing it as a "bad thing". The avoidance in question is to mitigate peak hour consumption, which actually helps the grid. If no-one took avoidance the volatility of the grid would be much more pronounced and a deficit in generation would become a reality (particularly of small generators are forced off the grid by the imposition of charges and removal of embedded benefits).
- Some of the measures proposed using very technical and non-transparent factors such as LLFCs. Adoption will make the costs of energy ever more opaque for the average consumer of business. People can only change or influence what they understand. Education of the reasons for energy use is a key theme in the likes of smart meter introduction, and we would argue that improving understanding and simplification is a key to securing wide scale energy efficiency adoption.
- Finally, the timing of TCR could not be worse. Commercial businesses are seeing very large energy prices increases in 2019. There is a lot of pricing volatility caused by recent gas trends, there is uncertainty caused by Brexit, knock-on concerns regarding future Carbon pricing, questionable future relations on inter-connections, uncertainty on nuclear build plans, the removal of FIT and other factors encouraging movement to decarbonisation. In short there is so much uncertainty that early implementation of TCR, will just add fuel to the fire, and will leave consumers so uncertain that the only outcome will be INACTION, rather than desired ACTION. This is at a time when the next round of ESOS audits is due at end of 2019, and you would expect businesses to focus on the outcomes for investment in 2020/2021. Furthermore the adoption of electric vehicles is moving faster than anticipated and the grid is poorly prepared for changes of such magnitude, so retaining flexibility to support local initiative to reinforce and support EV charging should be kept rather than sacrificed. We would encourage any implementation of TCR to be delayed as far as possible until at least some of the macro items are more stable.

We are advocates of energy efficiency and decarbonisation, and feel the overall focus should be rewarding those making the transition to more energy efficient operations and embracing best practice rather than penalising them or slowing the initiative. Such investments are essential not only for the global climate change agenda but also for UK business competitiveness. We feel TCR is an aberration in the overall Ofgem agenda and roadmap and is an answer seeking a problem, before a problem really exists.

Yours sincerely



David Kipling
Director

SPECIFIC QUESTION RESPONSES

Section 3

1. No, Final Demand is a difficult factor to determine for complex businesses and will add cost and bureaucracy to measuring its compliance. Better to use existing meters, but apply a "fixed" contribution to the grid, based on their voltage level (and possibly turnover).
2. No. The principles used are incomplete and fail to take account of wider policy or the needs of the grid. These principles are not a basis for decisions
3. The basis of charging on voltage level is appropriate, as it tends to reflect level of complexity and scale of the business
4. No. The proposal would penalise those that have been proactive in making investments to improve their competitiveness. There isn't an "issue" to address here. Why should it be necessary to create a level playing field within segments or industries. Fact is some businesses are better than others, some invest more than others, and some compete better in their sectors better than others, so any mechanism to level that is anti-competitiveness which is against the principles of our democratic society.
5. No. As above, why is there any justification in leveling the same charge on a manufacturing business in Glasgow versus a similar one in Cornwall or London ? They each will have different products, specialisms, equipment and also face different labour costs, property costs, different logistics costs, so why should energy not be the same ? This would be very complex and difficult to administer. SIC codes do not provide a basis for charging, or direct comparison for one business to another.

LLFC would be too complicated factor for average businesses to understand, which is counterproductive in educating users to understand their energy consumption and take actions to improve it.

6. The expected benefits across all consumers are so small that its likely they wont be noticed or appreciated.
7. No. We think they will be difficult and complex to implement and lead to less understanding of energy usage. It would be simpler to implement higher fixed charges based on consumer connection voltage, which may encourage some users to reduce voltage over time through step changes.
8. No. This is a flawed and complex approach. It would be simpler to implement higher fixed charges based on consumer connection voltage, which may encourage some users to reduce voltage over time through step changes.
9. LLFCs are complex for the average business to understand and are not the appropriate way forward.

Section 4

10. In general the analysis seems fair but triad advantages are already being withdrawn, and are being discounted in investment decisions. An important factor here is that UK generators

(large or small) should not be disadvantaged compared to inter-connectors – they should be charged for providing their power to UK on a level commensurate with UK generators (or more !).

Section 5

In our view, we found this section was poorly constructed, inaccurate and delivered a lot of subjective and inaccurate conclusions:

- 5.5 Behavioural analysis: This ignores the main reason we encounter in practice which is an investment to become more competitive (and safeguard jobs) rather than avoidance or the need to earn revenue from additional income streams (eg demand response). It also ignores the benefits of efficiency gains from on-site generation – the main benefit is from this, not avoidance of TNUoS or CDCM charges.
- 5.17 The conclusions ignore the significance of sunk-costs in plant and equipment already made and assume these can be swapped or be flexible. Why is there any issue with helping the grid at peak times by implementing demand response or using batteries to substitute load ? Without such actions the demand on the grid at these times could be far greater and require far greater investment to support a more volatile grid.
- 5.19 Fails to understand the role of CGGT vs onsite reciprocating engines (CHP). Onsite generation can be up to 90% efficient (if the heat is used e.g. for steam or hot water or cooling), which is far better than CGGT, and also does not suffer the same level of distribution losses. This entire sections ignores the benefits of GQCHP. Interconnectors are not more efficient and suffer significant distribution losses.
- 5.28 This is a subjective section. Triad revenues are already discounted from any economic analysis of CHP, and assumes their role is to export to the grid.
- 5.32 CGGT does not play the same role as onsite generation
- 5.35 There is a significant bias to interconnector imports and an assumption they are more carbon beneficial. Where a CHP achieves GQCHP, the carbon benefit will be greater than with CGGT (or probably interconnectors).

Question responses

- 11. Yes, Non-locational don't make much sense, but there is a place for locational embedded benefits in assisting the grid. At the same time, interconnector supplies should not be exempt from charges. Why would we allow non-UK sources to have a competitive advantage in a post-Brexit world ?
- 12. Yes
- 13. The section ignores the benefits of the efficiency of CHP (reciprocating engines) in providing a source of heat (which offsets use of fossil fuels) to local businesses. It also fails to link the achievement of Good Quality CHP with the embedded benefits. In the event GQCHP is obtained, it means that the CHP will producing at an efficiency far better than the most efficiency CGGT and accordingly represents a technology that should be encouraged in the future strategy of the grid.

14. There is an efficiency benefit in the implementation of onsite CHP to size for the total energy demand on site which may necessitate "spill" to the grid of excess. This can also be beneficial for the grid. We think such situations should be encouraged and the proposal for "non-exporting on-site generation" would be improved by instead loosening "non-exporting" to allow for plants that spill but where their prime purpose is not export, say allowing a proportion of the capacity to be treated in the same way (say less than 30% of the total capacity).
15. The level of current disruption and uncertainty in energy markets means that any early implementation of the proposals will be unwelcome and will be counter-productive. We would advocate a delay in implementation until there is evidence that the residual charges on those paying them is a real issue.

Commercial businesses are seeing very large energy prices increases in 2019. There is a lot of pricing volatility caused by recent gas trends, there is uncertainty caused by Brexit, knock-on concerns regarding future Carbon pricing, questionable future relations on inter-connections, uncertainty on nuclear build plans, the removal of FIT and other factors encouraging movement to decarbonisation. In short there is so much uncertainty that early implementation of TCR, will just add fuel to the fire, and will leave consumers so uncertain that the only outcome will be INACTION, rather than desired ACTION. This is at a time when the next round of ESOS audits is due at end of 2019, and you would expect businesses to focus on the outcomes for investment in 2020/2021. We would encourage any implementation of TCR to be delayed as far as possible until at least some of the macro items are more stable

16. There is not a clear justification for why any reform of charges is currently necessary. The overall percentage of those who have invested in on-site generation, demand response or energy efficiency measures that reduce their grid costs is small compared to the overall population. There is insufficient evidence that those bearing the costs of the grid are complaining about it.

Indeed measures should be being taken to encourage those who have not yet invested in measures to do so.

In this vein, phase 2 of ESOS is due to complete in 2019, and our regulatory framework should be set to assist in gaining the maximum advantages from the investments in ESOS auditing and the reporting outcomes.

There is nothing in the present TCR proposal that seeks to reward those businesses actively adopting energy efficiency, if anything TCR appears to seek to penalise them by levelling with less progressive consumers. In Germany, companies that adopt ISO50001 and who achieve year on year improvements benefit from substantial reliefs from their grid costs, which increases their motivation to invest and the priority that energy efficiency has in the Board room. Incentives should be provided for companies seeking to adopt ISO50001 and their ongoing achievement of improvement goals.

There is also nothing in the present TCR proposal that provides guidance on how microgrids would fit within the future energy strategy or how they would be treated under this review.