

Targeted Charging Review

Response to minded to decision, Feb 2019

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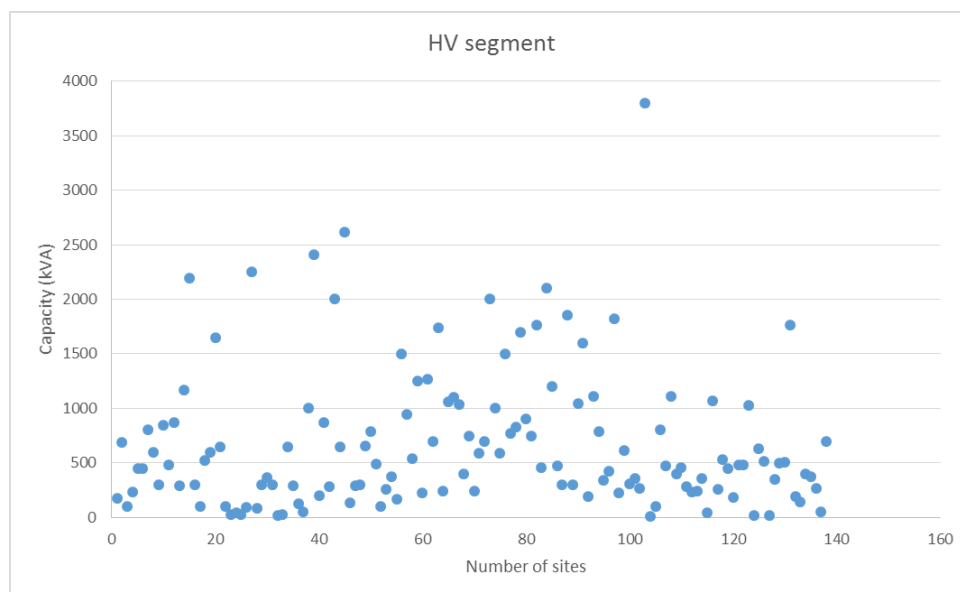
4 February 2019

Please find United Utilities (UU) response to your minded to decision for the Targeted Charging Review. UU are a FTSE50 company and a large energy consumer, using around 800GWh of electricity each year to provide essential water and wastewater services across the North West of England.

Since early 2014, we have been working hard to develop our capabilities to provide demand side response, and currently have contracted services providing frequency response, STOR and through the Capacity Market. We have, for some time avoided TNUoS and red zone DUoS charges by reducing our demand through the daily peak period, typically with manual interventions to processes. We are now delivering fully automated processes to respond to price and other signals to ensure that we can provide our customers with the most efficient service possible. We are supportive of the work completed to date in support of the transition to a smart, flexible energy system and have been members of the Power Responsive steering group since its inception.

In terms of questions 4, 8 and 9 from the consultation, we wish to make the following points:

- With reference to higher voltage segments, there is insufficient granularity in this methodology to allow equitable sharing of costs. This is shown well in the consultation itself (figure 6). Perhaps a hybrid approach should be taken, whereby domestic consumption and smaller non-domestics pay a fixed charge, but where capacity is explicit, this could be used as the basis of the prevailing charge.
- The following chart shows the variation of connection size we have across our 140 larger HV connected sites (excluding EHV) which would, under the proposals, all pay the same fixed charge. Based on the LLFC method, sites with capacity as low as 20kVA will pay the same as the largest site, in excess of 3,800kVa.



- Although this may be an extreme example (and this is the only data we have available to demonstrate this anomaly), it appears that using fixed costs in this user segment is inequitable as there are significant differences between the smaller and larger sites. In this example, the proposed TNUoS/DUoS residual charge would be six times greater than the current annual total billed amount, including energy costs and all other

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charges! Conversely, the residual costs at the largest site would constitute around 3% of the total bill. Using capacity would allow the same amount to be collected but spread the cost across the larger and smaller sites in a fairer and more equitable manner. Alternatively, more bands could be created, although this could create dead-bands at the lower end of the next band up and promote gaming.

On developing the detailed implementation proposals, it is worth considering how single sites with multiple MPANs are dealt with. These sites may have MPANs for either historic reasons (e.g. expansion and relocation of the meter) or for security of supply, but it may not be appropriate for these sites to face multiple sets of residual charges.

With regards to transitional arrangements, we believe that the changes in the TCR should align with those proposed for the access and forward looking charges, so that one set of changes is made to network charging reform and implemented at the same time. This will be easier to model and forecast outcomes of these changes as the proposals under access and forward looking charges become clearer.

Removal of the triad avoidance opportunity as it currently stands is one of the most significant benefits available to behind the meter flexibility providers such as ourselves. Until a level playing field can be created with full reform of charging, and opening access to BM/Project TERRE etc. it would seem that fair access to all markets has not yet been established, whilst opportunities such as triad which do benefit smaller players are closed down.

Finally, it is worth pointing out that as a regulated water company, significant changes such as those proposed will have a material impact on our business plan which has only recently been submitted to our industry regulator, OFWAT for the period 2020 to 2025.

In principle, we do agree with the reasoning set out by OFGEM for the changes set out in both the TCR and the access and forward looking charges consultation. It would however be beneficial for us and our customers that such changes were brought in at the same time.

Yours sincerely,

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