



By email to: TCR@ofgem.gov.uk

04/02/2019

Dear Andrew Self,

Re: Consultation – Targeted Charging Review

Tonik Energy welcomes the opportunity to respond to this consultation.

Tonik Energy is a new-breed energy supplier based in Birmingham. We're a renewable energy company that wants to do more than simply supply clean, affordable electricity and gas. By accelerating the uptake of microgeneration and in-home battery storage, we plan to halve our customers' bills by 2022, putting them in control of how they generate, store and use energy. Technology is core to Tonik's business and we are in the process of launching solar, battery storage and electric vehicle charger installation services. We want to represent genuine change and disruption in the industry by making technology accessible to all our customers.

Tonik believe this technology will not only benefit our customers, but other users of the grid too. Renewable microgeneration and electric vehicles can help reduce national carbon emissions and improve the quality of the air that we all breathe, whilst battery storage can help make our energy system more efficient, reliable and secure. In order to achieve this disruptive change and benefit all energy consumers, the industry needs a network charging regime that supports and encourages the uptake of this technology and delivers a stable market environment which enables investor confidence. Residual network charges are an important part of this regime and so are key to achieving this future energy system.

Tonik understands and acknowledges the need for reform to residual charges. Our energy system is changing rapidly and it is inevitable that a charging methodology designed many years ago may no longer be fit for purpose. However, Tonik does not believe that the changes proposed by Ofgem achieve this reform in a fair way. We believe that the proposed 'fixed charges' will disproportionately affect the poorest in society, deter investment in energy efficiency and low-carbon technology and increase the use of inefficient, carbon-intensive generation.

'Fairness' and the impact on the fuel poor

Fairness is one of the three 'TCR principles' and the words fair, equality and equity (or their derivations) are mentioned 113 times in the consultation. However, the definition of a 'fair' charging regime is highly subjective. Despite Ofgem having researched the meaning of fairness, we do not feel the proposed changes achieve a fair outcome.

Fixed residual charging achieves fairness in its simplest sense and ignores all social and environmental considerations - two key parts of Ofgem's remit. The proposed charging regime is analogous to recovering UK

public spending by taxing every citizen the same amount, regardless of age, income or lifestyle. This clearly could not be perceived as fair.

Tonik are particularly concerned that the proposal will disproportionately affect the poorest in society. Ofgem acknowledge that fixed charges will increase the bills of those who use the least energy whilst decreasing the bills of those who use the most. However, concerns around the impact on the fuel poor are largely dismissed in the consultation on the grounds that the average electricity consumption of fuel poor households is 3,100kWh meaning these households will not see a bill increase. Whilst this may be true of the 'average' fuel poor household, many of those who are forced to ration their energy usage will see a significant rise in their contribution to residual charges and thus energy bills. Those who already cannot afford their households bills will face further energy debt as a result of increased fixed charges.

Tonik does not believe it is fair that those in the largest homes using the most energy should have a bill reduction at the expense of the fuel poor. The proposal means that homes with the same Line Loss Factor Class (LLFC) will now pay the same towards residual charges. The consultation states that this 'improvement in equality (resulting from users with similar call on the system paying the same) improves fairness'. However, it is overly simplistic to assume that those within the same LLFC are 'similar'. With fixed residual charging, a household using 1,000kWh of electricity a year would now pay the same as one using 100,000kWh. Despite both making use of the network, it is clear that the latter will use it a lot more, causing greater strain on the network at peak times. Both households paying the same, with the poorest subsidising the richest, does not seem 'fair' in any sense.

Low carbon technology and energy efficiency

Tonik believe the proposed changes will have a disproportionate effect on those who have already installed, or are considering installing, low-carbon technology or energy efficiency measures. Homes and businesses with low-carbon generation or battery storage will now pay significantly more towards residual charges. This is particularly challenging for new renewable installations given the ending of the Feed-In Tariff in April 2019. The Government expects the deployment of small-scale generation to continue without a guaranteed support scheme but these changes make this more unlikely. This has not been considered in the consultation with Ofgem stating that 'it is not necessary to think about scenarios with alternative assumptions around take up of EVs, heat pumps, solar and storage'.

The impact on the uptake of energy efficiency measures has not been considered by Ofgem. The consultation contains just three sentences on energy efficiency and this is only to state that it has not been included because of the 'varied nature of investments'. Tonik believe the proposed changes will have a significant impact. Fixed residual charging removes part of the incentive to consume less energy and will see homes and businesses choosing not to invest in energy efficiency. Energy efficiency is one of the cheapest and most effective ways of reducing carbon emissions, improving health and comfort, increasing security of supply and lifting people out of fuel poverty. A network charging regime should be encouraging, not discouraging energy efficiency.

Tonik are also concerned about the impact of the proposal on energy innovation. Smart tariffs and half-hourly settlement have been consistently touted as a key benefit of the smart meter rollout and an enabler of low-carbon technology by the Department for Business, Energy & Industrial Strategy. However, fixed residual charging reduces the benefit of smart tariffs, making them less likely to be offered by energy suppliers and less likely to be taken up by consumers.

Removing harmful distortions

Another of the 'TCR principles' is 'reducing harmful distortions'. However, the definition of a harmful distortion is again highly subjective. The UK energy market is not a free market. There has always been outside intervention to deliver an outcome that it is thought the market cannot achieve by itself. In recent years there has been a domestic price cap in order to lower consumer bills, Contracts for Difference to increase low-carbon generation and the Capacity Market to increase security of supply.

In order for any change to be perceived as fair, a 'harmful distortion' should be considered as something that achieves an outcome that is contrary to other areas of Government policy or ambition. The current residual charging regime is certainly a distortion, as is Ofgem's proposed change to fixed charges. However, the latter is harmful as it will deliver an outcome that is not in line with other areas of Government policy.

The current residual charging regime discourages electricity consumption at peak times. This is a positive distortion as it helps flatten the national demand profile, reducing the need for underutilised, carbon-intensive peaking plant and easing capacity constraints on the network. Where homes and businesses cannot reduce consumption at peak times using energy efficiency or load-shifting, it encourages investment in flexible technologies like battery storage. This is a further positive distortion as it incentivises the deployment of flexibility that will become so important if the Government's ambition of increasing renewable and nuclear generation is to be achieved. Finally, the current residual charging regime also encourages a reduction in overall energy usage as the charges are volumetric. This is a positive distortion as it reduces carbon emissions and increases energy security.

Whilst Tonik understand the need to reform the residual charging methodology, we do not feel the current proposals do so in a fair way. Tonik believe any reform must protect vulnerable customers and encourage investment in energy efficiency, low-carbon generation and flexible technologies. We do not feel that fixed residual charging achieves this.

If you have any questions for Tonik please do not hesitate in contacting me.

Yours sincerely,

Will Heinzelmann
Commercial Product Manager
Tonik Energy