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Ofgem
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04th Feb 2019

Dear Andrew

Total Gas & Power Ltd (TGP) and Total Solar response to the Ofgem targeted charging review: minded to decision and draft impact assessment

Thank you for providing TGP with the opportunity to respond to Ofgem's consultation proposals to the Targeted Charging Review (TCR) minded to decision. TGP is one of the largest non-domestic gas and electricity suppliers in the UK and also has a large shipping and trading division trading in UK. Total Solar is a subsidiary of Total SA that is in the process of entering the renewables market in the UK.

We agree with the principles that Ofgem have assessed. However we think the proposals are unfair on those businesses that have invested in renewable technology that would reduce peak winter demand. Investment decisions have been made based on current rules and changing these may lead to security of supply issues in the UK. We also strongly believe that these proposals will be detrimental to investment in renewable energy and undermine existing and future business cases for new renewable projects.

Similar users with on-site generation should pay less residual charges as investment in renewable technology should be encouraged and these proposals seem counter intuitive to meeting the UK's low-carbon agenda. In assessing the impacts of the proposals it really depends on how much flexibility is valued both now and in the future and what schemes should be there to promote it. At the moment load shedding and on-site generation to remove peak demand is valued. Our concern is that the proposals would reduce the incentive of flexibility and in turn consumers on a fixed price type arrangement will have less incentive to use less during times where system margins are low. It would make more sense to review flexibility at the same time to ensure that you are correctly incentivising.

In regard to the question of market segmentation, the proposed segmentation should be extended to be more detailed. For example it should take into account industry types, capacity and location. Segmentation should be based on the diversity of users within segments. At the moment we feel this is too high



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Under these proposals, there is potential for residual charges to fall on groups who are less able to take action, but there is far greater potential for the residual charges to fall on groups who have not made efforts to invest in demand reduction or demand displacement. We would be interested in any analysis by Ofgem in the number of consumers who are 'less able to take action'. Ofgem needs to recognise that actions to reduce or shift demand do not come without risk and consequence to those investors. In some cases investors take on considerable risk and are doing so to coincide with times of network stress. These innovators and risk takers should be supported for their actions. We regret that Ofgem's minded-to position implies grid users acting to reduce grid demand are creating an unfair position – that is not the case. We emphasise the value that investors in embedded generation create for UK consumers, which can reduce the need for costly infrastructure investment. Significant, uncoordinated changes to the residual charging mechanism risk creating a system in which large, transmission-connected generating plant & networks are artificially rewarded by the regulator at the expense of smaller, embedded generation & innovative participants, running counter to smart energy objectives. We would therefore strongly urge caution over any change which leads to an imbalance between forward looking charges and residual charges such that embedded generation is penalised through higher residual charges, despite the fact any wider charging system should clearly be cost-reflective and encourage embedded generation to the extent it reduces wider grid costs to the consumer.

As a consequence of consumers no longer being incentivised to be flexible or avoid peak demand is a less intelligent network, with greater need for balancing, imbalance prices, capacity market and also network reinforcing. Market prices may be more volatile causing higher prices for consumers as suppliers pass on the risk of balancing

In summary, we believe that should the minded-to decision be implemented the impact would be catastrophic to the renewables industry and is unfairly prejudicial against the forward thinking businesses and private individuals that have previously invested in the space.

With regard to embedded generation; the Renewables sector has adapted to operate in a subsidy free environment, utilising the savings available to the Industrial and Commercial consumer in the form of energy cost reduction as the main source of revenue to many new renewable energy developments. Curtailing the savings available and imposing a standing charge will have the following consequences:

Many embedded renewable energy projects rely upon the savings generated and will no longer be financially viable, and therefore will not progress. Imposing a standing charge will negate the impact of energy efficiency measures and therefore encourage profligate consumption. Imposing a standing charge which may increase in the future adds uncertainty to forward looking costs. New projects rely upon long term contracts in order to realise a return, uncertainty of future costs will negatively impact the ability to achieve funding for such projects.



Having existing embedded generators incur these charges after they have invested in the technology, in many cases effectively creating loss making assets is unfair- and therefore does not meet one of Ofgem's key objectives in the review.

The regulator's preferred option, to move away from consumption-based to fixed charges means that the most profligate energy users will be rewarded, while those who take action to effectively manage and reduce their electricity consumption are penalised. Under this option the hardest-hit sector will be the thousands of forward-thinking businesses across Britain who invest in storage and on-site generation.

We are concerned the regulator is taking a short-sighted approach and that the tremendous whole system value of flexible, low-carbon, onsite energy generation is not yet being reflected back to our innovators and risk-takers. We would like to see Ofgem carry out a full assessment of those system benefits and introduce charging reforms concurrently so that the overall net treatment for innovators in the system is positive. The current piecemeal approach means we cannot assess the net overall effect of charging reforms and where we may end up, and this contributes to investment uncertainty. Deterring investment in smart energy technologies will ultimately end up costing all consumers more in the medium to long-term, including the most vulnerable households. Please do not hesitate to contact me should you wish to discuss further and of the points raised in this letter,

Yours Sincerely

Andrew Green
Head of Regulation, Total Gas & Power