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17 Sept 2019

Dear Sir or Madam

Thank you for the opportunity to respond to the Consultation on refined residual charging banding in the Targeted Charging Review (TCR). Please find below E.ON's response.

Our main concern remains that TNUoS residual charging is too significant: In our response to Ofgem's initial minded to consultation, we stated that our main concern with the TCR was that the residual charging changes and the consultation on forward looking charges (Access and Forward-Looking Charges SCR) were not being run in parallel or as a single consultation and that a more cost reflective split between residual and forward-looking charges needed to be better understood. This remains our main concern, especially with the wide range of potential load related costs reported by the Access and Forward-Looking Charges SCR (20-90% for TNUoS).

Meeting the three TCR principles: It is our belief that both fixed charges and agreed capacity charges met the three TCR principles of reducing harmful distortions, fairness and proportionality and practicality better than the current model of net volumetric charges. We also believe that the approach taken based on similar groups of users paying similar charges (equality) and different groups of users paying different charges (equity) seems sensible with the use of line loss factor classes (LLFC), a well understood and widely available metric, being a good way to attribute customers to segments.

Challenges to Ofgem minded to segmentation methodology: It is our understanding that Ofgem have had responses challenging the use of LLFCs due to their inability to take account of the large level of diversity in users in some non-domestic LLFC bands, especially at HV and EHV. It is our belief that there are many LLFCs (~1000) and that whilst this number of segments would be impractical, this does allow flexibility in how the LLFCs are grouped or merged. Within E.ON's own non-domestic base, we supply to over 500 different LLFCs. No segmentation is perfect, but we believe that using LLFCs does capture much of the variation in users and that it does meet the TCR principles.

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New segmentation methodology: Ofgem has suggested an alternative methodology for segmenting users based on agreed capacity bandings (where known) and net volume bandings (where capacity is not known) with five (or fewer) bands per voltage level. We believe that this methodology does not meet the TCR principles as well as the LLFC methodology due to the signal this sends some customers who are just over each banding levels. Using the Northeast example included in the Ofgem open letter (3rd Sept), the charging bands under the minded to position (LLFC based) are based primarily on voltage (LV, HV, EHV) and meter type (unrestricted, two rate, HH etc). It would be difficult for a customer to act to reduce their residual charge under this methodology. Using the proposed refined bands based on voltage and demand/capacity, there is a >£500 pa signal to LV customers who are over 20MWh pa. As an illustrative example, a pub with a demand of 21MWh pa will typically have an electricity bill of ~£3.5k¹. By reducing its demand to 19.9MWh pa (5%), the pub can reduce its bill by £500 or 14%. Under the LLFC methodology, the pub would be unable to distort its bill this easily.

We note that in the Northeast example, there are only two LLFC segments for HV users and one LLFC segment for EHV users. However, in each DNOs Use of System Charging Statement² there are numerous HV generic LLFCs and site specific EHV LLFCs. It is not clear why these cannot be used to correctly segment larger users or why new LLFCs cannot be created given that industry has already made allowances to utilise alphanumeric LLFCs (the primary concern of users not happy with the previous LLFC methodology).

In terms of practicality, using agreed capacities and net volume will require TOs to have access to data that they do not currently have at an individual level. Whilst this is not theoretically an issue, it will mean the creation and maintenance of new systems, incurring costs to the customer that a methodology using LLFCs would not require.

In summary, we believe that:

- The split between forward looking charges and residual remains the most important issue (especially for TNUoS) for which the Access and Forward-Looking Charges SCR has not delivered any clarity
- Fixed charging bands are a good way to meet the three TCR principles
- Segmentation via LLFCs is a better methodology than using agreed capacity/net demand as it gives less of a signal for users to try and avoid residual charges (even with only a few segments)
- Using LLFCs is more practical, cheaper and can generate the differentiation between large users at higher voltages if all LLFCs are used (or grouped differently)

¹ Based on an average domestic bill of £500 for 3MWh

² <https://www.ukpowernetworks.co.uk/internet/asset/fb6a14ef-52e4-4e96-8de3-151435046e2L/London+Power+Networks+LC14+Statement+2020+V1.0.pdf>