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Dear Andrew,

Citizens Advice response to Ofgem consultation: Future Charging and Access programme - consultation on refined residual charging banding in the Targeted Charging Review.

We are pleased to be able to respond to this consultation. Citizens Advice has statutory responsibilities to represent the interests of energy consumers in Great Britain. This document is entirely non-confidential and may be published on your website. If you would like to discuss any matter raised in more detail please do not hesitate to get in contact.

We welcome Ofgem publishing updated proposals for elements of the Targeted Charging Review following the minded to decision earlier in the year. We have separated our response into two sections - domestic customers and non-domestic customers.

In summary:

- **For domestic consumers:** We are surprised that there isn't further detail in this consultation to review, but we are encouraged that Ofgem are considering the points we raised in our response to your minded to consultation.
- **For non-domestic consumers:** The revised proposals seem like a step in the right direction and welcome the changes, but given the lack of data for micro-businesses we would advise caution. More work is needed to understand how micro-businesses use energy.

In [our response](#) to your minded decision and draft impact assessment we made the following points:

- **It's the right thing to do:** Ofgem is right to address the issues with the residual network charge. Distortions are likely to worsen as more users are able to avoid network charges through installing on-site generation. This puts an increasing

burden of costs on users who are unable to take actions to reduce their network usage. Residual charges should not send signals to users to change behaviours.

- **We don't have the whole picture:** the full impact on consumers and micro-businesses is unclear with ongoing RII02 negotiations and the Access and Forward-Looking Charges SCR. In Ofgem's proposals for the TCR some consumers will be better off and some will lose out. We have particular concerns on the impact of non-domestic micro-businesses consumers who might see residual charges increase by 800%.
- **Dual-rate meter consumers** (Economy 7) should not face a different residual charge to single rate meter consumers. Residual charges should reflect the assets which the network user needs reflecting maximum capacity and not the volume of energy used.
- **Our preferred option** is the Agreed/Deemed Capacity Charge model which, on balance, seems preferable to the Fixed Charge model.
- **We support the reform of Embedded Benefits** which provide perverse investment signals to embedded generators.
- **Ofgem need to make decisions at the right time:** The Access and Forward-Looking Charge SCR needs to develop further before decisions are made on the TCR. An aim of this work should be to achieve an enduring solution to paying for network costs which is fit for the future. Work underway in other workstreams might have consequential impacts to the TCR proposals.

Domestic customers

It is helpful to understand that Ofgem are considering the concerns we, and others, raised regarding low consumer and vulnerable domestic consumers, as well as the implications of charging domestic consumers with Economy 7 meters more than other households. We agree that domestic users should be treated separately from non-domestic users.

However, we are surprised that there isn't any further detail to these proposals for us to review at this stage. We are very keen to see more detail would welcome discussions with you on this particular point.

Non-domestic customers

For clarity, Citizen Advice advocates on behalf of micro-business¹ consumers in the energy market, as well as all domestic consumers. Micro-business consumers are incredibly diverse, and therefore the previous approach to segmentation risked arbitrarily discriminating against lower usage consumers. We were particularly concerned that some micro-business consumers might be charged 800% higher residual charges under the proposals.

¹ We use Ofgem's [definition of micro business consumers](#)

We are pleased that Ofgem have recognised the diversity of non-domestic consumers, and have proposed a refined approach, which segments micro-business users by consumption levels rather than LLFC. This approach appears to be fairer to these consumers, and we note that the residual charge may fall for some users.

But, it's very difficult to ensure that micro-businesses are fully represented by these new proposed refined bands. Given the diversity of micro-businesses, there is a lack of data about how and when these users consume energy and where they face issues. Energy usage could vary significantly across different business types, therefore applying a one-size-fits-all approach could result in unfair outcomes. Further research is needed to deepen understanding of micro-businesses which should inform policy decisions that come out of the Targeted Charging Review SCR and the Access & Forward-Looking Charges SCR.

I trust that this response is clear, but would be happy to discuss any matter raised within it in more depth if that would be helpful.

Yours sincerely

Stew Horne

Principal Policy Manager, Energy Networks and Systems