



Submitted via email to TCR@ofgem.gov.uk

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Dear Targeted Charging Review team,

Good Energy Response to the Consultation on refined residual charging banding in the Targeted Charging Review (TCR) and renewables sensitivity analysis.

Thank you for the invitation to respond to the proposed changes to this consultation. Good Energy supplies 100% renewable electricity and carbon-neutral gas to homes and businesses across the UK. Good Energy is working towards a 100% renewable future, helping to support technologies including wind, solar, biofuel, hydro and tidal. Our purpose is to power the choice of a cleaner, greener future together.

Summary

- **The TCR's reforms will continue the undermining of embedded renewable generation, slowing the decarbonisation of the energy sector.**
- **Fixed charges on large groups of domestic customers could result in extra costs for those who can afford it least.**
- **Much of the proposed non-domestic banding is based on data which is not readily available – this is impractical for industry parties and will make it more difficult for suppliers to price effectively.**
- **More flexibility is required for customers whose circumstances have changed over a short time.**
- **We welcome Ofgem conducting analysis on the TCR's impact on renewables, the deployment of which will stall dramatically under current proposals.**
- **However, little evidence is provided to support the assumed renewables drop-out rate of 50% - others consider this will be much higher.**
- **Cooperation with BEIS will be required to secure changes to other policies and subsidy regimes, in order to cover this shortfall in renewable capacity.**
- **More work is required to address the wider consequences of the TCR and Access and Forward-Looking Charges Significant Code Reviews (SCRs), and to ensure they combine to create a charging solution which recovers costs without harming the UK's energy transition and those who would facilitate it.**

The current suite of network reform continues in the same vein as CMP264/265, which saw the phased removal of the Transmission Demand Residual - or triad benefit – in response to an imbalance of revenues in the Capacity Market. In future, with proposed emissions standards being introduced, the peaking plant benefiting from this advantage will be precluded from participation; they will no longer be able to undercut larger transmission



connected generation.¹ However, the removal of the Triad benefit has undermined all types of embedded generation, many of which, such as onshore wind and solar, are crucial to transforming the UK's energy system and meeting our legal obligation of net zero carbon emissions by 2050. The Targeted Charging Review is set to continue to diminish the viability of this decentralised generation, and the associated storage and demand response technologies which can help make our energy networks more efficient. Great care needs to be taken to ensure that the possible negative consequences for consumers, businesses and generators are avoided, and we find a sensible pathway to decarbonisation which benefits all in society.

Domestic banding

At the beginning of the TCR process, Ofgem outlined Fairness as a key principle guiding the workstream.² However, the Any proposal to levy a fixed charge on large groups of domestic customers without capturing the variety in their characteristics, will have a detrimental effect on low consuming and vulnerable consumers. Many stakeholders have highlighted this in response to the minded-to consultation, but it remains a possible outcome of this workstream that all domestic customers will pay the same residual charge. When compared with current arrangements, this will result in those with lower levels of consumption paying more for their energy. Studies into consumer behaviour have consistently shown that fuel poor consumers are more likely to restrict their energy use and many of them will therefore belong in this low-consumption group.³ This change will affect them disproportionately. Consumer vulnerability has correctly been a central theme of both BEIS and Ofgem's retail market work in recent months, but it is important that these kinds of changes - not always examined with the end user in mind - receive the same level of scrutiny.

Non-domestic banding

The 2018 minded-to consultation proposed the use of Line Loss Factor Class (LLFC) to band customers and apportion fixed charges. One of the reasons given for doing so was that LLFCs are standardised industry categories and would therefore be easy to determine on a user-by-user basis. However, the breadth of diversity within LLFCs would leave significant numbers of customers with disproportionately high charges compared to other users in the same band, relative to the benefit they gain from being connected to the network.

The refined proposal for recouping residual charges from non-domestic customers therefore departs from LLFC, theoretically allowing for customers to be grouped with greater care given to their characteristics. However, by addressing one problem, a second arises. By using bands based on data which is not readily available, suppliers and network companies will incur administrative burden and increased risk when pricing tariffs.

Ofgem have also proposed limiting customers' ability to move between bands to the length of a network price control. This is presumably to mitigate charge avoidance and instability but is likely to have harmful consequences in certain scenarios where customers have had a significant change in circumstances - leading to changes in consumption. Both of these measures could result in the consumer paying more than is necessary.

While Ofgem have said that residual charging based on net volumetric basis is not desirable, we feel that it solves many of the problems highlighted above. It levies a progressive charge, protecting consumers who use less, and there are no impractical data requirements which may result in risk premia being added to tariffs.

Renewables and decarbonisation

We welcome the fact that Ofgem have commissioned further analysis into the TCR's effect on renewable generation. The initial Frontier/LCP Impact Assessment (IA) assumed that deployment of unsupported embedded

¹ BEIS, [Capacity Market: Carbon Dioxide Emissions Limits \(2019\)](#)

² Ofgem, [TCR: Minded to decision and draft impact assessment](#) (2018) p.13

³ BEIS, [Understanding the behaviours of households in fuel poverty](#) (2014) p.21



generation would not be affected. This was challenged by industry, and two significant pieces of analysis conducted by Oxera and Aurora, both of which anticipate a greater decrease in unsupported deployment.⁴ The worst-case, 50% drop-out figure used in the revised IA that accompanies this consultation is very conservative, and provided with no supporting evidence; while it sheds light on some of the possible consequences, the true extent of these issues is unclear.

It is inevitable that the reduction in revenues caused by these reforms will mean that a great deal of decentralised renewable generation will simply not get built. This kind of plant is an ideal fit for co-located storage, as they can be combined to smooth generation variability, and provide valuable demand response and reduction services which will themselves lower system costs. Therefore, any slowdown in deployment will mean the same for batteries and all of the benefits they provide. Storage technology is now at a critical point in the UK. Sustained investment over the coming years is required to ensure it can play a role in making our energy system less centralised and more flexible; both key to delivering decarbonisation at least cost to the consumer.

In the IA, the capacity gap caused by the missing embedded generation is presumed to be mostly compensated for by additional offshore wind and CCGT. However, Pot 2 Contracts for Difference auctions have fixed budgets and capacity caps which would have to be altered in the future to facilitate this. This could be exacerbated, if the Transmission Generation Residual (TGR) reform causes reduced revenues for offshore wind, and mean that fewer renewables, and more fossil plant would be built. This would be highly problematic for the sector's decarbonisation aims, and contribution to the economy wide, legally binding net-zero target. Have BEIS given any assurances that the scheme would be changed to allow the required increase in offshore wind deployment? If not, and current constraints are to remain, a reassessment of the TCR's consequences is required.

Wider Implications

In previous responses we have highlighted the extremely consequential relationship network charging has with many other parts of the energy industry. This cannot be ignored, and due diligence must be given to the wider implications of any policy. However, there seem to be many who feel that network regulation should be isolated from wider issues. This is a damaging assumption, but one which has characterised much of the work done so far. Other parts of the industry, like the CfD scheme, will have to change precisely *because* of the TCR - specifically to mitigate the damage it will do to unsupported renewable generation.

Fortunately, the Code Administrators Code of Practice places multiple obligations on code administrators to consider the wider ramifications of modifications, and to contact parties who may be affected.⁵ The current suite of network reforms will have to go through the code modification process prior to implementation, and contain many instances of cross-industry impacts that are yet to be satisfactorily addressed. The earlier this can be done, the greater the likelihood of the TCR and NAFLAC SCRs can combine to produce a fair, considered solution to network charging which recovers costs without harming the UK's energy transition and those who seek to facilitate it.

I hope you find this response useful. If you have any questions, please do not hesitate to contact me.

Kind regards,

Kit Dixon

Regulatory Affairs Officer

⁴ [Oxera](#) & [Aurora](#) reviews of the Targeted Charging Review (2019).

⁵ [CACoP v.5.0](#), Principles 1, 3, 13 & 14.