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25th September 2019

Dear Andy Burgess,

Future Charging and Access Programme – consultation on refined residual charging banding in the Targeted Charging Review

I am writing on behalf of ESP Utilities Group (“ESPUG”) (comprising the licensed companies ES Pipelines Ltd, ESP Connections Ltd, ESP Networks Ltd, ESP Pipelines Ltd and ESP Electricity Ltd). We welcome the opportunity to respond to Ofgem’s “Future Charging and Access Programme – consultation on refined residual charging banding in the Targeted Charging Review”, dated 3rd September 2019.

Overall, ESPUG supports Ofgem’s proposed changes and recognises the tradeoffs that are needed to effectively target costs. ESPUG believes that residual charges should ultimately true up revenues that cannot be directly allocated to individual or customer groups. Equally, charges must also capture costs of those consumers that have the benefit of access to the network as and when consumers need it.

We note that some investment activity will only advantage certain groups of consumers. For example, upgrading the LV network will not benefit those on HV circuits. Charging has to reflect this. Therefore we agree with Ofgem that it makes sense to create customer groups across LV, HV and EHV categories; the only question is to what extent the numbers of customer segments meaningfully reflect the shared costs of the network.

ESPUG notes that defining the charging segments is not just about fitting large numbers of customers within a charging band, though this is of course important. Ofgem must also consider the implications of their policy choice on the number of outliers and customers close to the chosen boundary in the data set. Any future volatility in charges to the existing segment will have a magnified effect for those customers on its borders. We would suggest a default position of widening the bands to take account of this effect and would help solve this type of equity issue with the added impact of reducing the overall numbers of groups.

ESPUG has concerns based on the degree of complexity created by the proposed regime and resulting system changes due to the extra tariffs that would be created. We would prefer a minimal number of segments and therefore a lower numbers of tariffs to the extent that the benefits of the proposal are still captured by the segment's boundary.

We support the synchronisation of charging bands with the price control cycle. Changes to revenues are likely to naturally change at the start of the price control.

Finally, it is likely that the combined effect of the charging reviews and other initiatives such as half hourly settlement will have an impact on IDNOs' systems and processes. We would ask that any mandated change as a result of the review should allow for the transition of the networks' processes, and that major changes not be drip fed to the sector.

If you wish to discuss any of the issues raised in our response or have any queries, please feel free to contact me on 01372 587500.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Seb Eyre', with a stylized flourish at the end.

Sebastian Eyre
Regulatory and Policy Analyst
ESP Utilities Group