



Ofgem
9 Millbank
London
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9 May 2017

By email to : TCR@ofgem.gov.uk

Dear Sir/madam,

Re: Response to “Targeted Charging Review: a consultation” dated 13 March 2017

We appreciate the opportunity to comment on Ofgem’s consultation on a Targeted Charging Review (TCR). We set out below our responses to those areas where we have views at this stage.

Question 1: Do you agree that the potential for residual charges to fall increasingly on groups of consumers who are less able to take action than others who are connected to the system, is something we should address?

Yes, we believe that the actions of those able to take action on how they manage and consume energy is leading to groups of consumers who are not able to take action and therefore pay more; we believe that this is something that should be addressed.

Question 2: If so, why do you think, or do not think, action is needed?

This issue is likely to worsen as domestic customers move to half hourly settlement and take up one or more of a variety of means to reduce their costs further.

Changes to the generation landscape in recent years and those anticipated in the near future (such as battery storage, micro generation, improvements in generation technology, EV) suggest further that a review is needed.



Lines between distribution and transmission are blurring with flows backwards from the distribution networks onto the transmission network which suggests that reviewing both together would be beneficial. The current arrangements incentivise embedded generation, which reduces peak net demand and results in a higher unit charge to be recovered from the remaining base. Non half hourly customers pay based on peak demand 4-7pm and this is determined by a profile, so even if customers reduce their peak usage, this will not be recognised in the charges they pay until after the implementation of HH settlement.

In addition, assuming smart meters and HH settlement are in place, there will still be groups of consumers who are unable to move their usage away from peak times or afford the upfront cost to install behind the meter generation.

While the TCR is focused on the residual, this is calculated as a consequence of the locational element. We believe it would be beneficial to review the locational element in the same review to prevent different charging structures for each component.

Question 3: We are proposing to look at residual charges in a Significant Code Review. Are there any elements of residual charges that you think should be addressed more urgently? Please say why.

Networks are always subject to sunk costs which need to be recovered as “residual” charges. If these are charged for on a per volume unit basis then the risk of self reinforcement costs arises e.g. if there was only one NHH customer left consuming during 4-7pm they would pick up the entire TNUoS charge. Further, unit charges result in greater volatility through under/over recovery of allowed revenue as a result of a particularly mild/cold weather, for example.

Question 4: Are there elements of the approaches in other countries that you think could be appropriate for GB residual charges?

Yes, a fixed charge element (p/day), which should be banded by a measure of capacity and by NHH/HH, and/or domestic/non-domestic. A p/day fixed charge



has the benefit of simplicity. This also has the benefit of flexibility to refine discount eligibility in future - and have a scale of discounts - without having to overhaul the entire charging methodology again.

As the “residual” is there to ensure revenue recovery, a p/day charge achieves this in the most predictable way as it reduces the volatility of the correction factor. (While a unit based charge would result in an under or over recovery as the kWh base changes due to weather or other unpredictable demand factors.)

Question 6: Do you agree that our proposed principles for assessing options for residual charges are the right ones? Please suggest any specific changes, or new principles that you think should apply.

The overall cost signal is designed to be passed to consumers through tariffs. This however is not always possible where customers are on fixed price tariffs. The solution should be based on the end result distributional impact, not the resulting pre-tariffs.

Of crucial importance is the transparency/simplicity of information and tools to allow for easy forecasting of the charges. If this is not made available then suppliers would be required to price in risk premia to their fixed tariffs which would distort the cost reflective signal.

Question 7: In future, which of these parties should pay the transmission residual charges: generators (transmission- or distribution-connected), storage (transmission- or distribution-connected), and demand, and why? What proportion of these charges should be recovered from each type of User?

We believe these charges should fall 50/50 on demand/generation assuming all generation is transmission connected, we suggest a discount to smaller embedded generation at a rate reflecting the cost of network reinforcement avoided.



Cost of network reinforcement avoided should be reassessed frequently and differ by location to be cost reflective. If possible, it should take into account the changing marginal benefit of implementing more embedded generation in a region.

Question 9: Do you support any of the five options we have set out for residual charges below, and why?

Options B and C reflect the fixed nature of the costs and ensure users pay a standing charge for the security of the network they are connected to. They reduce self reinforcement effects and improve predictability of charges which reduces risk premia in tariffs and therefore benefits consumers.

Question 12: Do you think we should do further work to analyse the potential effects of the charging arrangements for smaller EG (called ‘embedded benefits’)?

Yes. We suggest further work to quantify the benefit of EG (on prevented network reinforcement) and does this differ by time of day? How does this differ by type of EG? How does this differ by region? How does the marginal benefit change?

Question 13: Do you think changes are needed to the current charging arrangements for smaller EG, and when should any such changes be implemented?

We see the CMP 264/265 decision addressing this.

Question 14: Of the embedded benefits listed in our table, do you think that any should be a higher or lower priority?

We see the priority from highest to lowest as follows: TNUoS demand residual, TNUoS generation residual, BSUoS demand charge payments, TNUoS locational charges, BSUoS generation charges.



Question 17: Do you agree with our view that storage should not pay BSUoS on both demand and generation?

Yes, we agree storage should not pay BSUoS on both demand and generation.

Do you agree with our view that these changes should be implemented by industry through the standard code change process?

Yes, we see no reason to establish a new process when the existing processes are robust and transparent albeit rather slow.

Question 20: We would welcome your thoughts on the potential makeup of a CCG. Please refer to the potential role, structure, prioritisation criteria and assessment criteria.

We have no particular views on the makeup of the CCG, however we do have significant concern that the CCG could easily make the overall change process even more onerous than currently. In our view, this would happen if the CCG was formed without other groups / panels / forums being disbanded. We have some concern that without changes to the actual modification processes of the CUSC and DCUSA, market participants could ignore the CCG and raise modifications directly, this would not be a good outcome.

Question 21: Do you agree with our proposed delivery model, including its Scope?

Yes.

Question 22: Do you agree that our proposed SCR process is most appropriate for taking forward the residual charging and other arrangements for smaller EG discussed in this document?

Yes.



We would be happy to discuss this with you or provide any further information if either would be useful.

Yours sincerely

[not signed]

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Head of Industry Supply Codes