

ENA Response to Ofgem Targeted Charging Review Consultation

1. Energy Networks Association (ENA) represents the “wires and pipes” transmission and distribution network operators for gas and electricity in the UK and Ireland. Our members provide the critical national infrastructure that delivers these vital services into customers’ homes and businesses.

Introduction

2. ENA members welcome the opportunity to respond to the Targeted Charging Review (TCR) consultation. Within our response we have sought to set out a collective view of our members which includes a number of key common principles and points on which there is broad agreement between ENA members.
3. The consultation sets out a range of proposals that include a review of residual charges (or ‘scaling’ charges) across the transmission and distribution networks for both generation and demand; charging arrangements for smaller embedded generation and ‘embedded benefits’ that are potentially contributing towards distortive market signals; and the potential to take forward any future changes across the areas of residual charges and embedded benefits by way of a Significant Code Review (SCR).
4. The consultation also considers the treatment of storage, in the context of application of residual charges and Balancing Services Use of System (BSUoS) charges, with the expectation due to their nature any future changes would be progressed under normal industry changes processes.
5. The ENA recognises that the TCR consultation is timely and seeks to respond to the changes we are seeing in the characteristics of our electricity system as a result of rapid change in the way electricity is produced, consumed and stored. The significant growth in intermittent and Distributed Energy Resources (DER) including at industrial and domestic levels, Demand Side Response (DSR), aggregators and private-wire networks as well as storage technologies presents new challenges and opportunities for the way our networks are designed and operated. These new technologies and changes in behaviour are also altering the way in which established charging arrangements impact on system users as a result of the interaction at the boundary of the different charging methodologies across both transmission and distribution.

ENA TSO-DSO Project

6. Earlier this year in response to these challenges and opportunities and to ensure the UK maintains a secure and economical network, the ENA launched the TSO-DSO Project¹. The TSO-DSO is a wide ranging programme of work that brings together the System Operator (SO), Transmission Operators (TOs) and Distribution Network Operators (DNOs) who are working closely together to address short term issues, but also to develop medium and long term enduring approaches to managing whole system issues as we move to a smart, flexible energy system.
7. Within the TSO-DSO Project a charging workstream is already looking at many of the issues identified in the consultation with the overall objective of considering the charging requirements of enduring electricity transmission and distribution systems. This work has short, medium and longer term objectives and may mitigate some of the concerns raised in your consultation.
8. In the short term it will look to identify problems caused for customers through the interaction of current charging arrangements across transmission and distribution and to capture their root causes. The intention is to develop potential solutions to the issues identified that will inform future developments within the context of any future changes to the charging regimes. This work will become part of any wider centrally directed programme of work overseen by the proposed Charging Coordination Group (CCG) as described under Chapter 9. The expectation is that further work will build on these early objectives and inform any longer-term strategic change, in a move to whole system pricing.
9. For ease of reference, where appropriate, this response has been aligned to the chapters of the TCR Consultation document.

Chapter 2 Review of Network Charges

10. The ENA is generally supportive of the proposals to review existing charging structures with the overall objective of ensuring that future arrangements are consistent with the need to send effective and efficient price signals based on a level playing field for those that connect to and use the networks. Consistent with this any changes to current charging arrangements need to be flexible enough to be responsive to the changing nature and demands of a rapidly evolving electricity system as well as consistent with any future changes to 'forward-looking' locational charging and the longer-term transition to an enduring regime that supports a smarter, flexible energy system.
11. The ENA recognises that over time, with the expected increase in take-up of new technologies and techniques for managing energy production and consumption across a wide range of customers, there is potential for residual charges to fall

¹ TSO-DSO Project <http://www.energynetworks.org/electricity/futures/tso-dso-project/overview/>

increasingly on groups of customers that are less able to take action compared to others that are connected to the electricity system. This is why we believe this consultation is timely and fits well with the wider programme of work that Ofgem is currently undertaking, including the forward work plan in response to the Call for Evidence on a Smart, Flexible Energy System and the Future Focused Strategy, which is due to be published in the summer and will be more targeted at the cost reflectivity of charging.

12. Over time, there is clearly a risk that the relative sharing of residual charges will increasingly impact on the affordability of electricity supplies for some customers, and particularly vulnerable customers which appears to raise questions around fairness and social responsibilities. It may therefore be prudent to review what is driving the magnitude of the residual charges and seek to reduce the burden this may represent for customers. However, the issues that the consultation seeks to address may not be solely due to current residual charging regime effects and it should be recognised that other costs, for example, the costs of calling-up high cost peaking plant may also fall disproportionately on non-flexible customers, although it is also recognised that the construction of supplier tariffs is also relevant to the distribution and impact of cost pass through to customers.
13. Our members recognise that decisions on the installation of technologies that enable a degree of self-supply or managed reduction in demand are a matter for consumers, for example, the utilisation of schemes such as behind the meter generation or private wire networks. However, as a principle, recognition is needed that all customers connected to the system enjoy the security of supply and that there are some unavoidable network costs associated with its provision that should be faced by all customers irrespective of how much they use the network.
14. The fact that transmission residual charges make up approximately 80% of total transmission charges raises a question over whether the current charging methodology is sufficiently cost reflective. In taking forward this review, robust analysis is needed to identify the underlying costs and the cost drivers and consider the extent to which the current 80% is truly reflective of what should be considered the 'residual' element. This will inform any future adjustments and the objective of appropriately allocating these charges to system users.

Chapter 4 Experience in other Countries

15. Whilst it is useful to review the experience in other countries including drivers for change to residual charges, approaches that have been adopted and lessons learnt, any future changes to the UK charging regime should, wherever possible, be consistent with overarching principles and the wider charging framework needed to support the transition to a smart, flexible energy system.

Chapter 5 Our Proposed Principles for Assessing Options

16. ENA members in principle support the adoption of a set of overarching principles that will be used to assess any options for changes to residual charges and guide decisions. A similar approach is being taken by the Charging Working Group under our TSO-DSO project.
17. We agree that use of principles can help to provide a consistent framework against which proposals can be assessed. In this respect, our members are of the view that it is important to recognise potential 'trade-offs' between principles and the extent to which they are prioritised and applied in any approach, for example, the design of charges that are highly cost-reflective is likely to result in greater complexity, which needs to be carefully balanced with the need for charges to be simple and transparent.
18. In general, ENA members acknowledge that the proposed principles of reducing distortions, fairness and proportionality and practical considerations are all important. However, there are other principles that might be considered as equally important or that should be taken into account, for example, cost-recovery, cost-reflectivity, commonality, transparency and flexibility, which reflect the underlying drivers by which use of system charges are derived.
19. Whilst a simplified approach is to be welcomed it may risk the apportionment of costs not being generally reflective of the costs that users impose on the network. Further consideration should therefore be given to the inclusion of 'cost-reflectivity' and perhaps other principles, although we recognise that this can potentially be caught within the interpretation of 'fairness'.

Chapter 6 Some Options for Setting Residual Charges

20. ENA members recognise that there are a range of different mechanisms available for the collection of residual charges and that the development of any approach, to some extent, is likely to be shaped by the apportionment of costs across different systems users.
21. The options and approaches set out in this section of the consultation for cost recovery highlight the potential for residual charges to be recovered on more of a 'fixed' rather than 'variable' basis and the pros and cons that exist around these two broad options and various approaches that may be applied.
22. In the interests of fairness any approach to the allocation of 'sunk costs' on customers should reflect the costs they impose or have imposed on the network. This should help to create a clearer distinction between 'forward-looking' locational costs and equitable residual costs with the aim of mitigating the issues referred to under Chapter 2, thereby reducing volatility and the levels of residual charges needed to facilitate cost recovery.

23. In considering these questions, you may also wish to consider the approach for collection of charges from users, taking into account appropriate principles. Whilst ENA is not advocating a particular approach, one example could be for Distribution Network Operators (DNOs) to levy charges on customers, which could potentially deliver more of a 'whole system approach' to network charging.

Chapter 7 Benefits for Smaller Embedded Generation, Relative to Other Generation

24. Assuming that providing a level playing field for system users in a future smart energy system is a key objective, then 'embedded benefits' may potentially be having a distortionary effect through the signals they send for the sizing, siting and operation of generation assets.
25. The work programme of the charging group under the ENA TSO-DSO project includes consideration of the issues caused by the interactions between the current charging regimes across transmission and distribution, including identification of the root causes of these issues and how they might be addressed. This work will complement wider initiatives already underway in the area of charging and serve to inform decisions on future changes to the charging regime, whether through the established industry change processes, a SCR or other route. We see the proposed CCG as having a necessary central role in any future change.
26. The behaviours that we are seeing in the market in respect of embedded generation may therefore point to the need to reassess whether current transmission charges are sufficiently cost reflectivity. The distortionary effects that have been seen in respect of the treatment of transmission charges across the transmission and distribution boundary are not repeated in the charging methodologies.

Chapter 8 Our View on Residual and BSUoS Charging for Storage

27. Careful judgement needs to be applied when designing any changes to existing arrangements to ensure these are consistent with providing a 'level playing field' for storage with other technologies and therefore cannot be interpreted as picking winners or being seen as discriminatory.
28. Whether or not to treat storage as generation at distribution level is an area that needs further consideration, particularly given the suggested 'fast-track' for storage and the need for any future changes to be holistic and not create new distortions in the market.
29. For example, it should be clear when distribution connected storage is operating in 'demand mode' (possibly at peak) how the costs that it imposes on the system (i.e. capacity used) are recognised.

Chapter 9 Co-ordinated Charging Group

30. ENA members welcome the proposal to set up a CCG to oversee charging work already being undertaken by the industry. However, this needs to be strongly managed by Ofgem with support from the industry, to ensure all the good work already carried out by the charging review groups is taken into account and not duplicated.

Other comments

31. Given residual charges account for around 80% and 50% of the transmission and distribution charges respectively it should be recognised that the TCR and any conclusions and changes that flow from it will have a fundamental impact on the energy system, energy companies and system users. Going forward this may point to setting clear stage or incremental type objectives focused on achieving outcomes, for example, removing distortions across the transmission and distribution boundary consistent with the overall aim of eventually achieving whole system price signals and a level playing field. In developing any changes cognisance is needed of actual and expected changes to the electricity system, for example, the impact of increasing take-up of electric vehicles.
32. Consideration should be given to the wider ongoing work currently underway on charging including the EDCM/CDCM review, National Grids' review of transmission charges and the TSO-DSO project charging workstream. Careful planning and co-ordination of these initiatives will be needed in order to, among other things, minimise the time to implement any future changes.

5 May 2017