

Targeted Charging Review: Significant Code Review, November 2017 stakeholder workshops note

Workshops: 15 November 2017 (Technology and Innovation Centre, University of Strathclyde, Glasgow) and 30 November 2017 (Devonport House, London).

Background: We held two stakeholder workshops in November 2017 to allow industry an opportunity to feed in views and to discuss the Targeted Charging Review working paper 'Targeted Charging Review: update on approach to reviewing residual charging arrangements'¹. This note sets out to capture the overarching conclusions and views of those attending the workshop, and should not be read as reflecting Ofgem views.

The workshops were well attended, with wide participation across industry and other stakeholders, and Ofgem would like to thank those who were able to attend. The feedback we have received has helped us considerably in furthering our work. If you do feel that your views are not represented in this note or would like to feed in further views, please contact TCR@ofgem.gov.uk.

Key themes:

- Most stakeholders indicated that they believed that residual charges should be recovered from final (metered) demand by end consumers².
- Fixed or ex-ante capacity charges were initially favoured by more stakeholders as a mechanism to recover residual charges over gross or ex-post capacity charges.
- Some industrial users noted that while some may be wary of fixed and capacity charges, for many users predictability and "forecastability" were desirable and would prevent inflexible users (such as many households including vulnerable users and industrial users with uninterruptible processes) picking up larger share of the costs.
- Simplicity of the regime was seen as very important, as is using existing data and systems and minimising new requirements and processes on users that already find industry complex.
- Attendees thought it was important that Ofgem's impact assessment looked at whole systems impacts and considered hybrid approaches as well as the options presented.
- Some stakeholders indicated that it is difficult to understand the potential impacts of the TCR as some industry sites are so unique.

Session 1 - 'Who should pay and how':

Should residual charges be recovered from generation, from final demand or from both?

- Consensus from most stakeholders was that residual charges should only be recovered from final demand.

¹ <https://www.ofgem.gov.uk/publications-and-updates/targeted-charging-review-update-approach-reviewing-residual-charging-arrangements>

² Final demand is demand for end consumption, and excludes intermediate demand by storage providers

- Workshop attendees, in particular, highlighted the simplicity of charging that could result, and the assumption that demand users ultimately pay the majority, if not all, of these charges.
- Others raised concerns about the ability to ensure a level playing field for onsite energy resources, the potential lack of future proofing should the supplier hub model fall away, and the ability to 'protect' large users from large increases in network charges.

Residual recovery mechanism: Gross consumption

- Little support for gross charging across stakeholders.
- Gross consumption charges may be difficult to implement. It would result in a potential increase in metering costs, changes to industry data flows and changes to billing systems – all at an increased cost to industry. It was also felt that this could lead to some users disconnecting from the grid.

Residual recovery mechanism: Fixed charges

- There was wide support for fixed charging. Fixed charging was seen as simple and practical to implement which could promote transparency, though a banding framework would have to be introduced in order for this mechanism to be fair. Implementing a framework may potentially be challenging.
- There were queries surrounding how you could set the level of fixed charge without referencing volume or capacity of energy consumed.
- Some stakeholders thought that this would not be as fair as a capacity charge, if the aim is to recover residual network charges.
- Fixed was seen as a good option for domestic and small businesses, though less so for larger businesses, due to the big difference in consumption between I&C customers.

Residual recovery mechanism: Ex-ante capacity charges

- There was general support for capacity-based charges, with more support for ex ante capacity charges over ex-post.
- Participants indicated that it was likely that ex-ante charges would require a complex mechanism to monitor and enforce, and that the metering and data requirements could be onerous.
- It was also indicated that rolling out ex-ante charges aligned with a rollout of HH settlement to domestic consumers should be considered.
- To be truly accurate, it was felt that there is a need for HH metering to capture maximum demand. Where the information is not available, we would have to consider suitable assumptions for differing customer groups.
- Overall it was generally agreed that it could be simple in theory but could need an adjustment to ensure reconciliation with the ex-ante capacity charge and the realised capacity use - which could lead to the de-facto imposition of an ex-post capacity charge.
- There would also be an increased revenue recovery risk for network operators compared to fixed charges.

Residual recovery mechanism: Ex-post capacity charges

- The use of ex-post capacity demand charges seemed 'sensible' to some workshop attendees. Although some would support a hybrid approach (similar to CMP274).
- However, others indicated that it could be more complex to implement than ex-ante charges, but without additional benefits.

- Some stakeholders suggested that while they generally considered this to be a fair approach, they felt that the first year of implementation would need good management as it may use data and forecasts that are not currently used, and the amount of capacity used by a customer may vary.
- Some stakeholders suggested this approach will be dependent on smart meter roll out for household users.
- Others stated that this can utilise the current HH metering for larger HH users but likely additional and HH metering required for household users.
- Many participants indicated that capacity charging 'feels the fairest'. However, it might be harder to implement for small users, given the current capacity available to domestic users.
 - There was support for application to larger and Half hourly (HH) settled users.
 - With regards to data flows, Elexon already records maximum capacity. DNOs probably could already implement for users with an agreed capacity.

Session 2 – Practical Considerations

Gross

- Most stakeholders raised the potential difficulties surrounding how you obtain the required data. Gross metering is likely to require the installation of new metering equipment.
- Some indicated that the data flows would nonetheless be straightforward once you have the metering data.

Fixed

- Fixed charges were generally seen as simple to implement as no new information or metering needed.
- It was seen as easy to understand the impacts and would be straightforward to set charges to meet allowed revenue.
- A potential need for banding of groups was seen as an implementation challenge. Stakeholders raised questions surrounding how you could differentiate by the size of the user. One stakeholder suggested using a similar framework to water usage, as this is already charged on a basis of Council Tax.
- One stakeholder stated that more consideration needs to be given to the increased costs to the system, which will be passed onto the suppliers. Also recognising that it may be difficult for suppliers to plan for this with switching.

Ex -ante charges

- Some stakeholders raised concerns about using a fuse size as the basis for ex-ante capacity charges, indicating for example, that users could be impacted by 'fuses tripping'.
- Others indicated that it was important to recognise the physical connection capacity and actual use are different things – many people will have a large connection capacity (and some others may have a lot lower) so the idea of paying based on your physical connection could be hard to implement.
- Potential differing transmission vs distribution timeframes to implementation may lead to implementation challenges.
- Some stakeholders suggested that a phased implementation approach could be beneficial. They suggested starting any implementation first on larger customers then filtering down to smaller customers, and finessing the process and implementation at each stage.

Ex-post charges

- It was felt that data flows are unlikely to be a problem with ex-post charging, but could face metering challenges prior to half hourly settlement.
- Differing transmission vs distribution timeframe to implementation may lead to implementation challenges.
- Could open up the incentive for individuals to hoard capacity, as there is no advantage to export back to the system.

Session 3 – Further Analytical work

Wider system impact analysis

- Stakeholders were keen to see a 'whole system impact' analysis. Some argued that the scope should be sufficiently wide to capture direct and indirect impacts of distortions, for example, on capacity market. Stating we would not know the benefits of the change unless we did a whole system model, and in particular the impact on consumer welfare.
- Representatives indicated that it would be useful to model the price elasticities of different network users. Some attendees thought this would be an important input to the whole system modelling.
- Stakeholders were keen to have the opportunity to input into the assumptions of behaviour change and investment decisions prior to detailed modelling being undertaken.
- Stakeholders also indicated that they would be interested in further analytical information on hybrid options. Views and questions expressed included:
 - Some felt all viable hybrids ought to be included, others felt viability or acceptability may narrow options down naturally.
 - Some suggested we needed to keep minds open in terms of options as modelling progresses.
 - Need to assess the balance between what is achievable/affordable and the potential impact.

Distributional impacts

- Stakeholders indicated that distributional impacts should be provided with sufficient granularity, including domestic consumers with PV, I&C with and without onsite generation, rather than including all domestics in a single category. One participant expressed the view that the number of consumer categories used for the assessment of the HHS SCR was not proportionate.
- It was felt that distributional impacts on small, medium and large businesses were particularly important, given the current incentives to avoid 'Triad' periods by the current residual charging methodologies.
- There was an understanding that any change would lead to distributional impacts, and being clear and upfront about winners and losers would lead to the most positive industry engagement.
- It was also felt that behavioural/attitudinal/investment impacts would be as important as well as financial impacts.
- Some indicated that it would be useful to have indicative tariff assessments for different types of users.

Sensitivity analysis

- There was general support for the use of sensitivity analysis to understand the impact of potential outcomes.
- Stakeholders were keen that a broad range of different potential market scenarios, particularly around the storage rollout, were considered.

Learning from Impact Assessments

- Stakeholders highlighted the importance of having clear information presented, and simple access to infographics to illustrate the meaning simply. The key message is that options will not change the overall bill faced by all consumers.
- There was also the indication that we could we engage through trade associations before the analysis starts to ensure all stakeholders are on the same page.

Transitional arrangements

- Participants indicated that to maintain €2.50 an approach a new payment to generators could be required.

Session 4 – Stakeholder engagement:

- Stakeholders expressed that they were keen to organise bilateral and individual meetings, there would provide an opportunity to engage openly.
- There was also support for formal consultations to allow for formal and transparent responses.