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Targeted Charging Review: Significant Code Review: a second workshop

Central Hall, Westminster
19 April 2018

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Welcome to the Targeted Charging Review: a second workshop

Aim of todays workshop:

- To provide stakeholders with an overview of our approach
- To receive stakeholder feedback upon our proposed user groups that will be used for our distributional work
- To capture views to further our analytical work.

Housekeeping:

- **There are no expected fire drills today, so please exit the building if you hear the fire alarm.**
- **Emergency exits are down the corridor.**

Agenda for todays workshop

- **10.00-10.30** Introduction and overview
- **10:30-11.15** Methodology and approach
- **11.30-11.30** Break
- **11.30-12.45** Session 1: Vanilla charging options
- **12.45-13.30** Lunch
- **13.30-14.45** Session 2: User groups
- **14.45-15.00** Break
- **15.00-15.45** Session 3: Practical implementations
- **15.45-16.00** Close

What's the problem

The current framework for residual charging may result in inefficient use of the networks. They may drive actions from some network users that result in adverse impacts on other network users, and hence consumers in general.

Changes in technology and other factors, some network users are increasingly able to adjust the timing and volume of their production and/or consumption of electricity, reducing their exposure to charges. Current residual charges will increasingly fall on those network users who are not able to do this.

We asked you: 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?

There was a strong consensus from nearly all respondents, who agreed that residual network charges should be addressed.

Some respondents commented that residual charging is driving behaviours for which it was not designed, and having adverse impacts on certain network user groups.

Update: what is the TCR?

Current framework	Significant Code Review	Outcomes
Inefficient investment decisions	Targeted Charging Review	Reform how residual charges are set and recovered
Increasing system costs		Keep other embedded benefits under review
Inefficient operation decisions		
Increasing costs for inactive consumers		

Update: what is the TCR?

Our Principles	Our work	Initial view
Reducing Distortions Practical Considerations Fairness	Who should pay residual charges?	✓ Demand ✗ Generation
	How should residual charges be recovered?	✓ Gross ✓ Fixed ✓ Ex ante ✓ Ex post ✗ Net volumetric ✗ Net import and export ✗ Peak import or export
	How should that mechanism be implemented?	? Triad ? Individual peaks ? Ratchet charges ? hybrids ? ….

Update: our principles

Reducing harmful distortions

- Network costs should be recovered in ways that reduce distortions to decisions around efficient access and use of the network
- Reducing harmful distortions helps promote effective competition for consumers by facilitating a level playing field

Fairness

- Avoid undue discrimination among network users due to the recovery of residual charges
- We will give careful consideration to the impacts on vulnerable consumers.
- Fairness to investors or industry participants covered by our aim to be non-discriminatory

Proportionality and practical considerations

- Practical issues are key to assessment of new charging framework, including the availability of the required metering information, implementation cost and simplicity
- We will consider whether transitional arrangements are justified

Gross volumetric consumption charge

- **Might not drive large responses to reduce charges**, as gross consumption is relatively price insensitive for most users.
- **The practical challenge of this option is considerable:**
  - Would require a new metering approach.
  - It would require considerable change in our approach to what happens on-site and be extremely challenging to monitor and ensure compliance

Fixed charges (per use)

- **Should not distort user decisions**
- Could give an **increased incentive for inefficient grid** disconnection
- **Easy to implement,** hybrids and implementation could limit regressive effects

Ex ante capacity demand charge

- **Less distorting to operational decisions** around network use
- **Increases incentives** for inefficient grid disconnection
- Agreed capacity charges may **support efficient planning** of the network
- Hybrids and implementation could limit regressive effects

Ex post capacity demand charges

- **Less distorting to operational decisions** around network use, but potentially incentivises less than optimal capacity use
- Incentive for **inefficient disconnection low**
- There are implementation challenges:
  - To achieve an ex-post capacity charge, a measure of peak use is required. As the residual component of the charges is not intended to reflect the costs imposed by individual network users, coincidence with system peak has limited benefits.
  - What if someone moves?

Today's session

To date, we narrowed down our shortlist of options to four high level recovery mechanisms. Today's session will provide an update on the next stage of the TCR SCR. We will focus on:

1) **A set of 'vanilla' modelling runs**
2) **User groups that aim to capture varying bodies of industry**
3) **Approach for assessing the practical considerations, proportionality and cost**

Vanilla Modelling

The vanilla modelling runs are the initial 4 options.

These are designed to show the user impacts of changing to one of the recovery mechanisms set out in our working paper. These are deliberately simplified options and are not final. They will be used to help shape the next phase of the project

User Groups

We intend to look at load users in a number of categories in three key segments/categories:

- Domestic
- SME / Commercial
- Industrials

Within each segment we will additionally look at how factors like size, sector, presence of certain electric appliances (electric vehicles and air source heat pumps) and ability to autogenerate can influence the demand profile of users.

Practical considerations

We intend to assess each option through its practicality, expected cost and the proportionality of change.

This will include an estimate of cost for system changes, implementation time, and an assessment of the impacts of a proposed change on different users and industry.

This assessment will require industry input.

Further stakeholder engagement

We will be continue to engage through the relevant avenues:

- The Charging Futures Forum, May/June (TBC)

We will circulate a workshop note that captures the stakeholder views expressed in both the Glasgow and London workshops.

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Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.

We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.

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