

# Energy UK response to the Future Charging and Access programme – consultation on refined residual charging banding in the Targeted Charging Review

30<sup>th</sup> September 2019

## About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests £12bn annually, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HM Treasury.

## Response

Energy UK welcomes the opportunity to respond to the Future Charging and Access programme – consultation on refined residual charging banding in the Targeted Charging Review.

### Residual charging banding

In Ofgem's original minded-to position, the intention was to use standard industry data to recover residual demand charges for customers. The Line Loss Factor (LLF) was the most practical route to achieve segmentation, notwithstanding, that this did have issues to ensure customers with similar characteristics were treated equitably. It is recognised that the use of LLF would be the quickest and least disruptive method of banding.

Ofgem's updated position moves recovery of residual charges for non-domestic customers significantly away from the use of industry data by introducing banding which is not readily available. This makes it impractical for both suppliers and network companies.

We do not disagree with an approach that allows equitable recovery of costs amongst customers but there are other ways to achieve a similar effect than the updated proposal. A hybrid solution seems more appropriate.

- For smaller non-domestic customers where Availability Capacity is not available, a combination of a fixed charge based on the Line Loss Factor and the remainder recovered on a net volumetric basis achieves the same intent as the volumetric banding approach Ofgem has suggested.
- For larger non-domestic customers where Availability Capacity is available it seems appropriate to simply use the agreed capacity value. The introduction of bandings complicates this for suppliers and network companies and is needless. If Ofgem is adamant on trying to band similar types customers, a combination of fixed and agreed capacity could be introduced. However,

unless this is linked to the LLF, it serves little additional improvement to just using Agreed Capacity on its own.

If Ofgem are intent on using hard bandings, Energy UK have some suggestions to make this more practical and fair:

- The bandings should be constructed in such a way to not influence customers to change their behaviour with the reward of lower charges.
- A centralised data source needs to be created accessible by suppliers and network companies with sufficient notice to identify which bandings each customer (MPAN or site level) resides within; this eliminates the some practical issues and will take longer to implement than the original proposal.
- Finally we note that Ofgem's intention is to limit the behaviour of customer's moving between bands by fixing the customer to a band for a duration equal to a network regulatory price control (i.e. to be 5-years). This option should be developed to be flexible to appropriately adapt to customers changing needs at the workgroup stage.

#### Updated modelling for renewable generation

Energy UK members note that the sensitivity tests were based on the simplistic assumption that 50% of onshore renewables would fail to be built, and would be replaced with offshore wind generation<sup>1</sup>. The impact of the TCR proposals to onshore renewables would be negative across all sites, and some members therefore believe the example 50% drop-out rate Ofgem present in their sensitivity analysis could in reality be significantly higher referencing published analysis. Other members however agree with Ofgem and believe the drop-out rate could be lower. Energy UK members note that Ofgem have not published how they landed with the upper band of a 50% drop-out rate, and ask that this evidence and accompanying assumptions are published for clarity, including assumptions around re-powering/replacing onshore wind.

Further, the Frontier/LCP analysis states that "...the reduction of onshore wind and solar are replaced with the equivalent amount (in energy terms) of offshore wind."<sup>2</sup> Energy UK welcomes clarification on how this will be achieved. Is the assumption that the capacity cap of 6GW (which was applied in auction round 3 (2019 auction) be altered in future auctions?

Some members believe that government would have to introduce a corresponding change to renewables support to prevent such a drop-out rate in reality. These members point towards the reopening of CfD auctions for onshore renewables and altering the caps on MW procured through the CfD pot 2 auctions in order to cover the drop in renewable capacity. Neither of these represent current government policy.

Other members state that adjusting the residual and BSUoS charging arrangements will change the position for some users and will therefore lead to a fairer distribution of costs leading to a more economically efficient mix of low carbon projects to come forward.

Energy UK have recently called for a new "net zero" test to be applied for all government policies. Whilst we appreciate that Ofgem's Significant Code Reviews are not government policy, the proposals under the TCR (and indeed other SCRs) do impact upon government policy and legally binding decarbonisation targets. We therefore encourage Ofgem to highlight this to government and BEIS.

Should you have any questions on the above response, please do not hesitate to get in touch.

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<sup>1</sup> Offshore wind is the cheapest form of new generation since the AR3 results came out on 20th September 2019. Onshore wind and solar, however, have not had a chance to compete to demonstrate current prices since 2015.

<sup>2</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/09/wider\\_system\\_modelling\\_-\\_renewable\\_sensitivites\\_-\\_2019-08-30.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/09/wider_system_modelling_-_renewable_sensitivites_-_2019-08-30.pdf)

**Joe Underwood**

Policy Manager  
Energy UK  
26 Finsbury Square  
London EC2A 1DS

Tel: +44 20 7747 2942

[joseph.underwood@energy-uk.org.uk](mailto:joseph.underwood@energy-uk.org.uk)

[www.energy-uk.org.uk](http://www.energy-uk.org.uk)