

Targeted Charging Review

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Targeted Charging Review: Significant Code Review, CFF

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ofgem

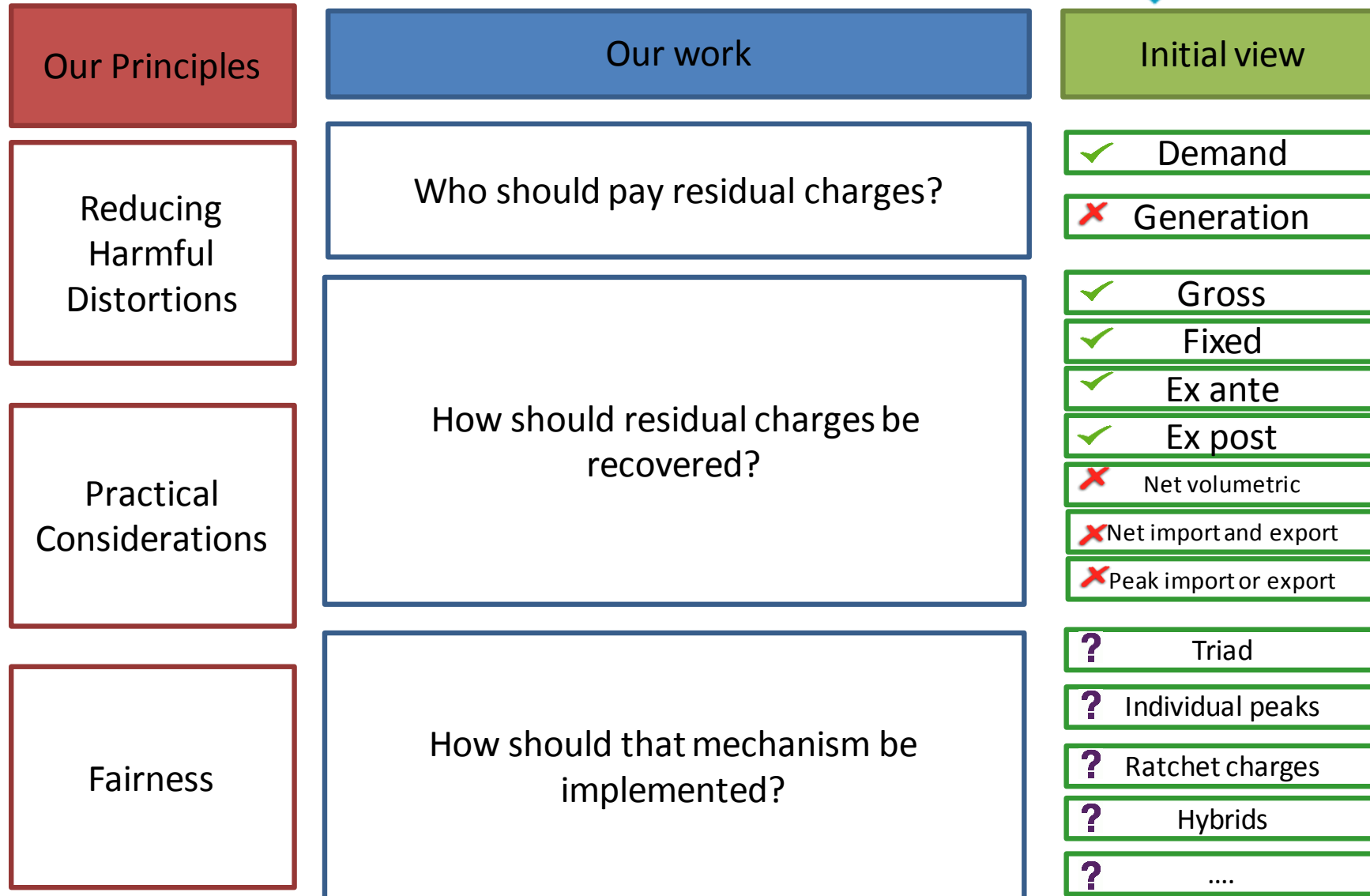
Aim of today

- TCR update
- Re-cap on the webinar content
- View on next steps
- Chance for questions

We are reviewing residual network charges in order to reduce harmful distortions, and ensure they are recovered fairly

Under the current system, we believe:

- Some users may make decisions based (in part) on residual charges, and pay lower charges as a result, although their actions have **not reduced the total level of costs** which need to be recovered.
- The increase in availability and affordability of smaller scale generation means that **some consumers can more easily reduce their net demand and hence residual charges.**
- The current way that residual charges are set creates some incentives that could lead to a **more expensive system overall.**
- Current **residual charges fall increasingly on groups of customers who are less able to take action to reduce their residual charges.**



Our progress since the May CFF

- In May 2018, we provided an update on our April stakeholder workshop, the user groups and the Frontier analysis assessing users' initial bill impacts.
- Since then we have:
 - progressed our analytical work to understand the potential impacts of change;
 - developed assessment criteria of fairness;
 - developed assessment criteria for proportionality and practical considerations; and
 - held a webinar to run through the static distributional analysis.

Our 'vanilla' charging options

Relative to the baseline (no further reform) we are assessing the impact of moving to each of the four alternative 'vanilla charging options'.

Fixed charges (per user fixed charges)

- As a starting point we consider the impact of options where the revenue raised from a particular segment is similar to historic levels.

Gross consumption charges (based on all user's consumption incl. from onsite generation)

- Apply to non-domestic customers (i.e. industrial final demand and larger commercial sites) which includes sites on the HV network under the CDCM regime

Ex ante capacity (charges related to user's agreed or connected capacity)

- Capacity charge based on individual customer connection capacity
- We assume the same connection capacity for all domestic consumers

Ex post capacity (based on measure of individual peak system usage)

- We consider the impact of a measure of single individual

Vanilla charging options static analysis

Important caveats

This presentation is intended to provide an update on our quantitative assessment of the vanilla charging options being considered under the Targeted Charging Review SCR. This work has been undertaken for Ofgem by Frontier Economics based on assumptions agreed between Frontier Economics and Ofgem.

This analysis:

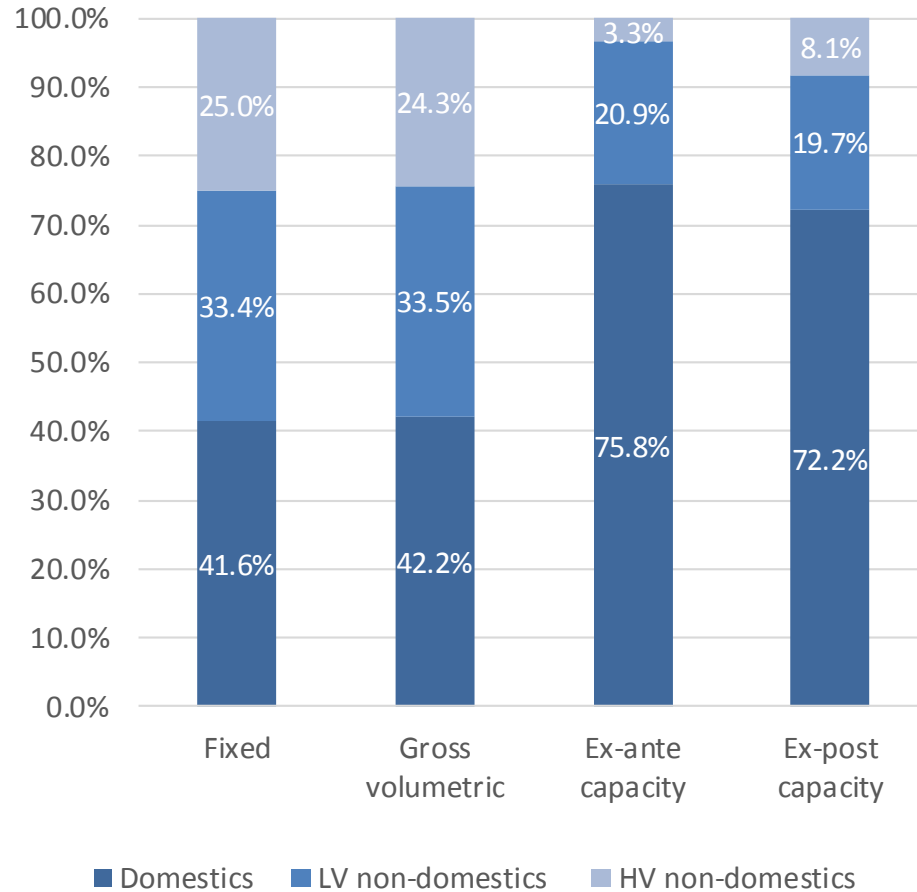
- Is a **draft work-in-progress view** of ongoing analysis which is subject to change and does not in anyway amount to a final impact assessment;
- Is for the purposes of supporting the policy work on the TCR project only, and does not constitute a wider official Ofgem forecast of future network charges or any other forecast;
- Is a summary of the analysis conducted so far to provide an overview.

Throughout this presentation, example residual charge impacts are provided only rather than final bill impacts, with the majority of slides focusing on the Northeast DNO region, considered as reasonably representative of a typical DNO. The exception to this is the charts showing the level of residual contributions from each segment which are shown at a national level.

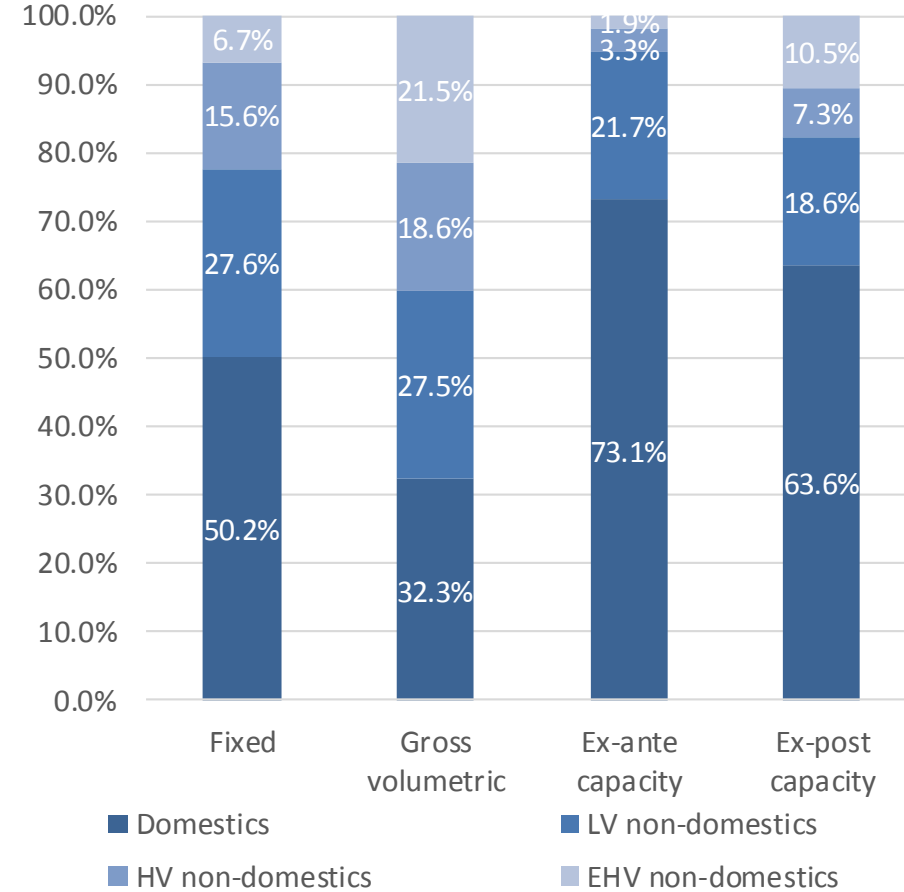
As these draft results are subject to change, **they should only be consider illustrative of impacts and then only for the “vanilla” version of these charges set out.** Other revenue distributions would be present under different assumption and Ofgem are considering a range of refinements to each option.

A full impact assessment on leading options will be published later this year.

CDCM - Residual revenue recovery by segment for vanilla options (all DNO areas)



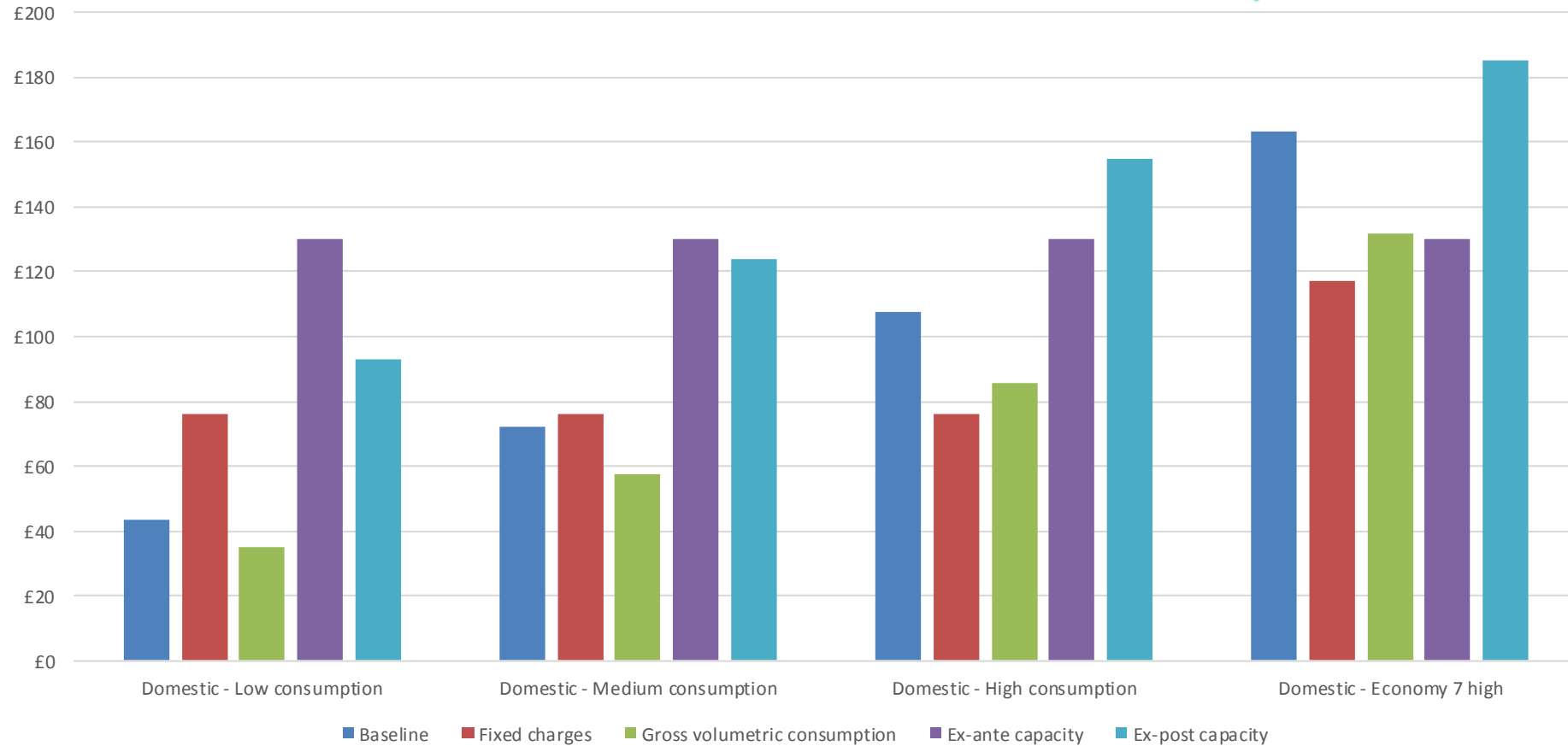
TNUoS – Residual revenue recovery by segment for vanilla options (all DNO areas)



NB The revenue distribution for the vanilla fixed charges is the same as the distribution in the baseline. This is because the Vanilla fixed charge option carries forward existing residual allocations, setting fixed charges based on historic segment levels.

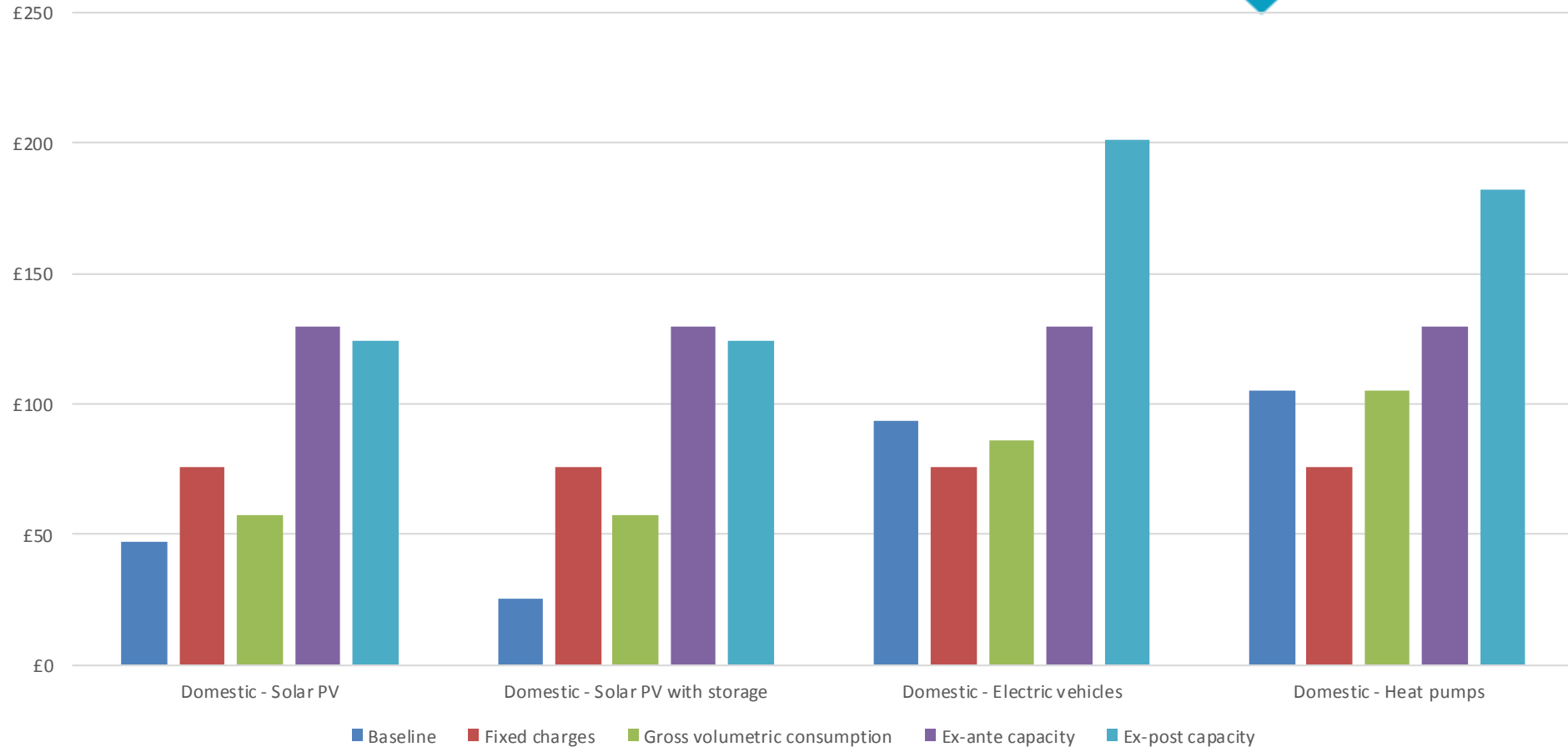
Vanilla Options static analysis

Domestic User Groups (North East) - Annual residual charges



- Gross volumetric charges are not being considered for domestic users. Alternative charge method would be needed to recover revenues.
- Residual based on TNUoS and CDCM residuals

Domestic User Groups (North East) - Annual residual charges

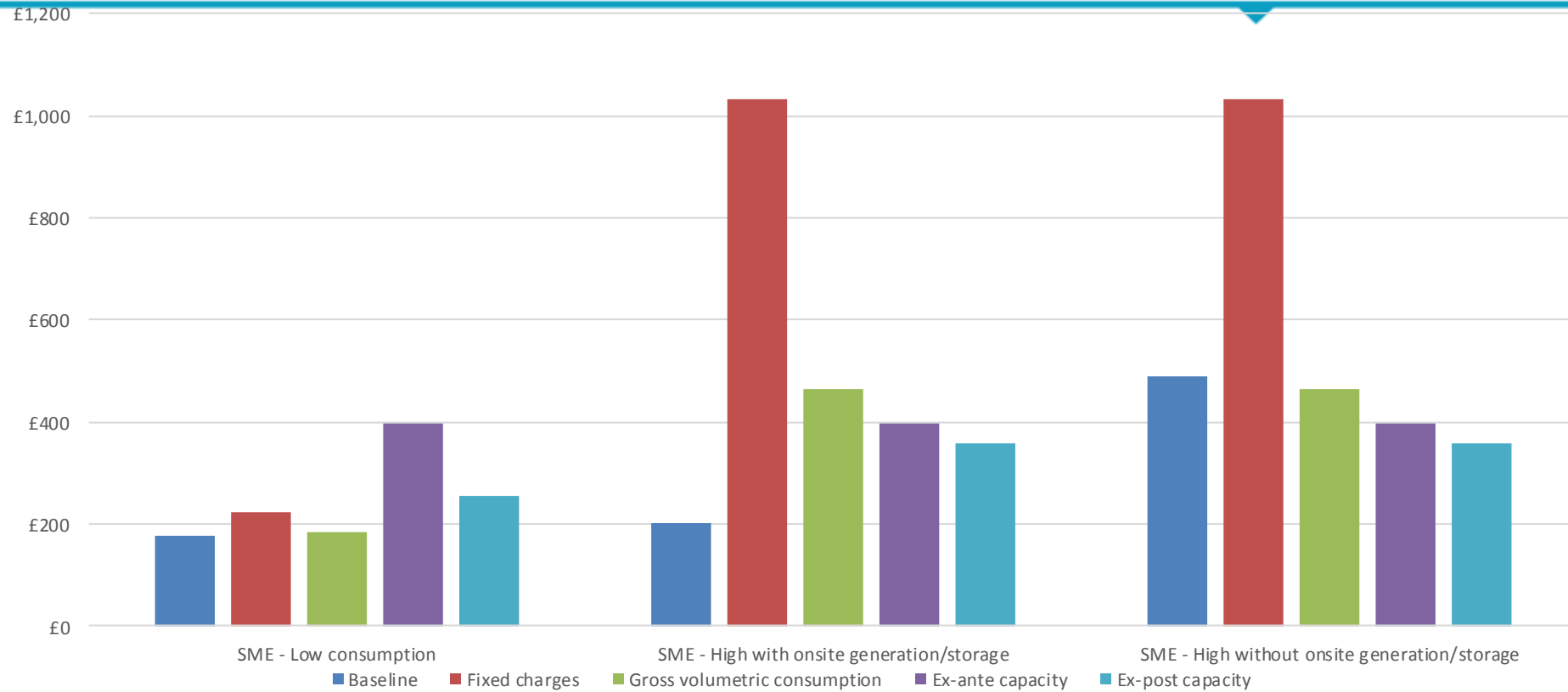


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Vanilla Options static analysis

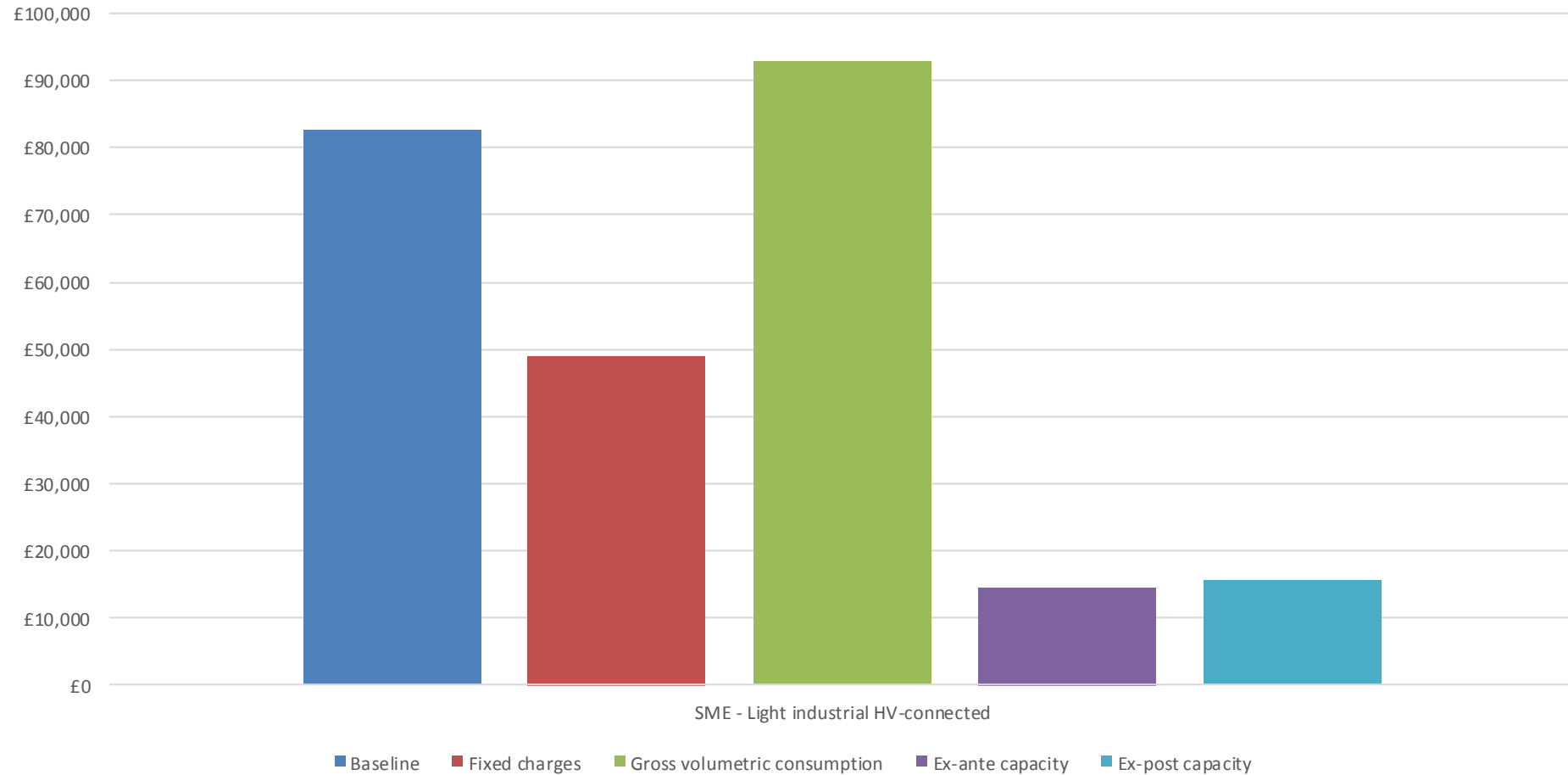


Commercial User Groups (North East) - Annual residual charges



- Note that this illustrative fixed charge is based on a site with an below average consumption for its LLFC – the charge may vary significantly based on consumption and LLFC.
- Gross volumetric charges are currently being considered for large commercial and industrial users only. Alternative charge method would be needed to recover revenues for other users.
- Residual based on TNUoS and CDCM residuals

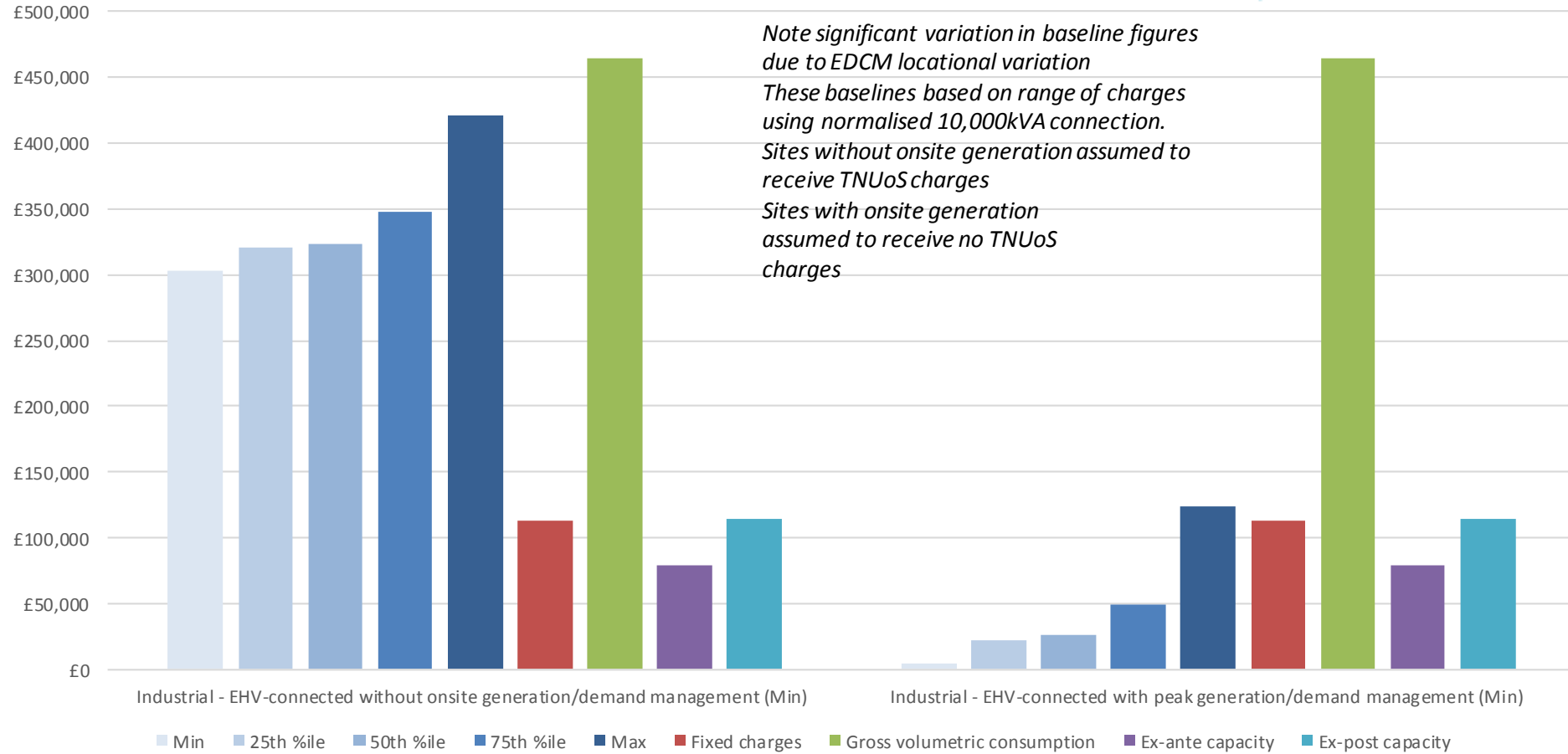
Light Industrial User Groups (North East) Annual residual charges



- Residual based on TNUoS and CDCM residuals

Vanilla Options static analysis

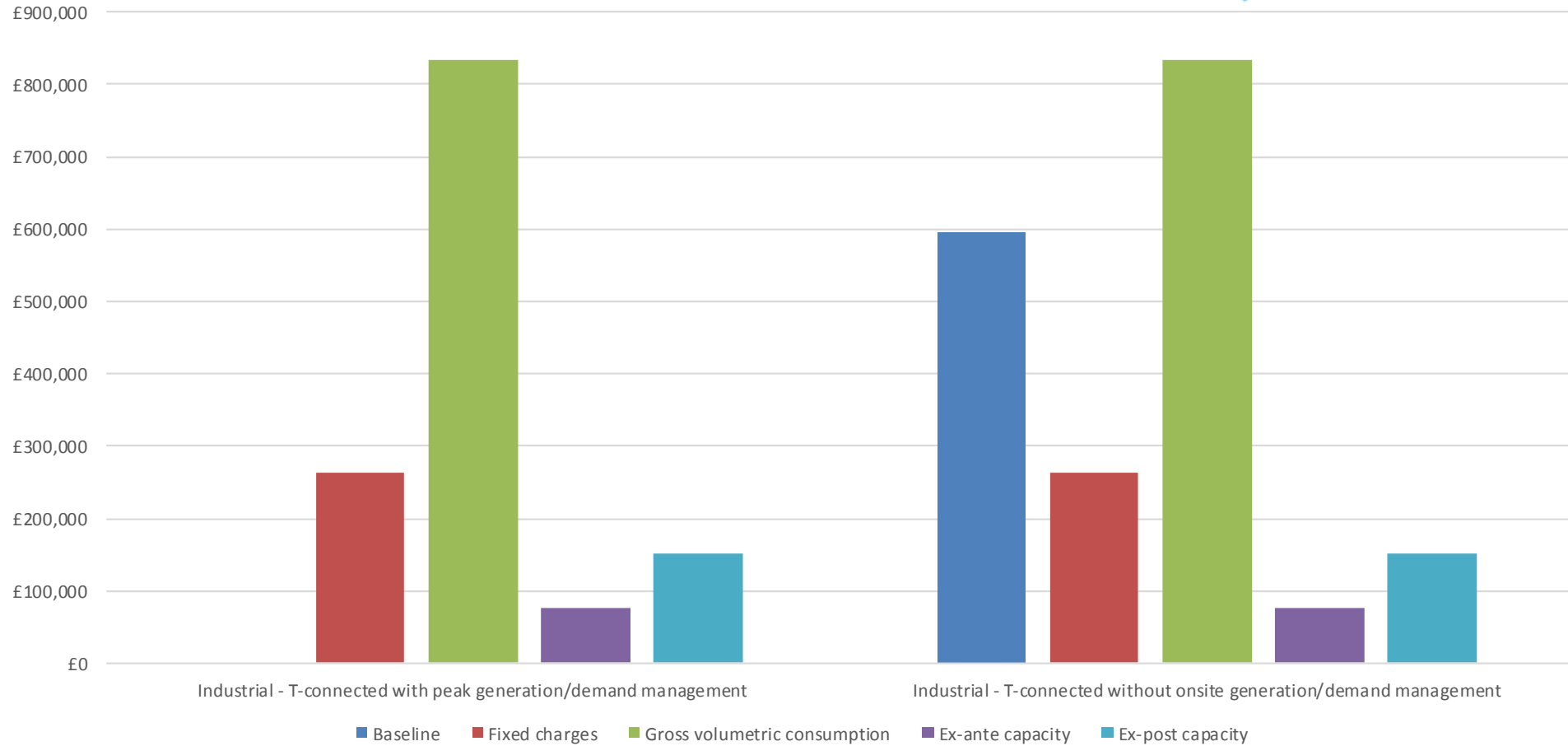
EHV Min, Q1, Q2, Q3, Max (North East) - Annual residual charges



- Residual based on TNUoS and EDCM residuals *using normalised 10,000kVA connection.*

Vanilla Options static analysis

Transmission User Groups (North East) - Annual residual charges



- Residual based on TNUoS residual

Charge	Key Challenges	Possible remedies
Fixed	<ul style="list-style-type: none"> ▪ Disconnection only way to reduce charge ▪ Fairness concerns if same charge for significantly different users 	<ul style="list-style-type: none"> ▪ Hybrids with variable element ▪ Greater numbers of user bands
Gross volumetric	<ul style="list-style-type: none"> ▪ Data collection and metering ▪ Complexity 	<ul style="list-style-type: none"> ▪ Restrictions to large users only
Ex-ante capacity	<ul style="list-style-type: none"> ▪ Load reduction incentive ▪ Missing data for some users ▪ Fairness concerns if same charge for different users 	<ul style="list-style-type: none"> ▪ Hybrids with variable element ▪ Deemed levels for data deficient users
Ex-post capacity	<ul style="list-style-type: none"> ▪ Load reduction incentive ▪ Residual influences operations ▪ Metering capability 	<ul style="list-style-type: none"> ▪ Hybrids with fixed element ▪ Deemed levels for data deficient users

How can the Vanilla options be refined?

Two-part tariffs	Segment specific charges	Segment residual allocations
Combine option with another, or with net kWh for “scale”	Segments specific charges e.g. fixed for small, ex-ante for larger	Revenue from each segment set using historic / capacity / peak / volumes / meters share
Segment boundaries	Frequency of charge	Deemed assumptions
Segment by voltage and LLF, or customer type	Monthly, annually, or over specific periods	Deemed levels fill data gaps but may alter revenue distribution

NB others have also been considered

Next steps

- We plan to publish a preferred option for consultation later in the autumn.
- We plan to make a decision on any transitional arrangements alongside our minded to decision.
- Outputs expected to be raised as code mods through open governance process (spring 2019).
- If you have any further comments please send them to TCR@Ofgem.gov.uk

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.