

Targeted Charging Review: Significant Code Review, April 2018 a stakeholder workshop note

Workshops: 17 April 2018 (Technology and Innovation Centre, University of Strathclyde, Glasgow) and 19 April 2018 (Central Hall, Westminster, London).

Background: We held two stakeholder workshops in April 2018 to allow participants an opportunity to feed in views to inform the analytical work that will support GEMA's decisions on the Targeted Charging Review (TCR). This note sets out to capture the (anonymised) feedback from 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 feel that your views are not represented in this note or would like to provide further feedback, please contact TCR@ofgem.gov.uk.

The workshop was focused on 3 sessions:

Session 1 – The proposed approach to modelling

Session 2 – The user groups for the distributional analysis

Session 3 – The practical and proportionate considerations

Key themes from stakeholders

- Many stakeholders expressed support for the proposed approach to the modelling.
- Stakeholders had differing views as to whether the proposed set of user groups captured the necessary cross section of industry. Some stakeholders considered the categorisation to be right, whilst others thought that further consideration should be given to the categorisation of the user groups. Though there was an overarching view that around 15 user profiles was enough.
- Stakeholders were eager to get a clear understanding of what the scenarios will look like under the various options, and particularly keen to understand the business impact of the changes that were being posed, asking to receive figures that were directly relatable. They were particularly interested for the draft impact assessment to include bill impacts under each of the options.
- Stakeholders were also keen to understand the links between the TCR project and other work streams across Ofgem, particularly with the Electricity Network Access, Forward Looking Charges and Half-Hourly Settlement projects. Ofgem explained that these work streams are being considered holistically with complimentary timelines and governance arrangements. Some stakeholders called for a need to link the modelling with the forward looking charges work and expressed concern at how the TCR can be taken forward separately, given the potential impact of the access work on the size of the residual charges.
- Some stakeholders sought further clarifications surrounding the overarching objectives of the TCR and questioned whether this SCR was to reduce distortions or

to set pricing incentives. There were some calls for Ofgem to be clearer on our approach. Though others thought that Ofgem had been very structured in their communications and praised Ofgem for their regular and informative messaging.

- Some stakeholders did have concerns with the timelines for the SCR, stating that they are challenging and that a longer period would be needed to sufficiently model the full set of options.

Session 1 – Vanilla charging options

What are your views on the proposed approach to the modelling?

- Many stakeholders expressed support for the proposed approach to the modelling, stating that it seemed a sensible and pragmatic way forward, with the vanilla options and distributional analysis providing an initial view of the impact of the moving to one of the four proposed vanilla options. Stakeholders thought it was sensible to first undertake the distributional analysis, with the whole systems modelling occurring once the outputs of this were understood. Overall, stakeholders were keen to see the initial outputs of the analysis and to provide further input.
- Many called for a systems based approach with a need to model against existing behaviour types, in particular, 'what will happen to peak demand, wholesale pricing, transmission investment etc.'
- Some suggested using a range of future energy scenarios, not just those that National Grid forecast. The modelling needs to reflect a number of potential futures not just likely or desirable.
- One stakeholder expressed that there was a lot of uncertainty at the moment (RIIO-2, the future demand scenarios, the affect of the access project on calculation of the residual) and wondered how we would factor these elements into the modelling. Ofgem reassured stakeholders that the TCR is being considered collectively alongside other projects and that decisions were being made in parallel with such work streams.
- Some stakeholders stated the modelling needs to quantify the whole system impacts of changes, including carbon efficiency of embedded CHP and heat recovery, reduction in peak wholesale costs driven by the current system.

What are your views on the vanilla options?

- Stakeholders had mixed views on vanilla charging options. Some thought that our approach was reasonable and supported the choice of options to analyse, where others thought that there was more to consider and the rationale needs to be unpacked in greater detail to ensure we take into consideration, such as onsite generation. Some thought that the vanilla approach ignores outlying cases such as large loads, the need for high capacity relative to actual load, and the ability to shift load.

Session 2 – User Groups

- Many stakeholders thought the proposed user groups reflected a fair cross section of industry and as an approach were reasonable. Stakeholders generally thought that 15 user profiles struck the right balance between granularity and enough to capture a broad range of users. Overall, stakeholders agreed that the approach to define clear 'user groups' to help us understand how the bills of different user groups could be affected by the options, stating that this approach seemed both sensible and

pragmatic. Stakeholders also thought that how we have assessed each user group by peak consumption, annual consumption and connection size were the right elements to consider when assessing the user group profile. Stakeholders were pleased that emerging technologies were being considered within the user groups and that they did embrace future looking scenarios.

- Others thought that some users were not represented within the proposed segments and that more could be done on the proposed groups to capture the breadth of industry user.
 - o Some stakeholders stated that two profile groups for larger industrial users was too few, stating that some users consume a multiple of the proposed higher band. Stakeholders noted that they do not cover a substantial number of users.
 - o Others thought that the division between low and high consumption of SME users, did not represent users adequately. There was a call for a 'commercial' category, which could represent office blocks, small businesses, and supermarkets. One stakeholder proposed for SME users to be split into low (HV/LV connected) and high (HV/LV connected) users, whilst another suggested looking at the 'consumer type' profile used in the 'Standard Industrial Classification Codes'.
 - o There was a call for further information and a greater breakdown of generator groups. Some suggested splitting generators by intermittent/baseload, controllable/non-controllable and on site storage to supplement generation.
 - o Some expressed that storage users are not considered enough within the proposals, stating that there are multiple types of storage facilities with and without PV.
- Some stakeholders stated that vulnerable consumers are not covered enough by the 'low/medium consumption' domestic profiles.
- Stakeholders questioned how future focused the customer archetypes are. There will be a need to consider the smart meter rollout and how that could change the current profile structure.
- It would be good to examine the total residual paid by different user groups to determine which sub division of user groups would be most impacted.

Session 3 – Practical Considerations: Proportionality, Practicality and Cost

- Some stakeholders suggested bilateral meetings would be the most useful way to share information and data between Ofgem and industrial parties. Others suggested engagement with trade associations would be most efficient.
- Some stated that a formal Request for Information (RFI) may not be necessary as many stakeholders will be willing to provide data without the formal process through email or a questionnaire. Though any RFI would have to be well thought through, clear and detailed.
- Many stakeholders expressed concerns about the privacy of data and who would administer collection and management of the data. Stakeholders suggested that we gather data from the CDCM, and anonymised data from Elexon and with a formal

request on each DNO. Ofgem assured stakeholders that data requested would be anonymised.

- Stakeholders called for Ofgem to publish the models to industry allowing them to apply their own assumptions.
- Stakeholders called for early publication of estimated unit costs for the representative user groups. This will allow industry a clearer understanding of what scenarios will look like under the various options.
- Some stakeholders also stated that the impact on combined heat and power and carbon emissions should be considered within the modelling.
- It was noted that it is important that we engage with not just vocal industry experts, but consumer groups and leading academics too.