

TARGETED CHARGING REVIEW

The changes happening to network charging from April 2021

Network companies are responsible for recovering the cost of maintaining the transmission (TNUoS) and distribution (DUoS) networks that transport energy to customers. They do so by creating tariffs that apply to different types of customers, varying by region.

TNUoS and DUoS are split into “Residual” and “Forward Looking” charges.

Residual charges are essentially the fixed overhead costs for running the existing network.

Forward Looking charges cover future network costs.

Network operators have not fundamentally changed the current tariff methodology since it was created. Improvements in Triad warnings provided certain customers with the information to avoid network costs whilst increasing costs to other customers. This has triggered Ofgem’s Targeted Charging Review, aimed at establishing a new tariff methodology that will more fairly allocate costs to customers.

The Targeted Charging Review only affects Residual charges at this point. These vary considerably for each distribution area, but nationally it accounts for an average of 50% of DUoS. As TNUoS is the same residual charge regardless of the area, the review impacts 90% of TNUoS total costs.

TNUoS

The current tariffs for TNUoS are based on the volume of energy used in 3 half hours over the winter period (Triads).

Customers have always been able to avoid their exposure to TNUoS costs by reducing their consumption during periods likely to be classed as Triads; however the economic case was not particularly strong. This was partially due to the relatively low TNUoS cost but also to the inconvenience and business disruption linked to demand reduction. However, as TNUoS costs have increased over recent years and technology has improved and become more affordable, more customers have been investing in on-site generation measures to reduce their consumption or move it to non-chargeable periods. This has driven savings for customers able to avoid their exposure to TNUoS costs, but has resulted in other customers bearing more of this cost.

DUoS

The current tariffs for DUoS are based on a site’s consumption in three different charging periods known as Red, Amber and Green. As with TNUoS some customers have always been able to avoid their exposure to DUoS by reducing their consumption in the more expensive Red and Amber charging periods, or moving consumption to the cheaper Green charging period. This has driven savings for these customers, but has resulted in other customers bearing more of the cost.

Decision

On the 21st November 2019 Ofgem delivered its final verdict on network charging reform that will change the way TNUoS and DUoS charges will be levied under its Targeted Charging Review.

TNUoS charges are set to change in April 2021 and DUoS to change a year later in April 2022.

Network companies have been told by Ofgem to change the way in which they collect the revenue they are entitled to for the Residual part of the costs.

For the Forward Looking part of the costs the existing method of Triads for TNUoS (10% of total), and Red, Amber, and Green for DUoS (50% of total on average) will continue.

Businesses will now have a fixed charge applied to each of their sites for DUoS and TNUoS.

These charges will be segmented based on the following criteria irrespective of whether they are Half Hourly (HH) or Non Half Hourly (NHH):-

- 1). The distribution area the site is located.
- 2). The voltage of the site, Low Voltage (LV), Low Voltage Sub (LVS), High Voltage (HV) or Extra High Voltage (EHV).
- 3). For LV & LVS sites they will be further segmented into 2 groups based on whether the site is HH or NHH
- 4). For LV & LVS NHH, they will be further segmented into 4 groups based on the sites annual consumption which is to be fully determined.
- 5). For LV & LVS HH, they will be further segmented into 4 groups based on the sites Agreed Supply Capacity.
- 6). For HV sites they will be further segmented into 4 groups based on the sites Agreed Supply Capacity.
- 7). For EHV sites they will be further segmented into 4 groups based on the sites Agreed Supply Capacity.

To ensure customers can be correctly assigned to the right segments, the industry will create a process that can efficiently identify this information for all customers.

Within the Target Charging Review, Ofgem also concluded that the Balancing Service Use of System (BSUoS) costs cannot be avoided by smaller generators from April 2021. Unlike large power stations that pay BSUoS, smaller generators are able to avoid some of the BSUoS liability. With smaller generators now contributing towards BSUoS costs it will lower the costs for other users.

Ofgem has hinted that as it explores further reform for BSUoS in the future, it too could be charged on a fixed basis to align itself to the decision it made with TNUoS and DUoS.

So what does this mean for you?

Any electricity supply contracts that you sign or have signed which go beyond April 2021 could be affected by this change. There will be some sites where the underlying cost of TNUoS and DUoS that network operators charge suppliers will increase and others where it will decrease. If these costs are not fixed in your contract then you are highly likely to see some changes to your electricity bills from April 2021 as suppliers will start to reflect these changes.

Even if these costs are fixed in your electricity supply contract, you may still see increases to your bills as suppliers could seek to recover any additional costs that they incur from the network operators by activating certain contractual provisions linked to changes in industry regulation.

From January 2020 Ofgem is finalising the calculations on the fixed prices for each of the segments, so until that work is concluded it isn’t possible to know if a sites costs will increase or decrease.

As a result the only current way to protect yourself from unexpected charges linked to this change is to limit the end date of any new contracts you sign to 31st March 2021.

You will need to check the terms & conditions of any contracts you have already signed that supply electricity beyond April 2021 to understand your exposure to this.