Understanding the big new risk affecting fixed price contracts from Ofgem’s big shake up of network charges

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Today we’re talking about three reforms which add up to a big deal

1. Targeted Charging Review: residual charges
2. Review of Access and Forward Looking charges
3. Targeted Charging Review: balancing
And we mean a big deal

27% of business electricity prices

Source: EDF Energy
And we mean a big deal

£9.3bn

Source: EDF Energy
What’s the problem Ofgem wants to solve

Are network charges fair for each user and fit for a more decentralized energy future
What’s the problem with network charges today?

Networks charge for residual and forward-looking signals in the same way, so customers can’t react to forward-looking signals without also reducing their contribution to residual (sunk) costs.

Ofgem uses the Price Control Review to set revenue target for network operators.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Distribution</td>
<td>£8bn</td>
</tr>
<tr>
<td>Forward looking</td>
<td>£5.4bn</td>
</tr>
<tr>
<td>Residual</td>
<td>£2.6bn</td>
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<tr>
<td>Transmission</td>
<td>£2.6bn</td>
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What’s the problem with network charges today?

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What’s the problem with network charges today?

Ofgem uses the Price Control Review to set revenue target for network operators.

1. Fairness
   Some users manipulate their demand to reduce their contribution.
   But that means other users have to make up the shortfall.

2. Future fit
   The method was designed for a highly centralised system.
   Now it needs to work for flexible users and decentralised generation.
What’s the problem with network charges today?

Who pays?

Forward looking / Residual

10/90 Transmission

50/50 Distribution

Current distribution of revenue collection

10/90 Transmission

50/50 Distribution

Current distribution of revenue collection

What's the problem with network charges today?

£8bn
What’s the problem with network charges today?

1. **Fixed charge**
   - The shift in contributions for each market segment

2. **Agreed supply capacity**
   - The shift in contributions for each market segment
What’s the problem with network charges today?

Those who can currently avoid network costs will pay more.

Because the size of the pot doesn’t change.

Triads
Red bands
Own gen

Not going away, just smaller overall effect on your costs.

£8bn
Three other things to consider

1. **Residual**
   - Ofgem aiming for April 2021 implementation

2. **BSUoS**
   - To get generators who are connected to distribution networks also contributing to balancing costs
   - Ofgem aiming for April 2020
   - But only 15p/MWh

- £1.3bn Balancing services (BSUoS)
Three other things to consider

3. Forward-looking price signals

2022 & 2023: Ofgem wants to reward customers for using more of the network outside peak times
<table>
<thead>
<tr>
<th></th>
<th>When the decision comes?</th>
</tr>
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<tbody>
<tr>
<td><strong>1</strong></td>
<td>'Summer' 2019</td>
</tr>
<tr>
<td></td>
<td>'determination' decision for TCR</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td>End of 2019</td>
</tr>
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<td></td>
<td>Workgroup detail phase</td>
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<tr>
<td><strong>3</strong></td>
<td>From Q1 2020</td>
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<tr>
<td></td>
<td>New costs reflected in EDF Energy’s contract offers</td>
</tr>
<tr>
<td><strong>4</strong></td>
<td>From Q1 2020</td>
</tr>
<tr>
<td></td>
<td>Some suppliers will only decide what to do about costs in old fixed price contracts after Q1 2020</td>
</tr>
</tbody>
</table>
Who is at risk?
Who is at risk?

1. No risk for any customer

For contracts signed now and ending before 1 April 2021

- Higher
- Lower

750,000 - 1,250,000 kWh
What is the risk?

Quotes under-price TNUoS & DUoS

Remember EII & Black Start changes. Contracts sold as fixed were opened up by some suppliers to recoup the higher costs.

EDF Energy’s Fixed + Peace of Mind contract has protected customers from 11 Changes in Law since 2013.
Who is at risk?

Quotes over-price TNUoS & DUoS

Ask: will a supplier open their contract to refund you if the cost outturns lower than the contract than you signed.
What are your options?

1. Only sign up to 31 March 2021
2. Choose pass-through TNUoS and DUoS
Remember, these changes are a big deal.

27% of business electricity prices.

Source: EDF Energy
Get more updates and our forecasts of all these major NECs.

Read our Monitor report in Market Insight.

edfenergy.com/marketinsight