



Bringing Energy
Together

ADE Member briefing | Targeted charging review – Final decision

29 November 2019

Context

Ofgem is currently reforming connections and network charges. There are two programmes of work that are delivering this – one focused on what Ofgem considers to be residual charges and one on cost-reflective charges.

By residual charges, Ofgem is referring to approximately 80% of the TNUoS charge and 30-50% of the DUoS charge. At present, there is no line item on an electricity bill that refers to 'Residual charge' for either transmission or distribution charges. Instead, it is part of –

- For transmission charges, the TNUoS charge on import during TRIAD periods
- For distribution charges, the red, amber and green time of use charges for import

In addition, and following the BSUoS taskforce, Ofgem now considers BSUoS to be a cost-recovery or residual charge. Reform to BSUoS is also part of its work through the decision on embedded benefits.

Residual charges reform is being delivered through the Targeted Charging Review (TCR). Ofgem have now published their **final decision and impact assessment** for this reform. Further background on this review can be found [here](#).

Final decision – Transmission and distribution residuals

Following this decision, the transmission and distribution residual elements will be separated from the other charges and will become a separate line item on bills.

Ofgem's decision will affect users differently depending on what voltage level they are connected at, their demand and the extent to which they manage their energy (including for TRIAD).

Domestic consumers

Domestic demand users will now pay a fixed charge for the transmission residual and fixed charge for the distribution residual. For both, this will differ by which distribution network area they are in. Therefore, every domestic user in a given distribution network area will pay the same level of residual charge.

Non-domestic consumers

Non-domestic demand users will also now face a fixed charge for the transmission residual and for the distribution residual. This is likely to be structured as a p/site/day charge.

This will have the impact of creating a significant cost on demand users that cannot be avoided through flexing demand, significantly reducing the value of avoiding the TRIAD periods and reducing the absolute value of avoiding the red periods.

The high-level methodology for calculating the residual charges a demand user will face is as follows –

Step 1: Calculate the net consumption volumes for each voltage level

Step 2: Use actual capacity where available, and net consumption volume where capacity is not, to create bands per voltage level of the 40th, 70th and 85th percentiles

Step 3: Divide the total national transmission residual by the net consumption volume in that band to create the charge per band

Step 4: Do the same for the distribution residual

Regarding Step 2, it is important to note that Ofgem's preference is that these banding percentiles are based on GB-wide net consumption at that voltage level – meaning, in effect, that every DNO area will have the same band ranges. However, the decision does allow the network operators to raise alternative solutions if in given distribution network areas, the capacity distribution is significantly atypical from the GB-wide distribution. This means that there remains some uncertainty regarding the exact bands that will apply in each area.

The net consumption volumes per voltage are also not readily available. This means that it is difficult currently without detailed in-house modelling resource to calculate the impact of these changes in different areas.

The final decision does give an illustrative example (page 89) using Northern Powergrid's network –

Voltage of connection	User size range – band	Distribution residual charge	Transmission residual charge	Combined distribution + transmission residual charge
Domestic	Single Segment	£33	£34	£67
LV non-half-hourly	1st Band	£19	£18	£38
	2nd Band	£96	£89	£185
	3rd Band	£222	£207	£430
	4th Band	£631	£589	£1,220
LV half-hourly	1st Band	£425	£1,154	£1,579
	2nd Band	£1,262	£2,048	£3,310
	3rd Band	£2,232	£2,458	£4,690
	4th Band	£6,079	£6,955	£13,034
HV	1st Band	£1,618	£4,741	£6,359
	2nd Band	£9,959	£15,333	£25,292
	3rd Band	£13,911	£29,029	£42,940
	4th Band	£77,406	£80,671	£158,077
EHV	1st Band	£3,433	£12,425	£15,858
	2nd Band	£21,138	£140,139	£161,278
	3rd Band	£29,525	£272,299	£301,824
	4th Band	£164,293	£894,404	£1,058,697

Timelines for implementation

Ofgem will now direct National Grid to raise the required changes to Codes.

Their aim is for implementation to be as follows –

- **April 2021:** Full implementation of the transmission residual changes
- **April 2022:** Full implementation of the distribution residual changes

Final decision - Embedded benefits

Embedded benefits are credits that those exporting onto the distribution network can earn against various nationwide network charges in return for reducing these costs.

In 2017, Ofgem decided to remove the TNUoS embedded benefit where export onto the distribution network could earn the value of the TNUoS demand residual. This was replaced with a very small credit, the Avoided GSP Infrastructure Credit. This will remain in place following the TCR reforms.

Following that, Ofgem has used the TCR to review the remaining embedded benefits; the largest of which is the BSUoS embedded benefit.

The final decision states that they will do a partial reform of BSUoS whereby BSUoS will be charged as gross on suppliers – removing the credit for export by distributed generation.

This will mean that distributed and on-site exporting generation does not pay generation BSUoS (as had been mooted through the full reform option) but it will no longer get paid for its generation. For on-site generation meeting site demand, this partial reform represents a benefit as it will increase the cost faced by the site on its imports (as transmission generation will not pay the 50% of the total BSUoS cost it currently pays) and so any reduction in imports from the grid will be more valuable.

This will start in April 2021.

Ofgem are also launching a second BSUoS taskforce that will consider -

- Structure of the BSUoS charge: They could move BSUoS from a p/kWh charge to the same structure as the new TNUoS and DUoS residual charges as p/site/day. This would remove the benefit to a site from on-site generation in reducing site demand from the grid
- Who should pay for balancing services

There is likely to be further detail regarding this new taskforce in the coming weeks. However, at present, there is no further detail about the timeline for this new taskforce and when Ofgem would expect to make further changes based on its recommendations other than a short statement in the decision that –

'It is possible that the taskforce's findings may be implemented, at the same time as the TCR reforms and, if not, are expected to be shortly thereafter, taking the best interests of all market participants into account.'

This decision has significant interactions with **code modification CMP308** which is similarly proposing to move BSUoS to demand.

Further detail

Much of the detail will come through the code modification working groups.

However, Ofgem has given some initial direction in this decision regarding the following.

Definition of a 'user'

Demand users will be charged by site, not individual MPAN, as had been mooted earlier. This is a very welcome change.

The definition of a 'site' has not been decided upon finally but Ofgem have recommended that the working groups adopt a definition along the lines of 'One or a collection of buildings, structures or pieces of land in close geographical proximity, owned or occupied by one customer within a defined curtilage on one site, where each building, structure or piece of land serves the other in some necessary or reasonably useful way'.

Definition of final demand

Ofgem have defined 'final demand' as 'electricity which is consumed other than for the purposes of generation or export onto the electricity network'.

This leaves open to the working groups whether exemption from residuals should be based on, for example, holding a generation licence or being supplied for the purposes of generation as the CUSC has defined it or through a Director's declaration as DCUSA has defined it.

Definition of bands

Ofgem have stated that the bands will be periodically reviewed and could change if the net consumption volumes within them have materially changed. The first review of banding is likely to take place ahead of RIIO-ET3 in 2026.

This is designed partly to ensure the same distribution of consumption volumes across the bands but also to ensure that the savings from investment decisions to limit a site's exposure (e.g. reducing connection capacity) are uncertain and therefore, disincentivised.

Use of actual capacity

Currently, actual capacity will only be used for the larger sites. However, this could be reviewed if, for example, smaller and domestic users have agreed capacity levels in future.

Clarifications from Ofgem

During the ADE's conference call on the day the decision was announced, several questions were raised. We have tried to clarify these questions with Ofgem and their response is included below.

Will this implementation be phased in?

No. The transmission residual will be introduced fully in April 2021 and the same for the distribution residual in 2022.

Are the timescales feasible given the notice required when changing network tariffs?

Formally, 3 months' notice is required to change TNUoS tariffs and 14 months is required to change DUoS tariffs.

Ofgem acknowledge that these timings are ambitious but consider them possible.

How will a user's actual capacity be calculated?

The decision states that a user's capacity will be calculated on the basis of historical data from 24 or more months.

There will be an exception mechanism by which users can highlight atypical periods of import.

Further, the calculation of actual capacity will recognise where connection capacity is held for redundancy purposes only. If this is the case, a site will be able to submit additional information justifying that this is the case and will then use total consumption volumes across all that site's connections.

Access Significant Code Review

At the same time as these reforms, there are arguably even more significant changes underway through the Access Significant Code Review that is also being led by Ofgem.

These reforms are considering –

- Changes to connections: Reforming how distributed users pay towards the broader reinforcement costs of their connection (for example, from paying a proportional amount towards the reinforcement to commitments to pay network charges for X number of years), stronger focus on agreeing capacity at all scales, exploring time-profiled connection agreements and new forms of flexible (non-firm) connections
- Changes to use of system charges: Possibly reforming both the smaller TRIAD signal that will remain following the TCR and the red/amber/green rates used at Distribution to shift demand from peaks
- Changes to the costs faced by distributed generation: Possibly removing the floor at zero for locational TNUoS and allowing Distribution credits to become charges in 'generation-dominated' areas

The timeline for the Access SCR is as follows –

- Publish 2nd working paper – before the end of this year
- Publish minded to consultation – summer 2020
- Publish final decision – early 2021
- Implement options – April 2023

Member comment:

We are disappointed by Ofgem's decision to implement these reforms from 2021, without coordinating with the broader reforms that will be crucial to ensuring industry is properly rewarded for the benefits they offer the system. We will continue to work with Ofgem to ensure the Access reforms and their work on flexibility work for users.

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