

The Targeted Charging Review

The Targeted Charging Review (TCR)

- The TCR aims to remove ‘residual’ network charges from all generators.
- TNUoS residual is a benefit to all transmission connected generation—set to be lost.
- Preferred ‘fixed’ charging method will have a significant impact on investment cases for behind-the-meter generation.
- BSUoS embedded benefit changes will significantly impact on all distribution connected generation.
- Further work to be done on BSUoS to determine whether it is fully ‘residual’, partially or not at all.

Introduction

The Targeted Charging Review (TCR) is an Ofgem led project that assesses how residual network charges should be set and recovered in Great Britain (GB).

On 21 November 2019, Ofgem published its final

decision on the TCR, which it says will bring savings to consumers of between £3.8bn and £5.3bn in the period to 2040.

ITPenergised has provided a brief summary of the various elements of the TCR and has highlighted Ofgem’s decision in reference to each issue.

Proposed options for residual charges

The main purpose of the TCR is to change the way that ‘residual’ network charges are applied, which can be a major part of the charge (~50% of all network charges). Residual charges are the elements of the network tariffs which are “*not intended to incentivise customer behaviour*”, but simply to allow the network companies to recover the sunk costs of the network. Currently, the way that residual charges are collected varies across the different network charge components.

Ofgem conducted analysis of different approaches, leading to a preferred method known as ‘a Fixed Charge’ where charges are set for individuals in customer segments, with these segments being based on an existing industry approach. This means that a single charge will apply to all users in each segment, regardless of each individual customer’s consumption of production.

Decision: Residual charges will be levied entirely on demand based on each customer’s ‘segment’.



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The impact of time of use

At present, residual charges for both demand related Transmission Network Use of System (TNUoS) and Distribution Use of System (DUoS) charges are geared around time of use—so enabling customers who are able to be flexible and reduce consumption during peak times to reduce their share of network charges. For example, during Triads (at Transmission) and Red Zone charges (at Distribution).

Ofgem's aim is to 'remove distortions' in network charges and has decided to reform transmission and distribution residual charges into a fixed payable method rather than focused on time of use. Note there will still be network tariff incentives to manage import/export during times of peak loading on the network, but it will likely be a far smaller opportunity. Issues relating to these 'forward looking' tariff elements are being considered under Ofgem's Electricity Network Access Project (ENAP).

Decision: Residual charges will be fixed and not linked to time of energy use, potentially undermining the case for behind the meter on-site generation and storage.

Transmission Generation Residual Charge

The current methodology for charging transmission residuals to generation currently results in transmission connected generators (and those >100MW) receiving a fixed rebate, i.e. a negative charge. This is because the EU has set a cap on the average level of transmission network charges which generators should pay.

In recent years, the generation residual element of the TNUoS tariff has been declining (good news for generators) and is currently negative. However, the issue of the negative residual has been assessed by Ofgem under the TCR.

Currently, the residual component is negative and sits at -£3.53/kW and Ofgem's decision on the TCR means that there will be an increase in TNUoS liability.

Decision: Ofgem will set the Transmission Generation Residual to zero (subject to compliance with the EU Regulation 838/2010) which will increase generation TNUoS tariffs.



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Balancing Services Charges (BSUoS)

‘Embedded benefits’ is the term given to the cost reductions that smaller generators currently receive due to the structure of the charging regime. The BSUoS embedded benefit means that these generators can avoid the BSUoS charge and instead receive it as a benefit. As part of the TCR, Ofgem proposed to remove the payment of BSUoS by charging suppliers for balancing services on the basis of gross demand at the relevant Grid Supply Point. However, Ofgem has not introduced a mechanism to charge smaller, distributed generation for BSUoS. Instead Ofgem is proposing a further workstream to see how BSUoS should be charged going forward and to determine how much of the charge is ‘residual’ or ‘forward-looking’.

Decision: BSUoS charges will be based on gross demand at the Grid Supply Point from 2021, effectively removing the BSUoS embedded benefit for <100MW distributed generators, but stopping short of introducing a BSUoS charge for embedded generators.

Decision: Ofgem are launching a second taskforce to look at who should pay BSUoS charges and how these should be recovered. It should be noted that this could result in additional changes, which

could be more damaging or more favourable, with a final report not issued until June 2020.

Client impacts

In summary, the TCR has broad implications across much of the energy sector. Clients who will be significantly impacted by the TCR include:

- Transmission connected and larger embedded generators (>100MW): setting the Transmission Generator Residual component of the TNUoS tariff to zero will increase tariffs for all transmission connected generation. BSUoS charges will reduce as a result of the proposed changes.
- Large energy demand customers will likely pay higher distribution related tariffs. BSUoS charges will reduce as a result of proposed changes.
- Behind the meter solar PV and solar + storage projects: the TCR will have a significant impact due to ‘fixed’ charging for residual network charges.
- Embedded generators: embedded generators (<100MW) will no longer receive the BSUoS embedded benefit, which they currently receive for reducing suppliers’ liabilities for balancing services charges.



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Milestones

December 2017: TCR Residual Charges paper published.

June 2018: Ofgem published Impact Assessment and minded-to-decision.

November 2018: TCR consultation published.

May 2019: Balancing Services Charges Task Force consultation launched.

June 2019: Consultation on supplementary analysis published.

August 2019: Consultation on refined residual charging published.

November 2019: Ofgem published decision on TCR.

April 2021: Reforms to transmission charges will be introduced (two Embedded Benefits reforms on setting TGR to zero and charging suppliers BSUoS on a gross basis at the GSP).

April 2022: TDR reforms implemented.

April 2022: Changes to distribution charges will be implemented.

How can ITP Energised help?

The technology team at ITPE has extensive experience of providing a wide range of clients with detailed regulatory advice and charging arrangements including: Distribution Use of System charges, Transmission Use of System charges, Balancing Services charges, Distribution loss adjustments and Transmission losses.

If you need support or have any questions, please do not hesitate to contact us.



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