Optimised Energy®

APRIL 2022
when changes to the transmission and distribution charges come into effect

MARCH 2026
when the current price control and banding period ends

Optimised Energy Insight Targeted Charging Review (TCR)

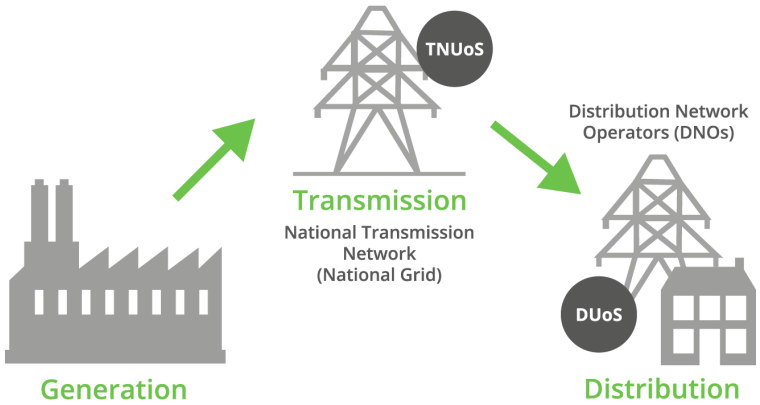
What is the Targeted Charging Review and why has it been implemented?

The Targeted Charging Review was conducted by Ofgem to reform the way electricity network charges are recovered. The review looked at transmission, distribution and balancing charges and the methodology for allocating these.

The review was implemented as a response to changing usage on the network and the success of Triad avoidance, where large users were able to avoid some of the costs by reducing their consumption or switching to on site generation during winter peak periods. Ofgem felt this was unfair as these users benefited from the network but avoided paying for it and this unfairly put the burden of recovery of these costs onto domestic users and business users who were not able to load shift.

Network charges are recovered in two ways, forward looking charges which are designed to indicate how users should act and residual charges which were designed simply to recover the remaining costs.

The review mainly investigated these residual charges, as residual charges form most the Transmission costs, this is where we have seen the biggest change.



Quick Facts

TCR was implemented by Ofgem to make sure network charges are recovered in the fairest way.

It will see the current process for recovering transmission charges, the Triad system, largely replaced by a fixed charge based on a meters banding.

Bands have been decided, with Half Hourly bands allocated based on a meters Available Supply Capacity & Voltage.

Assigned Bandings will remain in place for the current price control period (ending 2026) except in exceptional circumstances.

What are the results and when will it be implemented?

The current system where Transmission costs were recovered via the yearly Triad charges, where consumption at the three highest winter peak times dictated how much a client paid, will be changed to a set standing charge based on a clients "Banding". These bandings are decided by a site's characteristics namely available capacity (two-year average) & incoming voltage for Half Hourly sites and consumption for Non-Half Hourly site.

This will see a move from recovering charges based on consumption to a set standing charge based on a banding, thus making the charges harder to avoid. Depending on where a site is located Triad charges will either be completely removed or a fraction of what they are now.

Distribution charges will see a shift from p/kWh in favour of a higher standing charge, however as most of these costs are recovered via forward facing charges, the impact will be smaller and the methodology for recovering charges will remain the same.

The review into balancing charges is still ongoing but it is likely we will see a shift from p/kWh charges to a standing charge in line with TCR principles.

These changes to Transmission and Distribution charges will come into effect from April 2022.

What are the bandings & how will they impact users?

Ofgem are yet to publish the final banding thresholds and costs, however we have included an indicative table (***See figure 1***). As a rule, the higher the voltage and capacity the higher the charges recovered.

In terms of impact, those users who were actively managing triad avoidance will see their charges significantly rise, and those who were unable to avoid Triads will likely see costs decrease. In most cases these bands have already been assigned and will be set for the duration of the price control period, the current control period is due to end in 2026. As the bands are set on percentile thresholds, we may see these change slightly as we move into new price control periods.

There are certain circumstances where a user can apply for a banding review within a price control period, however this will be the exception not the rule. Distributors are finalizing the process and guidance for within band reclassifications. It is likely these challenges will focus on material change at the site for example a change in voltage classification or (+/-) 50% change in consumption or capacity, as such we will not likely see wholesale reclassifications.

How will TCR affect future procurement, budgets and validation?

With regards to procurement, suppliers are taking different approaches to the legislation. Care should be taken to ensure that fixed contracts, after April 2022, include protection against TCR changes and will not be subject to future revision.

In terms of wider general impact, the changes may also impact any existing budgets, costings, and forecasting for the post April 2022 period. Billing changes will be a particular area to monitor to ensure that old way of levying transmission charges is closed and the new way of implementing charges from 2022 opened correctly. Having a robust Validation service during this overlap period will help to mitigate any implementation risks, especially as some supplier systems may struggle to adapt. Unfortunately, similar legislative changes have resulted in a rise in billing errors in the past.

Band	kWh Lower	kWh Upper	KVA Lower	KVA Upper
Low Voltage - No ASC - 1	0	3,570		
Low Voltage - No ASC - 2	3,571	12,552		
Low Voltage - No ASC - 3	12,553	25,279		
Low Voltage - No ASC - 4	25,279	-		
Low Voltage - MIC - 1			0	79
Low Voltage - MIC - 2			80	149
Low Voltage - MIC - 3			150	230
Low Voltage - MIC - 4			231	-
High Voltage - 1			0	421
High Voltage - 2			422	999
High Voltage - 3			1000	1799
High Voltage - 4			1800	-
Extra High Voltage - 1			0	4,999
Extra High Voltage - 2			5,000	11,999
Extra High Voltage - 3			12,000	21,499
Extra High Voltage - 4			21,500	-
Transmission Connected			TBC	TBC

Figure 1: Indicative TCR Banding Thresholds

What can Optimised Energy do to help?

As always, with legislative changes, users who can understand and manage these changes will be in a better position to mitigate any impacts. Optimised Energy have historically played a leading role in navigating the complexity of such changes on behalf of our clients. We are currently working through our existing portfolio to identify any opportunities for challenging current bandings or to better position sites for future banding periods. We are also identifying sites which may qualify for exemption with non-final demand certification, namely around generation and other similar nuances.

Now is also a great time to take a deeper and more forensic look at your portfolio with a view to identifying historic overcharges and future savings factoring in TCR implications. Our well-established Optimised Recovery offering, on a no win no fee basis, is ideally placed to support this and has been updated to consider TCR changes. This is open to new and existing clients if you are interested please call 01253 209000 or get in touch with your dedicated sales contact or account manager.

The adage "**the best way to protect against energy costs is to reduce consumption**" still stands true and with America's recent recommitment to the Paris climate accord and Glasgow hosting this year's COP26 UN climate summit, it may be time to relook at any energy saving recommendations.

Optimised Procurement

Balanced risk management that helps you minimise energy costs

Optimised Recovery

We'll find the errors. Then we'll help you get your money back

Glossary

Transmission system (also known as TNUoS) - The electricity transmission system carries electricity from where its produced to local distribution systems via high voltage wires. National Grid runs the UK transmission system.

Distribution system (also known as DUoS) - The electricity distribution carries electricity from the high voltage transmission system to local users, there are 14 licensed distribution network operators in Britain responsible for their own regional area.

Balancing system (also known as BSUoS) - The balancing system manages supply and demand on the network to ensure the security and quality of supply across the transmission system. National Grid runs the UK balancing system.

Triad - One of the three highest peaks in electricity demand between November & February, which is used to determine how much transmission charges a site pays.

Triad notification - The system of notifying large users (normally via email) to try and reduced demand when a triad is expected.

Voltage classification - The level of voltage at which a supply point is connected to the network.

Available supply capacity - The amount of electricity the distribution network operator is required to make available for your site.

Forward looking charges - These are network charges published in advance , they are designed to advise users how to act for instance higher red charges which are designed to reduce peak consumption.

Residual charges – Simply the remainder of the costs not picked up by forward looking charges, these were never designed to impact a user's behaviour.

If you have any questions, please do not hesitate to contact your account manager, or call us on 01253 209000.

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