



STRATEGIC INSIGHT REPORT

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OFGEM Plan Radical Reform of Transmission and Distribution Charges Starting in April 2021

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**Pushing the
boundaries in
energy design**

On 21 November 2019 OFGEM published "Targeted Charging Review Decision Document."

OFGEM want to change the recovery of the vast majority of transmission costs and a large part of distribution costs "the residual costs". Currently customers pay "triad charges" and "red amber green rates" either explicitly on their bills or hidden within their pence per kWh charges. OFGEM want to greatly reduce these particular charges and move the cost burden to higher availability charges.

OFGEM believe that "on-site" or "behind the meter generators" such as roof-top solar, CHP systems and back-up generators are saving too much when they switch-on and generate their own power. Instead OFGEM want to charge everyone who is connected to the electricity network for having access to the network even if they are generating their own power for some or most of the years.

Overall OFGEM will keep total network costs the same but some customers will pay more and some will pay less.

The target implementation dates are April 2021 for transmission charges and April 2022 for distribution charges.

The burden of implementing OFGEM's idea falls on National Grid, the distribution companies (DNOs) and the various industry computer systems that charge energy suppliers for the National Grid and DNO charges. National Grid and the DNOs have written to OFGEM and said their timetable is very tight. National Grid plan to publish their Initial Forecast of 2021/22 TNUoS tariff hopefully by the end of March 2020.

The energy suppliers seem to be waiting for more information about the new charges before making a move. Some of the suppliers have sent out general information about the changes to their customers. They appear to be continuing to price new contracts based on the old regime. If you look careful at the small print of the suppliers' terms and conditions then most suppliers including clauses which allow them to re-open prices if there are "changes to industry rules" or "changes to methodology" even when the suppliers' brand their contract as being a special fixed price version.

It's difficult at this point to predict exactly which customers will face higher charges. There may be a cost which OFGEM haven't anticipated to customers renewing in October 2020: they may have to pay their transmission charges under the old regime and their transmission charges under the new regime in the same year.

With this degree of uncertainty customers have a number of options:

Option	Advantages	Disadvantages
Wait and see	Wait for everything to become clearer	Wholesale prices are currently very attractive
Sign a "fixed" supply contract now	Wholesale prices are currently very attractive	Supplier may adjust the price mid contract
Sign a "pass-through" or "flex" supply contract now	Wholesale prices are currently very attractive Network costs will be transparent on the bill and increase or decrease as the reforms are implemented	Bills will be a bit more complex and the monthly costs vary

How Beond can help?

Beond can support our client with the above choices of contract. Our software can compare traditional fixed, flex and pass-through quotes and we can produce budgets and check bills for all styles of contract.

To talk about this article further or if you wish to understand how Beond might be able to help you, please do call +44 20 8634 7533 or email info@beondgroup.com

Useful Links

<https://www.cornwall-insight.com/newsroom/all-news/network-charging-reforms-factsheet-targeted-charging-review>

https://players.brightcove.net/6021289057001/default_default/index.html?videoid=6117297547001