

Targeted Charging Review (TCR) & CMP308 - What it Means to Businesses

Summary

Ofgem have been working on several changes to how industry costs are recovered through various regulatory workstreams. Two of these workstreams; Targeted Charging Review (TCR), and the BSUoS task force (via CMP308), when finalised will lead to significant changes to how consumers pay for their use of the electricity network infrastructure.

The Targeted Charging Review (TCR) will change Transmission Network Use of System (TNUoS) & Distribution Use of System (DUoS) charging, whilst the BSUoS task force has proposed to remove the Balancing Use of Service (BSUoS) charges from all Generation, and levy BSUoS charges to on demand customers only.

Why is Ofgem making changes to TNUoS and DUoS charging?

The current charging methodology favours those customers who can shift their demand to reduce their contribution to network charges, but that means other network users must make up the shortfall. Ofgem see this as unfair.

Why is Ofgem making changes to BSUoS?

To better align to the UK's market arrangements with those widespread within other EU member states, and to provide more effective competition and trade across the EU to deliver benefits to all end consumers.

What is changing?

TNUoS and DUoS

- The charging structure introduces a fixed per day residual charge to TNUoS for the first time, rather than the £/MW at Triad, but also introduces new charging bands for both TNUoS & DUoS.
- The fixed per day residual charges that customers pay, will be determined by their:
 - Agreed capacity for Half Hourly (HH) settled users.
 - Net annual consumption for Non-Half Hourly (NHH) settled users.
- This results in TNUoS Triad charges and DUoS unit rate charges reducing, with fixed charges increasing.

BSUoS

- It will be charged to end user customers only, BSUoS charges will be removed from generators. As generators will no longer have to recover these costs, Ofgem expects wholesale electricity prices to reduce, offsetting the increased BSUoS costs to end customers.

For more information on residual charges, refer to the bottom of this document.

When are Ofgem making these changes?

- The residual component of the TNUoS charge will be levied through the introduction of a volume or capacity banded fixed per site charge, to all households and businesses from April 2022.
- The residual component of the DUoS charge will be similarly changed from April 2022.
- BSUoS charges removed from Generation from April 2023.

What does this mean for businesses?

- If customers want certainty over these costs, they'll need to be agreed upfront:
- **TNUoS & DUoS** for contracts with an end date beyond 31 March 2022
- **BSUoS** for contracts with an end date beyond 31 March 2023.

Glossary

- **TNUoS** - The cost of installing and maintaining the transmission system. Providing a reliable source of electricity needs a reliable transmission network to connect power stations and offshore electricity generation facilities to distribution networks across the country. These charges recover the cost of installing and maintaining the transmission system in England, Wales and Scotland, as well as offshore transmission systems.
- **DUoS** - The cost of operating and maintaining the regional electricity networks. Electricity is distributed around the UK by Distribution Network Operators (DNOs), licensed by Ofgem.
- **BSUoS** - The charges for the cost of real time balancing of the electricity transmission system.
- **Residual Charges** - All monopoly companies in the energy sector have their revenues set by Ofgem under a price control mechanism. Once revenue is known, the network then needs to recover it through tariffs i.e. electricity network charges.

Electricity network charges are structured in two parts:

- **Forward-looking charge** - The locational or time of charge, designed to encourage efficient use of the networks. i.e. Triad for TNoS or red, amber and green periods for DUoS.
- **Residual charge** – The top-up of the revenue collected from forward-looking charges to ensure Network Operators receive the correct total revenue.

CMP308 - As part of the TCR, Ofgem also launched a series of BSUoS task forces who have recommended to Ofgem that:

- BSUoS should be treated as a cost recovery charge only.
- BSUoS should be charged to on demand customers only (removes charges from generators, so increases BSUoS charges for on demand).
- BSUoS should be a fixed £/MWh charge.

These changes are targeted for Implementation in April 2023 and are expected to progress via code modification CMP308.