



**Understanding the big new risk
affecting fixed price contracts
from Ofgem's big shake up
of network charges**

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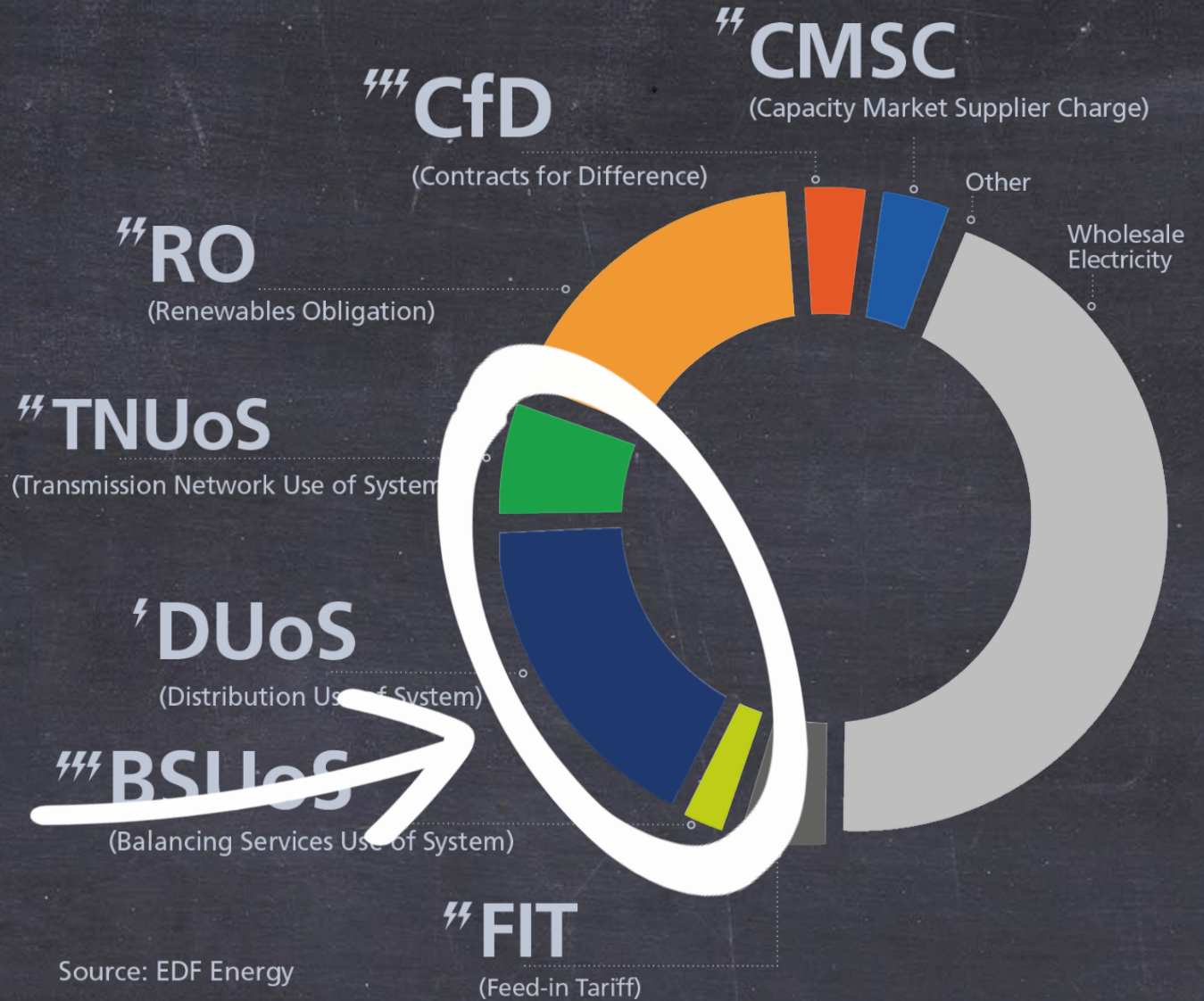
Today we're talking about three reforms which add up to a big deal

- ① Targeted Charging Review: residual charges
- ② Review of Access and Forward Looking charges
- ③ Targeted Charging Review: balancing

And we mean
a big deal

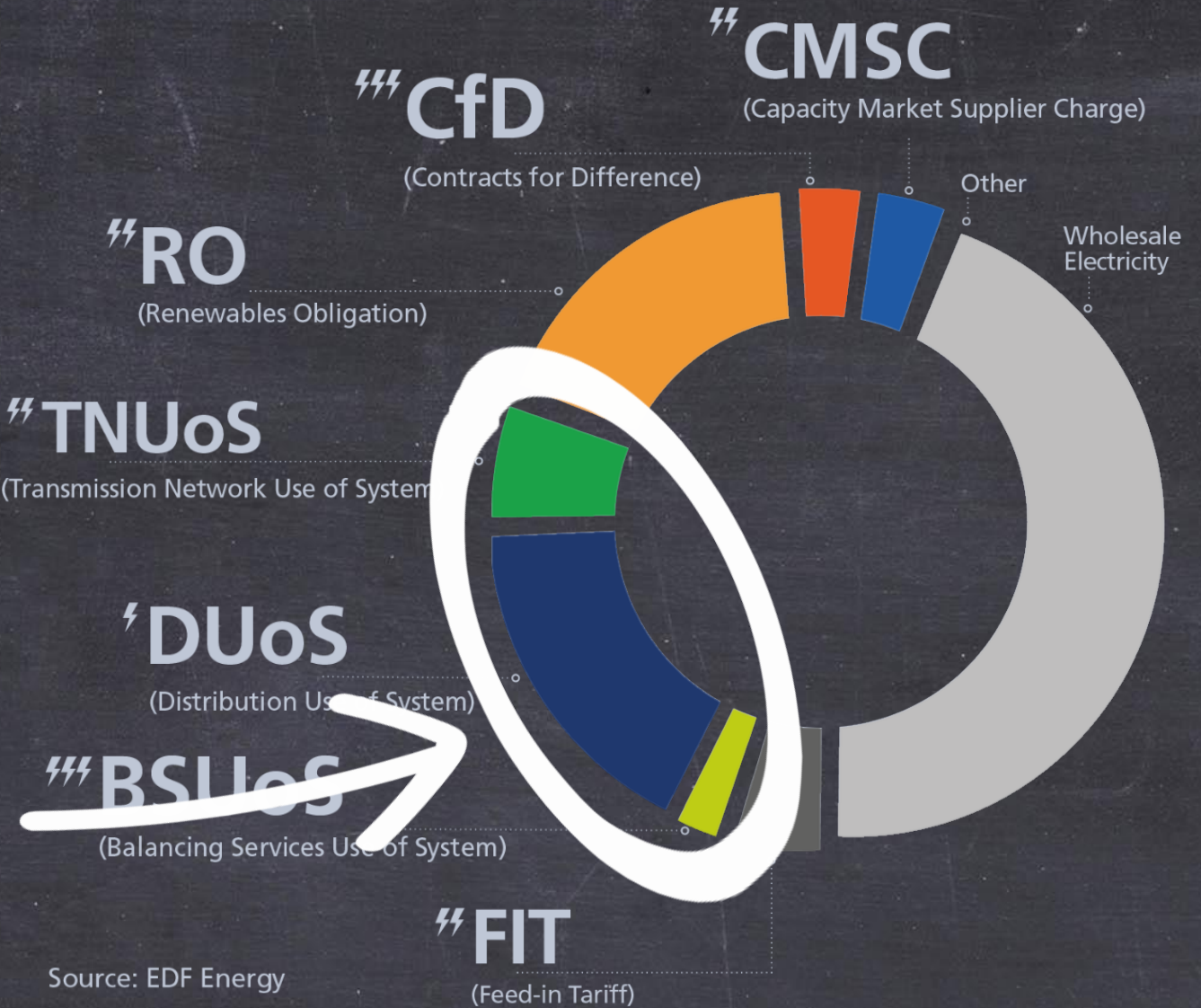
27%

of business electricity prices



And we mean
a big deal

£9.3bn



Source: EDF Energy



What's the problem Ofgem wants to solve

Are network charges fair for each user

and

fit for a more decentralized energy future

What's the problem with network charges today?

Ofgem uses the Price Control Review to set revenue target for network operators

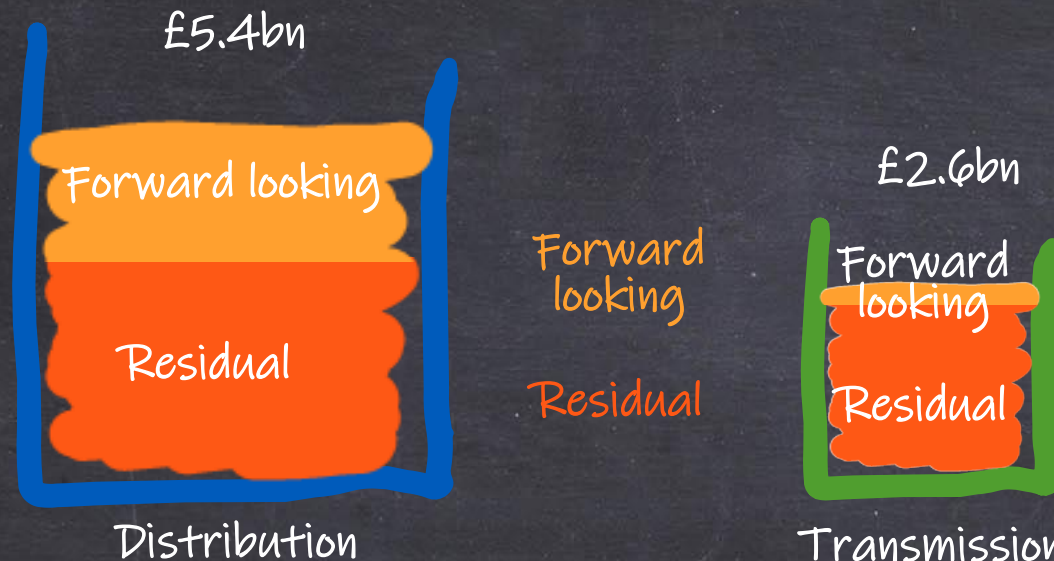


Networks charge for residual and forward-looking signals in the same way, so customers can't react to forward-looking signals without also reducing their contribution to residual (sunk) costs.



What's the problem with network charges today?

Ofgem uses the Price Control Review to set revenue target for network operators



1. Fairness

Some users manipulate their demand to reduce their contribution.

But that means other users have to make up the shortfall.

2. Future fit

The method was designed for a highly centralised system.

Now it needs to work for flexible users and decentralised generation.

What's the problem with network charges today?

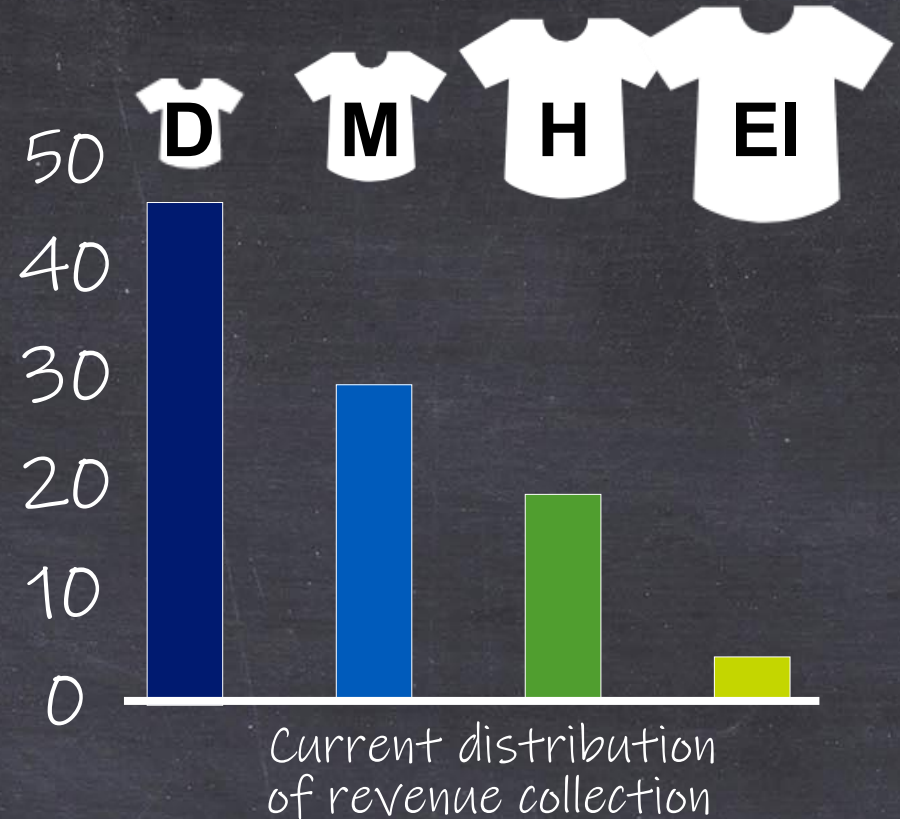
Who pays?



Forward looking / Residual

10/90
Transmission

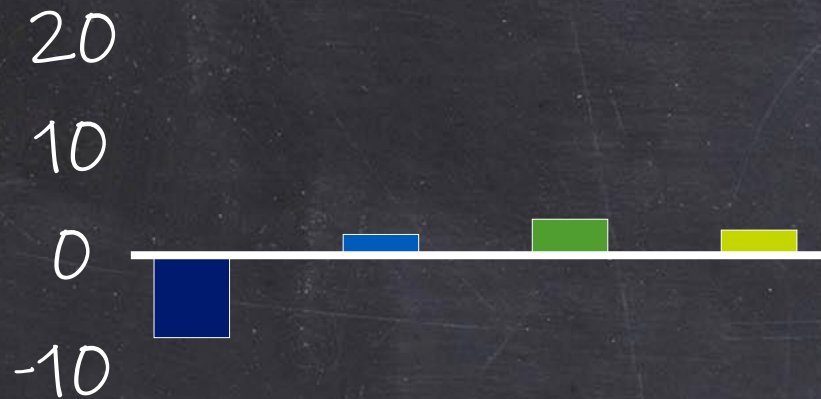
50/50
Distribution



What's the problem with network charges today?

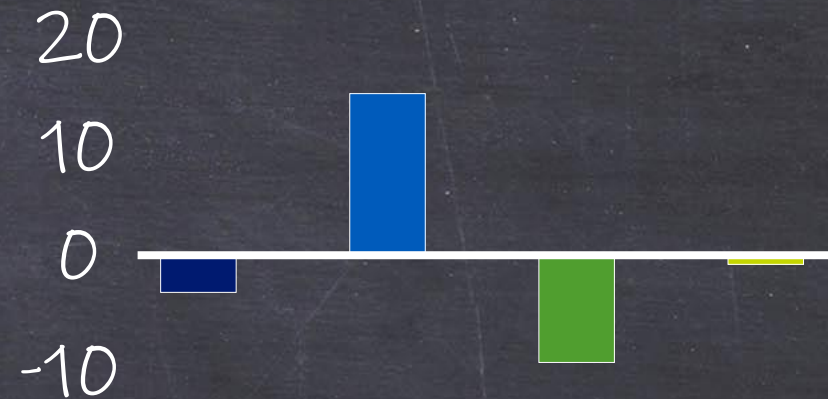
①

Fixed charge



②

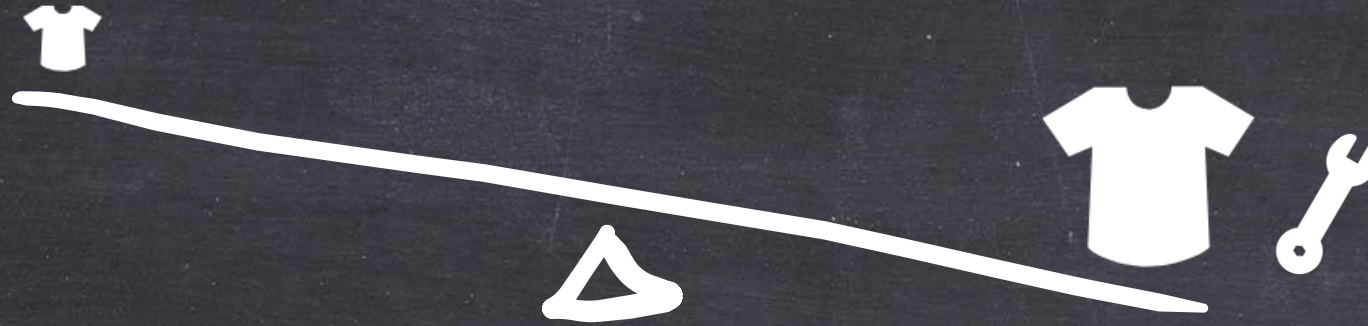
Agreed supply capacity



The shift in contributions for each market segment

What's the problem with network charges today?

Those who can currently avoid network costs will pay more



Triads
Red bands
Own gen



Because the size of the pot doesn't change



Not going away, just smaller overall effect on your costs

Three other things to consider

① Residual

Ofgem aiming for April 2021 implementation

② BSUoS

To get generators who are connected to distribution networks also contributing to balancing costs

Ofgem aiming for April 2020

But only 15p/MWh



Three other things to consider

③ Forward-looking price signals



2022 & 2023: Ofgem wants to reward customers for using more of the network outside peak times

When the decision comes?

①

'Summer'
2019

'determination'
decision for TCR

②

End of
2019

Workgroup
detail phase

③

From Q1
2020

New costs
reflected in
EDF Energy's
contract offers

④

From Q1
2020

Some suppliers
will only decide
what to do about
costs in old fixed
price contracts
after Q1 2020

Who is at risk?

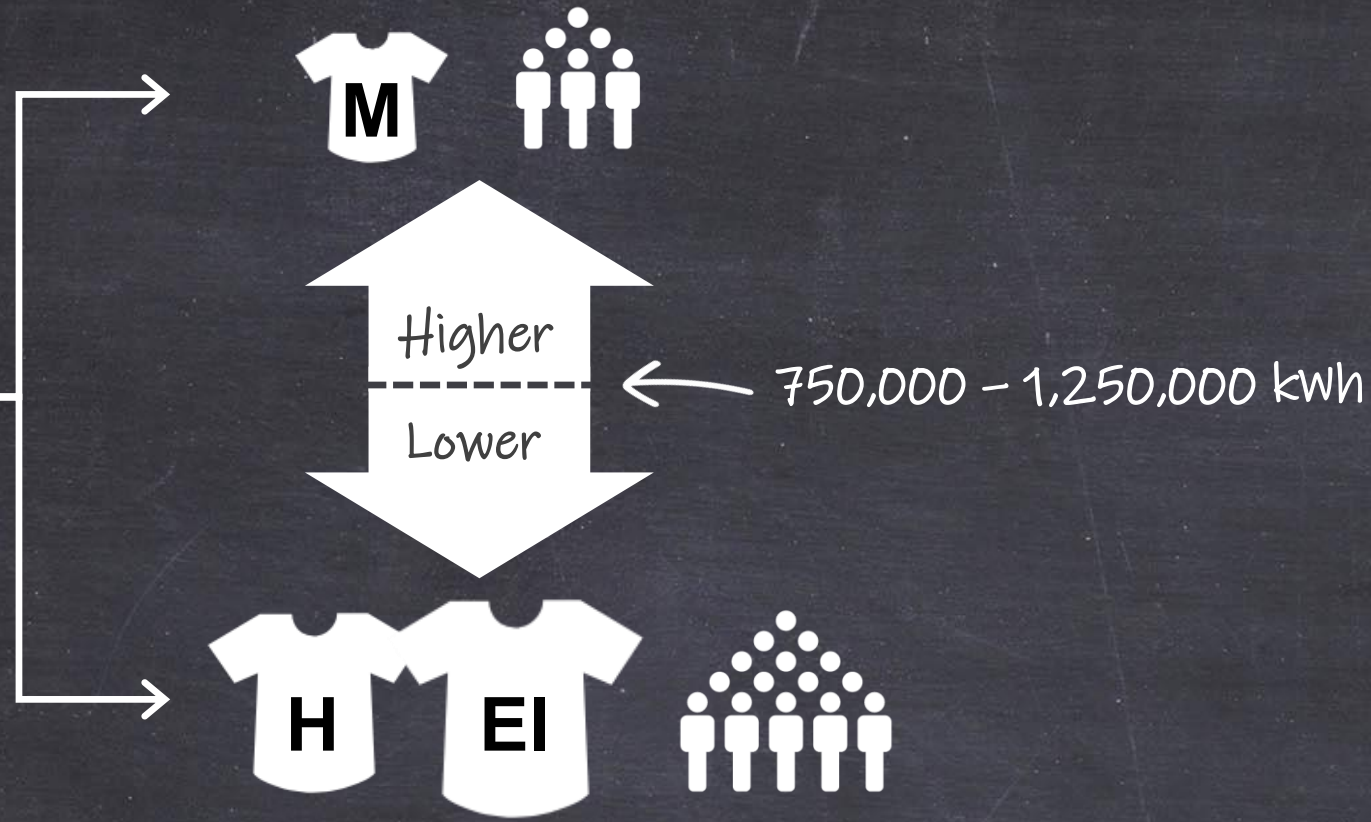


Who is at risk?

1

No risk for any customer

For contracts signed now and ending before 1 April 2021



What is the risk?



Quotes under-price TNUoS & DUoS

Remember EII & Black Start changes. Contracts sold as fixed were opened up by some suppliers to recoup the higher costs.



EDF Energy's Fixed + Peace of Mind contract has protected customers from 11 Changes in Law since 2013

Who is at risk?

Quotes over-price TNUoS & DUoS

Ask: will a supplier open their contract to refund you if the cost outturns lower than the contract than you signed



What are your options?

①

Only sign up to
31 March 2021

②

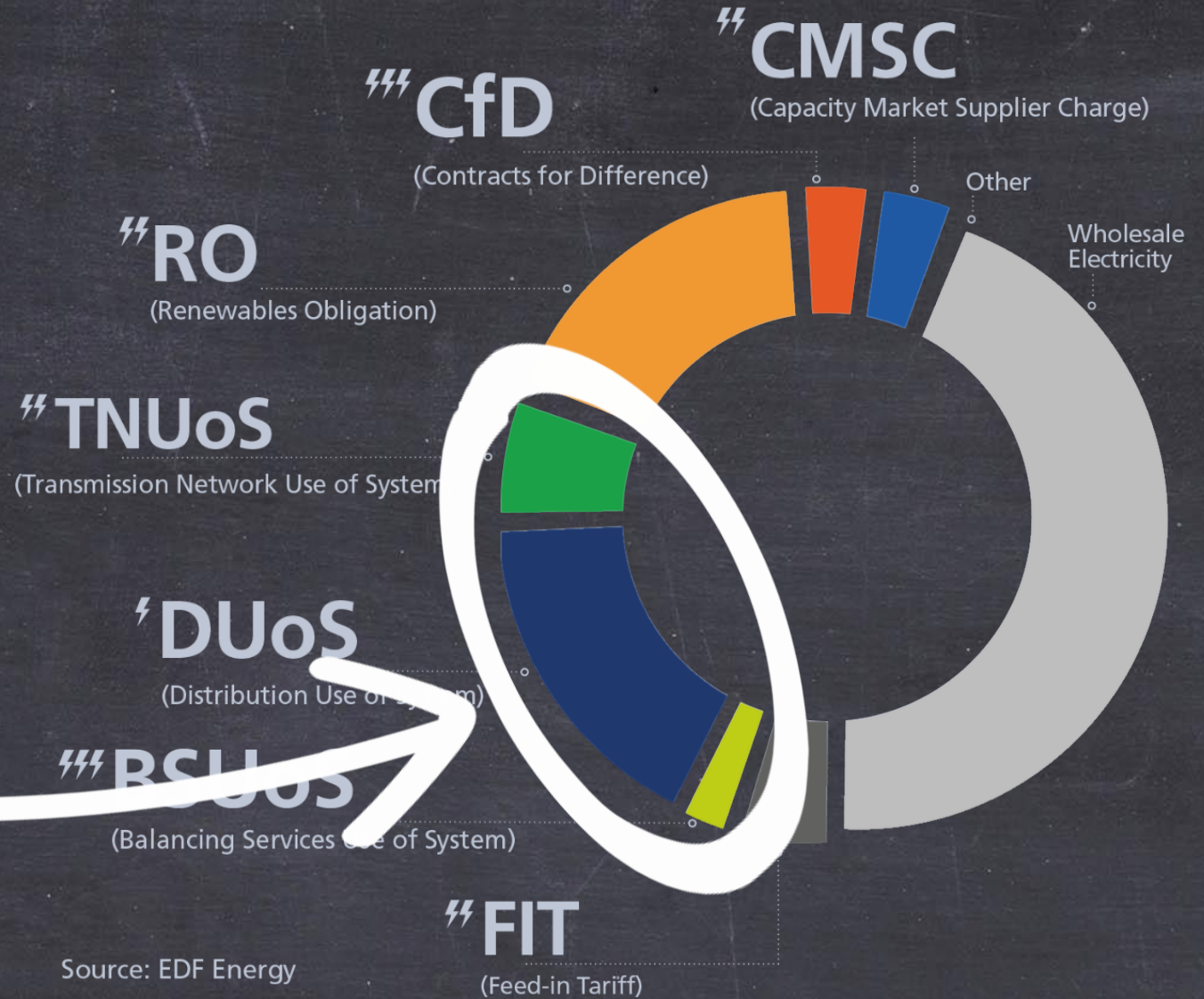
Choose pass-through
TNUoS and DUoS



Remember,
these changes
are a big deal

27%

of business electricity prices

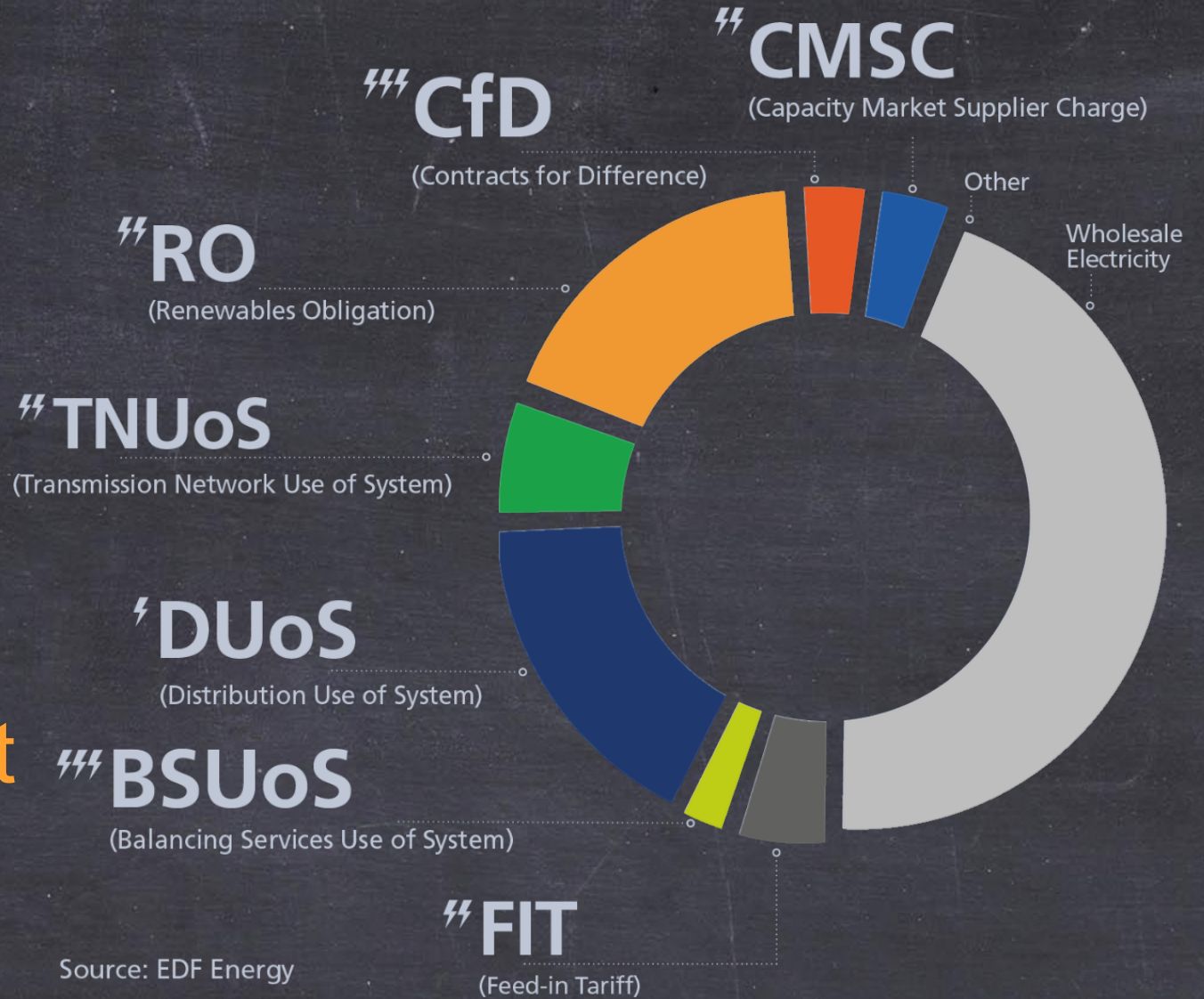


Source: EDF Energy

Get more updates and our forecasts of all these major NECs.

Read our Monitor report in Market Insight.

edfenergy.com/marketinsight



A close-up photograph of a bartender's hands. One hand holds a silver cocktail shaker, tilted to pour a vibrant red liquid. The other hand holds a fine-mesh metal strainer over a clear martini glass, which is already partially filled with the same red liquid. The background is dark and out of focus, with some bokeh light effects. The text 'THANK YOU' is overlaid in large, white, bold, sans-serif font across the center of the image.

THANK YOU

