DCUSA

TCR Impacts on Customers

(Sites with Low Consumption – High Capacity ratios)

1. An overview of the issue

1.1 The issue relates to the cost impact of the TCR to a specific customer, although there are likely to be other examples out there too. We have also been communicating with Andy Malley at Ofgem outlining the effect that TCR will have on their business and similar businesses.

1.2 The customer is concerned to such an extent, that their business may no longer be viable with the added costs due to TCR on top of the current market position. The TCR alone adds about £80,000 a year to their energy costs, which is nearly as much as their existing annual cost. Their supply contract is due for renewal this year and to put the cost impact into perspective, offers have come back in the range of 2.5 to 3.5 times their current annual electricity spend. In fact, these offers were a little while ago now and the market has moved up since then so the increase will now be higher.

1.3 While there is no control over market movements any increase in the regulated costs just adds to the pain.

1.4 The reason this customer is so badly affected by TCR is that their capacity is high in proportion to consumption. Their load factor is as low as 2% due to occasional high demand but relatively low consumption. The sites capacity is 6,000kVA. This is required to run two 2.5MW induction furnaces. They have invested in considerable cost retaining their kVA capacity over the last 5 years to ensure that it will be available for the times when both furnaces need to run at once. But it should be noted that these aren't used (and there are no plans to use these) other than sporadically or as needed.

1.5 The customer is a family owned specialist engineering company. Amongst other specialist products, they work alongside a well-known British brand in supplying parts for the Ministry of Defence nuclear submarine programme. If the customer can no longer deliver these services, it will leave a gap in an important supply chain and could result in the loss of their expertise along with the livelihoods of their employees.

1.6 Ofgem acknowledge that there will be winners and losers due to TCR, but this surely shouldn't mean that businesses like this lose out to such an extent that they can no longer continue.

1.7 The option to reduce capacity by 50% into a lower band does not help businesses like this customer as they need 5MW to run both furnaces. In any case dropping a band only reduces the cost by about £19,000.

1.8 To protect businesses like this, a separate methodology outside the banding structure would seem to be needed. Perhaps along the lines of site-specific charges within a qualification criterion, so that costs can be kept more in line with the current methodology.

1.9 It should also be noted that the customer has had communications with the Large User Group (LUG), their local MP and other organisations.

1.10 If we can have the opportunity to join the next meeting that would be very useful and much appreciated.

2. Thoughts following Code Administrator engagement

2.1 To outline the possible solution that we were discussing, the customer and possibly other similar businesses are very well placed to be able to manage the times when they need to utilise their capacity.

2.2 With DNO's looking at opportunities to implement 'smart grid' technologies, would a customer such as this one, be an ideal candidate to enter a flexible connection agreement with the relevant DNO? This could specify that they can only use an agreed demand at certain times, or by prior agreement with the relevant DNO's control room. This would be an ideal opportunity to manage load on the local network in an effective and proactive way.

2.3 If this could be implemented, sites that enter such an agreement could be given a site specific LLF for a charging methodology that sits outside the banding methodology. A simple solution would be to reinstate the charging structure that the site was on prior to TCR.

2.4 It was noted that the Code Administrator had suggested it could be argued that by taking a site out of the banding methodology, that this unbalances the levelling out of charges that TCR is intended to achieve, therefore adding to the costs to be spread across other customers. However, a counter point to this is that if as a result of the significant additional charges resulting from the TCR, a company is forced out of business, then that would have the same effect on levelling out the charges, plus the Use of System revenue is lost completely anyway.

2.5 Another irony worth mentioning from a sustainability point of view, is that TCR benefits high consumers, while low consumers that need a high capacity are being penalised. If a high consumer is looking to implement energy reduction initiatives, they may be less likely to if it results in increased costs.

3. Information Provided by the Code Administrator for DCMDG discussion

3.1 In developing the changes that were raised to implement Ofgem's TCR decision, the Working Group that specifically looked at the way in which the Charging Methodologies needed to be amended required a set of models to be amended. As part of that process, we also obtain an impact assessment which amongst other things, detailed how any changes will effect typical bills (at least in terms of DUoS charges). It also provided figures to show annual bills for customers whose energy consumption was 50%, 100% and 150% of the average for customers in their residual band with the 50% and 150% deemed to be atypical. Given what was shared with us (as set out above), I was curious to see how the impact changed as a result of adjusting the 50% down to 2%, which was a generic assumption I took

on the basis of the words above (i.e., "load factor is as low as 2% due to occasional high demand but relatively low consumption").

3.2 What the original analysis showed and what is still true now, is that the TCR has little impact on 'typical' bills for some tariffs because the 'typical' customer would have contributed almost the same amount of revenue through the unit rate residual adder as it now would under a fixed charge residual adder, notwithstanding other interactions between tariffs. The impact assessment noted that customers on these tariffs were to face an impact if their energy consumption is 'atypical'. The table below shows that same impact on annual bills for customers whose energy consumption is 2%, 100% and 150% of the average for customers in their residual band in a single DNO area only. The original analysis showed that the TCR reduces variation of annual bills (across customers generally) with respect to energy consumption (which was the intention of Ofgem's Targeted Charging Review decision). What was also known, was that there would however be variation for individual customers but when adjusting from the original 50% energy consumption as compared to the average, to 2% consumption as compared to the average you do get to see how much of an impact that is likely to be. The table below shows just that and actually seems to broadly align with statement above that stated the "TCR alone adds about £80,000 a year to their energy costs".

		2%	100%	150%
HV Site Specific Band 4 – **Pre TCR**	Total £/MPAN/year (kwh + kva + fixed)	£25,210.39	131,507.72	£185,741.05
HV Site Specific Band 4 – **Post TCR**	Total £/MPAN/year (kwh + kva + fixed)	£105,187.57	131,457.76	£144,860.92
Difference	£/MPAN/year	£79,977.18	- £49.96	- £40,880.14
Difference	%	317.2%	0.0%	-22.0%

3.3 Regarding the final point above (i.e., paragraph 2.5), whilst I'm sure a lot of people will agree with it, Ofgem were aware of this when coming to their decision. Looking at it with a slightly different perspective as compared to a few years ago, I think you could almost say that the rationale is more focussed on efficient use of the network. Meaning that they appeared to place greater emphasis on ensuring that network capacity is used as efficiently as possible and not in the sense of just merely using less (i.e., ensuring that network capacity is used to its fullest extent possible without the need for expensive reinforcement. Although it should be noted that the policy was not about sending signals, but just more fairly spreading a specific cost that needs to be recovered no matter what and for the method of recovery to be such that it became very hard to avoid paying some or all of it. A quote from their impact assessment:

In the absence of reforms to charging, some network users would continue to receive an unintended subsidy. Reduction or removal of this will have implications for some business models. We recognise this, but note that these charges were not designed to work as policy support measures for certain types of generation and that potential changes have been signalled for some time. Where there is justification for some network users to receive an ongoing support, targeting this through a particular mechanism would be more effective and efficient.

3.4 The latter point is especially important as it is essentially where we got to in our discussion, which is how best can the customer offset the impact of the increased charges. Is there an opportunity to renegotiate a connection agreement whereby some form of rebate could be paid to the customer in acknowledgement of the fact that they only require their maximum capacity for a fraction of the year and can be somewhat flexible in when they utilise that capacity, thereby effectively allowing that capacity to be returned to the grid, with the exception being when it is needed. Could it entail some form of shared access rights to that capacity or are there any other business nearby that an arrangement could be reached with or indeed could the site accommodate another business that may have a need for a chunk of capacity.