



ConsultivUtilities

Break down your energy bills

KEY ELEMENTS OF YOUR ENERGY BILL
EVERY BUSINESS SHOULD KNOW

Ever wondered what factors contribute to the cost of your energy bill?

This comprehensive guide is designed to shed light on the intricacies of your business energy expenses, empowering you to take control of your consumption and make informed decisions.

Contents



Breaking down
your energy bill



Understanding
non-commodity costs



Understanding
commodity costs



Future cost breakdown

Breaking down your energy bill



Generally, an electricity bill is made up of three main elements:

1. The commodity, also known as wholesale cost of energy used.
2. Non-commodity costs attributed to the delivery of electricity, improvement, and upkeep of network infrastructure and Government originated charges for investment in future generations (environmental charges).
3. Additional supplier charges to cover the cost of supplier billing, metering, customer services and profit margin.



Wholesale costs

Wholesale costs are typically variable and can be influenced by market dynamics, supply and demand, geopolitical factors, and other market fluctuations. As a result, businesses may experience changes in wholesale costs on their energy bills, reflecting market conditions.



Non-commodity costs

Some non-commodity costs will be itemised as additional charges on your bill. There is no one way to include certain charges. Some suppliers may itemise a cost in your bill, whereas other suppliers might cost this into their standing charge.



ConsultivUtilities

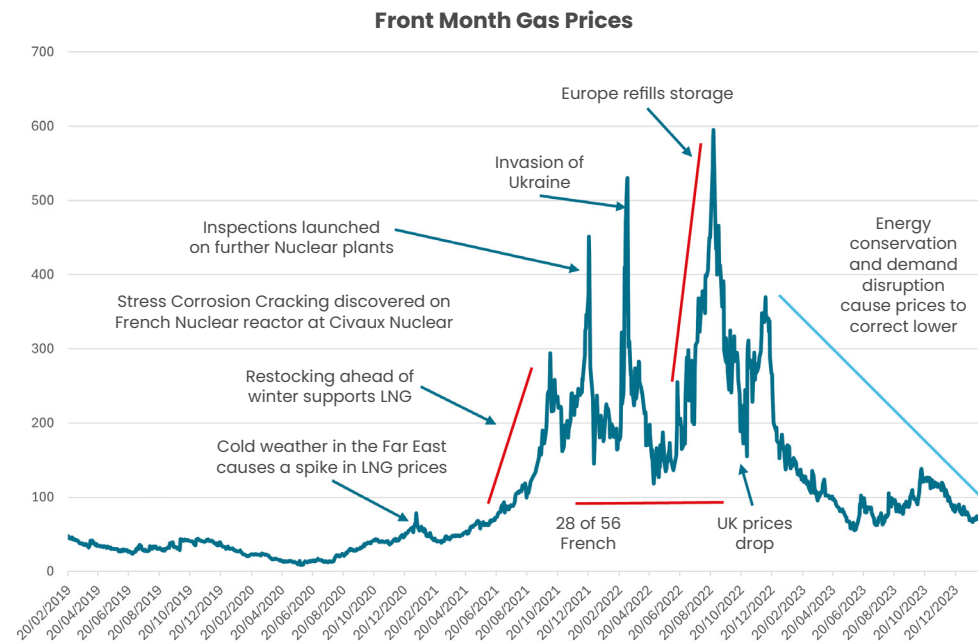


Understanding commodity costs

Here's what you need to know about the wholesale costs of your business energy:

Wholesale costs are determined by supply and demand dynamics, market conditions, and various external factors – wholesale costs directly affect how much suppliers charge for the energy they provide.

By understanding the intricacies of wholesale cost your business can navigate the energy landscape with clearer vision.



ConsultivUtilities

Understanding non-commodity costs

Non-commodity costs are charges that are not directly controlled by energy suppliers.



Instead, they are determined by various regulated industry bodies and government entities. These charges cover aspects like environmental levies, taxes, and other fees associated with maintaining the energy infrastructure. It's important to note that these costs are generally consistent across different suppliers.

Fully fixed contracts

- In fixed contracts, businesses agree on a set of charges for a specific contract duration, often up to 5 years.
- The charges include rates for each kWh consumed, covering both day and night rates, along with bundled non-commodities.
- Suppliers estimate future non-commodity increases, add a premium and bear the risk so the customers can budget with confidence.
- However, supplier risk premiums are added to your price to account for uncertainties in estimating future non-commodity costs.

Pass-through and flexible contracts

- Non-commodity costs are broken down transparently, with each cost presented as a separate line on the invoice, but this can vary depending on supplier.
- Changes in non-commodity are reflected when they come into effect, typically occurring in April, aligning with regulatory adjustments.
- The invoice structure is more complex, and prices can vary during the contract term.
- Regular reconciliations ensure that actual costs align with the published costs, eliminating the need for risk premiums.
- The flexibility allows proactive businesses to strategically manage their energy usage, avoiding peak-time non-commodity costs.

Non-commodity components within an electricity bill

While there are certain similarities in the non-commodity costs associated with both gas and electricity, distinctions arise due to the unique characteristics of their respective energy infrastructures and environmental responsibilities. Here, we provide an overview of the non-commodity costs incorporated in an electricity bill.

Government policies, levies, and schemes

Non-commodity component	Description
RO Renewables Obligation	Suppliers are required to source a specific percentage of their total electricity sales from renewable energy generation. The UK government sets annual targets for the proportion of electricity that must come from renewable sources. To demonstrate compliance, suppliers present Renewable Obligation Certificates (ROCs) for each megawatt-hour of renewable electricity generated.
FIT Feed-in-Tariff	Under the FIT scheme, individuals, businesses, and other eligible generators receive payments for the electricity they generate from renewable sources and feed into the grid. FIT programs typically offer a fixed, premium rate for the electricity generated, providing a guaranteed income for a set period, often 20 years.
CFD FIT The Contract for Difference Feed in Tariff	The Contract for Difference Feed in Tariff (CFD/FIT) scheme is designed to encourage low carbon power generation and provide long-term price stability by providing financial support to renewable energy projects in the UK.
CFD Levy Contracts for Difference Levy	The CfD pays for the operational costs of supporting renewable energy projects through Contracts for Difference. It is collected by the Low Carbon Contracts Company who are responsible for making payments to CFD generators.
CCL Climate Change Levy	The Climate Change Levy (CCL) is an environmental tax imposed on the industrial, commercial, and public sectors in the UK with the aim of encouraging businesses to reduce their energy consumption and greenhouse gas emissions.

Network and distribution costs

Non-commodity component	Description
AAHEDC The Assistance for Areas with High Electricity Distribution Costs	Established under the Energy Act 2004, replacing the previous “hydro levy” arrangement. This initiative is designed to extend financial support and relief to regions or communities grappling with disproportionately high electricity distribution costs. The assistance is specifically allocated to the north of Scotland, which remains the sole area eligible to receive support.
DUoS Distributed Use of System	Distributed Use of System (DUoS) refers to the charges incurred by electricity users for utilising the local distribution network to transport electricity from the national grid to their premises. These charges contribute to the maintenance, operation, and development of the distribution infrastructure. DUoS costs are region-specific and are designed to reflect the varying costs associated with distributing electricity across different parts of the country.
TUoS Transmission Use of System	Transmission Use of System (TUoS) charges cover the cost of using the high-voltage transmission network. These charges contribute to covering the costs of operating, maintaining, and expanding the transmission infrastructure which delivers electricity from power stations to the regional transmission networks.

Regulatory and industry costs

Non-commodity component	Description
Supplier Margins	A supplier’s margin is the difference between the price at which energy suppliers purchase electricity or gas from the wholesale market and the price at which they sell it to end consumers. These margins cover the supplier’s operating costs, customer service, and profit.
Metering and settlement costs	These costs are site specific and subject to variation and fluctuation depending on your Data Collector (DC) and Data Aggregator (DA provider).

**Balancing
services and
ancillary
costs**

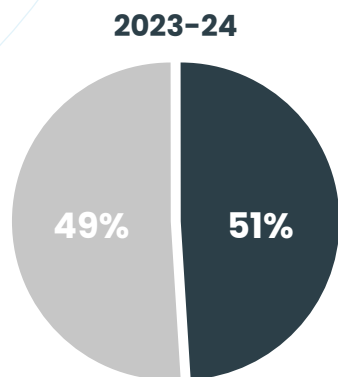
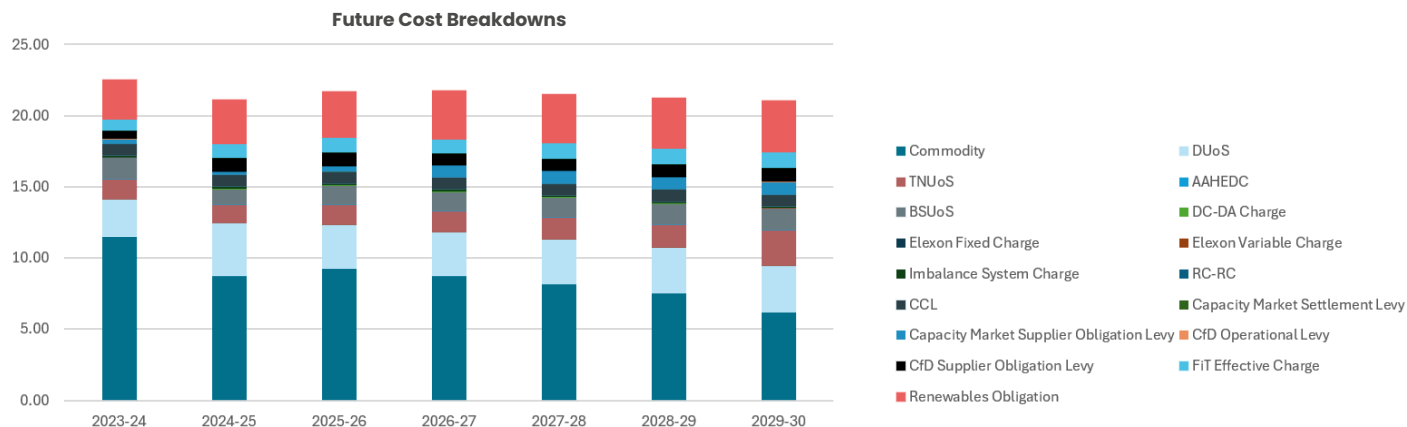
Non-commodity component	Description
Ellexon	Ellexon operates as a non-profit organisation with the key objective of overseeing the efficient functioning of the electricity wholesale market and ensuring precise settlement of financial transactions among electricity suppliers, generators, and distributors. Its responsibilities include the administration and management of the Balancing and Settlement Code (BSC).
Imbalance Risk	These rates are formulated to represent the costs linked to the Balancing Mechanism Bids and Offers chosen by National Grid to maintain equilibrium in the energy flows across the Transmission System, including instances of reserve scarcity.
EMR/CM Charges Electricity Market Reform and Capacity Market	EMR/CM charges fund the government's Electricity Market Reform and Capacity Market schemes, ensuring electricity supply by providing a payment for reliable sources of capacity.
CM Levy Capacity Market Levy	The Capacity Market (CM) Levy pays for the operational costs to support the Capacity Market scheme that ensures security of electricity supply during times of peak demand.
BSUoS Balancing Services Use of System	Cost to cover the day-to-day operation of the transformers as electricity is transported through the transmission system.
RCRC Residual Cashflow Reallocation Cashflow	Residual Cashflow Reallocation Cashflow (RCRC) is where any excess or shortfall after all Balancing and Settlement Code (BSC) parties have paid their imbalance charges is redistributed amongst them, ensuring that the total imbalance charge is zero across all parties.

Future cost breakdowns

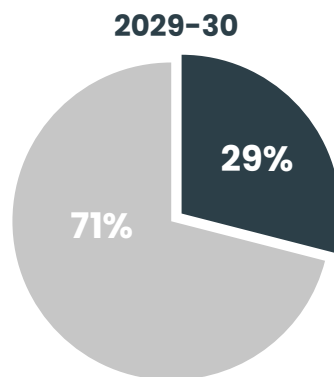
Rising electricity costs

Over the next 5 years the wholesale price of energy could stay the same, increase or even decrease.

However, because non-commodity charges are set to increase, your electricity bill could still increase even if the wholesale price is lower.



● Non commodity
● Commodity



It is predicted that in the next 5 years we will see non-commodity costs come to the forefront of energy bills as they continue to rise.

How we can help

Our extensive relationships with a vast network of suppliers ensures that we navigate the market to secure a tailored energy deal for your business. We take the time to comprehensively assess your business, looking for energy saving opportunities and tailoring energy contracts to align seamlessly with your unique requirements.

At Consultiv Utilities our mission is to simplify energy procurement, providing you with peace of mind and the freedom to focus on what matters most - running your business.



Ready to optimise your business energy procurement strategy?

**Click to
contact us**

Call us **0191 250 5557**

Email us **info@consultivutilities.com**

Visit us **consultivutilities.com**



ConsultivUtilities