



Inenco Insight

February 2022



Welcome to the first edition in 2022 of our regular update on key supplier, market and regulatory news. Our intention is to use this as the vehicle by which to keep you regularly updated and provide the insight you would expect from your energy management and sustainability partner.

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1 Latest News on Balancing Services Use of System Costs (BSUOS)

What is it?

This charge is often unseen on final bills as it is usually added into the “energy” rate and is charged to suppliers (and currently to generators) by the National Grid to cover the cost of balancing supply and demand across the mainland UK national electricity network.

“Balancing” is the term used for when the system can’t transmit the power generated at a particular location to where there’s a demand for it, National Grid will reconfigure the system. The costs incurred are known as constraint costs and are passed on equally to generators and suppliers as the Balancing Services Use of System (BSUoS) charge.



BSUOS costs seem on a continual increasing curve. Why?



The growth of renewable energy means that generation is becoming more decentralised with a small number of larger generators being replaced by a large number of smaller generators. As a result, balancing supply and demand across the system involves coordinating many more generators.

- Because renewable generation often depends on the weather, generating electricity from renewable sources like solar and wind is less predictable and requires more balancing.
- Renewable wind generators are often located far away from areas of high demand. For example, many wind farms are in Scotland, while much of the demand comes from the south of England.
- To keep the system running, National Grid carries out maintenance and improvement work, which can make it harder to move electricity around the country.
- When demand for electricity drops, wind farms may need to be paid to stop generating excess electricity on to the grid.

1 Latest News on Balancing Services Use of System Costs (BSUOS) (continued)

As renewable generation continues to grow (and there remains a need for significant investment in the transmission and distribution network), we are seeing BSUOS charges becoming even more volatile.

Concerns have been raised to the extent that there has recently been the announcement that a “cap” of £ 20/MWH (on any individual Half Hourly cost for Balancing) be introduced from 17th Jan 2022. This will mitigate any extremely high BSUOS costs for those customers with BSUOS pass-thru contracts.

What’s the longer term position?

But this is only a short-term measure and will almost certainly produce under-recovery of costs which may need to be added to future years costs for those customers who are NOT on BSUOS pass-thru contracts.

In addition to this uncertainty and rising balancing costs there are also significant “rule” changes that will happen in Apr 23, when all BSUOS costs will be borne by consumers (not split as mentioned across generators and consumers).

This potentially means that BSUOS costs will double from April 2023.

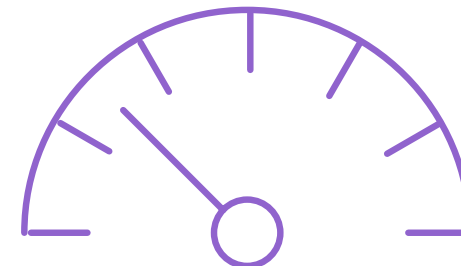


2 The Impact of DCP 268 on electricity NHH supplies

This is a regulatory change introduced by Ofgem that moves Non-Half Hourly (NHH) settled demand customers onto time-based Half Hourly (HH) Distribution Use of System (DUoS) unit rate charges. This change is implemented in the Distribution Connection & Use of System Agreement (DCCUSA) on 1 April 2022.

From this date, if a customer chooses to apply for a pass-thru contract for their NHH supplies then they will be now moved onto Red/Amber/Green (RAG) tariffs with consumption data for each half hour being estimated using aggregated profiled data.

Please note NHH UNMETERED customers will move to comparable Black/Yellow/Green (BYG) unit rate charges.



2 The Impact of DCP 268 on electricity NHH supplies (continued)



The use of profiled data means that customer charges will not reflect actual consumption in each time band, and customers will not be able to reduce their exposure to charges by changing their consumption patterns. However, the change will lay the foundations for time-of-use tariffs, as when all customers move to being HH settled the intention is that they will be exposed to time band charges using actual HH consumption.

We are predicting that NHH customers may see an increase of up to 2.6% in charges as a result of the new NHH profiling.

How this affects generation meters?

Following the implementation of DCP268, intermittent and non-intermittent generation will both face the same RAG charges, meaning that non-intermittent generation will be able to be rewarded for generating at peak when they can offset demand. This should address issues with distribution-connected intermittent generation being overrewarded for generating during off peak periods and under-rewarded for generating at peak.

The DCP268 change report suggests that the change will increase generation credits in all regions, potentially up to a maximum of 18.42% depending on region and alignment of generation to demand peaks. Demand customers may also see an increase of up to 2.6% in charges as a result of the NHH profiling and the intermittent generation changes.

The overall effect of the changes is that the existing 33 DUoS tariff bands will reduce to 16. In approving the change Ofgem said that this should allow greater flexibility for suppliers to offer time of use tariffs in the future. Distribution network operators (DNOs) and suppliers will need to have amended their billing systems in order to cater for the new tariffs and the use of RAG and BYG for existing NHH customers instead of the settlement time pattern regimes. There will be no impact on settlement volumes.

3 Important Reminder About the Targeted Charging Review (TCR) from April 2022

Ofgem's TCR is changing the way energy suppliers are charged for transmission and distribution costs which are paid by businesses to help maintain the UK's electricity network. Their aim is to spread costs more fairly between businesses and consumers.



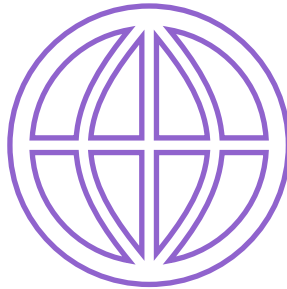
3 Important Reminder About the Targeted Charging Review (TCR) from April 2022 (continued)

What is changing?

The announcement will affect the way that residual charges are set, for:



TNUoS -recovers the cost of installing and maintaining the transmission network and



DUoS -recovers the cost of installing and maintaining the local distribution networks

Currently these charges are built into your business's unit rates but, in future, network operators will charge suppliers a fixed amount per business customer site. In turn, these new fixed charges will need to be passed onto all business customers.

When are the changes happening?

The changes to DUoS will come into effect on 1st April 2022 with TNUoS coming into force on 1st April 2023 (based on Ofgem's current 'minded to' position).

Will it affect me?

Yes, all customers will be affected.

Traditionally, transmission and distribution charges have been passed on to you as a unit charge. Now most of your transmission costs, and roughly half of your distribution costs, will be a fixed charge. Both elements will now be included within your standing charge.

By moving these costs to the standing charge, the noticeable impact for the majority of customers will be a higher standing charge.

3

Important Reminder About the Targeted Charging Review (TCR) from April 2022 (continued)

How has it been calculated?

You will be assigned to a certain banding based on your site's size. This banding will then determine the relevant TCR charge passed on to you from your supplier.

For the majority of half-hourly (HH) meters, bandings will be based on the agreed capacity of the meter. For business non-half hourly (NHH) and HH meters without a capacity charge, the bands are determined by volume.

To ensure fair pricing, the National Grid has developed a new banding system that energy providers must use when calculating the standing charge to be applied for each customer. This will give consideration to the profile class and voltage type for your business but will also vary according to your supply type.

Does it Affect TRIAD charges?

Yes, this means an end to the previous Triad-based approach. When fully implemented, customers who can reduce energy usage during peak times will now see little or no benefit in their Transmission Network Use of System (TNUoS) costs, reducing the incentivisation to demand manage.

What can we do?

We recommend budgeting for the anticipated increase in costs from April 2022.

Under our 'Review & Recover' service, Inenco can do an impact assessment to calculate the specific impact for your business. We may be able to identify options for reducing these charges.

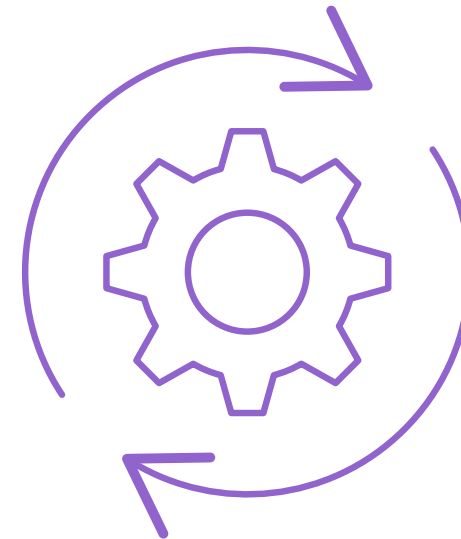
Also, if we conclude that the banding allocated to your business is incorrect, we can make an appeal on your behalf.





4 Funding Opportunities – Industrial Energy Transformation Fund

The Government has announced further competitive rounds of potential funding for the Industrial Energy Transformation Fund (IETF). This fund is focused upon enabling “... the commercial rollout and permanent installation of technologies at industrial sites, rather than general research, development and testing of a technology solution.”



Funding Opportunities – Industrial Energy Transformation Fund (continued)

Eligible projects fall into three main categories:

- Deployment of mature energy efficiency technologies that improve industrial process energy efficiency and reduce energy demand.
- Deployment of deep decarbonisation processes or technologies to help businesses decarbonise their industrial processes.
- Feasibility and engineering studies for projects deploying mature energy efficiency technologies or deep decarbonisation technologies.

There are three application windows this year of:

- Spring 2022, 31 January – 29 April
- Summer 2022, May – September
- Autumn 2022, October – January

Our current expectation is that each of the 3 “windows” this year is likely to have ~£60Million available. The smallest project is being defined as one that will receive a grant of >£100,000. The minimum % of grant allocated as a proportion of the overall project cost ranges from 35% to 65%, dependent upon regional location and technology type

[Click here](#) to access a detailed Q&A describing the eligibility criteria.

Our Client Solutions team are able to support the development of relevant bids and the shaping of relevant feasibility and engineering studies and ultimately the deployment of the new technology





Please do speak to your usual Inenco contacts if you need any more detail on the issues we have covered in this edition or email enquiries@inenco.com

Better Business, Greener World