inenco

Insight Update

August 2023

Welcome to the latest edition of our update on key market and regulatory news. During a period of unprecedented market change, 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.

Given the ongoing volatility in the energy markets we will continue to send additional specific procurement related briefings as and when necessary.

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1 Changes to the Energy Savings Opportunity Scheme (ESOS)

In 2022 the Government launched a consultation on ways that ESOS should be changed to make it more consistent and to introduce new requirements and methodologies. The Government subsequently responded with areas that they wished to change, and we all waited for the necessary changes to be introduced in new legislation. However, further updates or clarification were significantly delayed.

By the end of spring, we were beginning to think that the Government had run out of time to implement any changes before 5th December 2023 deadline.

However, in the May newsletter for ESOS, it was announced that changes would be made to the current phase of ESOS and that these would be embedded in changes that would be made to the Energy Bill. To allow time for compliance, a grace period has been introduced, which sets a new reporting deadline for ESOS of 5th June 2024.

1 Changes to the Energy Savings Opportunity Scheme (ESOS) continued

Unfortunately, the exact nature of these changes will be reflected in a new guidance note that won't be published until after the Energy Bill is passed. The new Energy Bill is still working its way through the final stages of the legislative process with no absolute clarity of when it will be passed into law. However, our view on the probable changes is detailed below.

What do we think the new ESOS will include?

Based on the Government response to the original consultation and subsequent communications, we expect to see the following amendments and additions to ESOS reporting.

- Phases 1 and 2 of ESOS required the audit to cover 90% of the energy consumption (i.e., up to 10% could be regarded as 'de-minimis'). This is expected to increase to 95% (i.e., 5% de-minimis).
- Increased regulation of sampling methods for site, which could increase the number of audits that are carried out.
- Defining energy savings as short, medium, or long-term opportunities.
- Detailed guidance of savings opportunities to cover 'next steps' including Government and Private funding/grants.
- Historical information on earlier phases of ESOS.

Fortunately, Inenco already complied with many of the Government responses anyway and has now modified Phase 3 reports to meet many of the new Government recommendations (e.g., CO_2e emissions).

Post-ESOS

The Environment Agency newsletter also discussed an ESOS Action Plan, which is due by December 2024 and is expected to be maintained annually. Details are not provided, but we expect this to look a bit like a Carbon Reduction Plan, which is used in the public sector to set targets and to define a plan of how to get there.

This ESOS action plan can be carried out after the ESOS report is submitted and will be a separate report.

1 Changes to the Energy Savings Opportunity Scheme (ESOS) continued

What do we do now?

The impact on individual site audits is expected to be small, so we plan to continue to carry out these audits. However, we will need to review whether we have applied an appropriate sampling methodology once the legislation is passed.

We will of course continue to work to understand what the new guidance will look like and be able to implement any necessary changes once confirmed.

Please be assured that in the interests of giving our customers the insight they need to both achieve compliance but also take advantage of the identified energy saving opportunities; we will continue to undertake site audits and deliver completed reports as at present.

If you need any further clarification, please contact your Account Manager or your normal contact within our Solutions team.

2 PPN 06/21: Could inaction on Carbon Reduction Plans halt your sales into the NHS?

Despite its many challenges the NHS remains the largest employer in the UK and accounts by some way the largest proportion of government spending.

It spends tens of £billions each year through its supply chain and is a key customer for 1000s of companies. It is therefore little surprise that the Government is using the NHS as a key lever in helping to achieve its net zero goal by mandating the requirement for suppliers to have in place a clearly articulated Carbon Reduction Plan (CRP).

An existential threat for some...

Our experience in talking to our customers to date is that those in sectors obviously aligned to healthcare such as pharmaceuticals and medical supplies are aware of and embracing the CRP requirement. But there are also many producers of non-health-specific products who also have NHS Trusts as major customers who are either unaware of the new requirement or are not addressing it with sufficient urgency. Failing to act quickly or thoroughly enough in developing their own Carbon Reduction Plans could face some businesses with an existential threat.

The NHS is ratcheting up the CRP and requirement for net zero targets over the next few years, but the direction of travel is clear, and the key deadline is probably that there are now only 13 months until a CRP will need to be in place for all procurements. The key elements of the roadmap are:

Net zero supplier roadmap

From April 2022: all NHS procurements have included a minimum 10% net zero and social value weighting. The net zero and social value guidance for NHS procurement teams will help unlock health-specific outcomes (building on PPN 06/20).

From April 2023: for all contracts above £5 million per annum, the NHS will require suppliers to publish a Carbon Reduction Plan for their UK Scope 1 and 2 emissions and a subset of scope 3 emissions as a minimum (aligning with PPN 06/21). The Carbon Reduction Plan (CRP) requirements for the procurement of NHS goods, services and works guidance outlines what will be required of suppliers and how it will be implemented.

From April 2024: the NHS will extend the requirement for a Carbon Reduction Plan to cover all procurements.

2 PPN 06/21: Could inaction on Carbon Reduction Plans halt your sales into the NHS? continued

From April 2027: all suppliers will be required to publicly report targets, emissions and publish a Carbon Reduction Plan for global emissions aligned to the NHS net zero target, for all their Scope 1, 2 and 3 emissions.

From April 2028: new requirements will be introduced overseeing the provision of carbon foot printing for individual products supplied to the NHS. The NHS will work with suppliers and regulators to determine the scope and methodology.

From 2030: suppliers will only be able to qualify for NHS contracts if they can demonstrate their progress through published progress reports and continued carbon emissions reporting through the Evergreen sustainable supplier assessment.

SMEs will have a further grace period of two years to achieve these objectives but given the ever tightening of compliance requirements and a flow of new policy announcements, there would seem little if any benefit in not acting sooner rather than later.

3 Contracts for Difference

The Contracts for Difference (CfD) scheme is the government's main mechanism for supporting low-carbon electricity generation.

CfDs incentivise investment in renewable energy by providing developers of projects with high upfront costs and long lifetimes with direct protection from volatile wholesale prices, and they protect consumers from paying increased support costs when electricity prices are high.

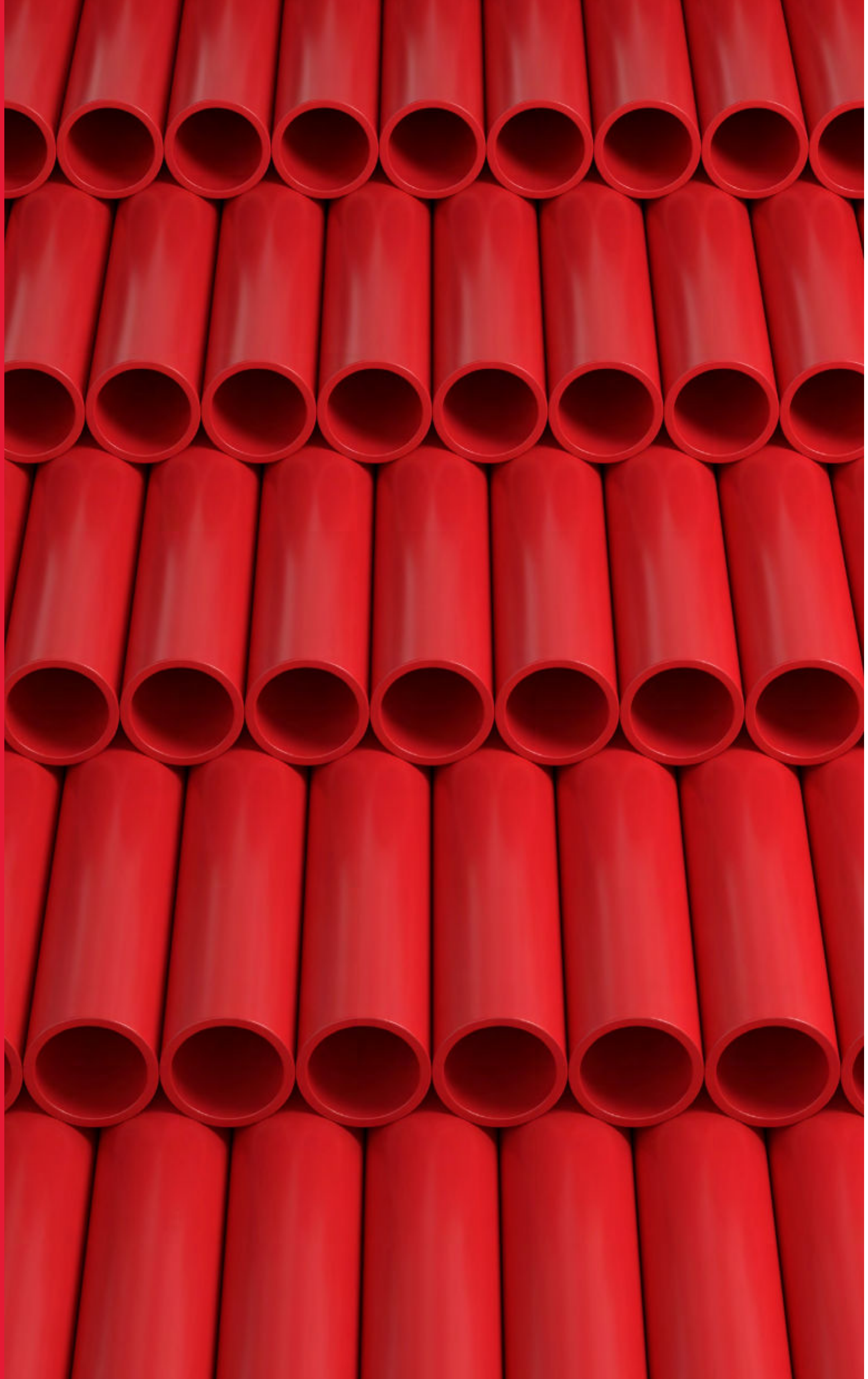
Renewable generators located in Great Britain that meet the eligibility requirements can apply for a CfD by submitting what is a form of 'sealed bid'. There have been 4 auctions, or allocation rounds, to date, which have seen a range of different renewable technologies competing directly against each other for a contract.

On the 7th of July, the results of the 4th Round of the Contracts for Difference auction were announced:

This provided for 11GW of generation, of which almost 7GW was from offshore wind. Pot 1 technologies had the following strike prices (based on 2012 costs, which exclude inflation):

- Offshore wind = £37.35/MWh (2024/25)
- Onshore wind = £42.47/MWh (2024/25)
- Solar PV = £45.99/MWh (2024/25)

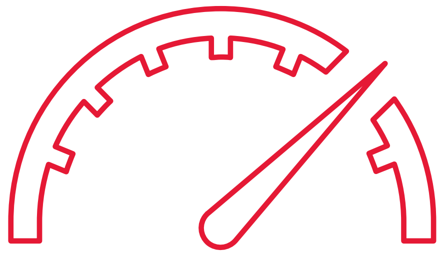
Offshore wind is now around one third of the strike price set in round 1 of the CfD.



4 The Digest of UK Energy Statistics

The 2023 Digest of UK Energy Statistics (DUKES) was published on Tuesday 27th July and can be found at this website. This covers energy use in 2022.

We already know that the electricity grid emission factor has increased for 2023 (due to the Ukraine situation and the shortage of French nuclear power) and around one third of our natural gas was used for electricity generation. This unexpected increase in the electricity emissions factor, combined with the high cost of energy increasing may have pushed back the target date for electricity grid decarbonisation, but the general trend is that the grid is getting cleaner.



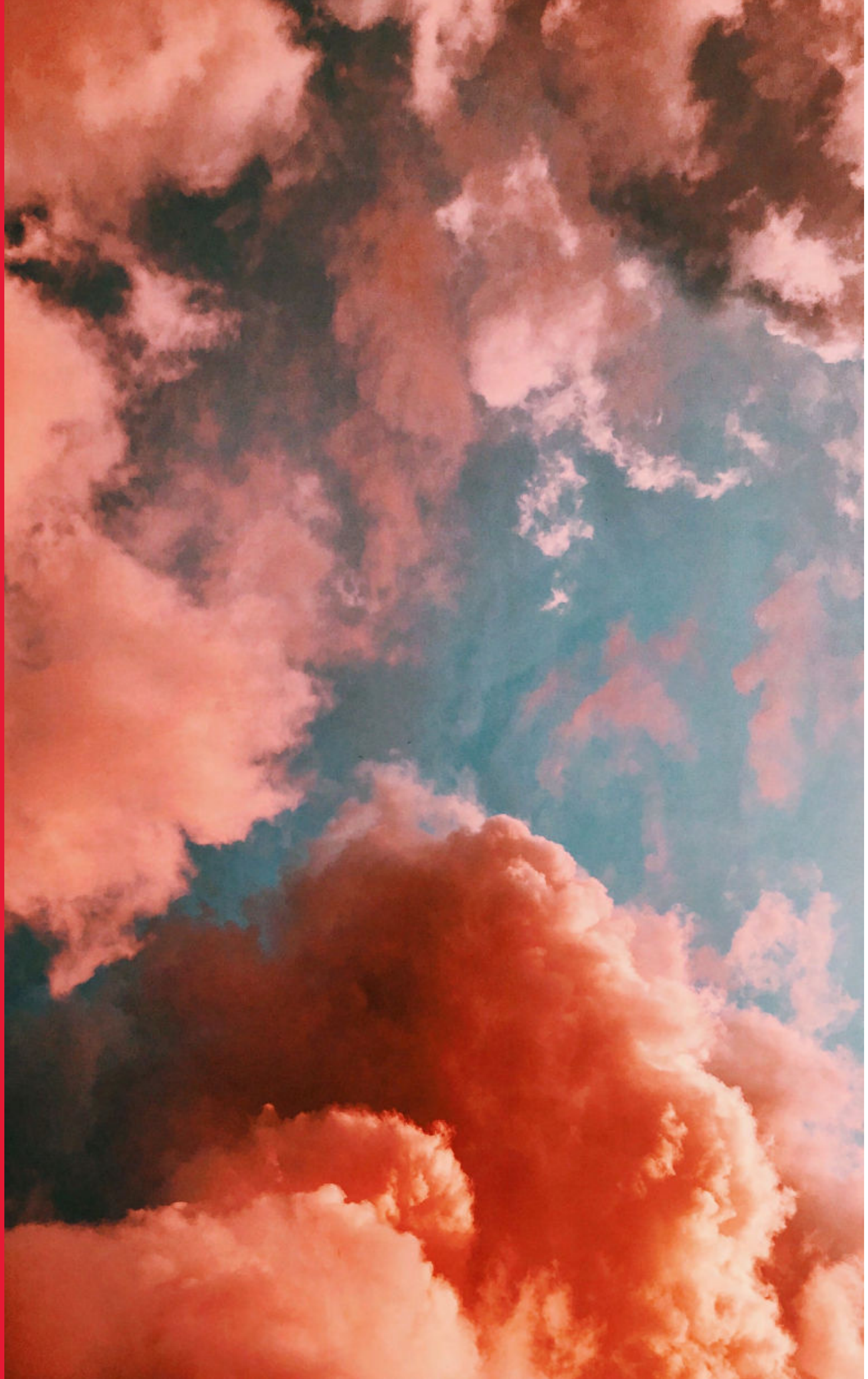
5 Public Sector Decarbonisation Scheme - Phase 3c

On the 12th of July, the Government launched Phase 3c of the Public Sector Decarbonisation Scheme (PSDS), which has been a success for the funding company, Salix in helping to decarbonise sites in the Health, Education and Other (mainly Council) Sectors.

The latest round of the scheme will award grants of around £230m in 2024/25 and the portal will open this Autumn (believed to mean this October).

As usual the PSDS will look at whole building concepts where energy efficiency measures are introduced before an existing fossil-fired heating system is replaced with a low or zero carbon alternative.

More information on the eligibility criteria and application process for the scheme is available here.



6 October ’23 Portfolio Timeline

For those clients in an October’23 portfolio, we thought a reminder of the process and update on the timeline would be helpful as we appreciate that clients are normally keen to understand billing rates ahead of the supply period commencing.

In order to secure the billing rates Inenco manage suppliers to a detailed timeline – the timeline is designed to secure accurate rates, minimise charges whilst also delivering in a timely manner.

The trading window for the October’23 contracts recently closed. This then allows Inenco and the supplier to start the billing rate process. This coincides with the time that suppliers can start to confirm the non-commodity charges. The non-commodity charges are more complex than ever and have the added complexity of EBDS and ETII included.

6 October ’23 Portfolio Timeline continued

Once the suppliers have provided the billing rates Inenco will conduct an in depth validation of them. We are able to do this as the suppliers are required to provide a line by line breakdown of the pricing elements (unlike fixed price contracts where there is no visibility). In previous years we have successfully challenged charges and this process has delivered significant cost benefit for our clients. If we identify issues and need to work to secure a change this may prolong the timeline that we are working to.

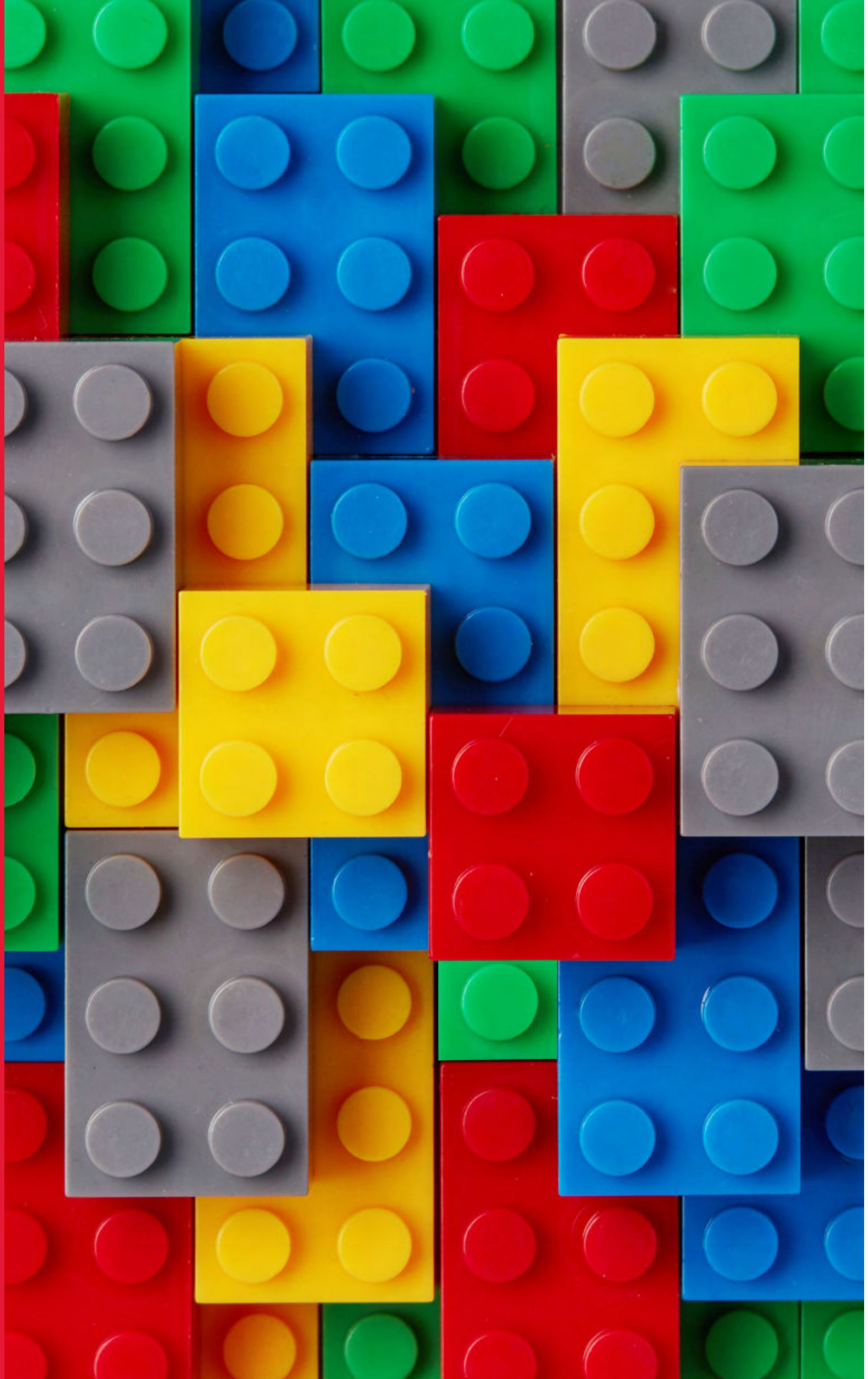
We expect to be able to confirm billing rates in mid-September. There may be some suppliers where we are able to release the billing rates earlier than the forecast. If we see risk that a supplier may not release billing rates to schedule we will advise further of this.

7 Non-Commodity Charges

DCP 411 – Charging de-energised supplies.

At present de-energised supplies do not incur DUoS MIC and fixed charges or transmission related fixed charges. However, because the MIC is retained for de-energised HH metered CT supplies, changes have been proposed to commence charging these elements from 1st November 2023 providing certain conditions are met. If accepted by Ofgem, this change will see the costs associated with de-energised supplies increase significantly in many cases.

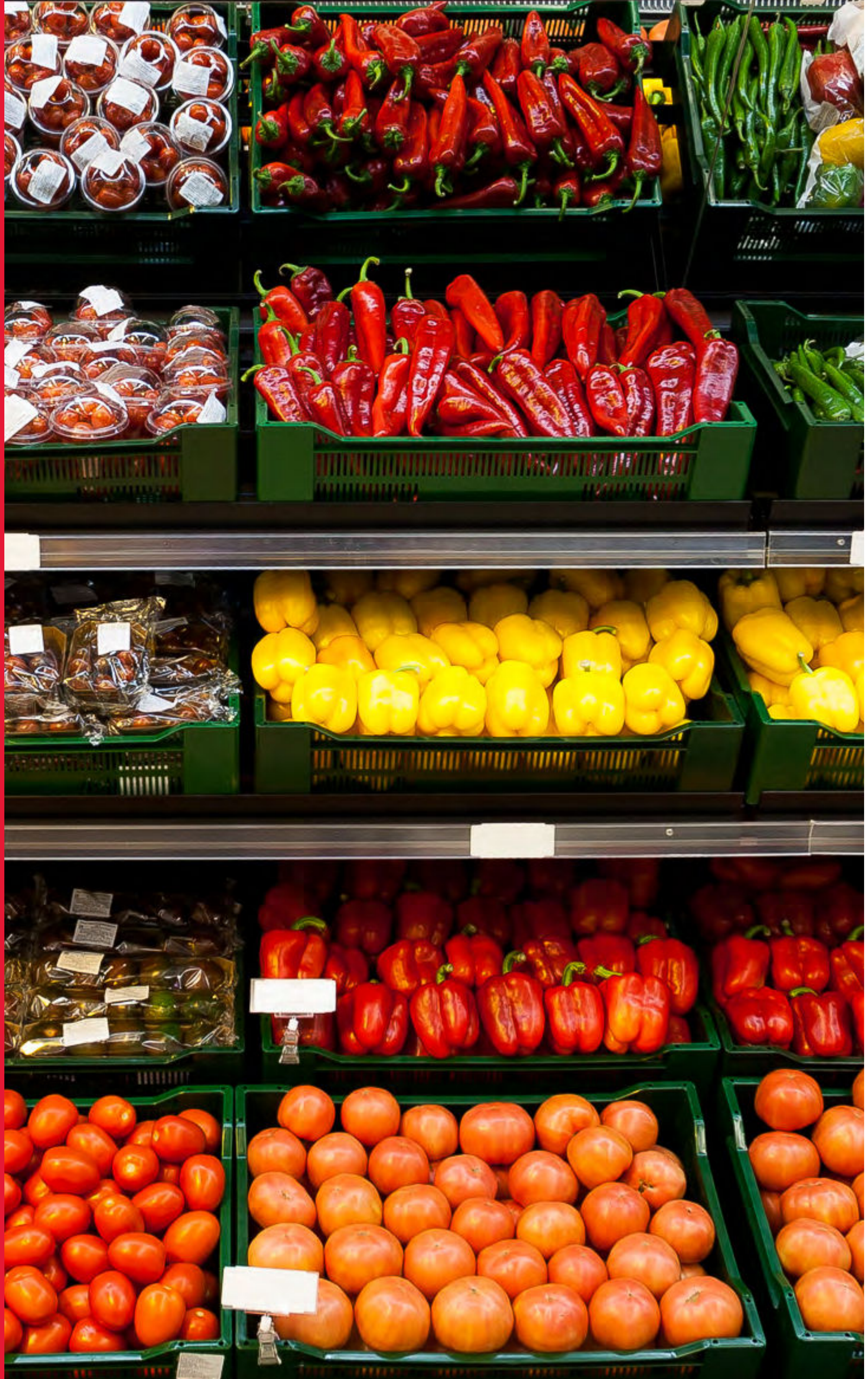
Although it is expected DNOs will write to customers in advance of the changes, it is believed there are a large number of supplies nationwide where ownership is unclear and this communication should not be relied upon.



8 DCP 412 – Relief for "Peaky" loads

This change looks to ameliorate the effects of high TCR standing charges in cases where supplies have a very "peaky" profile and rarely use the full MIC.

It is unlikely to affect a large number of customers but may benefit users who experience very occasional high demands. It is still being worked upon and is currently going through a consultation. A final decision is expected this year with any changes coming into effect as soon as practical.



9 Balancing Service Use of System (BSUoS) rates

National Grid recently published their April 2024 – Sept 2024 BSUOS prices and their latest forecast for prices for October 2024 to March 2024.

The rates are:

- April 2024 – Sept 2024 – £7.63/MWh
- Oct 2024 – Mar 2025 – £7.60/MWh

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**

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