

Electricity Prices Explained

From the power station to your site; what elements make up your electricity bill?

Electricity prices are made up of numerous elements. These can be broadly categorised as the **wholesale market price**, **pass-through charges** and the **supplier margin**, as shown in Fig 1.

Wholesale Market Price

The wholesale market price makes up the majority of the total energy price. This is the cost of the energy itself, as traded on the wholesale markets. It may also be referred to as Energy at NBP (Notional Balancing Point).

Depending on how you buy your energy, the wholesale market price could be a fixed amount, or it could vary each month.

Whilst the wholesale market price typically makes up around 70% of your invoice the volatility of the electricity markets means that this can fluctuate significantly. This volatility means that it is very important that you seek to control this element.

If Inenco provides you with an electricity procurement or risk management service, this is the element of the cost that we optimise for you using market intelligence and trading techniques.



Fig 1 - components of an electricity price

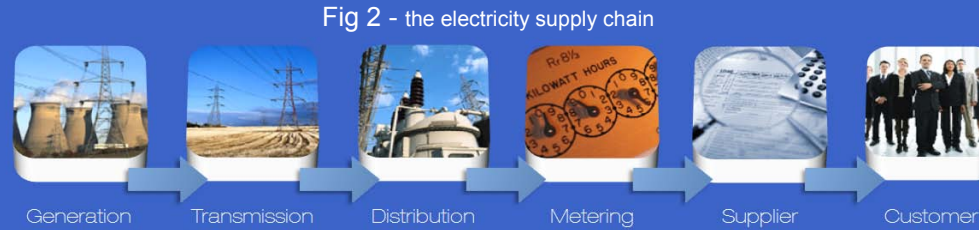


Pass-through Charges

'Pass-through charges' is the term used to describe charges raised by the various parties within the electricity supply chain, which is shown in Fig 2.

These charges are typically fixed and include the following*:

- **8% DUoS (Distribution Use of System)**, the cost to run the local distribution network that supplies your site, this includes the Availability, Reactive Power and Standing Charges.
- **3% TUoS (Transportation Use of System)**, the cost to run the National Grid's transmission network, also known as TRIAD
- **1% BSUoS (Balancing System Use of System)**, the cost incurred by the National Grid when balancing electricity supply and demand



- **5% DLoss (Distribution Losses)**, the electricity lost in the distribution network due to heat in the wires
- **1% TLoss (Transmission Losses)**, the electricity lost in the transmission network due to heat in the wires
- **5% CCL (Climate Change Levy)**, the government's tax on energy usage
- **2% RO (Renewables Obligation)**, the government's subsidy for renewable generators
- Other smaller pass-through charges include **meter operator, data collection and aggregation, and settlement agency**

Where can I find these charges?

Depending on your contract type, pass-through charges may be included within your unit rate, itemised on your bill, or billed separately by a third party.

Supplier Margin

The supplier margin includes the supplier's cost to serve, their profit margin and the imbalance risk. It may also include your energy broker's commission.

The imbalance risk element is higher in fixed price contracts, as the supplier is taking a risk providing a fixed price and needs to cover their costs should the markets change unfavourably.

Could you benefit from a Supply Chain Audit?

You may be aware that errors can occur on your electricity bills - but did you know they can also occur within the electricity supply chain itself?

The electricity supply chain is highly complex and overcharging often goes unnoticed for years. Inenco can undertake an in-depth investigation to identify errors and recover refunds. Talk with your account manager or e-mail enquiries@inenco.com for more details.

How can I find out more?

Inenco can provide a range of reports to track the elements of your electricity price, including daily market reports and DUoS reports. Talk with your account manager or e-mail enquiries@inenco.com and we would be happy to discuss.

*All percentages are illustrative only, the make-up of your price will vary depending on regional differences and market conditions / tariff levels at the point your price is agreed.