

## Non-commodity energy costs

The BBPA has produced information on tariffs relating to electricity bills. Research undertaken with our members suggests that tariffs and taxes now represent over half of the total amount of electricity costs with this set to rise to over 60% by 2020. As such understanding these tariffs is increasingly important and exploring options to mitigate and manage them is crucial to managing costs. Please note that guidance on reducing energy is also available from BBPA.

### [Advice on ESOS and tariffs from Carbon Architecture](#)

The BBPA has partnered with [Carbon Architecture](#) to assist businesses in meeting their obligation to ESOS regulation. We will be extending this relationship to Phase 2 of ESOS, commencing shortly, and with reporting due in 2019. This will again offer members an extremely cost-effective and valued-added route to comply to this mandatory scheme. However, with the growing importance on tariffs as a cost saving opportunity we have also asked that Carbon Architecture discuss these tariffs with members as part of the ESOS process and to also make any recommendations in relation to these. For more details on joining the BBPA ESOS compliance scheme, please contact Erik Dronen on 02076 279 180 or [edronen@beerandpub.com](mailto:edronen@beerandpub.com).

### [Energy taxes and tariffs](#)

Below we have described each of the tariffs that may form part of business energy bills in more detail. Where possible we have advised how you may be able to mitigate against the tax. We have also included links for further reading.

#### - [Distribution Use of System \(DUoS\)](#)

Distribution Use of System (DUoS) refers to the cost of operating and maintaining the regional electricity network.

Electricity is distributed around the UK by Distribution Network Operators (DNOs), licensed by Ofgem. They own and operate the distribution network of cables that carry electricity from the national transmission network (owned and managed by National Grid) to homes and businesses. Rather than selling electricity, DNOs only distribute it.

DUoS charge is based on the energy used, as well as the published DUoS rates, so you could lower the charge by using less electricity, especially during peak times in winter. Different DNOs have different systems depending on location. To learn more about charging information follow the links [here](#).

#### - [Transmission Network Use of System \(TUoS\)](#)

Transmission Network Use of System refers to the cost of installing and maintaining the transmission system.

Transmission Network Use of System (TNUoS) charges recover the cost of installing and maintaining the transmission system in England, Wales, Scotland and off-shore.

Generators are charged according to their TEC. Suppliers are charged based on their demand forecast. Tariffs are based on which geographical zone users are connected to.

More information can be found [here](#).

### - The Feed-in Tariff

The Feed-in Tariff (FiT) was introduced by the Government to support small-scale renewable electricity generation. The Government launched the FiT to encourage homes and businesses to generate their own renewable, low-carbon electricity.

Most small-scale renewable generation technologies qualify for the scheme including: solar photovoltaic (PV) panels; wind turbines; hydro-electricity; anaerobic digesters and micro-combined heat and power (micro-CHP).

The scheme pays FiT-eligible generators for every kWh of electricity produced and for any electricity exported to the grid, as long as they are registered with Ofgem through the Micro-generation Certification Scheme (MCS). All energy suppliers contribute to the FiT fund based on their share of the energy supply market. Ofgem administers the scheme with key decisions being made by the Department of Business, Energy and Industrial Strategy (BEIS).

To learn more, including information on tariffs please visit the following [link](#).

### - Settlement

The imbalance settlement process settles discrepancies, for each half an hour trading period, between: the amount of electricity that a company has been contracted to generate or consume (adjusted for any accepted Bids and Offers in the Balancing Mechanism) and the amount of electricity which the company actually generated or consumed.

More information can be found [here](#).

### - Contracts for Difference

The Contracts for Difference (CfD) scheme supports, incentivises and pays low-carbon generators to develop new projects.

The scheme ensures generators receive a fixed price for low carbon generation providing greater certainty to those investing in these new technologies. Low carbon generators can bid into an auction to secure a CfD contract that guarantees them a price for their power. This is known as the strike price.

When a generator sells power into the wholesale market this is known as the market reference price.

To ensure that the agreed strike price is met, generators will receive a difference payment. If the market reference price is more than the agreed strike price, they will receive a payment for the difference. Alternatively, if the strike price is below the market reference price, the generator will pay back the difference.

It is these costs for difference payments to generators, as well as the industry's operational costs of managing the scheme, that are included in a company's invoice.

For further information please follow this [link](#).

### - Capacity Market

The Capacity Market (CM) is part of the Government's Electricity Market Reform package. It was set up to ensure there is enough reliable energy available to meet the country's demands. To encourage investment in new generation projects and technologies, and to help existing means of generation to stay open, capacity is procured in advance through a competitive auction.

CM charges are calculated based on consumption during winter peak periods (Monday to Friday, 16:00-19:00, November to February). As a result, the impact of these charges will be dependent on your consumption profile. More information can be found [here](#).

### - Climate Change Levy

Companies must pay a levy on energy coming from electricity, gas and solid fuels. The rates can be found [here](#).

Brewing businesses are able to apply to be part of the Climate Change Agreement scheme. This is worth up to a 90% discount on the levy if companies are meeting targets set by the Environment Agency.

### [Representation of electricity costs for a typical pub](#)

Below is an illustrative example of costs relating to electricity split by commodity costs, managements costs and taxation/tariffs. This is based on the current electricity bill for a pub with a £10,000 turnover per week and illustrates the importance of the non-commodity elements now common on such bills and how these are expected to rise over the next three years. The example assumes that the commodity cost itself remains fixed in this period.

	%age of total Electricity Bill				2017-2020 change
	2017	2018	2019	2020	
<b>Commodity Cost</b>	£3,190	£3,190	£3,190	£3,190	0%
<b>Distribution and Management Costs</b>					
<b>BSUoS</b>	£211	£211	£218	£218	3%
<b>Tloss</b>	£63	£59	£63	£63	0%
<b>Imbalance</b>	£30	£32	£33	£33	8%
<b>AAHEDC</b>	£16	£16	£17	£17	10%
<b>Management Fee</b>	£39	£39	£39	£39	0%
<b>Total Distribution Costs</b>	£359	£358	£369	£369	3%
<b>Taxation</b>					
<b>Dloss</b>	£256	£268	£295	£307	20%
<b>Renewables Obligation</b>	£1,360	£1,480	£1,537	£1,584	16%
<b>DUoS</b>	£1,095	£1,225	£1,299	£1,326	21%
<b>TUoS</b>	£352	£417	£452	£473	34%
<b>Feed in Tariff</b>	£388	£422	£449	£477	23%
<b>Settlement</b>	£81	£81	£81	£81	0%
<b>Contracts for Difference</b>	£266	£505	£708	£854	221%
<b>Capacity Mechanism</b>	£64	£189	£187	£256	300%
<b>Climate Change Levy</b>	£389	£482	£577	£589	52%
<b>Total Taxation</b>	£4,250	£5,068	£5,586	£5,947	40%
<b>Total Cost</b>	£7,800	£8,616	£9,145	£9,507	22%

Source: BBPA estimates. For illustrative purposes only and will vary considerably by business and by region

## Funding opportunities

The BBPA is investigating Green Finance opportunities, including those through government, and we will continue to update as appropriate. If you would like to learn more on Green Finance then please contact Erik Dronen.