

# Electricity prices explained

For large business customers

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## Information for business customers

Electricity suppliers are the public face of the electricity industry. As one of these suppliers, a major part of our role is to pull together the costs of other parties in the electricity supply chain. These third parties play a crucial role in producing and delivering your power, and the majority of their charges are regulated by the energy regulatory body, Ofgem. We build these parties' infrastructure costs into your prices depending on how their charges are presented to us and on the type of contract you sign with us. So, their costs can be included in the unit price of your electricity, charged separately, or both.

This fact sheet is designed to briefly explain how this works for most customers with standard prices.

## The unit price

The unit price refers to the price per unit of energy. There are three elements which make up your electricity unit price:

### 1. Energy cost

This is the cost of the electricity we purchase on the wholesale market to cover your predicted future usage. It is the single biggest component of the unit price and accounts for between 60 and 80% of a business' total bill. In the industry, this element is called Energy at NBP (Notional Balancing Point)

### 2. Infrastructure costs

These relate to the costs of providing the infrastructure required to deliver your power. They include the cost of energy lost (as heat) as it travels from the power station, through the transmission and distribution wires to you. These charges

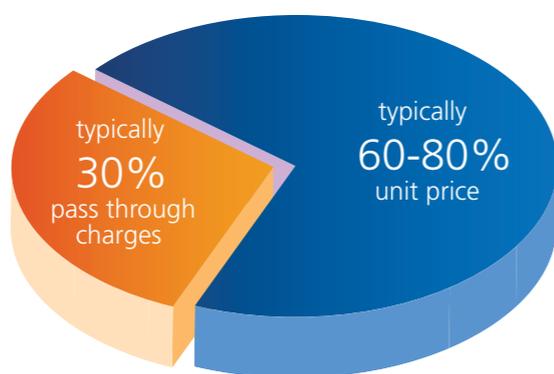
are referred to as Transmission Loss (Tloss) or Distribution Loss (Dloss). They also charge for using the transmission and distribution networks; referred to as Transmission Use of System (TUoS) and Distribution Use of System (DUoS).

You may also have a separate agreement with an external electricity distribution company. This means that you will be billed for TUoS and DUoS by this company. This charge will therefore not be included on your electricity bill.

National Grid charges electricity companies to recover the costs incurred through balancing the system through Balancing System Use of system (BSUoS) charges. This cost is included in the price you pay, and currently accounts for approximately 1% of your total bill.

### 3. Cost to serve

These are the costs that we incur as your electricity supplier. These include the costs of maintaining our IT systems; paying the staff that manage your energy accounts; and the risks involved with your predicted consumption versus your actual consumption, which we call imbalance risk. This typically accounts for only a small part of your total bill, usually around 2%.



### Pass through charges

On your bill, you will also see other charges for costs that the electricity industry incurs in delivering your energy. We call these Pass Through Charges and, where applicable, they

are referenced in our quotes, and itemized on our bills. The main ones are explained below:

#### 1. Standing charge

This contributes towards the installation and maintenance of the electricity distribution network, and the distributor's administration cost. It is calculated over the billing period at either a fixed monthly rate, or daily rate. The rate reflects the costs of the local distribution company.

#### 2. Availability Charge (sometimes called Capacity Charge).

This charge covers investment and maintenance of the electricity network. Customers are charged a fee (per unit) according to the agreed capacity for that site.

#### 3. Reactive Power Charge (KVAR)

Reactive power refers to the difference between the electricity supplied and the electricity converted into useful power (i.e. that which you are able to use). If a site has high Reactive Power i.e. if there is a large

amount of power being wasted, more current needs to flow to provide the same output. This puts an additional strain on the distribution network, potentially increasing costs for the Distribution Network Operator. This charge is a contribution towards those costs.

#### 4. Combined Half Hourly Data Charge.

If you have a Half Hourly (HH) meter, this charge reflects the costs associated with collecting and handling your metering data.

#### 5. Settlement Agency Fee

Behind the scenes distribution companies, suppliers, metering companies and others need to reimburse, and recover their costs from one another. The UK's Balancing and Settlement Code Company, called Elexon, maintains the system which governs this activity. This relates to the cost they charge for doing so.

## Other factors

### Renewables Obligation

The Renewables Obligation (RO) is the main support scheme for renewable electricity projects in the UK. It places an obligation on UK suppliers of electricity to source an increasing proportion of their electricity from renewable sources. The RO accounts for approximately 2% of the total bill.

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