Non-energy costs: An update

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The decrease in business electricity demand has been larger than the increase in residential electricity demand.
This means a net decrease in electricity demand but net increase in non-energy cost rates.
Let’s look at an example
FiT: Feed in Tariff

FiT rate (£/MWh) = \frac{\text{Cost of payments to FiT generators (£)}}{\text{Chargeable demand (MWh)}}

FiT will increase in 2020/21 but later years should be impacted less.
Since April, the effects of COVID-19 on non-energy costs have become clearer with some unexpected impacts.
## Our predictions

<table>
<thead>
<tr>
<th>Non-energy cost</th>
<th>2020/21 change in rate</th>
<th>Post-2020/21 change in rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSUoS</td>
<td>Increase</td>
<td>Small Increase in 2021/22</td>
</tr>
<tr>
<td>CfD</td>
<td>Increase</td>
<td>Small Increase in 2021/22</td>
</tr>
<tr>
<td>FiT</td>
<td>Increase</td>
<td>Small Increase in 2021/22</td>
</tr>
<tr>
<td>CMSC</td>
<td>Increase</td>
<td>Small Increase in 2021/22</td>
</tr>
<tr>
<td>RO</td>
<td>No change</td>
<td>Increase in 2021/22</td>
</tr>
<tr>
<td>TNUoS</td>
<td>No change</td>
<td>Increase from 2022/23</td>
</tr>
<tr>
<td>DUoS</td>
<td>No change</td>
<td>Increase from 2022/23</td>
</tr>
</tbody>
</table>
In May, National Grid updated their BSUoS forecast and predicted significant additional cost over May to August.

Source: National Grid ESO BSUoS monthly Forecasts
New services were procured by National Grid to reduce balancing costs, like reducing generation from EDF’s Sizewell B Nuclear Power Station.
We saw very high BSUoS outturn costs at the start of lockdown, but this has decreased as national demand has recovered.

Source: Derived from historic National Grid data
A modification (CMP345) was proposed in May and a variation was approved in June that capped BSUoS at £15/MWh in any half hour period from 25 June to 13 August 2020.
This deferred £8.1m out of £250m cost to the industry in half hours where rates were above £15/MWh.

Source: BSUoS data from SF settlement run
A new modification (CMP350) was proposed in July and a variation was approved in August that caps BSUoS at £10/MWh in any half hour period from 14 August to 25 October 2020.
This has so far deferred £6.8m out of £186m cost to the industry in half hours where rates were above £10/MWh.
The sharp increase in BSUoS on 15 September was caused by high electricity demand in the evening peak relative to available generation, with very low wind.
The Contract for Difference (CfD) rate was expected to be high in Q2 2020 because of COVID-19 demand destruction and low wholesale prices.
As expected, 2020 chargeable demand has been well below levels seen in 2019 since late March, although it has mostly recovered since June.

Source: Low Carbon Contracts Company (LCCC) dashboard backing data
The Low Carbon Contracts Company (LCCC) sets the rate Suppliers pay for CfD ahead of time, but they didn’t update the rate for the increased costs during Q2 2020.
BEIS provided a loan to LCCC for £75.1m, or 80% of the increased CfD costs in Q2 2020. This will be repaid in Q2 2021.
We’re likely to see small increases in Feed in Tariff costs due to high levels of wind and solar generation, generators switching from PPAs to FiT and a 6 month extension for generators to gain accreditation.
On 1 October BEIS announced a much higher RO Obligation Level than expected. This is because of an assumption of 3% demand destruction in 2021/22 from COVID-19.
The RO Obligation Level is set by BEIS based on a calculation of their expectations of ROC generation as a proportion of chargeable demand.
The GB Obligation Level has been set at 0.492 ROCs/MWh for CP20 (2021/22), which is a record level and a large increase on this year.
The RO Supplier Charge is calculated as the Obligation Level multiplied by the ROC Buyout Price, so an increase Obligation Level increases the cost of the RO scheme to suppliers.
The ROC Buyout Price increases by RPI inflation each year. Inflation in 2020 has been low and decreasing, which we expect to mitigate some of the increase in the RO Supplier Charge.

Source: Office for National Statistics, RPI All Items: Percentage change over 12 months: Jan 1987=100
Impacts are still uncertain but we expect to see continued higher rates for BSUoS, CfD and FiT while demand is below expected levels.
> Recent demand reduction will lead to under-recovery for DUoS and TNUoS, so these costs will likely rise in 2022/23.
> Lasting lower electricity demand could increase non-energy costs in future years.
> Pending decisions from Ofgem on reforms to DUoS, TNUoS and BSUoS through the Targeted Charging Review, we could see an update to cost forecasts in the next few months.
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