

Understanding the UK Energy Market

A Focus on
Non-Commodity
Charges -
the key terms, explained



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Introduction

Energy invoices are made up of a combination of commodity costs and non-commodity charges. The commodity cost is fairly straightforward – it's the gas and electricity your business consumes.

Non-commodity charges, however, are less clear. They are made up of a range of government and third party charges, and understanding them often means cutting-through the jargon. Although often unavoidable, the numerous terms and acronyms used don't help businesses fully understand exactly what they're paying.

We want to make your energy invoices and charges as clear as possible. So here are the definitions of some of the key terms related to non-commodity charges.



Assistance for Areas with High Electricity Distribution Costs (AAHEDC)	A scheme aimed at sharing the burden of very high distribution costs in the north of Scotland.	Distribution Use of System (DUoS)	A charge paid to the Distribution Network Operator (DNO) for distributing electricity across the distribution network to the customer's supply point.
Balancing Services Use of System (BSUoS)	A charge paid to National Grid for keeping the electricity network balanced, every second and in every corner of the country.	Electricity invoices	an invoice sent monthly to consumers detailing all the charges that are owed in relation to the electrical energy that has been used.
Capacity Market (CM)	A mechanism to make sure there's enough electricity generation on the system by providing participants with a payment for reliable sources of capacity.	Electricity Market Reform (EMR)	A UK government policy to encourage investment in low-carbon electricity and to boost energy security. It's two main components are Contracts for Difference (CfD) and Capacity Market (CM).
Climate Change Levy (CCL)	A tax on the use of certain fuel and power, including gas and electricity, by non-domestic users in the UK, aimed at increasing energy efficiency and reducing carbon emissions.	Energy generation	The process of converting other forms of energy into electricity, such as in windfarms, from kinetic wind energy.
Commodity costs	The wholesale price of the actual amount of gas and power we use.	Feed-in Tariff (FIT)	A UK government programme designed to promote the uptake of small-scale renewable and low-carbon electricity generation technologies, such as solar.
Contracts for Difference (CfD)	A support scheme for low-carbon large-scale generators like windfarms and biomass, providing long-term price certainty to increase investment.	Flexible purchasing	A type of contract that enables the customer to only lock-in some of the costs at a single time, allowing costs to be brought down if the market falls during that period. Flexible purchasing charges/credits are not applicable to fixed contracts.
Cost of energy	The cost of electricity, fuel oil, natural gas, or other source of energy, that is the commodity cost.	Government levies and taxes	Financial charges and obligatory payments either to, or collected by, the government, added to energy invoices.
Data Aggregator (DA)	Appointed by energy suppliers to aggregate and provide the consumption data received from Data Collectors (DCs).	Her Majesty's Revenue and Customs (HMRC)	A UK government department responsible for collecting taxes, the payment of some forms of state support and the administration of other regulatory regimes.
Data Collector (DC)	Responsible for retrieving meter readings and other consumption data from end consumers.	Meter Operator (MOP)	Responsible for maintaining an energy meter throughout its lifecycle.
Distribution Network Operator (DNO)	The operators of the regional electricity power distribution systems which deliver electricity directly to homes and businesses.	Metering charges	Charges for the Data Collector (DC), the Data Aggregator (DA) and Meter Operators (MOPs).

National Grid	The owner and operator of electricity and gas transmission networks in England and Wales (and for gas in Scotland) and the Electricity System Operator (ESO) balancing the Great Britain (GB) electricity transmission network.	Settlement and agency charges	Supplier charges covering both the Data Collector (DC) and Meter Operator (MOP) charges when the customer hasn't appointed their own provider for these services.
Non-commodity charges	The other costs that make up the energy invoice that are not for energy itself, but are directly related to the supply of energy, such as government levies and taxes. These can also be referred to as industry costs and third party costs.	Supplier	The company that acts as your financial and regulatory intermediary for gas and electricity. Your supplier provides you with your energy invoices, manages your metering, and complies with government regulation and aggregates non-commodity costs on your behalf.
Non-energy related charges	A separate agreement for on supply customers, relating to non-energy related charges (for example, Intelligent Analytics, energy audits etc).	Transmission and distribution losses	The amount of electricity lost in heat as it travels down wires from the generator to individual customer's meters. Distribution losses tend to be about 10%, while transmission losses are only 1%.
Ofgem	The Office of Gas and Electricity Markets is the official regulator for the electricity and downstream natural gas markets in the United Kingdom. The government's Department for Business, Energy and Industrial Strategy (BEIS) oversees and steers Ofgem.	Transmission Network Use of System (TNUoS)	A charge paid to National Grid for the use, maintenance and future improvements in the electricity transmission network.
Pass-through	Non-commodity elements of an invoice that are not fixed in advance, but paid for by the customer at the published rate.	Value Added Tax (VAT)	A consumption tax added to goods and services, assessed based on their values.
Renewable Energy Guarantees of Origin (REGO)	A scheme to provide transparency about the proportion of electricity fed from renewable sources.	Wholesale costs	The price that suppliers buy the energy at, which is the cost of energy. Most suppliers purchase their energy well in advance at a fixed price, although flexible purchasing enables customers to choose when to purchase their energy.
Renewables Obligation (RO)	A scheme, levied on energy suppliers, to support the development of large-scale renewable energy generation. Created in 2002, it was replaced in 2017 for new generators by the Contracts for Difference (CfD) scheme.		



How we can help

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