THE LOGICAL NON-COMMODITY REPORT

SEPTEMBER 2020

THE LOGICAL UTILITIES COMPANY LIMITED

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NON-COMMODITY: ELECTRICITY

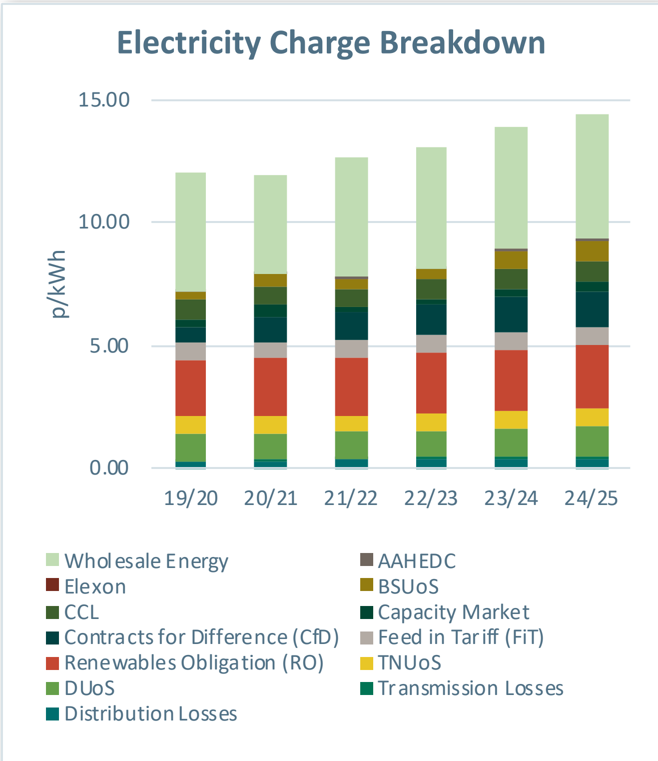
Key Drivers:

- COVID-19 has had a broad-ranging effect on the energy industry, with the most significant being the drop in demand materially reducing the charging base.
- Contracts for Difference (CfD) costs ballooned in 2020's first half, with a record (time weighted average) outturn cost of £7.58/MWh and £7.84/MWh for Q1 and Q2 (excluding GEEs), respectively.
- Renewable Policy charges will increase by 2%, as lower CCL and CM costs offset most of the expected rises for the CfD and FiT schemes.
- Changes to the structure of network tariffs as demand generation become diversified.
- Targeted Charging Review (TCR) has seen a review of the long term structure of network costs start to move to implementation. The new style of TNUoS and DUoS structures may come online April 2022.
- BSUoS costs may be lowered if investment in long-distance power links come online.
- The dramatic decrease in wholesale prices for the short-term may feel like there is ought to be an overall reduction in cost, however as commodity accounts for only a third of the billed rate for electricity this is mainly restraining the overall effects of the increases in non-commodity charging. This will rapidly rebound over the following year as any benefits are swallowed up as the industry and market corrects itself.

Ofgem sets price controls for the networks for future years. Over the coming years there will be significant changes to the structure of electricity network charges. These changes could result in large year-on-year changes for many users dependent on their consumption, capacity, and voltages. Note that the following numbers could differ from your bespoke charging tariffs based on these variations.

Since 2018, many electricity suppliers have exited the market leaving debts to be repaid for their policy costs to be smeared across the industry. Costs such as Renewables Obligations, Capacity Market, and Feed-in Tariffs are billed to the suppliers based off consumption market share, and then need to be recovered by the other suppliers through ad-hoc charging of their customer base.

Cost	19/20	20/21	21/22	22/23	23/24	24/25
Distribution Losses	0.24	0.29	0.35	0.37	0.39	0.39
Transmission Losses	0.07	0.05	0.06	0.07	0.07	0.07
DUoS	1.06	1.08	1.07	1.08	1.16	1.24
TNUoS	0.72	0.71	0.63	0.73	0.74	0.75
Renewables Obligation (RO)	2.36	2.35	2.42	2.46	2.49	2.53
Feed in Tariff (FiT)	0.63	0.67	0.66	0.68	0.70	0.73
Contracts for Difference (CfD)	0.63	0.99	1.16	1.33	1.43	1.50
Capacity Market	0.31	0.47	0.20	0.15	0.30	0.41
CCL	0.85	0.81	0.78	0.79	0.81	0.82
BSUoS	0.33	0.45	0.41	0.43	0.77	0.83
Elexon	0.01	0.01	0.01	0.01	0.01	0.01
AAHEDC	0.03	0.03	0.04	0.04	0.05	0.05
Wholesale Energy	4.81	3.98	4.83	4.88	5.00	5.04
Total p/kWh	12.04	11.90	12.62	13.01	13.91	14.36
Total Non-Commodity	72.26	79.12	77.85	81.34	89.08	93.21
Variance %	-	9.5%	-1.6%	4.5%	9.5%	4.6%
Non-Commodity	60%	67%	62%	63%	64%	65%
Commodity	40%	33%	38%	37%	36%	35%



Transmission Charges (TNUoS)

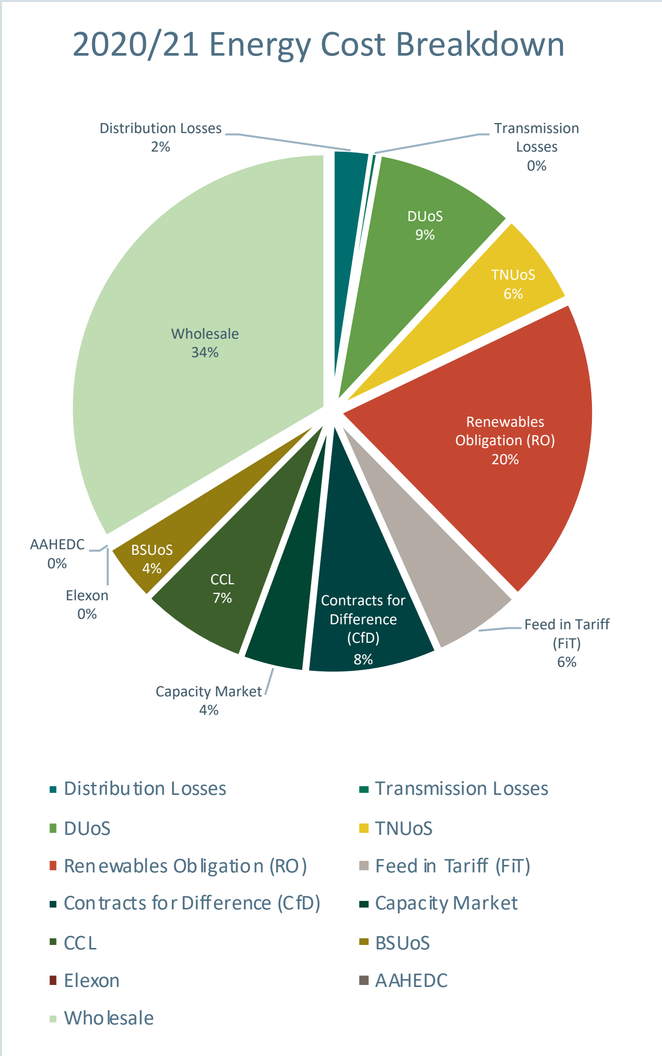
TNUoS costs are for transmitting electricity across the country from power stations to the distribution operators, and for HH meters these costs have typically been passed though as Triad charges – these measure your average demand at three 30m segments in the winter when demand is usually higher, and your specific charge is based off these average. Under current plans, 2021-22 will be the last year in which Triad charges will be exclusively used to recover TNUoS costs. Under the TCR, the residual element of charges will be levied in the form of fixed charges rather than your Triad measurements, and these will now account for 80% of all TNUoS charging in order to resolve the issue of Triad avoidance programs customers may have used to artificially reduce their TNUoS costings.

Distribution Charges (DUoS)

These are levies paid to the Distribution Network Operators across the UK for delivering a safe and reliable delivery to the end-user from the sub-station. DUoS costs are also set to reform from April 2022, with non-domestic users being banded by voltage, agreed capacity, and consumption to differentiate charging. This will be a fixed charge for each segment which will apply to all customers.

Policy

This covers Renewables Obligations (RO), Capacity Market (CM), Feed-in Tariff (FiT), Contracts for Difference (CfD), and Climate Change Levy (CCL). These charges are to encourage the uptake of renewable generation, security of supply, and discourage excess consumption. With FiT closing to new applications from 2019, we should start to see a drop-off over the next 5-10 years of this charge as existing redemptions expire. This may balance the uptick in CfD charging as new capacity joins the scheme. Following the reinstatement of CM, the outstanding charges will need to be paid on and where this has not already happened customers can expect extra charging to repay the scheme. As 17 suppliers left the market during its suspension, this could cause a cost smearing across the remaining suppliers' customers.



Forecast movement

While these forecasts have been compiled and benchmarked against industry analytics and supplier forecasts, it is important to note the change in forecasts for future periods and these themselves have changed due to changing circumstances. Between October 2019 and August 2020, individual elements of the forecasts have changed for the same periods. The main takeaway is that the overall non-commodity stack has increased by 2.3% for the period 2020 year-on-year, from what was predicted last October. If you had secured these charges last year, you would have paid 2.3% less than you would now. Individually, Distribution Losses has increased by 13.1%, while CfD has increased by 11.2%. The biggest individual movement was BSUoS which has increased a shocking 22.9% for the exact same period.

Finally, estimates for 2024/25 are suggesting that the non-commodity rates will increase by an overall 29% from where they are now, with unit-rates suggested to raise by over 2p per kWh!

	20/21	21/22	22/23	23/24
Distribution Losses	13.1%	38.4%	49.8%	53.0%
Transmission Losses	-29.6%	-12.9%	-5.8%	-4.2%
DUoS	0.0%	-1.4%	-2.6%	-3.4%
TNUoS	-3.7%	-11.4%	7.2%	17.8%
Renewables Obligation (RO)	-0.3%	-2.5%	-3.6%	-4.4%
Feed in Tariff (FiT)	1.1%	-5.1%	-6.2%	-7.2%
Contracts for Difference (CfD)	11.2%	13.7%	6.2%	2.6%
Capacity Market	4.9%	1.5%	-39.1%	-39.0%
CCL	0.0%	0.0%	-0.9%	-1.9%
BSUoS	22.9%	3.5%	-21.3%	-3.3%
Elexon	0.0%	0.0%	0.0%	0.0%
AAHEDC	-21.1%	0.0%	0.0%	0.0%
Total Non-Commodity Delta	2.3%	0.6%	-1.7%	-1.9%

NON-COMMODITY: GAS

Key Drivers:

- Since last year, the price for wholesale gas has fallen dramatically for 2020/21. These are now 40% lower than forecast in October 2019.
- As the cost of gas is currently 61% wholesale commodity, this has had a major effect on the billed rates in 2020.
- We expect the wholesale cost to rebound into 2021/22, and with the cost of CCL increasing by 15% this will see a large increase on your bottom-line.

Cost	2020/21	2021/22	2022/23
Wholesale	0.97	1.24	1.37
NTS	0.035	0.035	0.037
DNZ	0.17	0.16	0.17
CCL	0.406	0.465	0.53
Total	1.581	1.9	2.107
Variance %		20%	11%
Total Non-Commodity	0.611	0.66	0.737
Non-Commodity	39%	35%	35%
Commodity	61%	65%	65%

Transportation

National Transmission System (NTS)
The NTS charges account for the shipping of gas in bulk around the country, and include both commodity and capacity elements to its charging.

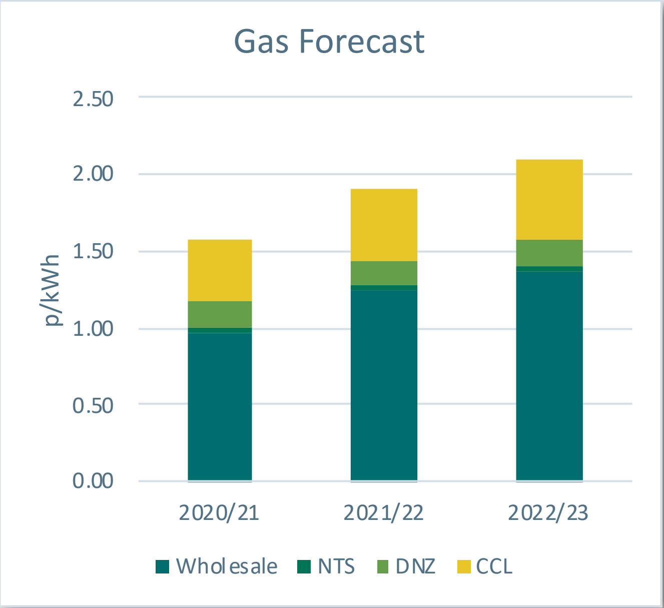
Currently there is less information available to forecast these charges, as there are negotiations ongoing for an April 2021 reset of the price controls.

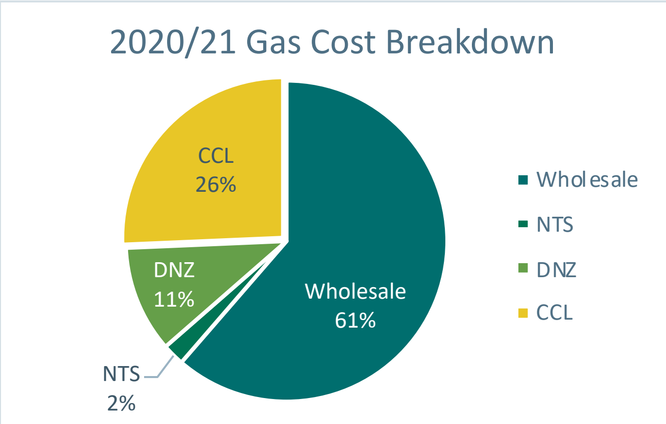
Local Distribution Zone (LDZ)
These costs cover the cost of the distribution networks to make the gas usable for customers' meters out of the high-pressure NTS.

There is uncertainty here, as with the NTS, beyond 2021/22 due to the ongoing negotiations. We have forecast for a broadly stable future for these charges.

Climate Change Levy (CCL)
From 2018/19, CCL for gas has aggressively increased to discourage the reliance on the fossil-fuel.

It has increased from 0.203 to the 2020/21 rate of 0.406 – a full 100% increase in two years, which is charged per kWh consumed.





Further information:
If you require further information, or would like to discuss the information in this report, please contact your Logical Utilities representative. Alternatively, contact the Bureau Services and Risk Management Team at : bureau.services@logicalutilities.co.uk

For all other enquiries, please fill out the contact form located on our website.

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