power direct

energy for business

Guide to Reducing Third Party Energy Costs

Non-energy costs are all of the elements on your energy bill that are not the wholesale costs of the gas or electricity you've used. They include network costs, environmental and social costs, supplier operating costs and your supplier's pre-tax margin. Among these costs are third party costs, these are costs that are charged to your supplier by the organisations responsible for the cables and pipes that get your energy to your door. Since they account for more than half of the amount of your overall energy bill, finding ways to reduce your non-energy costs can deliver significant savings.

This guide generally focuses on steps you can take to limit your exposure to rising third party costs that relate to electricity. Opportunities for reducing your third party gas costs are more limited, but aiming to cut your consumption overall will be reflected in a corresponding fall in your third party charges.

How to make savings on your capacity charge

The first step to identifying whether savings can be made on your capacity charge is to check what your available capacity is and how it compares to your actual consumption. The capacity charge is arrived at according to the amount of electricity that is reserved for your use by your distributor. This is your agreed availability. It means you pay the grid operator to meet your peak demand.

If you exceed your agreed electricity capacity, you will see an excess charge on your bill that can be 2.5 times higher than your agreed available capacity charge. Therefore, if you are experiencing a period of business growth, or you anticipate business expansion, you should consider increasing your capacity, in order to avoid hefty penalties.

If you only rarely exceed your agreed capacity, it is worth speaking to an expert who can review your options. Sometimes, siteworks are needed in order to increase capacity, which can be costly. Engaging with an expert means they can help to determine whether it is more cost effective to simply pay the penalty as it occurs, or to liaise with the distributor to increase the capacity, arranging any siteworks as needed.

On the other hand, you may use only some of your available capacity each month, in this case you may benefit from a reduction in your available capacity, since you could be paying for capacity that you don't need.

We routinely monitor and review our customers' capacity as part of our value-added service offering. As an illustration of the value we can deliver, we saved a client £4,000 by identifying a capacity discrepancy in their electricity bill.

How to make savings on your distribution charge

Your capacity charge is part of a set of broader costs called Distribution Use of System (DUoS) charges. The distribution charges are your biggest non-energy cost. It is the cost of distributing the energy to your premises from the bigger Transmission Networks.

It includes the cost of building, maintaining and operating the local gas pipes and electricity wires which deliver the energy to your business. Suppliers are charged for this and will include the costs in your bill. If you have signed a fixed and fully inclusive contract, then they may have included some of this cost in the unit rate and some will be covered by the standing charge.

If you have negotiated a pass-through contract with your energy supplier, your distribution charges will be charged to you as a separate amount as they are charged to your supplier. Just as the term suggests, they are passed on to you.

If you want to reduce the cost of distribution for your electricity, then you can do so by avoiding the 'red' charging periods. Each day is broken down into red, amber and green periods. Consumption that takes place during the red period can have distribution charges that are 50 times more expensive than amber periods and as much as 450 times more expensive than the green periods.

Obviously, the red periods are times when there is highest demand on the network which is during the week at teatime. If you can avoid these periods it can make a difference to your costs. If you are on a pass-through contract you will feel these immediately but if you are on a fully inclusive fully fixed contract you won't feel the effect until you renew your contract next time.

How to make savings on your transmission charge

The TNUoS (Transmission Network Use of System) charge is the cost of getting electricity from the power stations to the distribution networks. It includes the cost of building, maintaining and operating the transmission networks. National Grid charges suppliers who will pass it on in your bill based on your consumption during the Triad periods. The Triad periods are the three highest half hourly periods of consumption between November and February and between the hours of 4pm and 7pm. The three periods must be separated by 10 days and so it is impossible to predict exactly which three periods it will be. That said, the key to lowering your transmission charge is to have an energy-saving strategy ready to launch during a Triad period. Many suppliers assess the risk of a Triad occurring and will issue warnings the day before.

In March, National Grid will determine the highest three peaks throughout that period and assess the applicable transmission costs. If you consumed a lot of energy during these three peak periods your transmission costs will be higher – this will be felt as a reconciliation charge if your contract is based on pass through terms or at the negotiation of a renewal when your current fully inclusive contract comes to an end.

We will update the News page on our website when there is risk of a Triad, and email customers who have subscribed to our Triad Alert service.

How the type of contract you select can impact your third party costs

Understanding these third-party charges is key to selecting the right contract for your business and your energy use.

In a flexible contract there is transparency around the third-party costs because these charges are separated on your invoices, which means you can see the breakdown.

Pass-through products allow you to fix your energy costs, but accept the third party costs. They are often suited to the businesses who can shift their consumption to avoid peaks during the November to February Triad season. Customers on this type of contract will be reconciled for the third-party costs during their contract.

A fully inclusive, fixed contract includes the third-party costs within the contract, and there will be no impact on the customer's costs until renewal. Customers on fixed contracts who consume a lot of energy during the Triad periods, will see an increase at renewal as suppliers will build in additional margin to protect their costs.

Selecting a fully fixed, or fully inclusive contract takes away any risk regarding fluctuations with the third-party costs, because they are included in what you pay.

The type of contract you choose should consider both your risk appetite as well as flexibility in terms of budget. For more information, see our Guide to Energy Buying Strategies.

In summary

Minimising your third-party costs requires application of intelligence. It is not only about reducing how much energy is consumed, but also when that energy is consumed. If your business is not suited to reducing your consumption at peak times, then it could be that investing in a generator to provide off grid power can be a more cost-efficient way forward in the long run.

Engaging with an energy auditing consultancy, like our partner, ESOS Energy, can be a good first step before any investment in energy efficiency. An audit on your premises can help you to understand how and where you are using the most energy. This can help to identify potential savings for your business and present you with informed choices on how to reduce your consumption and costs.