Your Electricity Distribution (DUoS) Charges Are Changing In April: What Will It Cost You?

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Last year Ofgem announced changes to the way they charge consumers for the cost of distributing electricity around the national grid, known as the Distribution Use of System (DUoS) charges. With these changing in April this year, TEAM's Principal Consultant, Greg Armstrong, explains why affected organisations should act now to mitigate the inevitable impact on their energy costs.

What is the aim of Ofgem's charging reforms?

The Targeted Charging Review (TCR) is an initiative from Ofgem to review the way in which the costs for the delivery of electricity to end users are recovered. The resulting changes from the TCR aim to actively incentivise the electricity network in preparation to support future net zero infrastructure and ensure the fair allocation of Transmission and Distribution charges for both businesses and consumers.

These reforms have become increasingly necessary. Last year's COP26 was a stark reminder of the net zero journey we are on and why businesses must make plans to migrate away from heavy polluting fossil fuels and use technology and innovation – mostly powered by electricity – to reduce their carbon emissions. To support this action many organisations are implementing renewable onsite generation, such as solar panels and wind turbines. Also, alongside this, the UK has seen a surge in the use of electric vehicles in recent years. This increasing use of electric technologies has created a change in the shape of the demand on the electricity network.

To meet these changes the TCR (https://www.teamenergy.com/consultancy/energy-management/targeted-charging-review-tcr-explained/) reforms are intended to deliver an economic framework that will encourage the delivery of a smart grid. A grid that harnesses clean tech and software, and supports the provision of a net zero future.

However, this new charging model will mean there will be significant increases to the bills of many organisations. The charges associated with the Distribution Use of System (DUoS), will come into force in April 2022.

So, how are the Distribution charges changing?

Distribution Use of System (DUoS) and Transmission Network Use of System (TNUoS) charges are the costs for transporting energy from the point of generation across the National Grid and can account for 16% of an end user's electricity bill.

DUoS costs are recovered using a number of different measures and resulting types of charges, including consumption based charges (p/kWh), standing charges (p/MPAN/day), capacity charges (p/kVA/day) and reactive power charges (p/kVArh/day).

Consumption based DUoS charges are calculated using rates that differ depending on the time of use. These different periods are often referred to as Red, Amber and Green time bands. From April, consumption based

DUoS charges will continue to use the same Red, Amber and Green charging methodology, though the overall effect of the rates will be decreased, and the DUoS daily charges will be increased accordingly.

Currently the specific DUoS rates are determined by an organisation's connection type (Low Voltage, High Voltage, Extra High Voltage) and distance from a grid connection point (Line Loss Factor).

The new charging methodology will factor in an organisation's Available Supply Capacity (ASC) in the determination of the rates to be applied, with those with higher ASCs being charged significantly higher DUoS daily rates.

How do these changes affect operational costs?

Organisations with a low Available Capacity, who do not operate Triad avoidance, may see a reduction in their Distribution costs because of the changes. However, larger organisations with high consumption who conduct load shifting or operate onsite generation during Triad periods will no longer be able to reduce their costs using those methods.

All organisations, large and small, can reduce their exposure to increased charges by reviewing their Available Capacity ahead of April. Adjusting their ASC could move them into a lower charging band, thereby avoiding a significant portion of the increased costs that would have otherwise been applicable to them as a result of the reforms.

Organisations that do not have their Available Supply Capacity (https://www.teamenergy.com/consultancy/energy-management/available-supply-capacity/) optimised in-line with their ongoing operations and infrastructure may find that they pay significantly more than they do now for Distribution costs in the new fixed charging regime.

There is still time to act

If your organisation is going to be affected by the upcoming changes to the network charges and you have been considering solutions to offset the costs, the simplest and most effective action to take is to review your ASC and ensure it ties in with your energy demands.

In our experience, many organisations with Available Capacity have not reviewed it for a while. This can often mean it is set at a level that does not represent current fluctuations in their demand and changes to their operations, such as reduced or increased infrastructure or the introduction of renewable on-site generation.

By optimising your ASC, you can ensure you are not charged for a greater capacity than you need, and you may be able to move to a lower charging band by decreasing your Available Capacity, and so reducing the cost to your organisation.

ENDS
Notes to Editors
For further information, please contact:

Pauline Scoins – Marketing and PR Executive
TEAM Energy
Phone: +44 (0)1908 690018 Ext 204
Email: pscoins@teamenergy.com
EDW House, Radian Court, Knowlhill, Milton Keynes, MK5 8PJ

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