

Guide to non-commodity costs

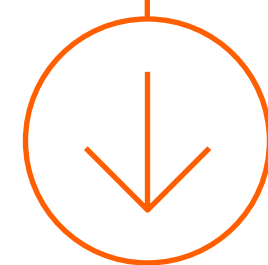
What's driving
up energy bills?



What are non-commodity costs?

Typically, less than half of your energy bill relates to the actual wholesale cost of energy. A growing portion of your spend is made up of non-energy costs, also known as non-commodity costs.

These are charges that help to maintain the UK's energy system.



How your bill is made up:

Commodity costs – this is the cost of the gas or electricity you have used.

Non-commodity costs – these are the costs that fund the operation, maintenance and upgrading of the energy network. The costs can be grouped into two main categories:

- **Network charges:** covers the cost of maintaining, improving and balancing the network, ensuring energy is safely transported from generators to homes and businesses.
- **Policy charges:** covers the government's environmental and social policies for energy and sustainability.



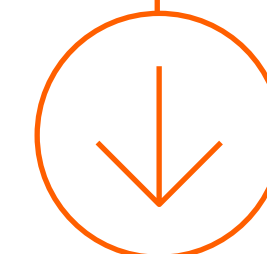
Why they matter

You may have noticed your energy bills continuing to increase, even though your energy consumption is decreasing. Perhaps you've invested in energy-efficient technologies, upgraded equipment, or optimised your heating schedules, yet the savings aren't being fully reflected in your bills. It's because non-commodity costs are on the rise.

Non-commodity costs are set through a combination of government policies, industry charging frameworks, and regulatory oversight by Ofgem.

The UK energy system is undergoing a major transformation as part of the government's Clean Power 2030 ambitions and longer-term net zero targets. Electricity demand is expected to double by 2050, driven by increased electrification across transport, heating, and industry. To support this shift, significant investment is required in the UK's electricity infrastructure.

These changes are leading to rising non-commodity costs, which suppliers may pass on to customers now and in the coming years.



Key factors driving the rise in non-energy costs:

Transition to renewable energy – Connecting offshore wind, solar, and other renewables requires significant grid upgrades.

Ageing infrastructure – Parts of the UK's grid need modernisation to remain reliable and efficient.

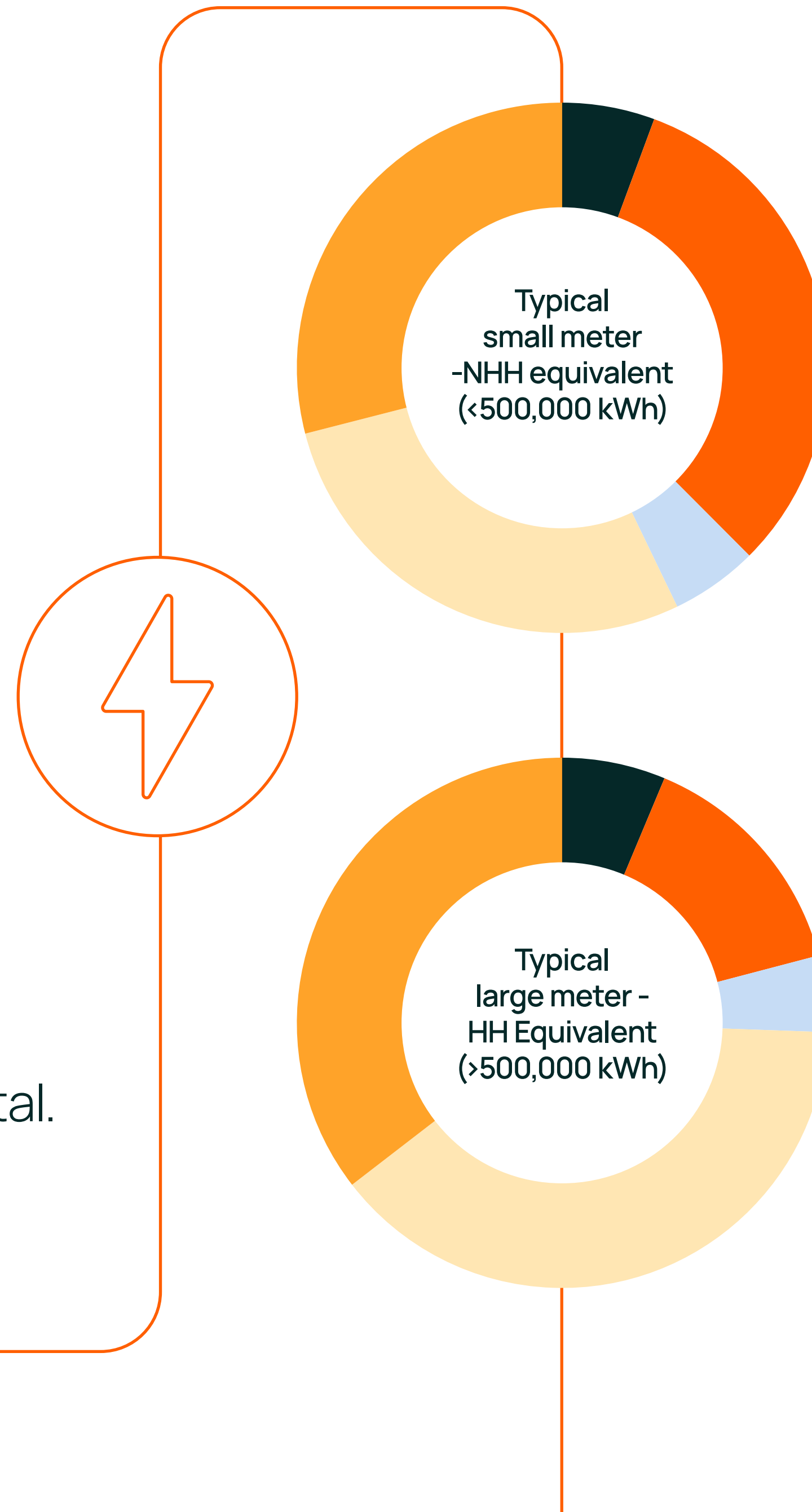
Energy security and diversification – Investment in nuclear and other stable energy sources helps reduce reliance on imported fuels.

Rising electricity demand – As businesses and households electrify operations, the system must scale accordingly.

Together, these pressures are increasing the overall cost of maintaining and developing the energy network.

How much of my business electricity bill is non-commodity costs?

Non-commodity charges have been increasing over recent years and now make up a larger proportion of your energy bill than ever before, especially your electricity bill, where it typically accounts for more than 60% of your total.



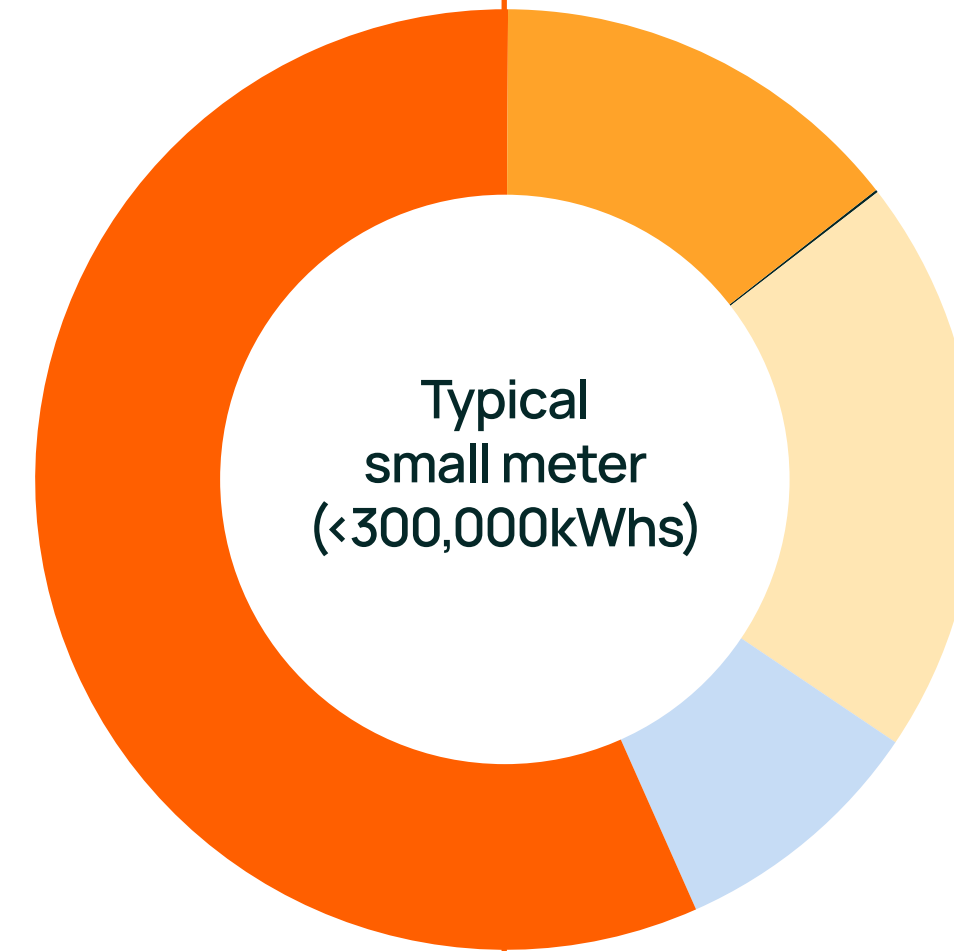
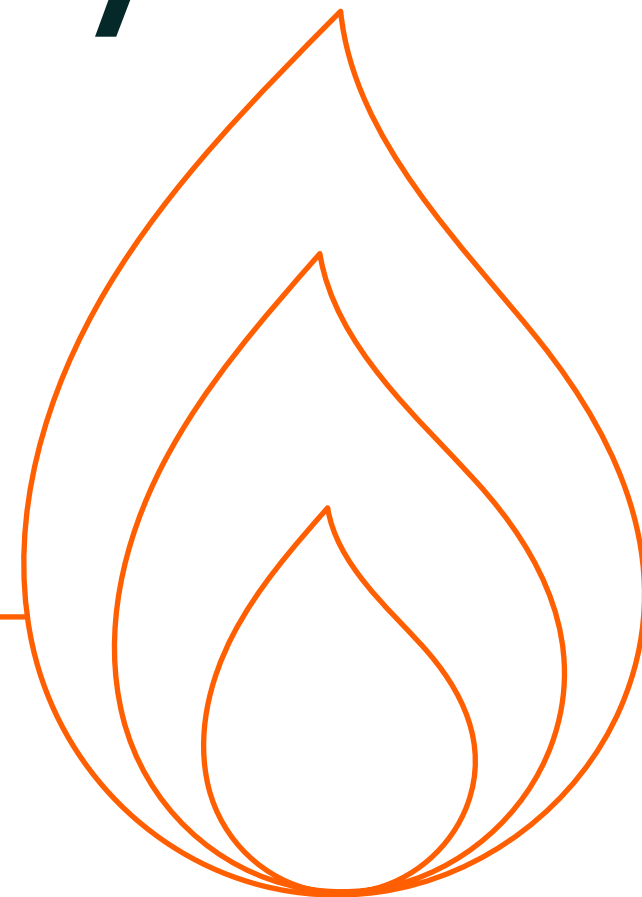
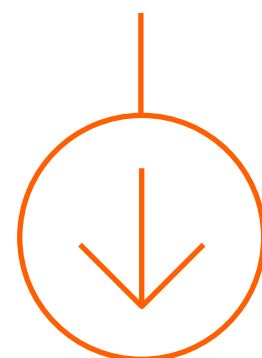
Only circa 32% of the bill is the cost of the electricity consumed, the rest is non-commodity costs.

- Market Operation
- Wholesale Energy
- Supplier/Contract Charges
- Network Charges
- Policy & Taxes

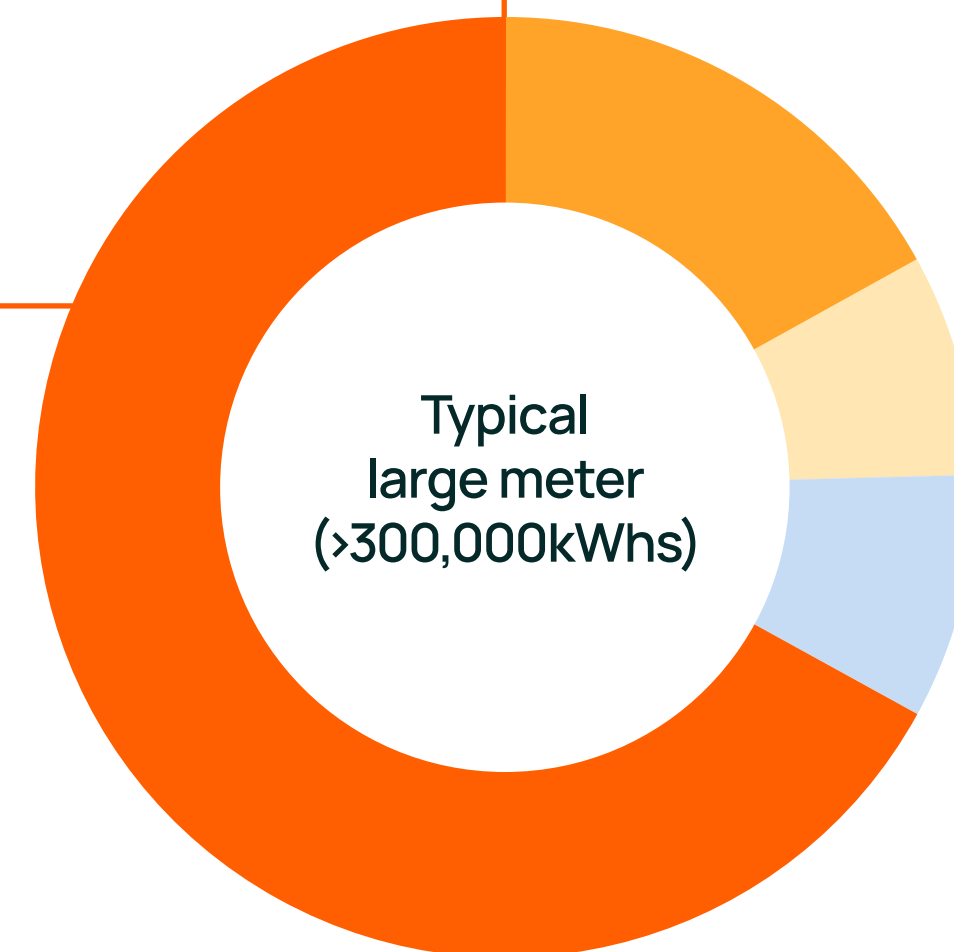
Only circa 39% of the bill is the cost of the electricity consumed, the rest is non-commodity costs.

How much of my business gas bill is non-commodity costs?

Let's explore each non-commodity cost so you can understand what's happening and help budget for your future energy costs.



Only circa 56% of the bill is the cost of the gas consumed, the rest is non-commodity costs.



Only circa 67% of the bill is the cost of the gas consumed, the rest is non-commodity costs.

- Market Operation
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Network costs

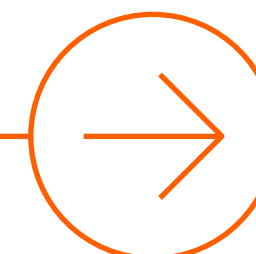
Transmission Network Use of System (TNUoS)

These charges recover the cost of building, operating and maintaining the high-voltage electricity transmission network, which transports electricity from power stations and offshore wind farms to local distribution networks.

These charges ensure there is sufficient infrastructure to move electricity reliably around the country as demand changes and new renewable generation connects to the network.

Suppliers pay these costs on behalf of customers before recovering them through electricity bills.

The amount a customer pays depends primarily on the size of their demand, their location and, for larger half-hourly metered sites, when electricity is used.

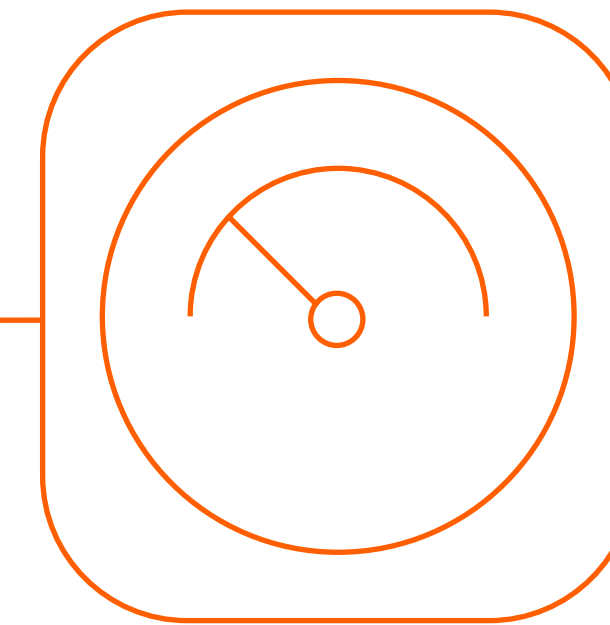
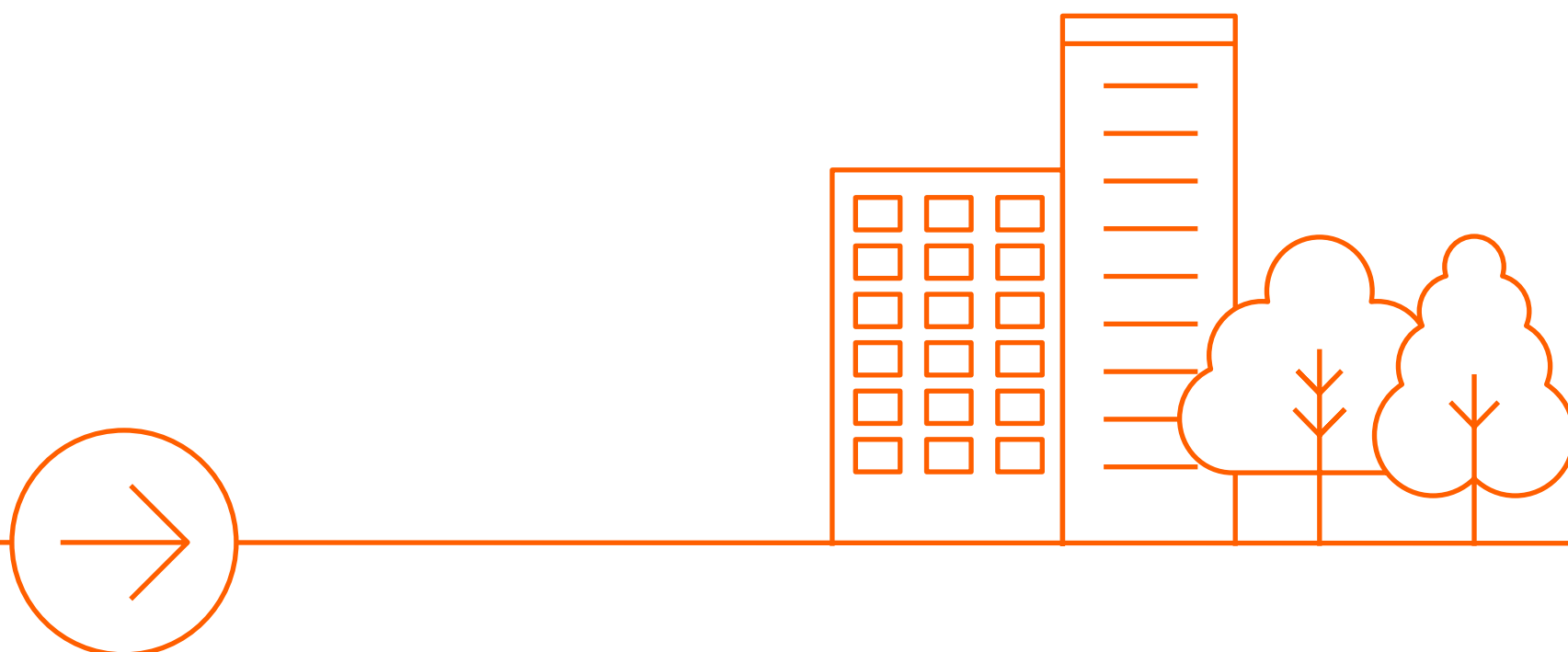


Distribution Use of System (DUoS)

These charges cover the cost of operating and maintaining the local electricity distribution networks that deliver power from the transmission system to homes and businesses.

These local networks include substations, transformers, overhead lines and underground cables that ensure electricity reaches every connected property.

The charges vary depending on where a site is located, its meter type, the voltage at which it is connected and, for many businesses, the time of day electricity is consumed. Customers who can reduce consumption during peak periods may be able to lower some elements of these charges.



Balancing Use of System (BUoS)

These charges cover the costs associated with balancing the electricity grid in real time. Because electricity cannot be stored easily at large scale, generation and demand must remain closely matched every second of the day. These charges help cover the cost of balancing actions taken to maintain a secure electricity system.

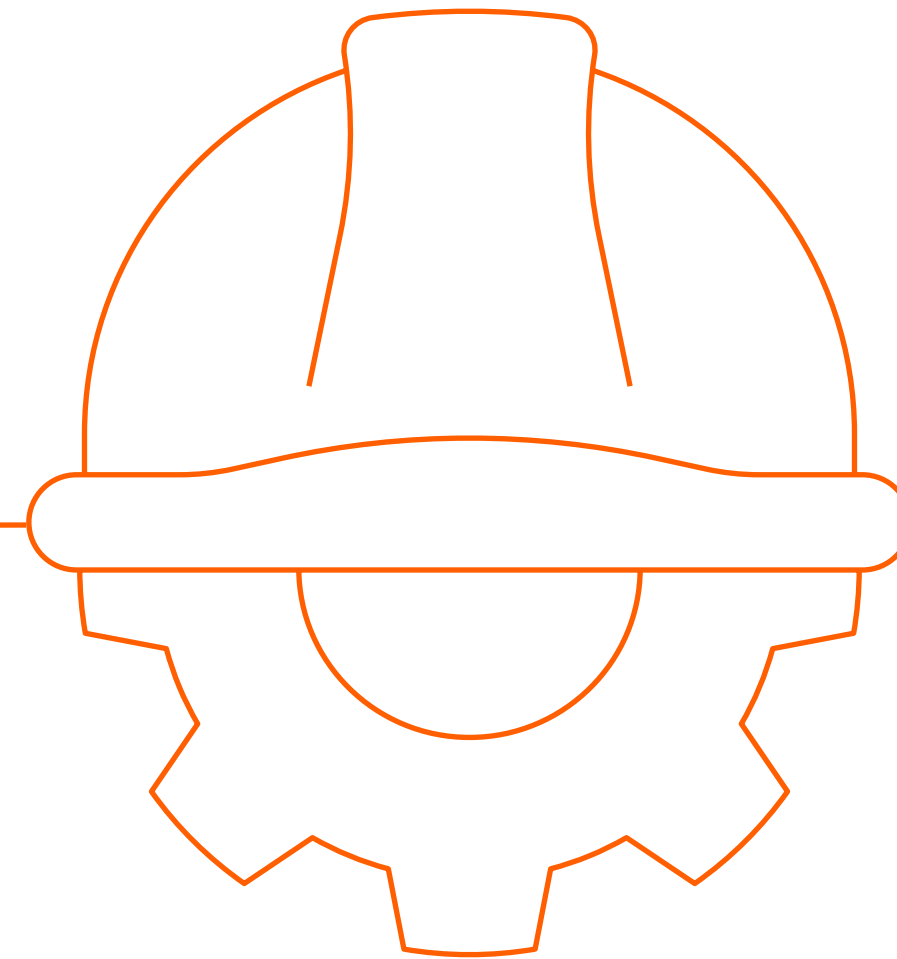
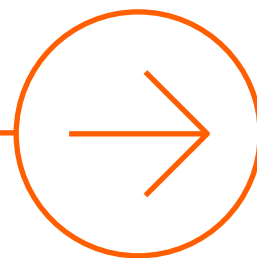
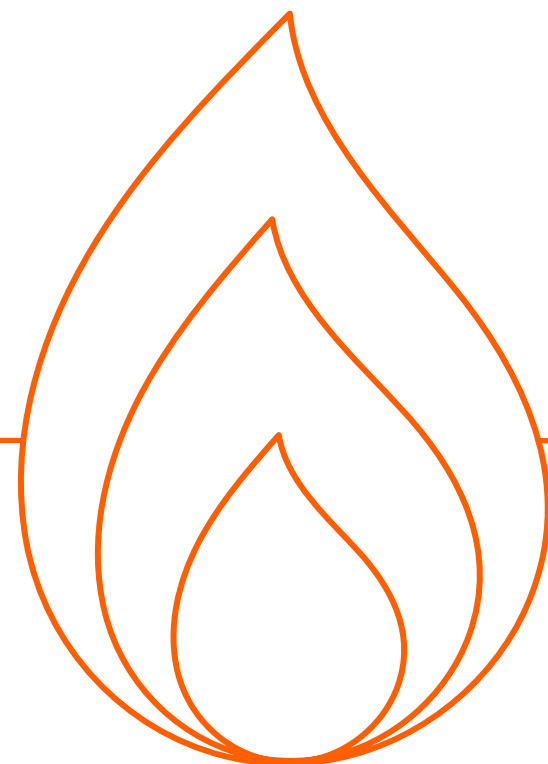
BUoS costs are charged to suppliers based on the electricity consumed by their customers. The actual cost varies throughout the year depending on market conditions, renewable generation levels, system constraints and the balancing actions required.

Gas Distribution Charges

These cover the cost of transporting gas through the regional distribution networks that deliver gas from the National Transmission System to individual properties. These charges fund the operation, maintenance and replacement of pipelines and other essential infrastructure.

Suppliers pay these charges before recovering them from customers through gas bills.

Charges are generally based on a site's Annual Quantity (AQ), which represents expected annual gas consumption, together with the customer's location and metering set up. Larger consumers typically pay higher overall charges, although the unit cost often decreases as consumption increases.



Gas Transmission Charges

These recover the cost of operating the National Transmission System (NTS), which transports gas at high pressure from import terminals, storage facilities and production sites to the regional gas distribution networks and directly connected large industrial users.

These charges help fund investment in maintaining the security and reliability of Britain's national gas infrastructure.

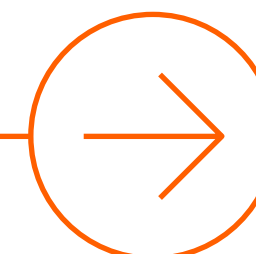
Policy charges

Capacity Market (CM)

The Capacity Market provides payments to electricity generators and demand-side response providers to ensure sufficient electricity is available during periods of high demand. Rather than paying solely for the electricity generated, the scheme also pays providers simply for being available when needed.

Suppliers contribute towards these payments, with costs ultimately passed through to electricity consumers.

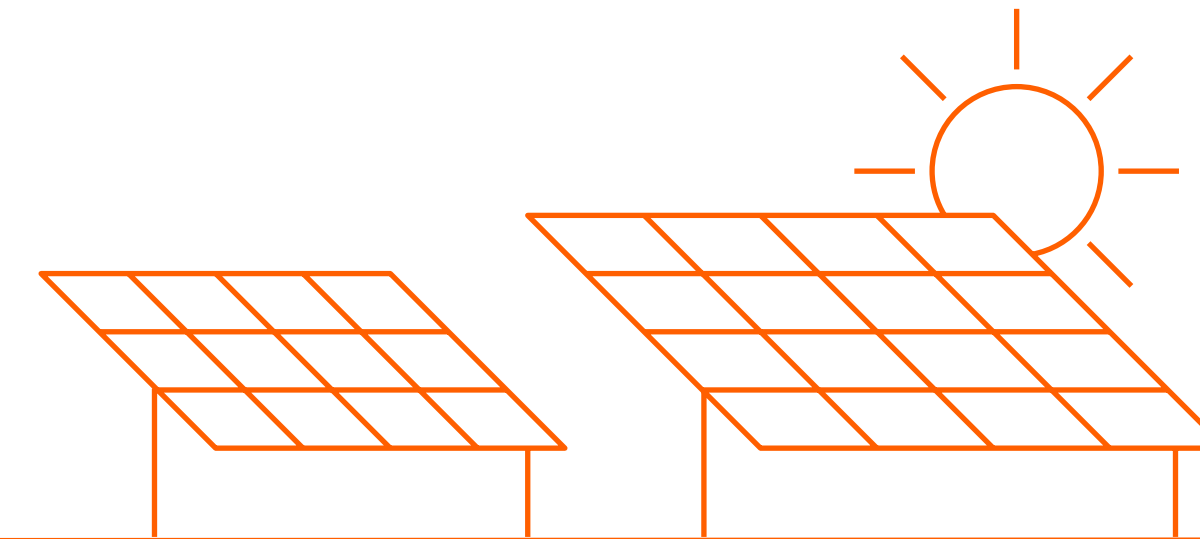
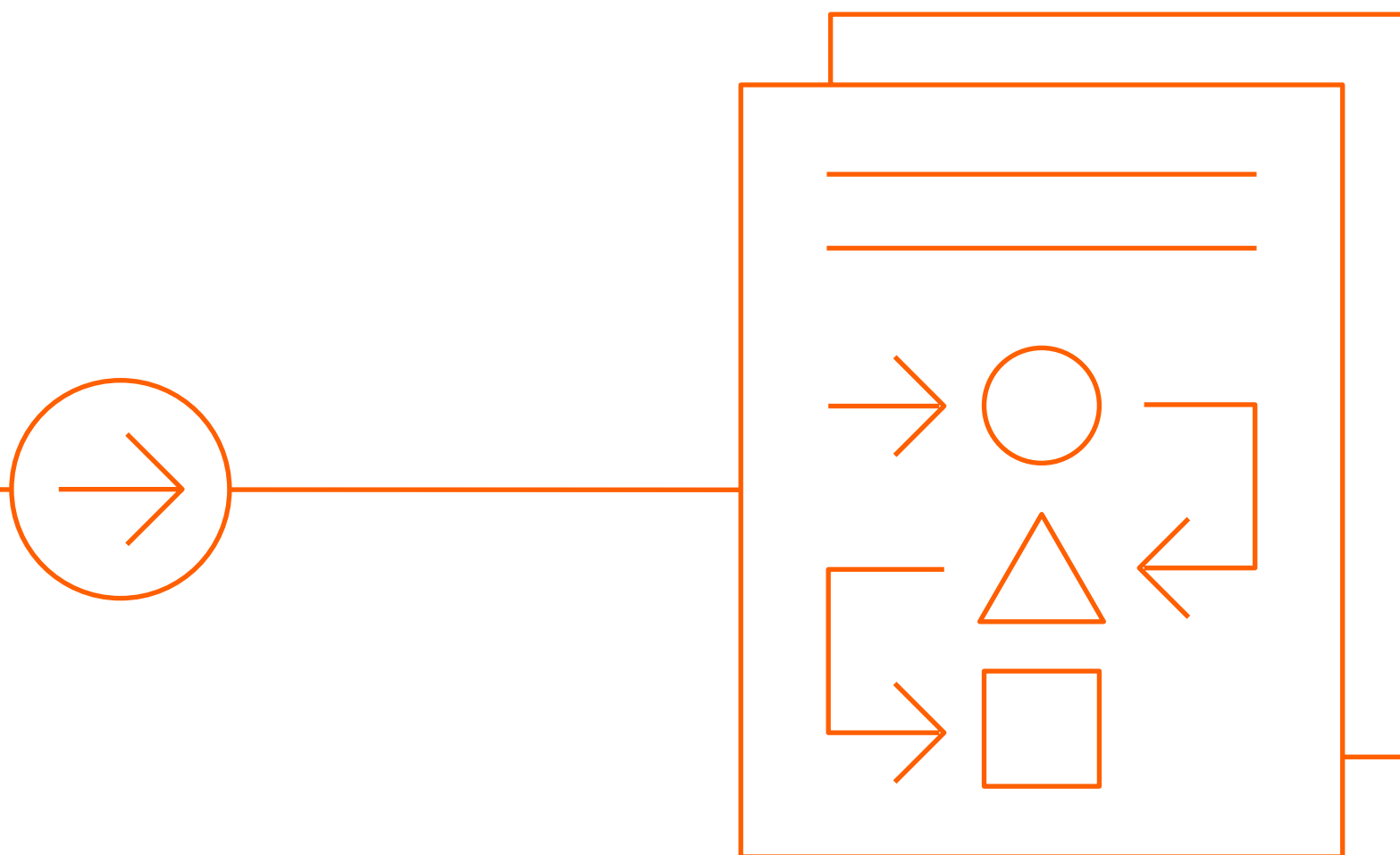
Charges are generally based on a customer's demand during specified winter peak periods. Businesses that can reduce consumption during these periods may be able to reduce their share of Capacity Market costs.



Contracts for Difference (CfD)

Contracts for Difference encourages investment in new low-carbon electricity generation by providing developers with greater revenue certainty. If wholesale electricity prices fall below an agreed level, generators receive a top-up payment; if prices rise above that level, generators pay money back into the scheme.

This scheme supports technologies including offshore wind, nuclear and other forms of low-carbon generation.



Feed In Tariffs (FITs)

Feed-in Tariffs were introduced to encourage smaller-scale renewable electricity generation, such as rooftop solar panels and small wind turbines. The scheme pays eligible generators for the electricity they produce and, in some cases, export to the grid.

Although the scheme closed to new applicants several years ago, existing participants continue to receive payments under long-term agreements. Suppliers recover these costs through customer electricity bills.

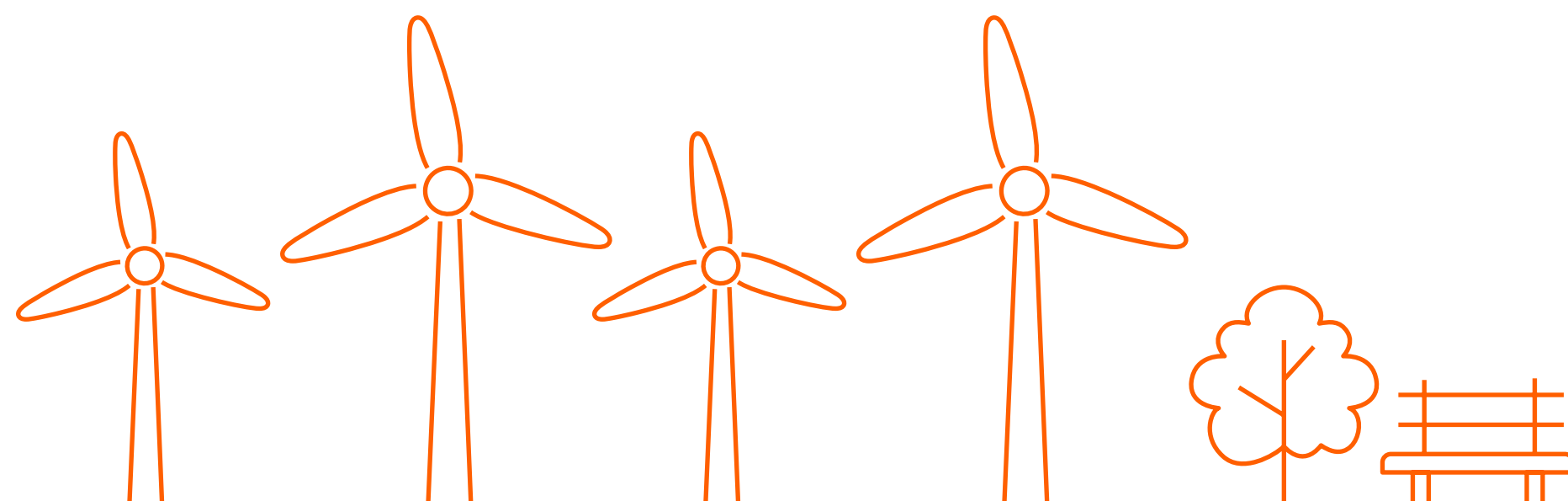
The charge is generally calculated according to the amount of electricity supplied to customers, meaning businesses consuming more electricity contribute proportionately more towards the ongoing scheme costs.

Renewables Obligation (RO)

The Renewables Obligation supported the development of renewable electricity generation across the UK. It was one of the government's main schemes for encouraging investment in renewable technologies before newer support mechanisms were introduced and this scheme was ended for new participants.

Renewable generators receive Renewable Obligation Certificates (ROCs) for eligible generation. Electricity suppliers are required to present a certain number of certificates each year or make a payment into a central fund.

The cost is typically recovered from customers based on the amount of electricity they consume. As a result, customers with higher electricity usage generally contribute more towards supporting renewable generation.

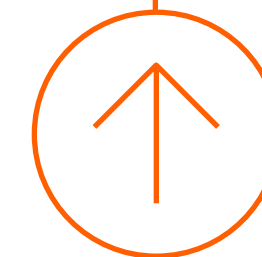


Energy Intensive Industries (EII) Levy

This scheme is a government initiative designed to help businesses that use very large amounts of electricity to remain competitive. This exemption scheme reduces their exposure to some of the policy charges, helping to minimise the impact on their operating costs.

Businesses must apply for certification and demonstrate that they meet the set criteria.

Customers who do not qualify continue to pay the full value of the charges, with the overall costs spread across the wider electricity market. This additional 'top up' is covered under the EII Levy.



The Nuclear Regulated Asset Base (RAB) scheme

This scheme was introduced to support new nuclear projects, starting with Sizewell C in Suffolk. Instead of developers shouldering all the upfront risk, Ofgem will allow them to recover some costs directly from consumers' bills.

The additional charge became effective from December 2025, split into two elements; the Nuclear RAB Supplier Obligation Levy and Nuclear RAB Operational Levy. It covers both the construction period and the decades of operation that follow.

Both the Nuclear RAB Operational Levy and the Nuclear RAB Supplier Obligation Levy will be consumption-based charges. These charges are mandatory and all suppliers will be required to pass these costs onto customers as this is a mechanism to help fund the UK's energy infrastructure.

While the levy increases bills now, the scheme aims to reduce long-term energy costs.



Business Industrial Competitiveness Scheme (BICS)

Due to launch in 2027, the British Industrial Competitiveness Scheme (BICS) is set to become one of the most significant developments in industrial energy policy for UK manufacturers in recent years, offering the potential for substantial electricity cost reductions for eligible businesses.

Currently under consultation, the scheme aims to reduce the cost burden faced by major industrial energy users, offering meaningful long-term savings for qualifying businesses.

The scheme will be funded by increases in Renewable Obligation, Feed-in-Tariff and Capacity Market for all other businesses to cover the exemption.

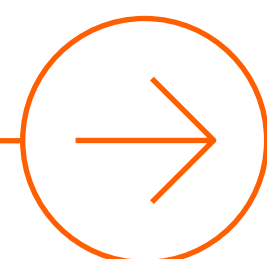


Climate Change Levy (CCL)

This is a government environmental tax applied to energy supplied to businesses and the public sector. Its purpose is to encourage greater energy efficiency and reduce greenhouse gas emissions by placing a tax on energy consumption.

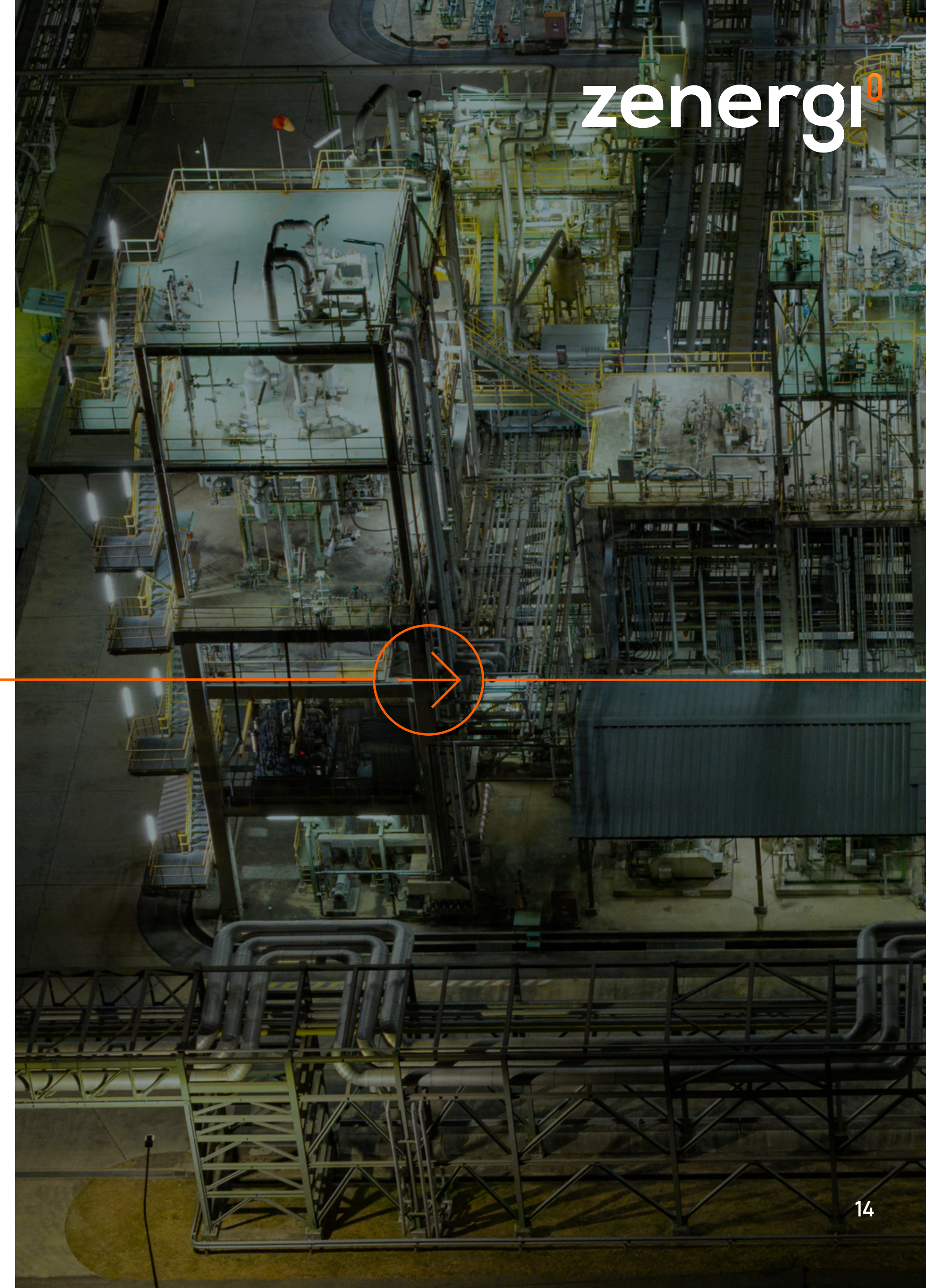
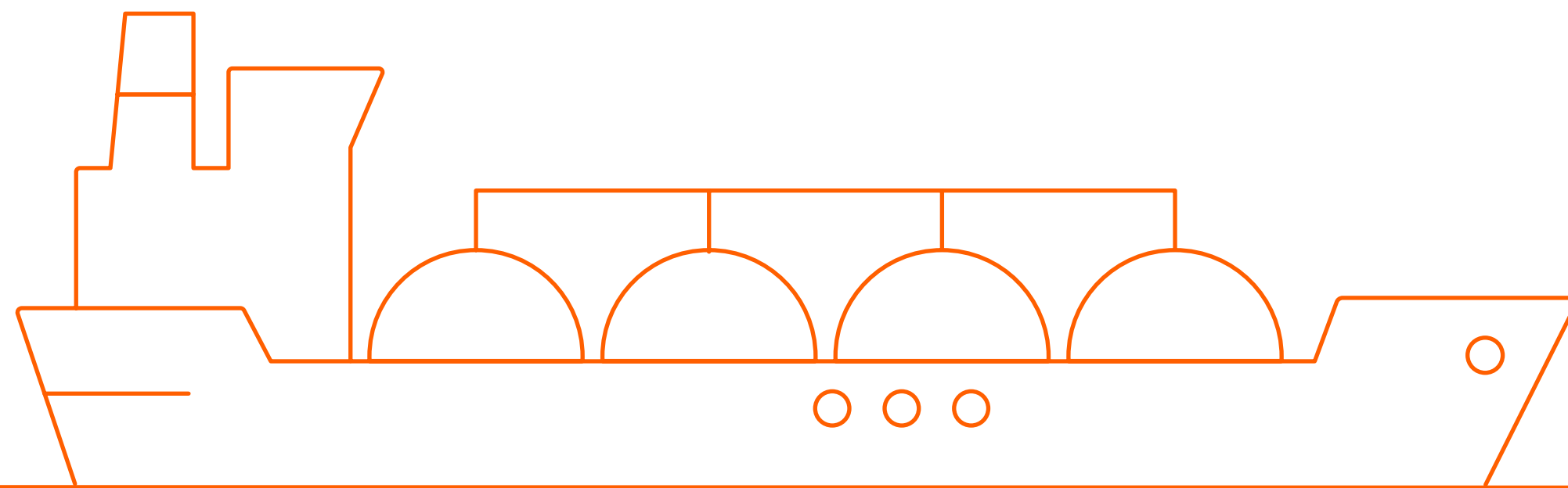
Energy suppliers collect it through customer bills and pass the revenue to the government. Some organisations, including charities and eligible energy-intensive industries, may qualify for exemptions or reduced rates.

The levy is charged at a fixed rate per kilowatt-hour of electricity and gas supplied and is reviewed periodically by the government.

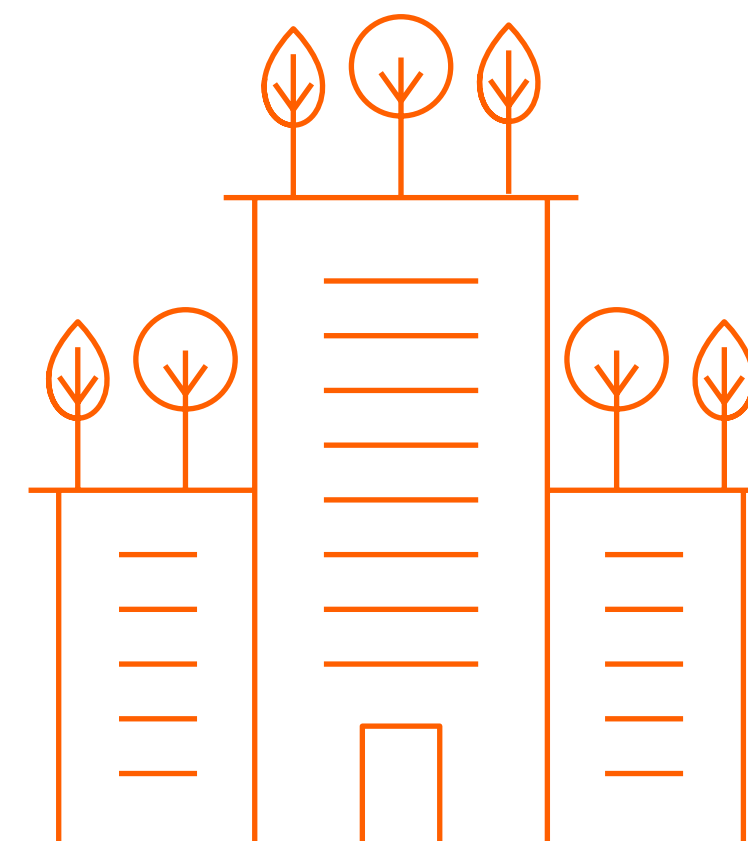


Gas Shipper Obligation (Hydrogen Levy)

Due to launch in 2027, this scheme will help fund the development of new low carbon hydrogen production infrastructure. Also referred to as the Hydrogen Levy, it will impact gas bills only.



Helping you make informed procurement decisions



Non-energy costs are becoming a much larger part of bills and it's easy to feel overwhelmed by the complexity.

The type of contract you choose can make a difference to the impact of these costs and the presentation of the future costs of your energy can be difficult to compare.

Regardless of how you purchase your wholesale energy (fixed or flexible, for example), you still have options on what to do with your non-commodity elements.

Pass-through

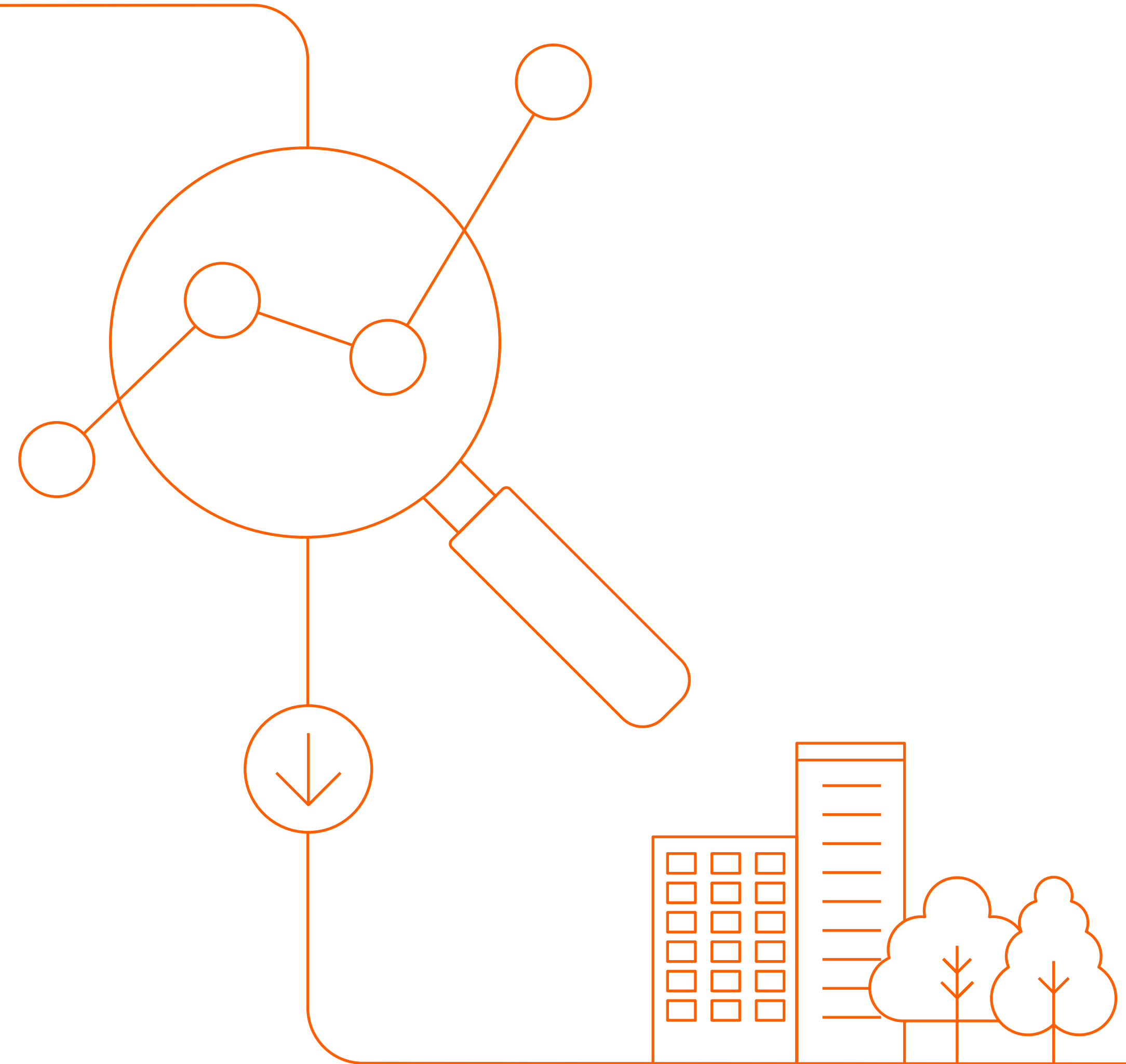
This type of contract allows you to fix or flex your energy costs, but accept the distribution costs, transportation costs, balancing costs and charges associated with the Levy Control Framework at the rates charged to the supplier.

The advantage is no premium is added by the supplier to cover potential changes throughout the contract period.

There may be a small saving in this, and if charges do not increase to the anticipated amount then clearly the savings will be more significant.

It is important to note that costs can go up as well as down. Additionally, in some geographic areas, the distribution costs are much lower than in others, and fully fixed contracts tend to be priced based on an average cost.

Getting to grips with the costs in your area is important when comparing pass-through options with more traditional contracts where the costs are fixed.



Fully fixed

Fully fixed contracts carry less risk as the supplier builds in a premium to shield you from increases. All the risk is with the supplier. The supplier will fix the energy costs and the non-commodity costs for the entire duration of the contract. If you choose a flexible contract you can have the best of both worlds: fix your non-commodity elements, but purchase your commodity when market conditions look right.

Your prices will only be subject to change if there was a change in law or to your meter. However, the devil is in the detail. Not all fixed price contracts are the same, some still allow for charges to change if they increase beyond what the supplier has forecast.

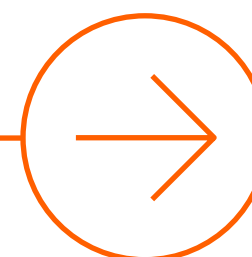
If the energy costs or the non-commodity costs were to decrease during your contract period, you would not benefit from those changes and you may be required to pay the agreed rates for the entire contract period. On the other hand, if they were to increase, you may not be subject to these changes either.

Comparing different contracts means weighing up the costs and potential changes to costs throughout the contract period.

Achieving a true like-for-like comparison of energy supplier prices is often far more difficult than it appears, and tenders from multiple brokers should be avoided. This is because supplier quotations are often prepared using different consumptions and may exclude certain charges or contractual elements - making fair comparisons near impossible.

Gathering the information, evaluating your options and forecasting takes time and expertise. Our experienced team work with more than 20 energy suppliers to source competitive prices and present clear like-for-like comparisons and detailed risk assessments.

That's why we're the trusted energy partner for more than 5,000 organisations.



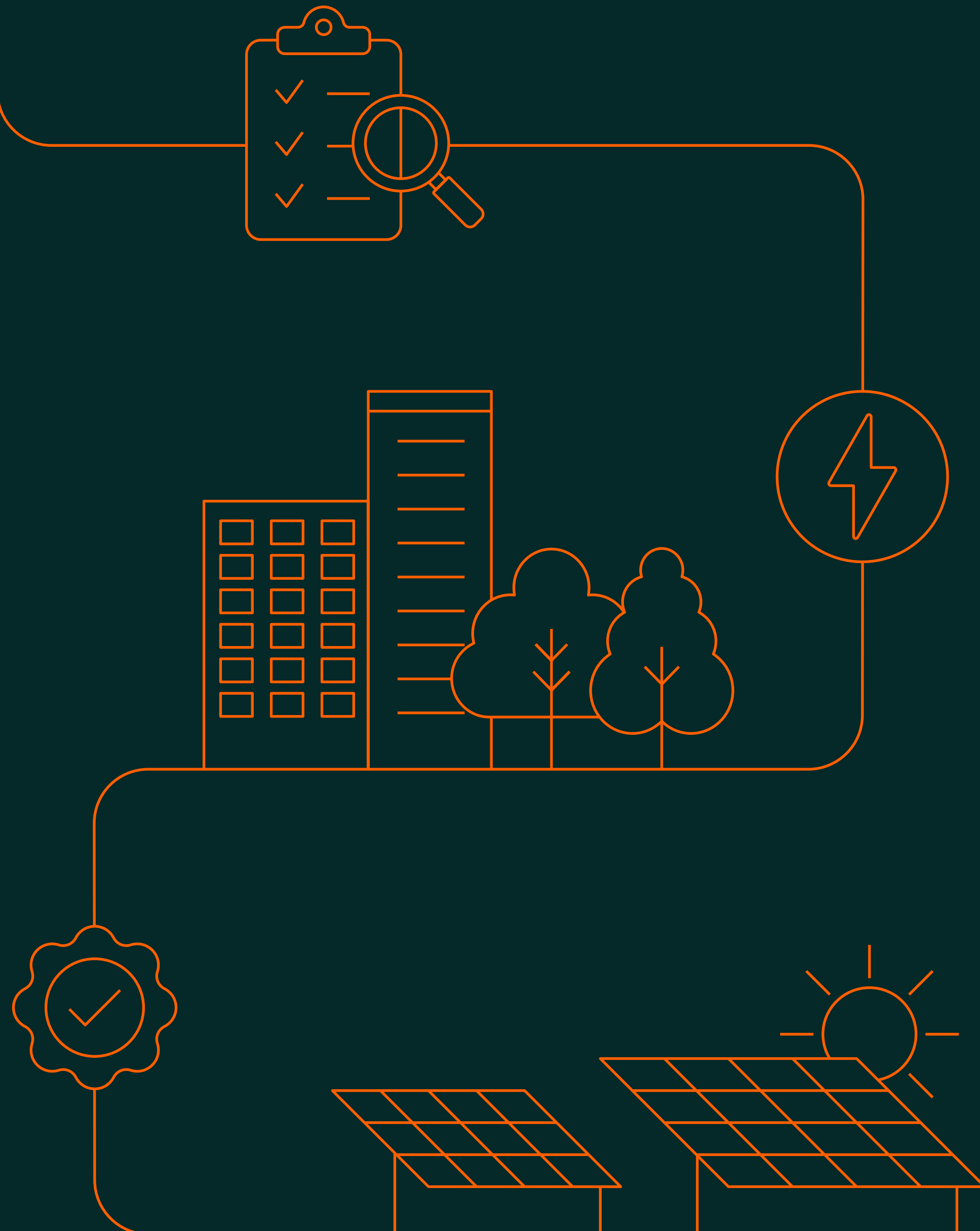
“If you are comfortable paying a premium you can gain greater price certainty. Alternatively, you can choose to pass through the non-commodity costs and pay the prevailing market rate, avoiding supplier risk premiums. This approach may result in future reconciliations, and costs could increase if actual charges are higher than originally forecast.

We aim to simplify things, so if you are in any doubt about the impact of non-commodity costs on your budget, talk to us.”



Alex Payne

Director of Energy
Markets & Procurement



Your trusted energy partner

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Let's safeguard your portfolio.

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