Response to Standing Charges: Call for Input

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Call for Input

Ofgem published a Call for Input on Standing Charges on 16 November 2023 covering both domestic and non-domestic standing charges.

NFU Energy is a Third-Party Intermediary which deals with non-domestic energy only, so we have commented only on the areas affecting our customers.

Our customer base is principally agriculture and associated sectors, including a wider range of businesses where farmers have diversified to provide additional income. Agriculture is a high overhead sector, in which the impact of the energy crisis was felt acutely. Many of our customers are still recovering from the impact and are now facing significant challenges as a result of changes to standing charges.

We appreciate that it is not possible for the network to be upgraded without significant cost, and that these costs are inevitably going to be passed on, at least in part, to end users. We are concerned, however, at the way in which these costs have been distributed among non-domestic customers.

It is easy to view agricultural customers as a small group with niche interests. However, farmers put food on all of our plates and producing food in the UK, rather than importing it, significantly reduces its environmental impact.

Increases in electricity costs have the potential to increase the costs of food (driving inflation) and disrupt the food security of the nation if they cause farmers to cease production in a particular segment of the market. In 2023, UK food inflation rose to 19.2%, and ongoing global instability caused by the war in Ukraine and incidents of extreme weather have further highlighted the vulnerability of the UK's food system.

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Question 14 - What issues affecting standing charges in the non-domestic retail sector should we consider further?

Issues We Have Identified

We have been supporting customers to alter their Maximum Import Capacity (MIC) banding, however, we think the current rules are prohibitive and are resulting in many customers being classified into bandings which are too high, and consequently more expensive than they reasonably should be.

For many of these customers, DNOs previously advised that they needed very high kVa as a contingency, and the customer is now required to show a significant "change of use" to move to a more appropriate band, or they are unable to change band if they cannot halve their MIC.

We are also concerned that the current banding model, based on peak demand (kVa set), adversely affects those who need to use a significant amount of energy for a short period of time, and consume little to no energy between this seasonal demand. This emphasises the impact on agricultural consumers of electricity due to the need to operate high-consumption equipment on a seasonal basis, or to adapt to weather conditions.

Similar trends around the cost of standing charges exist for Non-Half Hourly meters, with one large supply recently replacing their 25p per day standing charge for low-consumption meters with 75p per day; annually this is a change from £91.25 to £273.75.

Examples of the issues our members have encountered

Example 1 – Half Hourly Meter supplying an Anaerobic Digestion plant

Our customer runs an Anaerobic Digestion plant based on Wales, with a High Voltage Meter which is currently in Band 1, meaning they are unable to reduce the standing charge by way of a re-banding.

On their current, expiring, contract the Standing Charge is around £3,700 per year.

The cost for the energy they used in the previous year was around £4,000, and they exported renewable energy to the grid worth around £3,500.

Quotes for the meter this year are returning Standing Changes of around £29,000.

Our customer is considering whether or they can sustain operations in light of this increase in costs. In this example, the changes to Standing Charges create a real disincentive to continue generating

renewable energy. This situation is likely to be repeated across Anaerobic Digestion plants due to the necessity of having a High Voltage connection.

Example 2 – HH, Grain Dryer

Our customer is an arable crops farmer who had a grain dryer installed in the last few years. The nature of grain dryers is that they are not in use for the majority of the year, some years they are not required or are run for very short periods, and when harvest takes place during wetter weather, they are run continuously for around 2 months.

For this site, the Estimated Annual Consumption is 2,500 kWh, used almost exclusively in September and October.

Their previous contract had a Standing Charge of around £1,100 per year.

The Standing Charge has now increased to around £5,900 per year.

The customer does not consider a banding change viable, given the potential to need to run the grain dryer at close to their current MIC, however, even if they were able to move to band 1, their Standing Charge would be around £3,300 per year, triple the previous standing charge.

As a consequence of the standing charges they are now facing, the customer is considering removing the meter from the site and switching to diesel generators to power the grain dryer when required.

NFU Energy has around 400 meters associated with the operation of grain dryers on our books, and we expect that the considerations of this customer will be mirrored by other customers. The potential move from a greener-grid to local diesel generation to operate equipment which is vital in the production of food is deeply concerning to us.

Example 3 – High KvA

Our customer has a meter installed with 276 kVa MIC, and has contacted us as a result of the Standing Charges they are now facing to maintain the MIC. We have analysed the data from their current supplier and, in discussions with their supplier, we have been unable to meet the requirement to halve their MIC in order to have their banding changed.

Our analysis suggests that the customer requires an MIC of around 150 kVa, and the requirement would be to reduce it to 138 kVa to change banding.

This means that the customer will continue to fall into band 4, paying Standing Charges for 276 kVa despite falling just 12 kVa short of the threshold, and if taken at 150 kVa on a new meter they would fall into band 3.

In monetary terms, this means they will continue to pay £18,250 per year, rather than £9,855.

Example 4 – Non-Half Hourly Meter

Our customer has two non-half hourly meters fitted at their farm, and farm buildings on the same site. The primary meter has an annual consumption of around 66,000 kWh.

Their 12 month contract for this meter, agreed in late-2022, has a standing charge of 40p per day, £146 per year.

The new contract, which has recently been agreed and will go live in the new year, has a standing charge of 192.596p per day, £703 per year.

This is over 4 times the current contract. Given some farmers have upwards of 10 meters covering multiple installations at various sites across their operations, this represents a significant increase in charges over which they have no real control short of removing meters and looking at local generation (which is often diesel).

Proposed Solutions

Standing Changes based on Annualised Average:

We believe that a fairer approach to this – acknowledging that suppliers and DNOs must pass on at least some of the costs of upgrading the network – would be to base Standing Charges on an annualised average, rather than peak demand, where possible. This could utilise EAC or an average of peak demand across a number of months.

This would still mean that those making most use of the network would be paying the most, but would take a bigger picture approach to doing so to ensure that occasional high demand would not have a disproportionate impact on a customer's bills.

Change to banding-moves under Schedule 32 of the Distribution Connection and Use of System Agreement:

Where it is not possible to use average demand, we would suggest decreasing the requirements around re-banding.

The requirement that kVa is reduced by at least 50% to move band is prohibitive and results in situations like Example 3. Given the significant increase in standing charge for the higher bands, it is increasingly important that people are in the correct band for their actual peak demand, where an annualised average is not possible.

A change from requiring a reduction from 50% to simply assessing where kVa actually sits within the bands would significantly alleviate the disproportionate effect on many non-domestic customers, and result in a fairer cost distribution across the network.

Increased banding segmentation:

Many people in Band 1 are paying disproportionate Standing Charges for the energy use. Where their consumption is low, but they have a high voltage meter – as in the case of the Anaerobic Digestion plant above.

Increasing segmentation of the Standing Charge bandings, so that there are more bands which, therefore, more closely represent the usage the customers within them, would more fairly distribute the costs of upgrading the network.

Increase frequency of banding changes:

Currently customers are limited to one change per year in terms of banding. Increasing the frequency and potentially automating the change of a scheduled basis (we would suggest quarterly).

This would mean that customer such as those in Example 2 would not pay high levels of standing charge for the months – 9 or 10 of them – during which their equipment lies dormant, but would pay at a higher level for the quarter in which they need to run the equipment.

Remove Standing Charges from "fixed" contracts

Where a customer signs a contract with a standing charge as part of the terms, even a change in banding will not change the level of standing charge they pay.

Given the significant increase in third party costs within the makeup of standing charges, we would suggest moving standing charges out of the fixed rates contained in a contract and moving them to a third-party cost, in a similar way to Climate Change Levy, which is recalculated on a quarterly basis.

Renewable Generation:

Where renewable generation is taking place, the steep increase in standing charges is acting as a deterrent to continued generation. Potentially driving renewable generators out of the market seems at odds with the policy intention behind the changes to standing charges.

We would suggest finding a way to decrease the impact on those generating renewable energy from the increases in standing charges. This could be through a subsidy or reduction in the standing charge for these customers.

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