

Asset Values

V1 – February 2020

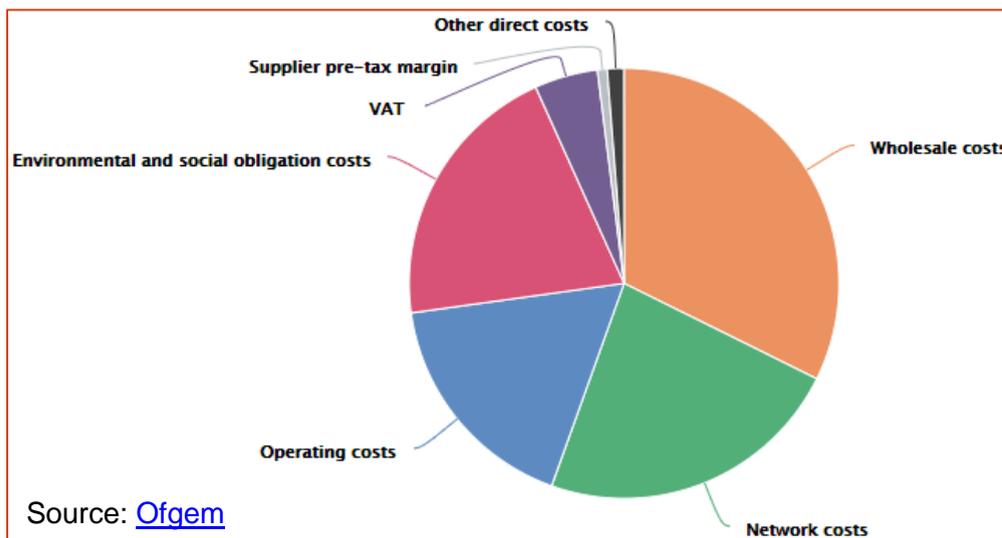
In the Electricity Industry

For an electricity bill typically 18-20% of the cost is the Distribution Use of System (DUoS) charge. This goes towards maintaining and developing the UK's electricity network. The Transmission Network Use of Service (TNUoS) charge, levied by the National Grid for use of their network, is usually between 5-10% of the total bill.

These charges have a significant bearing on the value of a connection to an Independent Distribution Network Operator (IDNO), and therefore the connection charge levied by independent companies. They will often offer an asset value to an Independent Connection Provider (ICP) incentivising them to pass their constructed infrastructure to the IDNO for ownership, operations and maintenance. For an IDNO this increases their asset base and their value.

Regional Distribution Network Operators (DNOs), such as UK Power Networks, are not allowed to make an allowance for asset values in their connection charges and have to charge the actual cost of the connection to clients. This means that in general a client will receive a more competitive connection offer from an ICP or IDNO than a DNO.

The determination of the asset value is based on assumed energy usage, which means that larger industrial and commercial services will generally attract a higher value than a residential service.



Overview – The Value of Assets

Gas and electricity distributors primarily make their money through charging energy suppliers to use their network to deliver energy to consumers. These charges are passed on by the suppliers to the consumers and appear in customer energy bills as Network costs.

National Grid (gas and electric) also charges a transmission fee to energy suppliers. This means that the network costs consumers pay is made up of both distribution fees and transmission fees. These charges are regulated by Ofgem.

These fees mean that there is value to gas and electricity network operators in owning a metered service, or asset. All the time there is a valid account and bill payer they will generate income from the service.

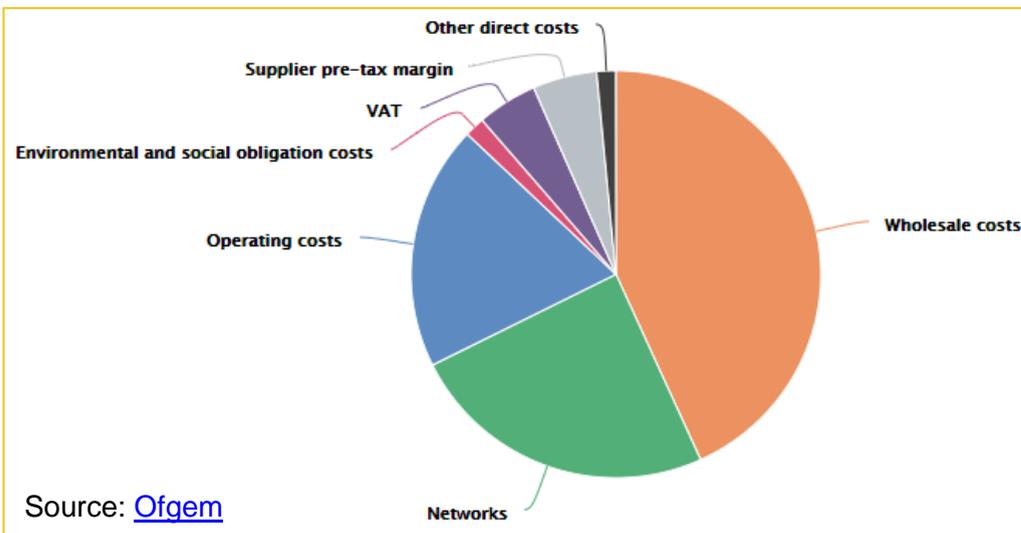
Asset Values

V1 – February 2020

In the Gas Industry

Asset values in the gas industry work in a very similar way to the electricity industry, with gas distribution and transmission companies charging suppliers for using their pipelines. On gas bills, distribution fees usually make up around 16-19% of the total bill and the transmission fees around 3-6%.

The regional gas distribution networks ([GDNs](#)), like the regional DNOs, are not allowed to make allowance for asset values and have to charge the full price of a connection to the client. However, Independent Gas Transporters (IGTs) (just like IDNOs) can offer an asset value to Utility Infrastructure Providers (UIPs), and this incentivises them to pass infrastructure over. This means IGTs and UIPs are likely to make more competitive connection offers to customers than the regional GDNs.



Typical Cash-flows for Residential Accounts

- Based on [Government](#) figures in 2019 the average annual domestic electricity bill is approximately £705 and the average annual domestic gas bill is around £655
- This means average electricity bills contain network costs (23.15%) totaling around £163. With DUoS charges of between 18-20% this makes each metered connection worth somewhere between £290 - £304 to the (distribution) network operator
- The average gas bill contains network costs (24.44%) of about £160 with distribution charges making each metered connection worth between £265 - £285 to a gas distribution company