Are you Prepared to Gamble on your Future Energy Costs?

As the UK Energy Market becomes increasingly more complex and an ever more significant core business operating cost, UPG – The Utilities Procurement Group, look at three key areas of the industry below that it may be helpful to be aware of:

Wholesale Market Volatility

The current energy market conditions are quite different to early 2016, and UK businesses need to be prepared more than ever for their next energy renewal contract, where protecting budgets against year on year variances will be vital. The root of this stems from a 5-year Crude Oil low point, where Brent Crude Oil prices were as low as under $30 per barrel in January 2016, driven by a position of global oversupply. Although there has been some minor de-indexation of Oil and Gas prices, in practice Gas very much still tracks to Oil movement and with around 40% of the UK's electricity generated from Gas-fired power stations, electricity closely follows suit. With global oil dynamics having now reverted to a position of tightly controlled output for the foreseeable future and with Brent Crude trading at over $50 per barrel, you may ask how can my business protect itself from such a significant year on year impact to budgets?

When coupled with the additional volatility from UK and European elections and Brexit, sound and experienced advice on purchasing timing, becomes more than just an asset, it actively protects your budgets from a severe shock in a key essential operational cost area. Here at UPG, we have taken a market analysis approach for many years to Energy Procurement and we monitor the wholesale markets on a daily basis to identify the best points to purchase your energy. Even in a potentially rising and volatile market, there will still be optimal purchasing opportunities from seasonal supply/demand driven fundamentals or wholesale traders selling off their positions. Assessing the potential impact of geopolitical influences promptly is also key. If you want to ensure best value and protection of budgets for your business, then call UPG today.

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Non-Energy Costs

For many customers on a fully fixed energy tariff which can provide budget certainty and ease of forecasting, the component costs that make up your unit rates and standing charge are often not apparent. Behind these rates and built into their cost, there are actually up to 14 non-energy charges which range from local and national Use of System Charges (paying for Infrastructure and Maintenance), costs to account for physical losses in getting the energy to your site, and also small and large scale renewable generation costs (charges and additional costs to consumers, but in tandem also rewards and payments to green generators) for both the present and future. There are also costs to ensure the lights stay on in the UK in the future, costs to ensure outlying and remote areas have access to the grid and for the operational costs of balancing and running this complex system as well as government charges such as the Climate Change Levy. In fact, the Energy or Commodity element of total billed costs now accounts for less than 50% of the total. Whilst varying by distribution area and voltage level, a recent typical site in the Midlands had a Energy/Non-Energy Mix of 44%/56%.

You might ask that if the majority of my energy costs are seemingly out of my control, how can I actually impact and improve on these elements. At UPG we have many years of calculating these complex non-energy charges accurately and we can assist customers to put in place a pass-through contract, where these costs are passed through, truly at cost, and with our bill validation checks we ensure this is billed accurately by suppliers. Other additional benefits include a reduction in “risk premium” which suppliers add to fully fixed pricing to cover any changes in the third-party charges they receive. There is a small added risk by you assuming responsibility for these changes yourself at actual costs, but it will always work out cheaper than suppliers adding additional premiums to cover their risk. We would say that you do need enough energy usage (above 5 GWh / 5,000,000 kWh ideally) to justify a little more complex contract type, but UPG are able to manage, explain and take any mystery out of this on behalf of your business. A further benefit of pass through contracts is that many non-energy charging structures are both usage and time based, so with our additional services like a TRIAD warning service (relates to National Use of System costs that all consumers pay) and consumption monitoring, we can advise when to load manage at the most financially opportune moments to reduce your costs further.

Increasing Regulatory Costs

In a changing environmental landscape driven by legislation such the EU’s Renewable Energy Directive which set a 20% target for Energy from Renewable Sources by 2020 and the Paris Climate Agreement aiming to reduce global temperatures, many new regulatory costs and charges have materialised. Profitable side industries relating to these regulations have also sprung up, again increasing costs to the end user. Much will depend on the world’s largest energy consumers’ willingness to participate in these schemes and the direction this moves in is intrinsically linked to the future political landscape.

For now, however, these charges don’t appear to be going anywhere in the near future and if your business is obligated under one or more of these schemes UPG can provide advice on CRC – Carbon Reduction Commitment, CCA – Climate Change Agreements, ESOS – Energy Savings Opportunities Scheme, EU ETS – European Union Emissions Trading Scheme (Carbon) and rest assured also that as the industry changes and develops further, UPG will be informed and ready act on these changes.

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