power direct

energy for business

Guide to Energy Buying Strategies

We recognise that all businesses have a different view of risk when it comes to procuring their energy. For larger businesses, the product choice can seem endless, which means that the presentation of the future costs of your energy can be difficult to compare.
Our guide outlines each of the five broad buying options and briefly describes how they work. Within each category there are options that are more or less refined.

1 Fully Flexible

Flexible purchasing allows you to control the amount of energy you buy and when you buy it. Energy can be bought in seasons, quarters, months, or even for the day ahead. Most typically, buyers will commit to buying a base load with top up purchases throughout a contract period. Fully flexible contracts also allow for full transparency on non-commodity costs, and supplier administration charges. Clearly, the intention is to take advantage of movement in the wholesale energy market to minimise energy costs.

These types of contract are only open to very large consumers where the traded quantities are significant. Smaller users may be able to benefit from a partially flexible product with defined purchase options.

2 Partially Flexible

Some suppliers offer partially flexible contracts that present a lower level of risk than the fully flexible products. Partially flexible contracts will offer a range of options and a range of buying strategies within those options. The critical difference is the ability is to be able to set budget parameters on price and/or identify predefined purchase points where the buying will take place.

3 Pass-Through

Pass-through products allow you to fix 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. The caveat, as always, is that costs can go up as well as down. It is also important to note that in some 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.

Contact us:

www.powerdirectltd.com | info@powerdirectltd.com | 0333 1234 313

4

Fully Inclusive

Fully inclusive options mean the energy costs are fixed and all non-commodity costs have been included within your prices. This still holds some risk as the non-commodity costs are not fixed for the contract duration. The risk, however, is much lower than a flexible product because the energy costs are fixed. Usually, if the non-commodity costs change during your contract period, the supplier will pass the increases on. Some suppliers will only pass these costs on if they were above a built-in threshold. Again, it is important to know precisely what level of risk this might entail when you are comparing costs.

5

Fully Fixed

Fully fixed products carry no risk at all. 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. Your prices will only be subject to change if there was a change in law or to your meter. 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 would be required to pay the agreed rates for the entire contract period. On the other hand, if they were to increase, you would not be subject to these changes either.

Making your choice

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

It is imperative that you make the decision when you have all of the facts and possibilities at your disposal. Gathering the information and developing your options and forecasts takes time and expertise. It is possible to do this for yourself by dedicating internal resources. Alternatively, contacting a reputable energy consultancy firm such as Power Direct Ltd, means the options, comparisons and risk assessment will be prepared for you.

It's all about what is right for your business and your energy needs, and whether you are most concerned with predictability, or you want to focus on driving the cost of energy down, albeit with greater levels of risk.

If you are using a broker or consultant you should discuss all of these options with your account manager before going to market.

If you would like to speak to us about your energy contracts, or anything else to do with business energy supply – whether you are currently a client or not – please don't hesitate to contact us.

Contact us:

www.powerdirectltd.com | info@powerdirectltd.com | 0333 1234 313