

When is a fixed contract not a fixed contract?

At some time, we have all been surprised by the detail of a contract that we have signed in good faith. Many people who sign a business energy contract take what they believe to be a fixed price, fixed term contract. But, are these contracts really as fixed as the name suggests?

When is a fixed price contract not really fixed at all?

For energy supplies, the answer is simple: When there is a change in law or regulations that affects the cost to supply energy to your premises, suppliers reserve the right to increase your fixed price during the contract period.

We have seen this happen in recent years with the Levy Control Framework charges. Suppliers will forecast the cost of your electricity and then factor in a small profit based on what they know of the other costs that they will have to pay in order to supply those premises. These other costs can broadly be understood as 'Levy Control Costs' and 'Supply Delivery Costs'. Changes to the Levy Control Framework and reconciliation of costs mean that suppliers don't know precisely what these charges will be in advance. In fact, sometimes they don't know until retrospective reconciliation points. This uncertainty can have a devastating impact on supplier profitability. While suppliers have been able to invoke the change of law clause to recoup their costs, in the last 18 months, some small suppliers have still faced significant financial difficulties.

And now, changes proposed by Ofgem are seeing the change of law clause being invoked again. While electricity supply delivery costs have been relatively stable for more than a decade, this is about to change. Domestic consumers will not see much difference, but it is bad news for businesses with a moderate level of electricity consumption, who are likely to see the cost of supply – or network charges – significantly increase. Ofgem is reviewing the

method through which National Grid and the Distributors charge for getting electricity to each supply point, with the intention of making the system fairer by redistributing the share of the costs. However, the Energy Intensive Industries (large consumers) reasoned that since they need to compete on a global stage, they should not be required to bear the impact of the changes. In effect, this means that if you are a business, but not categorised as an Energy Intensive User, then your costs will go up. And because suppliers can invoke the change of law clause, this extra cost will likely be passed on to you.



The changes start on 1 April 2021. This may seem a long time, but many small and medium sized businesses will be in contracts stretching beyond that date. We have asked suppliers to confirm the process of review that they may follow when the new pricing mechanisms are announced, urging for transparency, because each will be impacted differently.

Assess

Plan

Manage

If you have any concerns about your contract status, or you would like advice to support the negotiation of your next contract, give us a call and we will be more than happy to help. Contact us on 0333 1234 313 or info@powerdirectltd.com.