CELEBRATING 25 YEARS IN BUSINESS

Your Trusted Energy Partner

Helpful Tips and Advice on Managing your Energy Costs during the COVID-19 crisis.

"Inaction breeds doubt and fear. Action breeds confidence and courage."

— Dale Carnegie

This guide is to help you manage your energy costs and make the most of any downtime during the COVID-19 crisis. Consider taking action on all of the areas below and please share this guide with your relevant colleagues.

Purchasing

1. Preparation – while market prices are at multi-year lows, there is undoubtedly an opportunity to take advantage of the situation. How much of an effect this has, depends on your contract renewal date, the wholesale price movement since your last renewal date.

   If you haven't yet started to budget against this renewal price – I highly recommend you do this now. We are clearly in a time where the more information you have in terms of forecasting the better your position. There is no sense whatsoever in watching and waiting to see what the market may do if you have no idea what the impact of this renewal can cost you.

2. Non-Energy Costs – as explained above, while many people understand the impact of the present COVID-19 situation on basic energy costs there is less understanding about the non-energy costs. These are the costs of getting energy around the distribution and transmission networks, as well as the cost of the wide array of subsidies that are available to incentivise generation of renewable power.

   Again, preparation is essential here. Some of our customers have found that the non-energy costs have increased more than the losses seen in wholesale markets. Therefore, if there is an expectation of a cost reduction, then you need to evaluate if that is a sound assessment of the situation or not.

   The next decision is the most appropriate structure of managing these non-energy costs within your contract. These can range from a full "pass-through" arrangement, where the supplier bills you at cost for these items. You accept the complexity of seeing many line items on the bill and ensuring these are correct and budgeted for effectively as they can and will almost certainly increase over the life of the contract. The other end of the scale is a "fully fixed" arrangement where the supplier bundles all these costs into a unit rate and standing charge and applies a premium for doing this and taking the risk on getting the forecasted costs wrong. Your supplier or consultant should be able to help you with considering the most appropriate structure for your organisation.

   One cost element that has been affected by the COVID-19 crisis is TRIAD costs, a cost structure that is in place to cover Transmission charges incurred by National Grid. If you can reduce your energy use at peak times, then you may be able to reduce your costs by changing your contract structure type. TRIAD costs were due to change from April 2021; however, due to the COVID-19 crisis, this has been extended to April 2022. Now there are two whole seasons that you can take part in this cost reduction scheme. There is also a similar cost structure for Distribution charges that you may be able to take advantage of that also ends April 2022, based on the current timeline from Ofgem.

3. Contract Clauses

Take or Pay - We have seen a reluctance from some customers to commit to contract renewals as they are concerned that they may not know their consumption profile going forward. We have been able to negotiate with several suppliers to accommodate this by widening their "take or pay" parameters so that consumption can fall or increase further than the usual 80/120 lower and upper tolerances. Many suppliers have removed these all together.

Re-Forecasting – If you are on a flexible purchasing contract, then often include the ability to re-forecast your volume. This facility provides you with some security that if there is a significant change in your volume, against expectations, you can correct this throughout the agreement, without incurring take or pay clauses. The downside with re-forecasting is that if the market has fallen, then you sell energy back to the market at a rate lower than initially purchased, thus incurring the "cost" of the delta between these two.

Cash-Out – If you are on a flexible cash out contract then you are used to the market risk that you accept should your forward purchase be higher than the spot price against which your product "cashes out". This risk incurs a cost as above based on the delta between these two. If your site closes due to the COVID-19 situation, then this delta is far more pronounced due to the spot market prices being so low as well as the consumption reduction being much more dramatic. If you are unsure which type of contract you are on, then speak to your consultant or energy supplier.

Force Majeure – We have had many customers that have asked if the current situation would incur the Force Majeure clause, thus rending the contract null and void. The consensus on this is that this situation would not invoke this clause, as ultimately the knock-on effect of this would be much wider reaching than energy. Force Majeure clauses appear in virtually every standard agreement so the whole world would theoretically have to rip up all their contracts.

Energy Consumption Analysis

As always, data is king, and that is especially true right now. Consumption data can be made available reasonably easily (depending on your meter type). Once you have the data, there are three key areas to work on, that can be invaluable, especially when the lockdown ends.

1. Baseload Analysis and Alerting – most third-party data collectors and suppliers offer an online reporting system. You can use these systems to assess your site(s) baseload – this is the level of consumption that the site uses when it is vacant, and only basic systems are running to keep the site ticking over, such as refrigerators, essential ventilation systems, servers, alarm systems. Once you have established this baseload, you can then set up alerts against this level. This highlight if there any anomalies with these systems, such as air conditioning running out of hours, lights and other energy demanding systems left on overnight etc. If you are a multisite customer, there can be huge savings achieved through analysis and subsequent measurement against this.

2. Capacity Analysis – As mentioned above, the timeline for Distribution and Transmission charges to be reviewed has been pushed forward to 2022. When this happens, they propose to base the new charging structure on each site's agreed capacity level (set in KVA), agreed between your site(s) and the local distribution network.

   By looking at your electricity bill, you can see what the current KVA level is and using your meters HH data; you can calculate what your site has been demanding in KVA. If there is room to reduce this significantly, it can reduce your monthly electricity costs indefinitely.

3. Site Comparisons – using the baseload methodology you can determine for each site what "normal" looks like and then assess any discrepancies between sites, reducing unnecessary wastage on sites that are over this level.

Compliance/Exemptions and Cost Reduction Schemes

There is a plethora of schemes available to customers, many of which customers are not aware of and can save enormous amounts if you are applicable to claim the relief.

1. EII Exemption/Compensation from RO/CFD and FIT

   This scheme is to relieve highly intensive energy users from the costs of RO (renewables obligation). CFD (contracts for difference) and FIT (feed-in tariff) costs. All these costs are passed onto end-users by the energy suppliers. These cost elements all derive from a desire to incentivise investment in future UK electricity generation. However, there is a severe impact on the end-user.

   The EII exemption scheme is aimed at several energy-intensive industries and the qualification criteria initially based on the industry NACE code. There is then an intensity level test which ensures only businesses that have a high percentage of electricity cost in their product qualify.

2. Exemption from EU ETS and CPS

   This scheme has quite a narrow band of qualifying businesses captured within it and aims at the more traditional and very energy-intensive industries.

   The EU ETS (European Union Emissions Trading Scheme) and CPS schemes aim at creating a fair and level market across the European Union for trading carbon with a view of keeping a cap on carbon emissions across all EU member states.

   As with the RO/CFD scheme above, businesses must pass an intensity level test to ensure full qualification into the scheme.

3. Exemption from CCL Charges

   The cost of CCL (Climate Change Levy) has been increasing since it first appeared on bills in 2001. More recently a significant increase over the next few years was announced, following the cessation of the CRC Energy Efficiency Scheme.

   Industries which carry out mineralogical or metallurgical processes are entitled to 100% exemption from CCL charges on the energy they use in these processes.

   If you are part of a CCL discount scheme through an already established Climate Change Agreement (CCA), then now is an excellent time to ensure you are claiming the correct level of relief. We have seen many instances where the relief % has increased, and this has laid unclaimed for years. Your CCA administrator should be able to advise you on this.

4. Compliance – There are several schemes that you may be unaware, but with which you must comply. The two schemes that cover most large organisations are the Energy Savings Opportunity Scheme (ESOS) and Streamlined Energy and Carbon Reporting scheme (SECR). Compliance with these schemes is a legal obligation for any applicable organisations; therefore, it is a great time to understand if you they apply to your business.

I hope you found this guide useful, and please let me or the team at CUB know if we can be of any assistance in all or any of these matters!