

Overview of Energy Policy and the impact on energy procurement

Louise Shaw

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Changing world of energy procurement

- The general upward trend in energy costs and implementing effective energy efficient measures are going to become key drivers for energy procurement in the future due to;
 - the economic policies being implemented both in the UK and internationally to reduce the impact of climate change and
 - declining natural resources

Carbon Costs

- Carbon costs - the additional cost or value attributed to green house gas emissions made from generating and consuming energy
- Emission trading is the main mechanism used to apportion the carbon cost through the allocation of capped allowances
- Existing EU Emission Trading Scheme:
 - Applies to energy intensive industries and generation
 - Generators in UK short on emission allowances
 - Cost of purchasing additional emission allowances factored into energy prices

Carbon Costs

- New UK Emission Trading Scheme:
 - Possible creation of new mandatory UK Emissions Trading Scheme for large non-energy intensive businesses which will target organisations whose energy consumption is more than 3,000 mWh a year (e.g. large retail and hotel chains as well as government departments and local authorities)
 - Businesses may be required to purchase by auction the basic emissions allowance with the option of selling allowances if reduce emissions or purchasing allowances if exceed emissions allowance
 - The Government is to consult later on in the year on this issue

Energy Efficiency

- Renewed focus on energy efficiency measures to reduce carbon costs:
 - new policy for the provision of competitively priced actual time use meters to customers in the UK (Smart Metering)
 - Govt proposal to require energy suppliers to produce bills showing comparative consumption history for previous billing periods

Renewable Energy

- Policy to increase the amount of renewable generation available
- Climate Change and Sustainable Energy Act:
 - New focus on microgeneration (renewable and CHP)
 - Proposing to amend planning regulations to make it easier to obtain planning permission
 - Potential for businesses to reduce costs by not only reducing demand for energy but also selling surplus energy to suppliers
 - Potential to obtain additional benefits of selling renewable obligation certificates obtained for energy generated from renewable sources

Practical tips on energy procurement

- As an energy buyer you need to:
 - Take control of your energy usage and carry out an energy audit
 - Consider installing smart metering which would provide
 - More accurate bills
 - Reduce costs as no requirement to attend premises to read meter
 - Allows greater ability to manage and understand consumption patterns and therefore implement effective energy efficient measures

Practical tips on energy procurement

- If refurbishing any premises take advantage of the various grants and tax reliefs available for investment in energy efficient equipment
 - e.g. enhanced capital allowance scheme – 100% relief in first year for purchase of equipment included in Energy Technology List: lighting, boilers, refrigeration equipment and automatic meter technology (smart metering)
 - e.g. interest free loan scheme offered by Carbon Trust for purchase of energy efficient equipment for SMES
- Consider sourcing metering services separately from the supplier of your gas and electricity where you are metered on an half hourly basis or daily basis for gas, as independent meter operators may be able to provide more competitively priced services than suppliers

Practical tips on energy procurement

- Become a more sophisticated buyer by monitoring the energy wholesale market to enable you to determine the optimum price and time of your energy purchases through a flexible supply contract rather than the traditional one fixed price contract
- Consider whether you want direct control over your source of energy by installing micro generation at appropriate sites and benefit from reduced energy costs plus the income from the sale of surplus energy

Practical tips on energy procurement

- Consider whether you can take advantage of any of the discounts and reliefs available from the climate change levy charge (tax on supply of fuels used as an energy source e.g. electricity £0.43 per kWh/gas £0.15 per kWh) to reduce your costs e.g.
 - can you source your energy from a renewable source: 100% relief ?
 - are you eligible to enter into a Climate Change Agreement: 80% relief ?
 - Climate Change Agreements are available to energy intensive industries e.g.
aluminium, cement, ceramics, chemicals, paper, steel, foundries, glass, non-ferrous metal and the recently designated horticulture industry

Practical tips on energy procurement

- Consider whether a demand side load management would be suitable under which you would receive financial incentives for load shedding
- If suppliers do not offer what you want push for a bespoke arrangement
- Start your negotiations with supplier early – well before your latest supply contract expires or is due for renewal

Practical tips on energy procurement

- If you are changing supplier and the new supplier is unable to take over your supply at the end of the contract with your existing supplier, you may then be charged more expensive out of contract rates by your existing supplier
- Ensure that any notice of termination to be given to the supplier is given correctly in accordance with the contract, otherwise the contract may be automatically renewed, depending on the contract terms
- Check the extent to which the contract terms impose take or pay obligations and ensure that the terms are clear as to the circumstances when such penalties apply, particularly where you have agreed to load shedding arrangements

Conclusion

- It is essential that customers become pro-active in the changing energy market by managing their own energy risk to mitigate the increasing cost of energy.

Contact



Louise Shaw
Solicitor

Direct: +44 (0)845 415 6923
louise.shaw@bondpearce.com

Bond Pearce