

AIM - ENERGY ACTION GROUP (EAG)

July 2016 – Gas & Electricity Buying Basket



ENERGY ACTION GROUP

July 2016 – Gas & Electricity Buying Basket

Overview

Without doubt, the major factor affecting energy prices over the last 6 months has been the collapse in oil prices. Why does this matter? Gas prices are linked to oil prices and gas tariffs have seen a significant drop when compared with prices from 1 or 2 years ago. Also, given that around 47% of UK power is generated by gas, electricity prices have generally seen reductions, but to a lesser degree. Unlike gas, the actual energy component of electricity only makes up around 65% of the price. Other costs, such as transmission, metering and green taxes make up the rest and they have been increasing.

Opportunity vs Risk

There is a clear opportunity to take advantage of softer prices now. The question is when to sign and for how long? Here are some considerations to bear in mind

If my contract ends in 2017 can I sign now to lock my prices in?

Yes, you can accept a new offer from a supplier starting anytime up to 2018. You can then lock prices in up to April 2021.

If I sign now, how long can I/should I sign for?

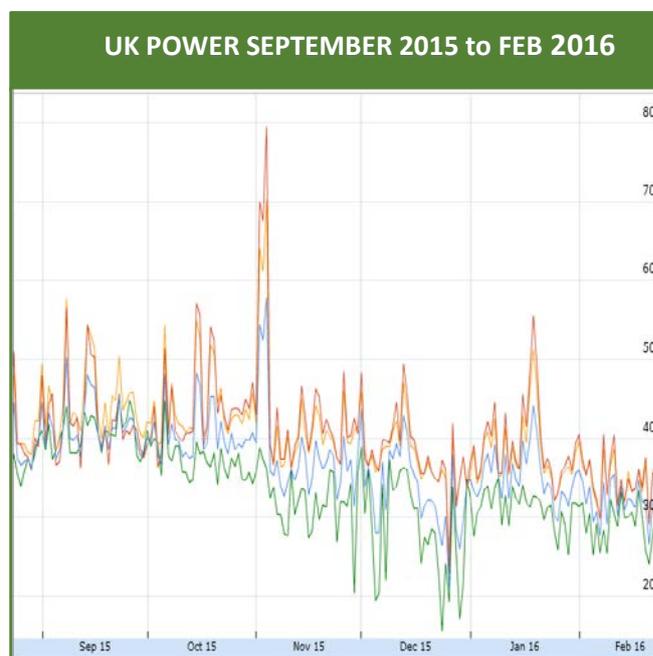
People generally go for a mid-length contract of 2, 3 or 4 years. However, under prevailing market conditions people are choosing to lock for up to 5 years. You would pay slightly more than you would over a shorter term but the longer term means you will have secure, low pricing for an extended period. This may suit organisations that require budget certainty.

Are prices likely to go any lower?

It is hard to read the market going forward. Several large suppliers such as Russia, Saudi Arabia, Iran and Venezuela have agreed production limits on oil and this has started to have an impact with prices edging higher in March. There is also concern that many new supply projects are being shelved/cancelled which could result in the market becoming undersupplied within 18 months. There are also several geopolitical risks, notably in the Middle East, where any increase in tensions can result in the energy market reacting abruptly. Any rebound in the economic situation in China would also cause an immediate upward price movement

Against this, you have the mitigating influence of increased LPG supplies from the USA and Australia, slowing world demand, particularly from China and a view that prices will remain soft for some time.

The charts below show historical gas prices and recent electricity market movements from September 2015. Gas has started to move slightly higher following oil prices whereas electricity is somewhat static but generally lower. Charts on **page 5** relate to the latest price movements which show recent the recent upward trend.



So where does this leave me?

It may be as simple as a 'bird in the hand'. There is no guarantee that prices won't go lower, and there are a number of factors that could cause them to go higher. The best thing to do is to look at your current rates and compare them against new offers.

Our recommendation would be to consider either the 3 or 4 year options or choose longer if you wish to be certain of your costs going forward.

Points to consider

OFGEM has recently withdrawn CCL exemption for renewables.

This means that any green tariff will be higher than normal 'brown tariffs. See here:
<https://www.ofgem.gov.uk/environmental-programmes/climate-change-levy-ccl-exemption>

P272. Ofgem has changed the status of 05 to 08 profile maximum demand meters.

Under P272 most 05 to 08 profile meters will be re-profiled to 00 profile. This means they will record in half hourly increments and will provide detailed consumption data. It is the government's intention to make all meters 'smart' by 2020. The objective is to help organisations better understand their energy consumption profiles which should enable them to reduce their demand. If you think you may be affected by these changes please contact us.

See here for more information:

<https://www.ofgem.gov.uk/environmental-programmes/climate-change-levy-ccl-exemption>

Green Taxes

The government is cutting feed-in-tariff payments and is looking at ways of reducing the 'green tax' burden overall. Whilst this has put a brake on the continued increase of these taxes it hasn't reduced them and around 1.5 pence per kilowatt hour of your electricity tariff will now be attributable to these taxes. Green Taxes will be amalgamated under one charge in future under the Government's new Feed in Tariff Contract for Difference (FiT CfD) scheme. This scheme replaces the Renewables Obligation (RO) as the main government support mechanism for new-build renewable generators.

Energy Efficiency

Cutting your energy costs is great. However, finding ways of reducing your consumption is even better! Have you looked at the latest energy efficiency products on the market? If you would like to discuss these, and renewable energy options please do let us know.

2016 EAG Basket:

Fixed Price – Fixed Term Procurement

Fixed Price – Fixed Term Procurement provides long-term price certainty. It offers straight forward pricing, securing fixed rates over the contract period of up to 5 years. The needs of the vast majority of members of the EAG are best served with this type of contract and predictable budget security can be assured for long periods whilst protecting against energy market volatility.

Benefits of Fixed Procurement

- Price protection - Contract prices are fixed for the contract duration.
- Budget certainty - Budgets can be predicted and therefore managed.
- Security - Provides protection from volatility in the energy market.

As per usual we will be tendering the basket to a wide selection of energy suppliers including 'Big Six' and other smaller suppliers.

However, there is one difference this year. We will be dividing the basket to fit different levels of consumption. The reason for this is that in the case of very large supplies, suppliers are able to offer better prices. This is because the volume versus expenditure to manage an account is more favourable to them. Therefore, by placing large supplies in excess of 500,000 kilowatt hours into a separate basket we should be able to maximise these benefits. This will not negatively impact the smaller supplies as there are already a large number of these with considerable volume, spread across many sites.

Degree of Urgency

Given the current market volatility it is necessary to action the contract process as quickly as possible.

The issuing and acceptance of contracts needs to be carried out promptly before market movements affect the prices on offer.

After reviewing your offers you will need to let us know what length of contract you feel is right for you. If you would like advice, or to discuss these options, please contact us. We are always happy to assist in any way. Once the term is agreed we will deliver them to you for review and signature. **Signed contracts** need returning to the supplier as soon as possible. Once signed, **Contracts** and **Direct Debit** forms should be scanned and returned to **us** immediately please. If you qualify for **VAT exemption** we will supply you with the appropriate forms.

Whilst the Basket offer prices are held at the time of sending, market events can result in suppliers withdrawing current offers and re-pricing before signed contracts are accepted. We will inform you if this occurs.

Many thanks for participating in the Energy Action Group which helps members to administer and cut the cost of their utilities. The group continues to grow and in this buying round we represent a combined member consumption of 58 gigawatts of energy. Together we are strong. If you have any questions please get in touch, we are happy to help.

UK GAS PRICES 28th Jan to 3rd March 2016



UK POWER 28 Jan to 3rd March 2016

