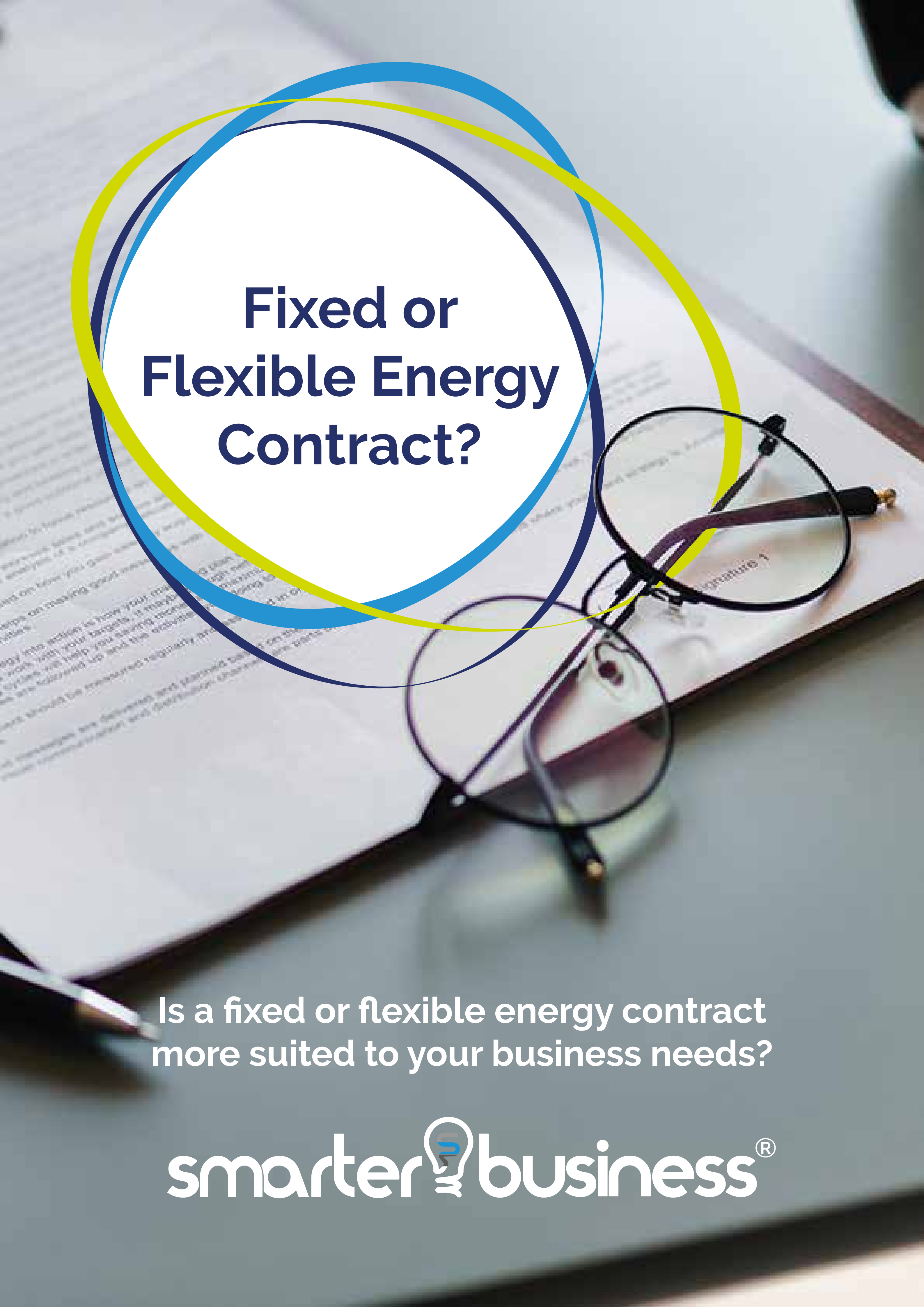

Fixed or Flexible Energy Contract?

Is a fixed or flexible energy contract more suited to your business needs?

smarter business®

What's the difference between a fixed energy contract and a flexible energy contract?

Fixed procurement contract

- Set price for gas and electricity.
- The quoted unit prices remain fixed for the duration of the contract.

Flexible procurement contract

- Wholesale energy is purchased in smaller sets throughout the length of the contracts.
- You can choose when to buy your energy, and in what quantities.
- Energy prices thus fluctuate over the length of the contract.

The pros and cons of fixed or flexible contracts

Fixed Contracts

Pros

- A fixed price throughout the contract terms means budget certainty.
- Accurately forecast budgets and effectively manage cost.

Cons

- If you lock into your fixed energy contract when wholesale energy prices are high, you'll be stuck with uncompetitive energy prices for the duration of your contract.
- Your competitors may have fixed their energy prices at a better time, giving them a competitive advantage.
- Because suppliers face risks associated with your fixed contract (credit risk, changes in wholesale energy prices etc.), they add a premium to your prices. Generally speaking, the longer the contract, the higher the premiums.
- This strategy only holds value in a market in which prices are steadily increasing.

Which came first - fixed or flexible energy contracts?

A fixed energy contract is the more traditional way to purchase energy.

Flexible Contracts

Pros

- Take advantage of the wholesale market ups and downs, with the aim of buying energy during price dips.
- Spread the risk of purchasing energy to multiple purchasing points.
- The ability to align the energy procurement strategy to the movements in the wholesale market instead of fighting against them.
- Since you'll be purchasing energy closer to the date of use, you'll reduce the risk premiums charged by the energy supplier.
- Reduce the price you pay with a flexible product which can 'pass through' non-energy charges.
- Non-energy charges are clearly itemised on bills, allowing for clearer visibility of what is being charged.
- Easier comparison of non-energy costs for contract renegotiation purposes.
- Allow for more functionality than fixed contracts.

Cons

- A riskier contract option due to the volatility of the energy market.

Which organisations qualify for flexible energy procurement?

Organisations that use **over 7 million kilowatt hours (kWh)** of energy are able to benefit from flexible energy contracts. This volume threshold has decreased dramatically in the last few years.

Smaller companies that use **less than 7 million kilowatt hours (kWh)** of energy can also benefit from a flexible contract option if they look at flexible collective products.

The impact of 'pass-through' charges on fixed contracts

Most fixed contracts allow for the non-energy elements of the deal to be 'passed through' to the customer if these elements exceed the supplier's original expectations. This means that fixed price energy contract customers can still see increases in energy prices during the contract term.

Examples of non-commodity costs are green levies and transport costs. Increases in these costs can be passed onto the consumer unless otherwise stipulated in the supply contract. Because the energy supplier can't predict the changes in non-commodity costs, longer-term supply contracts tend to carry heavier risk-premium as suppliers protect their profit margins.

Still have questions?

Call one of our energy consultants on:

01444 220060

to identify the best-suited contract type for your business' needs.

What factors influence energy market prices?

Demand

Demand for light, cooling and heating corresponds with a variety of economic, technological, and efficiency measures.

Supply

Energy from coal, nuclear, gas, oil, and renewable sources reacts quickly in response to the available supply.

Storage

The difference between supply and demand.

Weather

Actual weather events, as well as weather forecasts, affect market prices.

Generation changes

Changes to energy-generating facilities.

Imports and exports

The transfer of energy across borders and the political interactions involved.

Global markets

Major changes in global supplies can affect the UK's domestic energy costs.

Government regulations

New or changes regulations can impact supply and demand costs significantly.

Fixed or flexible: where to start?

1

2

3

1. Understand your consumption volume

2. Research the different products available

3. Define your organisation's strategic priorities

- Budget certainty
- Importance of avoiding competitive disadvantage
- Risk attitude

Expert energy procurement made easy

Choosing between a fixed are flexible contract depends on your business' consumption patterns, specific needs and procurement objectives.

If you're still unsure of the best type of energy contract for your business, it may be helpful for you to engage the services of an expert energy consultancy.

If you choose to go with a flexible energy contract, your broker will be able to help you manage your energy price risk.

Your energy consultant can:

- Constantly watch the market and help you identify the best times to buy.
- Develop a purchasing strategy in line with your risk appetite.
- Access reliable market information and monitor market prices in real-time.
- Access the most competitive wholesale market prices.
- Provide a bespoke procurement product to suit your needs.

Contact an energy consultant at Smarter Business today for expert advice - at no charge to you!

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