

Energy Flex™

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Don't Fixate on a Fixed Price Contract

The Advantages of Flexible Procurement

Do you have the most suitable energy contract for your organisation?



Non Basket Approach

Allows organisations to agree a price for their electricity and gas on a single market and this remains fixed for a duration of their contract (1,2,3 years). A 1:255 chance to achieve optimal pricing.



Basket Approach

Being part of a high volume product means that the ability to spread buying decisions over a period of time increases the chances of gaining access to optimal pricing.

Find out more about the benefits of Flexible Energy Procurement





The Potential Drawbacks of Fixed Procurement

Historically, fixed energy procurement is the more traditional approach to energy purchasing. The main advantage is that the energy price is fixed for the contract term, providing budget certainty.

Despite providing a more cautious approach to energy purchasing, fixed procurement can have some disadvantages:



1. Timing

If you lock into your next fixed energy contract on a single market day, you lose the opportunity to gain access to improved wholesale pricing further down the line.



2. Risk premiums

Suppliers face risks associated with your supply contract in terms of volume variations, credit risk, and especially non-energy charges, such as transportation charges and green taxes.

To cover this risk they add a premium to your prices, which usually increases with the length of your contract. These risk premiums are significantly reduced through a more transparent method of buying energy.



3. Are all elements fixed?

Do not assume that all costs are fixed under a fixed contract.

Most suppliers' standard terms stipulate in their T&Cs that they can 'pass through' any increases in non-energy costs, such as transportation charges or green levies, to customers during their contract.

In the 3-year energy basket, non-energy costs can be fixed 100% on an annual basis, and reset just before the anniversary of the contract. Alternatively, they can be fixed 100% for the 3-year period. You have the choice of which option you would prefer and we can provide guidance to aid you in your decision.



Is Buying Flexibly and in a basket an Option for my Organisation?

- ✓ Your organisation does not have to be spending millions on energy to be able to access flexible purchasing.
- ✓ The volume thresholds have substantially reduced over the last few years.
- ✓ Flexible procurement is available to organisations using over 5 million kWh (5 GWh) of energy.
- ✓ Organisations using less than or up to 5 million kWh can join baskets to combine their consumption with other client groups so the overall consumption is large enough to access the considerable benefits of the flexible approaches, so size is no longer a constraint and the ability to buy in small phases over a period of time is available. Catalyst also invite customers who consume 5-7 million kWh if an aggregated approach is desirable.
- ✓ Flexible procurement does not have to be complex; companies can buy 'with a fixed mentality' e.g. buying energy once a year but doing so within a flexible framework. This gives the ability to change the buying point if the market increases or decreases, offers slightly lower premiums, access to additional product benefits, and a consultant constantly watching the market, using comprehensive forecasts and technical analysis and not just speculating.
- ✓ Whilst flexible procurement is not for organisations who demand 100% budget certainty, it does allow risk to be capped with parameters in the purchasing strategy to protect budgets and minimise any possible overrun.

The Benefits of Flexible Procurement

Flexible procurement is an alternative way to purchase energy that allows organisations to take advantage of the ups and downs of the wholesale market. It involves tracking the wholesale market and purchasing smaller chunks of energy throughout the length of a contract. The aim is to buy during price dips and avoid purchasing during price spikes or when adverse market events are shorter term.

- ✓ Direct access to the Catalyst energy command desk, and in depth market insight and access to a high volume product for low-volume users.
- ✓ No cross subsidy of non-commodity costs - for example, distribution and transmission costs.
- ✓ Half-hourly and non-hourly meters under one single contract.
- ✓ 36-Month framework, which means that wholesale energy price risk can be effectively managed further ahead and removes the need to tender annually.
- ✓ Flexibility for site additions, and removals, with the ability to add sites and harmonise energy contracts.
- ✓ Ability to exit the basket arrangement and place a fixed price with the supplier should this approach to buying energy not suit during the term of the contract - win/win.
- ✓ Simplified and easy to follow position reports and performance reports at a frequency that suits
- ✓ Long-term energy price risk can be swiftly managed.

Wholesale Energy Market Movements Become Advantageous

Flexible buying avoids the main drawback of fixed procurement; it removes the need to buy all your energy on one day, which may subsequently turn out to be uncompetitive.

This allows your organisation to spread the risk of purchasing, from one to multiple purchasing points, dramatically improving the chances of achieving improved energy purchase prices.

Ultimately, organisations become empowered to avoid buying large volumes at market highs – aligning their procurement strategy to the movements in the wholesale market and not fighting against them.

- Unlike a fixed price contract, the price of the commodity element is left to float along with the corresponding volume and a reference commodity price is assumed at this stage.
- **Option 1:** The non-commodity is fixed on a basis that suits (for Years 1 2 and/or 3) and the energy supplier will produce billing rates (Reference commodity price + non-commodity). The commodity reference price is then adjusted to take into account the difference between what was assumed in the billing rates and the actual achieved purchase price secured by our risk managers.
- **Option 2:** The non-commodity is fixed on a basis that suits (for Years 1 2 and/or 3) and the energy supplier will produce billing rates (non-commodity only). In this arrangement, there is no adjustment on the energy bill and the supplier will invoice by adding the actual achieved commodity price to the non-commodity rates.
- Gas accounts will not see any adjustments as the gas supplier will invoice at the achieved purchase price and a reference commodity price is not assumed for this utility.

Example

The mechanics and price advantage of flexible purchasing are illustrated using historic wholesale market price data from 2015.

1. Sign a fixed price contract for 4MW in February 2015 for an April 15 start date (12-month contract) at £47.45/MWh.
2. Sign for a basket alternative and purchase:

➤ April 2015	1MW at	£41.80/MWh (Quarter)
➤ July 2015	1MW at	£40.75/MWh (Quarter)
➤ October 2015	1MW at	£42.29/MWh (Quarter)
➤ January 2016	1MW at	£39.55/MWh (Quarter)
➤ Average		£41.10/MWh (13.38% Saving)





Risk premiums reduced

Flexible procurement allows you to purchase energy closer to the date of use, reducing the risk premium you pay with fixed contracts. It can be substantially reduced if you have a flexible product which can 'pass through' non-energy charges.

Fixed, transparent 'pass-through' charges

In the past a key benefit of fixed contracts was, as the name suggests, the certainty of one fixed price for the contract duration. However, as mentioned above, most fixed contracts allow the non-energy element of the price to be 'passed through' to the customer if those elements exceed the supplier's original expectations, so customers often see increases in their energy 'tariffs' during their contracts. With a flexible procurement contract, these non-energy charges can be fixed annually or for the 3-year period, and clearly itemised on the contract. This not only allows clearer visibility of what is being charged, but also allows you to compare each supplier's non-energy costs when it comes to contract renegotiation time.

A long-term energy strategy

When setting up a flexible procurement framework, a 2 to 3-year energy strategy will often be devised. This will take a long-term view of the energy market and allow your organisation to do the same, assisting with long-term energy budgeting and forecasting.

Your energy strategy will also consider your organisation's objectives, such as budget or cost savings, and all purchasing decisions can then be made based on this plan. Unlike traditional fixed price decisions where you are buying to a calendar date of renewal, you can instead take a strategic view of your purchasing decisions.

The next steps

1. Join our April 2017 or October 2017 energy basket today. If your contract renewal falls outside these dates, Catalyst can arrange a short term (bridge contract) with the basket supplier so your renewal date coincides with one of the entry points.
2. Catalyst submits participating client energy supply details to the supplier.
3. The flexible supplier will carry out a credit check and your organisation will only qualify to be part of the basket if the supplier passes credit checks.
4. The supplier will calculate contract prices and carry out the internal setup.
5. The supplier will produce contracts for each participating flexible client.
6. Catalyst will distribute contracts accordingly to arrange acceptance and signatures.
7. Your portfolio is then will be aggregated to the basket and phased purchasing will commence based on market conditions at the prevailing time.