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Your guide to fixed and flexible contracts

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What is the difference between Fixed and Flexible Energy Procurement?

The clue is in the name here, with ‘Fixed’ and ‘Flexible’ referring to how you purchase units of energy.

Fixed Procurement:

- Allows you to purchase all your energy for the contract term at one set price which will carry the length of term.

Flexible Procurement:

- Lets you buy energy in smaller chunks throughout the length of the contract giving you the ability to choose how much and when you buy your energy.

The pros and cons of 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.
- 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.
- 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.

The pros and cons of 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 5 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 5 million kilowatt hours (kWh) of energy can also benefit from a flexible contract option if they look at flexible collective products.

- **You need experts** – it takes a lot of skill and understanding of the industry in order to successfully trade energy, if you haven't got this knowledge in house then an energy management consultancy can help you. It's important to have the right people with the relevant skills working on your account.

- Our expert energy trading and risk management team can help your company to reduce the cost of your energy by taking advantage of market trends using advanced software, in-depth analysis and years of experience.

- We work carefully with you to meet your exact requirements, finding a supplier that perfectly matches your needs and choosing energy procurement strategies that meet your appetite for risk.

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.

What is the cost to my business?

- We would propose to recover an indirect charge from the supplier of 1-2% of the contract value (depending on size).
- However, our service can save circa 10% on your energy spend (without taking into consideration any savings through bill validation).

Do I tell you when to buy my energy?

- No. We realise that you don’t have time to monitor the market and hence we fully manage the purchasing decisions during the contract and we take responsibility for delivering you a price that beats the market each year.
- We keep you informed every step of the way through monthly trading and invoice validation reports

Looking to maximise your energy advantage?

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- We work carefully with you to meet your exact requirements, finding a supplier that perfectly matches your needs and choosing energy procurement strategies that meet your appetite for risk.

- If you're ready for a personal, simple approach to business energy then contact our team on 01372 365729 or e-mail info@utilityworksgroup.com

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