A Guide to... Managing Your Electricity Supply Charges & Supply Agreement

This guide has been developed to raise awareness of the various pit-falls and opportunities associated with the billing process. When read in conjunction with the EMA guide to pass-through charges, this guide details how some supplier issues can be managed better by an Energy Manager to reduce costs.

Firstly, it is important to understand the role of your supplier and how their motives and responsibilities may impact your monthly charges. Unofficially some suppliers will acknowledge that they are reliant on the consumers to identify billing errors and act appropriately. However, it should also be noted that the array of sector working practices, regulated by *Ofgem*, are weighted in favour of the suppliers rather than the end consumer.

It will be of no surprise, therefore, that this cost (like so many others in our day-to-day business) is a cost that has to managed and verified. Unfortunately the complexities surrounding billing, coupled with current day credit terms demanded by the sector, means that many billing irregularities are often paid for in monthly billing and then recovered later. That is, if they are identified at all. In saying that, your supplier will carry out a re-evaluation on the occasions when their internal processes identify the need, for example, when estimated consumption data has been used.

Your supplier is simply an administrator for the collection of charges from 3 parties. They act as a as a coordinator of information received about the use of energy on your premises. As such it carries little or no direct responsibility for your supply but should take up issues on your behalf.

These 3rd party charges represent:

1. **The Energy Cost –** The actual commodity purchased is a rapidly reducing proportion of your total bill. It currently makes up 75% of charges for very large consumers, approximately 55% for medium sized users and even less for the smaller ones.

2. **Non Energy Costs –** These are costs associated with your energy supply and will include National Grid, Network Distribution Operators, meteroperators, data collectors/data aggregators, supplier margins and of course the Climate Change Levy, feed in tariff and renewable obligation subsidy payments.

It is important that the mechanisms behind these non-energy costs are understood (for further information see the EMA Guide to pass through charges). While some are KWh consumption based, others have a load and time of use related elements that can be used to your advantage.

Meter operators and data collectors/aggregators often hold the key to accurate billing. They are the start of the billing process and data is distributed to a number of parties for billing by your supplier. You can appoint your own MOP/DA/DC independent of your supplier. This may offer additional benefits including web based consumption reporting. (You will be paying for this service independently so ensure that your supplier does not charge you additional meter reading charges).

Excluding any value added benefits (e.g. smart metering, T&C's etc.), the only real negotiating tool left in the box for a supplier is its margin. To ascertain this, you should demand to see any charging structure so you can identify the individual pass-through elements.

As Energy Managers, we have to put work into our supply portfolio to ensure that information is correct and that suppliers invoice us on that basis. If anything appears incorrect, we must challenge it. The requirement and responsibility should be on the supplier to bill correctly in the first instance. But in the real world, we must acknowledge that all our suppliers must be managed, and utilities are no different. This is especially true when there are a number of regulations behind them to support their methods.

Billing practices between suppliers will differ. Once you've aligned any individual supplier with your own internal processes, it could be a requirement to go through the whole process again if you wish to switch.

Be aware of, and understand, the small print. Many supply agreements will build in a take-or-pay clause which utilises a consumption floor and cap. For example, it might be the case that it you consume less than 90% of your forecast volume you will still have to pay for it, whether you used it or not. Conversely, if you consume more that 110% of forecast volume you might be charged current price for anything beyond that. In this case, the forecast is your responsibility and not the suppliers.

Suppliers are permitted through regulation to charge using estimated data. These estimates appear to materialise from the data collector and would be based on historic consumption alone. So if you've changed your use, vacated a property and are not half-hourly metered, tell your supplier and follow it up. If you're half-hourly metered and identify a metering fault, report it to your supplier *immediately*.

It can be argued that once you have appointed the supplier with the lowest margin you can find and a product that works with your consumption profile, the process of switching on contract renewal becomes a time-consuming and pointless exercise. You will have put in a lot of time and effort over the last few months continuously seeking to improve something which you feel should be taken care of by your supplier.

It may be worth considering your supplier as a strategic partner rather than just a supplier and let them know it. Repeat business is valuable to them and in this way relationships can be developed whilst your site portfolio and consumption profile becomes better understood. Get to know your Account Manager and ask what else they have to offer; discuss issues and how they can be resolved, in the long-run as well as the short-run. Most of all, you need to know your subject well so you can discuss openly on a similar level and they will acknowledge this.

Most importantly, if appropriate, convince your Procurement Director that simply scratching around for a few pounds every year is not necessarily the best value.

Those out there who use brokering services to procure their supply agreements may find themselves severely disadvantaged. Firstly, you are unable to develop a direct relationship with your supplier which limits your ability to take advantage of the benefits which may exist. Secondly, despite what you may have been told, nobody does anything for free.

Tenants under a landlord supply agreement are another group of end users that historically may have been significantly disadvantaged. Through the nature of their forced supply terms they may find themselves exposed to significantly higher prices without having the flexibility to reduce costs through energy efficiency measures and load management. Since the 3rd Party Access legislation came into effect on November 2011, certain consumers who are connected to private networks have had the right to choose their own supplier. More information on this is available from Ofgem's Guidance on 3rd Party Access charges for licence exempt gas and electricity distribution networks.