



# Energy Buying

The Ultimate Guide

## What you'll gain from this guide

Welcome to our ultimate guide to energy buying!  
This easy-to-use document will help you to:

01

Understand which product best suits your company's appetite for risk

02

Identify your current energy buying capability and expertise

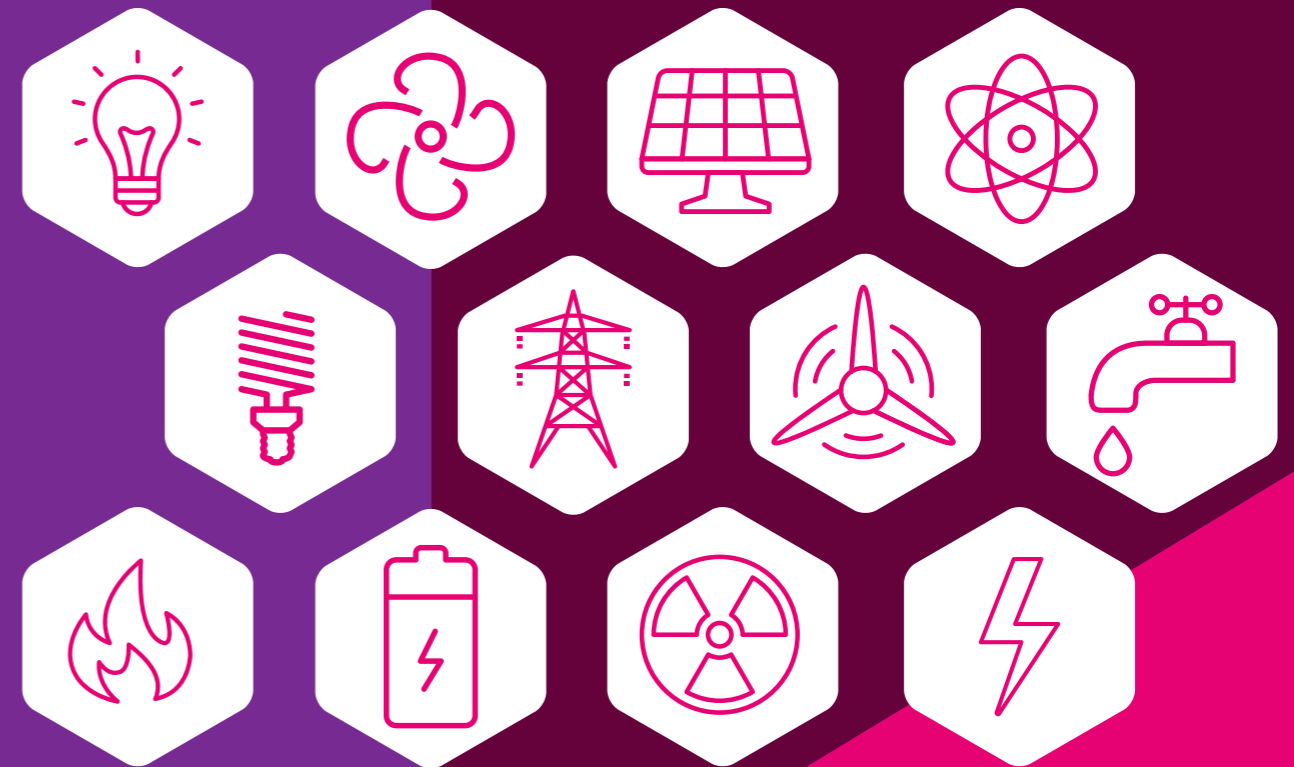
03

Engage in an informed conversation with a supplier or consultant

## Welcome to the world of energy buying - it's a rollercoaster ride, so hold on tight!

The world of energy is a complex one and with so many changes taking place it can be difficult for any business to stay on top of what it means for them. If you're new to energy or reviewing your buying product options then this guide is a good place to start. Energy buying needn't be overly complicated and we're here to help you navigate your way through business energy buying products.

## Let's get started!



## Let's start from the beginning...

So what do we mean by energy buying products and where are we buying them from?

Before we delve into the different types of contracts, it's important to first take a step back and briefly run through how energy buying fits into the bigger energy picture as this will help you to understand where the charges on your bill come from.

The energy market can be broken up into four simple segments that all knit together, so let's start at the beginning - where it comes from:

### 1. Generation

There are four main sources of energy generation: Fossil fuels (e.g oil and coal), gas, nuclear and renewables (such as solar and wind).

### 2. Distribution

This is the system that gets the energy to wherever it needs to be. Gas uses the 'Gas Distribution Network' and power uses both the transmission system and a distribution network. Both are run by National Grid, supported by regional District Network Operators.

### 3. Energy buying

#### *The wholesale market*

Energy is sold and purchased (traded) on the wholesale market. Different companies can trade both gas and power on the wholesale market and can then supply it to you to meet your forecast demand.

The wholesale market is volatile, with factors such as weather, supply, demand and global events driving prices.

#### *Business routes to market*

In the domestic market, householders typically buy directly from energy suppliers (over 90% is supplied by the big six: British Gas, npower, EDF, SSE, Scottish Power and Eon). In the business space there is much more competition and therefore more choice.

Businesses can either buy their energy directly from a supplier or through a consultant, often called broker. There are some subtle differences between these definitions: a broker is often more transactional and price-led whereas a consultant is more collaborative and adds value by working in partnership with businesses. Consultants have the time and proficiency to negotiate with suppliers on behalf of a business and can provide additional expertise to reduce energy costs and consumption.

Buy as often or as little as you like.

Energy can be bought yearly, monthly, daily or even half-hourly on the energy market and businesses have to choose the right strategy to suit their appetite for risk.

### 4. Policy & Regulation

These are the rules and directives that govern the energy market. Policies are set by the Government, which determines the UK's energy strategy and is driven by a desire for a low-carbon, secure UK energy system. The independent regulator Ofgem ensures that the market is working and that rules are being followed.



## Your bill: commodity vs. non-commodity costs

- Today around 50% of the bill is your cost of supply (your cost for gas and/or power) – this is called the commodity cost
- The remaining 50% is made up of network and distribution charges from the Distribution component, as well as taxes and levies from the policy and regulation component – this is called the non-commodity cost

Remember, the commodity element only makes up around 50% of your bill!

## Choices, choices, choices

Until recently, energy buying solutions would only allow businesses to manage the commodity of the bill, with the non-commodity part passed through at cost. Now suppliers and consultants offer a range of solutions that allow businesses to take control over the risk of both parts.



## A focus on energy buying: the commodity part

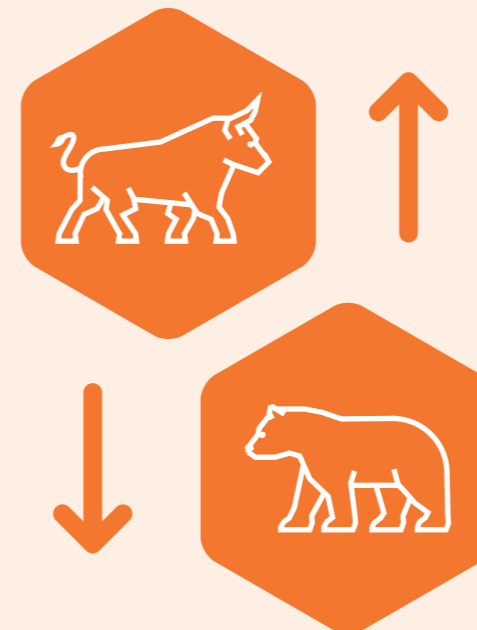
It's risky business isn't it?

Let's take a closer look at the commodity costs and the energy buying options available to businesses.

There's a lot of trading jargon out there, so let's break it down.

### There are two types of markets that resemble animals:

- A bullish market: means prices are trending upwards
- A bearish market: means prices are trending downwards



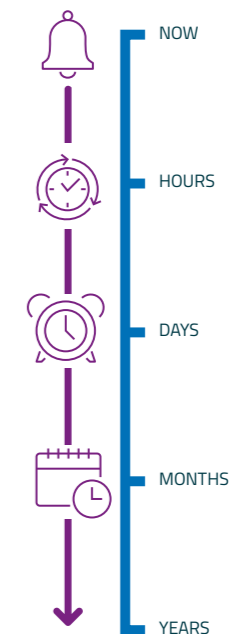
## People can choose to buy at varying times.

**The Prompt market: this is the immediate market – buying at a price for now**

- **The Spot market:** this is for hours ahead - buying at a price for a spot within the day
- **Day ahead:** buying at a price for the day or days ahead
- **The Near curve:** this is buying at a price today for delivery within the next 2-3 months
- **The Far curve:** this is buying at a price today for delivery in the year or even years ahead.

## Risky business?

How far in advance a business buys always depends on their own desire and appetite for price risk – there's no right or wrong choice, just what's right for your business.





## Fixed Flexible

### Keeping it simple: Two different energy buying products

Putting all of the fancy product names to one side (and there are many!), there are fundamentally two different product choices a business can make when it comes to energy commodity and non-commodity: Fixed or Flexible.

#### Top tip:

If fixing your non-commodity costs, then make sure fixed means fixed for your contract duration and that all charges are included.



#### Non-commodity options at a glance:

	Fixed	Pass through
<b>Summary</b>	A fixed non-commodity cost.	A pass-through non-commodity cost.
<b>Benefits</b>	Enjoy budgetary certainty on non-commodity costs from Contracts for Difference and Capacity Mechanism costs.	Pay an 'at cost' rate for your non-commodity billing elements with no risk.
<b>Risk considerations</b>	Fixed non-commodity cost contracts will have a risk premium, meaning you may end up paying more than cost.	By paying at cost rates you may run the risk of paying more than fixed, however by keeping a close eye on non-commodity costs through consultant insight reports you can manage this risk.

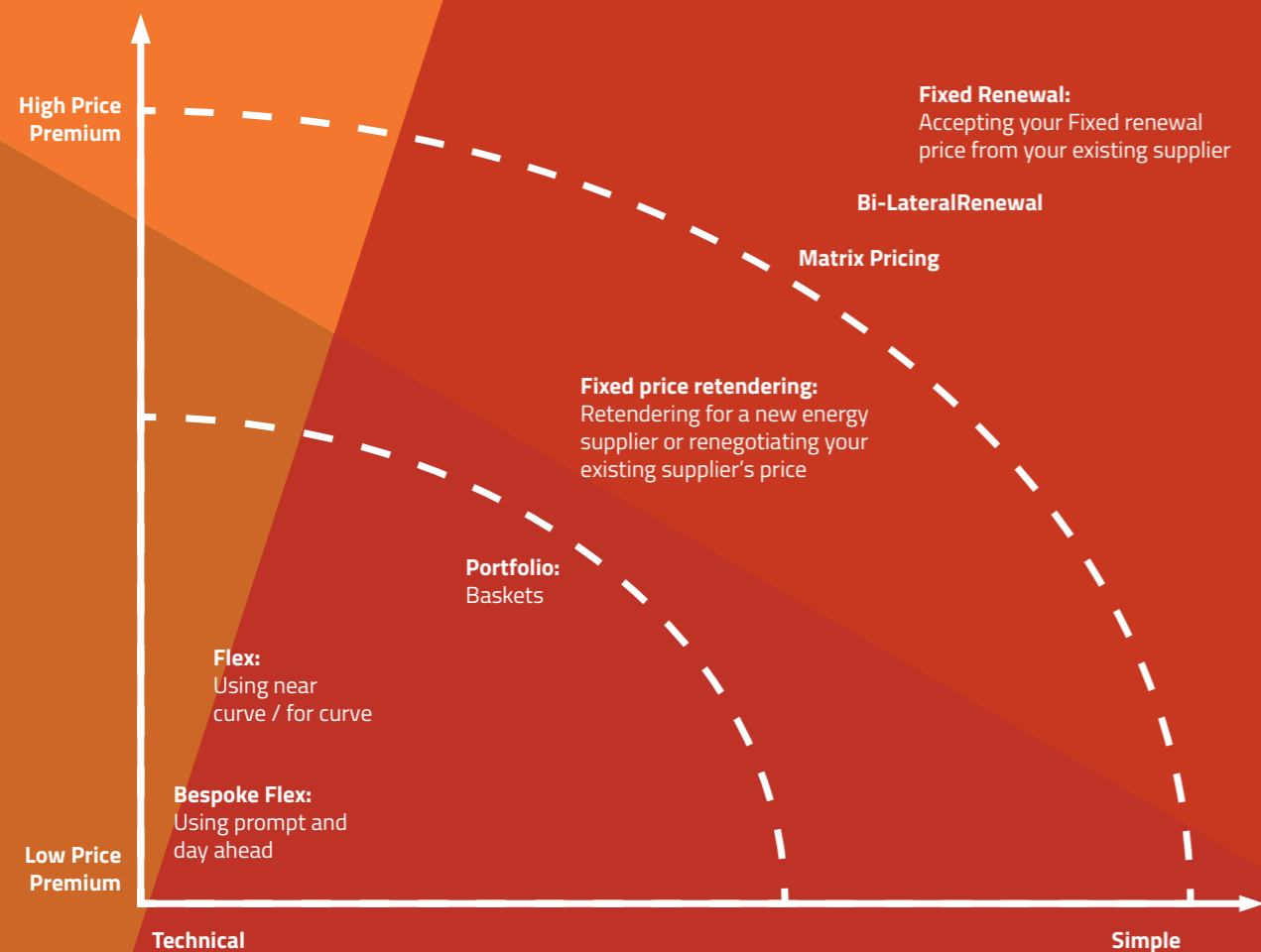


#### Commodity buying products at a glance:

	Fixed	Flexible
<b>Summary</b>	A fixed commodity cost.	A flexible commodity cost.
<b>Buying decisions</b>	One price decision at a single point in time covers the whole commodity part of your bill.	Multiple market-reflective buying decisions during the contract duration; from the prompt to the far curve, the choice is yours.  Buying authority can be given to a consultant to manage on your behalf.
<b>Benefits</b>	Budget certainty for commodity costs for your contract duration – you know what you'll be paying for the energy you use.	Paying market-reflective prices for your commodity costs, meaning you can take advantage of bearish markets (prices trending downwards).
<b>Who does this product suit?</b>	Fixed price options are a simple and straightforward choice, typically chosen by smaller businesses or businesses who are time-poor, desire budget certainty, don't have in-house energy expertise or use a consultant.	Flexible buying solutions are regularly used by medium- and large-sized businesses who may have more market expertise or in-house resource, or those who outsource their energy buying to a consultant.  Where a business is too small or doesn't have the time or capability to buy flexibly on their own, consultants often offer group products that pool several smaller businesses together into a buying contract, allowing them to access market-reflective prices. These are often called 'basket' or 'portfolio products'.
<b>Risk considerations</b>	Fixed contracts will have a higher risk premium than flexible prices, meaning you may pay more than cost for your energy.  Fixing at one point in time means you may be fixing when the market is high and you will be stuck with the decision for your contract duration.	By making multiple purchase price decision choices during your contract you may run the risk of buying in a bullish (rising) market and therefore paying more, however running a price risk management strategy with parameters around prices will help you to mitigate this risk.

## The cost of convenience

To help you to further understand all of the energy products we've covered in this guide, we've created an at-a-glance chart for you to highlight the cost of convenience.



## Consultants vs. Direct

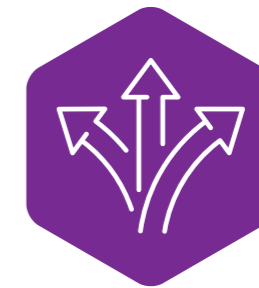
As highlighted in the chart to the left, time, capability, resource and expertise are key factors when considering your energy buying product as well as your route to energy buying - whether you use a consultant or whether you go directly to a supplier. The details below will give you an overview of the benefits of using a consultant:



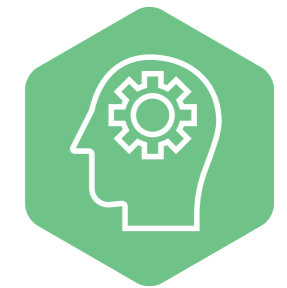
**Expertise on tap**  
Instant access to a range of experts in everything from energy buying to energy compliance.



**Independent market access**  
Energy consultants are independent and not tied to any particular supplier. This helps them to negotiate on your behalf.



**More product choice**  
Products such as portfolio solutions (see above) and mixed energy buying strategies (e.g split across fixed and flexible) are only available from consultants, so customers using consultants have more product choice.



**Capability**  
Buying energy flexibly often means multiple buying decisions are needed; staying on top of the energy market and managing a risk management strategy can be time-consuming. A consultant will monitor and manage all of this for you in line with an agreed budget and pre-agreed risk management strategy.

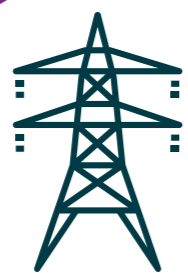
## Conclusion: Top three takeaways

Hopefully you now feel more confident in all things energy buying and be able to identify which product best suits your company's appetite for risk, current capability and expertise.

### Our top three takeaways:

#### Fixed Flexible

Don't let product names bamboozle you! There are essentially two energy buying products to choose from: Fixed or Flexible. While consultants and suppliers will have their own slight variation, these two simple buying strategies will be at the core of each.



Don't overlook your non-commodity charges! Make sure you prompt this question with your consultant (or supplier if you choose to go direct). These costs now make up 50% of your bill, so you need to know whether you want to fix these or leave as pass through at cost.



Remember, your product choice will not be driven by your business type! Whether you are a retailer, a university or a manufacturer, every industry has access to the same products. What actually determines your product choice will be your business's appetite for risk, in-house capability and time, and whether you have access to a consultant or not.

## About the author, Inenco

At Inenco, we know that a well-managed energy budget can make a big difference to a company's overhead costs. We provide our clients with award-winning solutions that achieve cost savings through effective energy buying and managing their non-commodity costs intelligently. We work with businesses of varying sizes and sectors across the whole of the UK. Here are a few examples of the value that our clients feel their relationship with Inenco has brought to their organisation:

"Inenco have performed well for us over the past four years and the savings made have helped us maintain our competitive advantage"

– **Managing Director, Aldi UK**

"Inenco has provided market expertise and helped us to stabilise our – and our tenants' – energy costs as far as possible in the volatile market conditions"

– **Purchasing Manager, housing21**

"I am very happy with the services that Inenco have provided over the years, they've proved to be an excellent one-stop-shop partner for our energy needs and I look forward to continuing to work with them and strengthening our relationship"

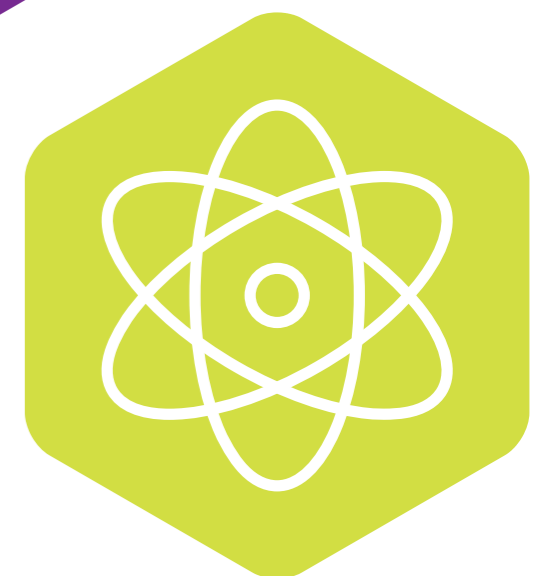
– **Procurement Manager, Zoological Society of London**

## Our energy buying products:

Product	Summary	Features
<b>Fixed</b>	A fixed price contract whereby each unit of energy is purchased at one price throughout the duration of the contract.	<ul style="list-style-type: none"><li>▪ Total budget control</li><li>▪ Peace of mind – no unexpected cost increases</li></ul>
<b>STAR</b>	With our Secure, Track and Reward option businesses can agree an upper limit for their energy costs for a two to three-year period.	<ul style="list-style-type: none"><li>▪ Unlike fixed contracts, businesses can still benefit from lower costs when the market drops</li><li>▪ Retain budget control with the price cap</li></ul>
<b>Options</b>	Businesses with smaller consumption levels are grouped and traded together so that they can access the full range of technical market products.	<ul style="list-style-type: none"><li>▪ Businesses can choose a preferred buying strategy to suit their needs</li><li>▪ Businesses with smaller volumes can access the benefits of flexible purchasing</li><li>▪ Low price premium</li></ul>
<b>Flexible</b>	This contract enables businesses to purchase their required energy in real time, with Inenco's procurement team executing trades on customers' behalf.	<ul style="list-style-type: none"><li>▪ Businesses can take full advantage of market lows and ensure a fully market reflective price throughout the contract period.</li><li>▪ Lowest price premium</li></ul>

Now that you're in-the-know when it comes to energy buying, it's time to get in touch with Inenco and start accessing the benefits that using a consultant brings!

**Our team of experts are here to guide you –**  
just call 08451 46 36 26 or visit [www.inenco.com](http://www.inenco.com)





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