

Procurement FAQs

What is Energy Procurement?

Electricity and Gas are traded commodities, just like crude oil, gold or wheat. Prices fluctuate within-day, driven by various factors known as fundamentals, such as weather patterns, physical supply or geopolitical events. E2 Services Ltd is a Third Party intermediary (TPI), operating as a conduit between energy supplier and end user, tracking the subtle movements and trends in markets to optimise the time for fixing in a contract.

Why choose E2 for Procurement?

E2 Services has been operating in the TPI sector for over 10 years and energy procurement is a key component of our business offering. Whilst some TPIs concentrate solely on procurement, E2 adopts a more holistic approach, aligning with reduction projects and controls to provide **Total Energy Management** <http://www.e2-services.co.uk/approach/>, a one-stop shop for energy savings.

What type of contract is available to my business?

Depending on the size of the business, there are three main types of energy contract: fixed; flexible; and variable.

- Fixed price contracts are the most common, where energy prices are agreed for a specific contract duration. The advantage with Fixed is that it provides budget security with known rates. The main disadvantage is that should the wholesale market fall, then this cannot be exploited.
- Flexible contracts tend to fix in some or all of the **non-commodity costs** (specified below) but allows the wholesale element to be locked in at different stages either before the contract start date or during the course of the contract term. Flexible contracts have the advantage of unlocking savings in a declining wholesale market in a way that fixed cannot. However, they do not give the same budget security and can be more risky than a fixed option, should the market rise.
- Variable contracts are like flexible, but they fully track the market, so are subject to peaks and troughs. The rewards of a falling wholesale price are obvious, but are potentially countered by the penalty of a cost spike.

As with dealing in any financial market, there are different products available dependent on your risk-reward strategy.

Which suppliers do you use?

We deal with a large range of suppliers, from the well known 'big six' to specialists in certain markets, such as uniquely gas or green electricity.

How long is the duration of an energy contract?

Energy contracts can be anything from 3 months to 48 months and more. The duration depends on individual business strategy. A 12 month contract is usually preferred but this can vary dramatically due to market conditions. For clients with multiple sites and supply points, we usually recommend working to a coterminous, achieved by having all contracts priced to a common end date. This ensures that on renewal, all supplies can be tendered together, thus providing volume-weighted savings and also improved administration by minimising client decision points throughout the year.

How can E2 get started on looking into contract options?

You can assist our initial contract search by providing existing contract details - a copy of a recent invoice should give us the basic information required. We will then ask you to provide a letter of authority (**LOA**) – the LOA frees up the data protection constraints of suppliers, allowing them to discuss your current contract position and also to provide data that may be required to generate a tender.

We will then provide the current supplier with a **Letter of Termination (LOT)** that will ensure a supply can switch if required.

Should I switch supplier?

Switching an energy supplier can seem daunting, but it should not be, as there are industry mechanisms in place to make the process simple. We manage all of the process for you, liaising with all parties to ensure a seamless transfer.

Switching supplier is not always the solution when a contract is tendered. However, a wide tender engenders competition between suppliers and thus ensures competitive pricing.

What can delay a switch?

Common causes for the existing registered supplier not allowing a switch would be outstanding debt on the account. It could also be down to the specific supplier's termination requirements (such as the need for 30 days' notice, even if the supply is on deemed rates).

What is Green Energy and how can I buy it?

We recognise the importance of sourcing green electricity solutions for customers. There are often CSR considerations that make the green option crucial, whilst most of us have a low carbon preference given the choice. What is classed as green has changed as the market has advanced, but it is generally electricity generated without fossil fuels being burnt, so biomass, wind, solar and hydro amongst others. Green is also a lot cheaper than it used to be – whereas it previously commanded a premium around 0.5p/kWh, it is closer to 0.02p or even cost neutral versus *brown* when *Renewable Energy Guarantee of Origin* (REGO) is bought. Specific sources of energy can be requested from suppliers in order for carbon neutrality to be achieved.

What is an MPAN? What is an MPRN?

An MPAN is a Meter Point Administration Number that is unique to an electricity supply on the settled market. A MPRN is a Meter Point Reference Number, the equivalent of MPAN for gas. In Northern Ireland, an MPRN refers to electricity as well. MPANs and MPRNs can be found on all energy bills and are the unique identifiers used for switching suppliers as well as invoicing. These numbers are different to the Meter Serial Number that is physically printed on the meter.

What is an ASC?

This is the Agreed Supply Capacity chargeable on most HH electricity supplies. It is the level of demand that a business expects to hit and so is maintained at a reserved level, commanding a monthly cost. ASCs can be adjusted – for example, for premises that have gone through a change of usage from high demand manufacturing to low demand warehousing. E2 can assess demand and adjust accordingly, providing ongoing savings.

What is the difference between HH & NHH metering?

HH is settled on the Half Hourly market, meaning it is invoiced on live data based on 48 daily pulses that the supplier receives. It is the most accurate metering solution and gives the option for consumption profiles to be interrogated down to the half hour. HH metering was previously limited to supplies requiring a capacity above 100kVA, but recent industry changes (P272) have made many NHH meters HH.

NHH are the more basic metering option, usually associated with smaller consumers with low demand requirements. The meters can have a pulsed output, sending a monthly or quarterly read to the supplier to create accurate billing, but generally these are *dumb* meters, requiring a manual read.

What is Climate Change Levy (CCL)?

CCL is a government levy charged on non-domestic gas and electricity invoices using above the 'de minimis' threshold. It was designed to incentivise energy efficiency. It is currently charged at 0.847p/kWh on power and 0.339p/kWh on gas, with rates rising annually. Some industry sectors receive exemption from CCL by attaining a Climate Change Agreement (CCA) – this will discount the CCL cost due to certain energy intensive processes. E2 can identify CCA opportunities and apply for the CCA, creating significant cost savings.

How do I ensure my company's VAT exemption is applied to my energy invoicing?

We recognise that certain businesses have VAT exemption on energy, so power and gas are liable for 5% rather than 20% VAT – this can be due to charitable status or domestic usage. On placing a

contract, we will provide the supplier with a VAT exemption certificate, ensuring the lower rate is maintained. Domestic VAT also means that **CCL** is not applied.

How does E2 make money through Procurement?

Our fee is generated by placing contracts for clients in two ways. We will either charge an up front cost to our clients, usually based on a £/meter point basis, or more typically we will take a direct fee from the energy suppliers.

What are Third Party Costs (TPCs)?

The price you pay for gas is primarily based upon the wholesale cost of the physical product, determined by the fluctuations of the wholesale market. This is not the case with electricity, where wholesale accounts for circa 50% of the overall cost, with this percentage set to decline to around 30% in the next five years. TPCs are predominantly from three areas: network; environmental; generation.

- **Network** - Charges are transmission (Transmission Network Use of System - TNUoS) and distribution (Distribution Use of System - DUoS). This is the cost of moving power around the country, from generators (typically from a power station but now more frequently from other sources such as off-shore wind farms) to end user. The network needs constant upgrading and maintenance and so these costs are passed onto the consumer. There is also a cost associated with balancing the power on the system (Balancing Services Use of System – BSUoS), which is a more significant consideration as energy sources diversify.
- **Environmental** - Charges are applied as the UK seeks to honour international carbon reduction commitments, moving away from fossil fuels and their detrimental effects. As such, costs like Renewables Obligation (RO), Feed In Tariff (FIT) and Contracts For Difference (CFD) are applied as a p/kWh charge.
- **Generation** - Whilst the country moves towards decarbonisation of generation, it is recognised that there is a shortfall between the end of carbon intensive power sources (e.g. coal-fired power stations) and new sources (e.g. new nuclear). As such, the government is incentivising generators to fill this *generation gap*. The Capacity Market (CM) scheme guarantees a generator's strike price (ensuring they receive a viable cost for power generated). Again, the ultimate cost of this guarantee is passed onto the end user.

What is a Meter Operator (MOP) contract?

There are several MOP providers in the UK. All HH settled meters need to have a MOP in place. This is either through supplier appointment or direct contract. A MOP installs the meter then updates and maintains it, ensuring communication is maintained to the Data Collector (DC).

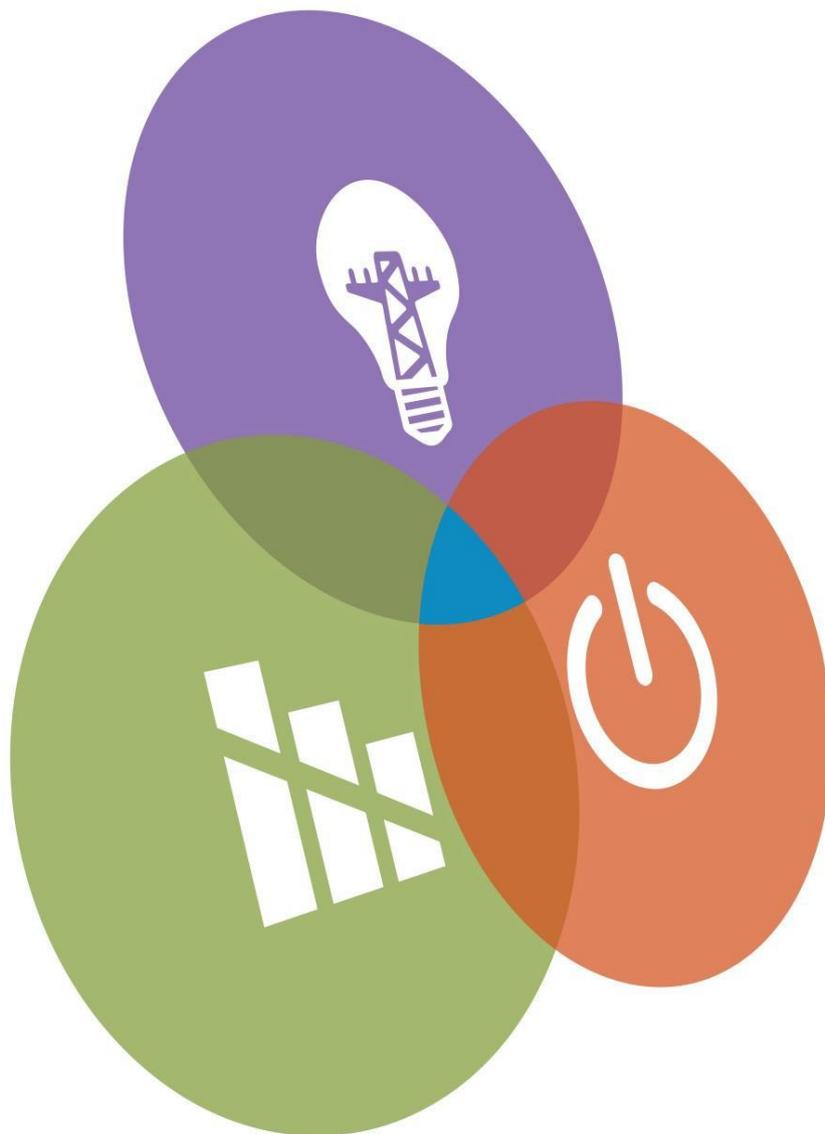
What is the Data Collector (DC)?



The DC is responsible for processing the reads provided by the MOP communications. They work in tandem with the **Data Aggregator (DA)** which collates the consumption data and provides to your energy supplier for invoicing purposes.

Why should I use an energy consultant?

There is no obligation to use a third party to negotiate energy contracts. However, unless you have comprehensive in-house knowledge of energy markets and the associated risks that affect price, as well as of the numerous TPCs added to your costs, then an energy consultant is to be recommended. We have the expertise and supplier relationships to ensure that the best value contracts available are fixed.



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