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Energy procurement strategies for your business

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Securing the right energy deal is crucial for managing your costs and planning for the future. How do you find the right option, handle potential risks, and stay flexible as your business evolves?

In this guide, we'll share practical strategies to help you make informed energy procurement decisions tailored to your specific needs.

1 Understanding your energy usage

Building an effective energy procurement strategy starts with understanding how your business uses energy day to day. This goes beyond just knowing your overall consumption, it's about recognising when and where energy is used. For businesses with multiple sites, it's important to compare energy use at each location, as different operations and peak times will affect your energy needs.

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Tools like smart meters or energy management systems can give you useful insights into your energy use. This data is valuable when negotiating contracts or looking for ways to improve efficiency.

Here are some key points to consider:

Peak vs off-peak usage: Understanding when your energy consumption is highest can help you choose a more suitable contract and uncover ways to save.

Seasonal variations: Certain industries face seasonal shifts in energy use. Retailers may see a rise during the holiday season, while manufacturers could need more power during busy production periods

Multi-site management: If you oversee several locations, analysing the energy patterns at each one can help identify areas to streamline processes and reduce costs.

2 What contract is right for your business?

Selecting the right energy contract involves more than just choosing between fixed or flexible rates. You also need to consider factors like contract length and the type of agreement that suits your operational needs.

Key types of energy contracts

There are several contract types to choose from, each with its own benefits and risks. The right contract for your business will depend on your energy usage, budget, and appetite for risk.

FIXED CONTRACTS

Fixed contracts provide price certainty by locking in a set rate for the duration of the contract, which typically ranges from 1 to 5 years. This offers protection against price fluctuations in the energy market, making it easier to predict and manage energy costs over the contract term.

Benefits: Stability and predictability. Fixed contracts are ideal for businesses that need certainty in budgeting and want to avoid the risk of rising energy prices.

Considerations: You won't benefit from any potential price decreases during the contract period. There may also be early exit fees if you want to terminate the contract before it expires.

Who it suits: Fixed contracts work well for businesses with steady energy usage and limited capacity to actively monitor the energy market.

FLEXIBLE CONTRACTS

These contracts allow businesses to purchase energy in smaller chunks, either on the day-ahead market or by securing part of their energy needs over time. Flexible contracts enable businesses to take advantage of favourable market conditions and purchase energy when prices are low, but they also involve higher risk.

Benefits: Flexibility to capitalise on falling prices and make multiple purchases as the market changes. You can spread your risk by purchasing energy gradually, rather than locking into one price at a single point in time.

Considerations: Higher risk, as prices can rise and lead to increased costs. Flexible contracts require regular monitoring of the energy market, which can be time-consuming and requires some expertise.

Who it suits: Flexible contracts are ideal for businesses with larger energy demands, the ability to take on more risk, and resources to manage energy procurement more actively.

BASKET CONTRACTS

Smaller businesses can group together with others to form a basket, which increases their purchasing power and helps secure better rates from suppliers. This is often organised by energy brokers or consultants who manage the contract on behalf of multiple businesses.

Benefits: Access to lower prices through collective buying power. This contract type allows smaller businesses to benefit from the more competitive rates that larger companies often receive.

Considerations: You'll have less control over the contract terms, as they are usually managed by a third party. Additionally, the group may be locked into longer-term contracts that you cannot exit individually.

Who it suits: Basket contracts are well-suited for smaller businesses that lack the energy consumption to negotiate favourable rates on their own.

Contact Length: Short term vs Long term

Another important factor to consider is the length of your energy contract. Contracts can vary from 1 to 5 years or even longer. The decision should balance the need for price stability with flexibility to adapt to changing market conditions.

Short Term Contracts (1-2 years)

These contracts give you more flexibility to adapt to market conditions when it's time to renew. If prices drop, you'll be able to take advantage of the lower rates sooner.

Benefits: Flexibility and the opportunity to renegotiate rates more frequently.

Considerations: Short-term contracts expose you to market volatility, and you may face rising prices when renewing your contract if market conditions have worsened.

Who it suits: Businesses that expect changes in energy usage, have the ability to monitor the market, or are comfortable with potential market risks.

Long Term Contracts (3-5 years)

These contracts offer stability over a longer period, locking in current rates and insulating your business from price increases during the contract term.

Benefits: Long-term price stability and the ability to plan budgets without worrying about fluctuating energy costs.

Considerations: You may miss out on savings if market prices decrease. Long-term contracts also reduce your ability to renegotiate or switch suppliers, and early termination fees can be costly.

Who it suits: Businesses with steady, predictable energy usage that prioritise price certainty and stability.

Key questions to ask to help you decide the right contract for you:

- How stable is your business's energy usage? Do you expect growth or reductions?
- What is your risk tolerance? Would a fixed contract provide peace of mind, or are you comfortable with market fluctuations?
- Do you have the resources to actively monitor the energy market, or would a longer-term fixed contract be simpler?

3 Strategic timing and market updates

Timing is a critical factor in energy procurement, as market prices fluctuate based on supply and demand, global events, and weather patterns. Securing your contract when prices are favourable can result in significant savings for your business.

Forward purchasing: This strategy involves locking in rates for future periods based on market forecasts. It helps protect your business from potential price increases and allows you to secure lower rates in advance.

Hedging: This approach allows businesses to lock in prices for a portion of their energy needs while keeping the rest open to market fluctuations. It offers a balance between risk and flexibility.

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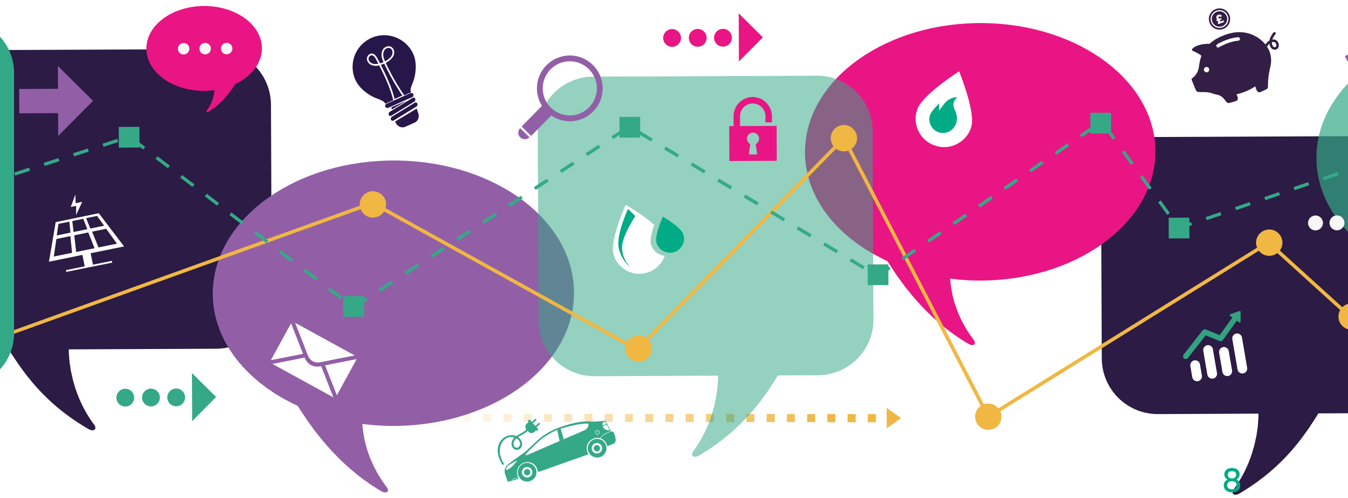
Sign up for our quarterly newsletter to stay informed with regular market updates. This can help you time your procurement decisions effectively based on real-time trends.



4 Managing risk and choosing the right approach for your business

Managing energy price risk is crucial, but the right approach depends on your business's size, industry, and risk tolerance.

Splitting Contracts

One strategy is to split your energy contracts. By securing part of your energy on a fixed contract and leaving the rest flexible, you can balance price stability with the potential savings from market dips.

Hedging v fully fixed

Some businesses prefer to hedge part of their energy portfolio, while others might opt for fully fixed pricing. This decision depends on your confidence in managing energy prices and your business's financial position.

Setting price caps

If you choose a flexible contract, setting price caps can protect you from paying above a certain price, offering a safeguard against significant price rises.

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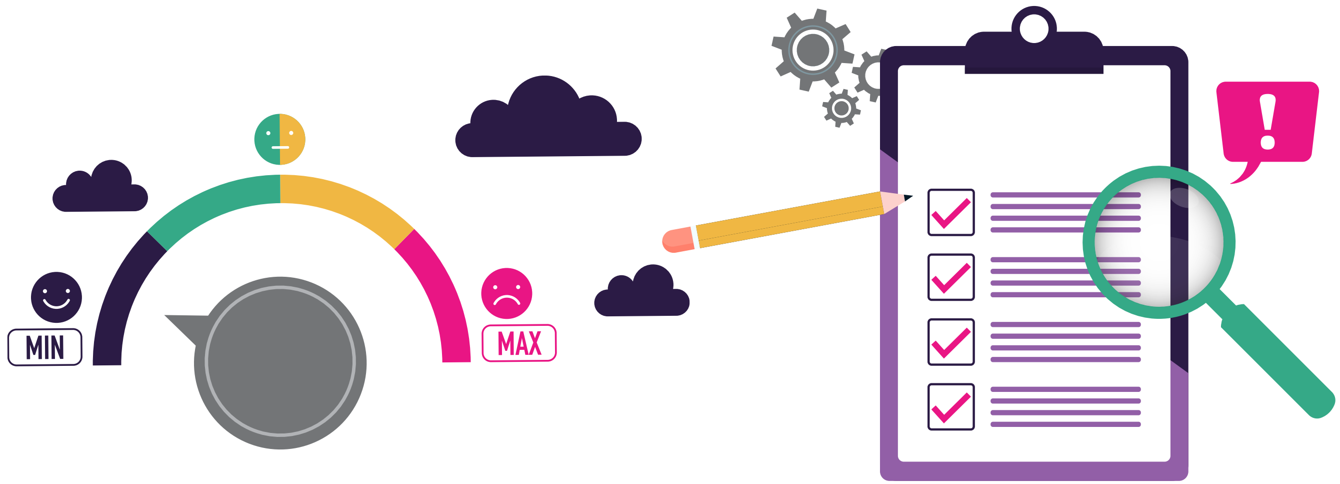
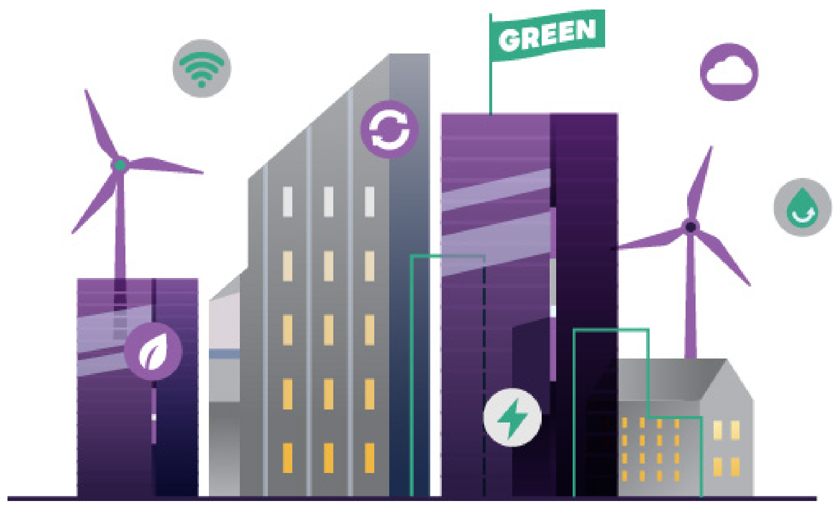
If you're unsure which strategy is right for your business, consider consulting an energy expert or broker. They can help assess your risk tolerance and usage patterns to recommend the most suitable approach.



5 Adding renewable energy to your procurement strategy

There are several ways to incorporate renewable energy into your procurement strategy. The right approach depends on your business's size, energy consumption, and long-term goals. The main options include:



ON-SITE GENERATION

Installing renewable energy systems such as solar panels, wind turbines, or biomass generators on your premises.

Benefits: On-site generation can provide energy security, reduce dependence on the grid, and potentially lower your energy bills. It also adds to your green credentials, which can be attractive to clients and stakeholders

Considerations: Upfront costs can be high, and you'll need to evaluate the space available, local regulations, and your long-term energy needs. It's also important to consider maintenance requirements and whether your site can support consistent generation (e.g., sufficient sunlight for solar panels or wind availability for turbines).

Planning tip: Conduct a feasibility study to assess the technical and financial viability of on-site generation. This should include an analysis of your current energy usage, potential energy generation, payback periods, and any available grants or subsidies. Troo can assist with sourcing reliable partners to carry out these assessments.

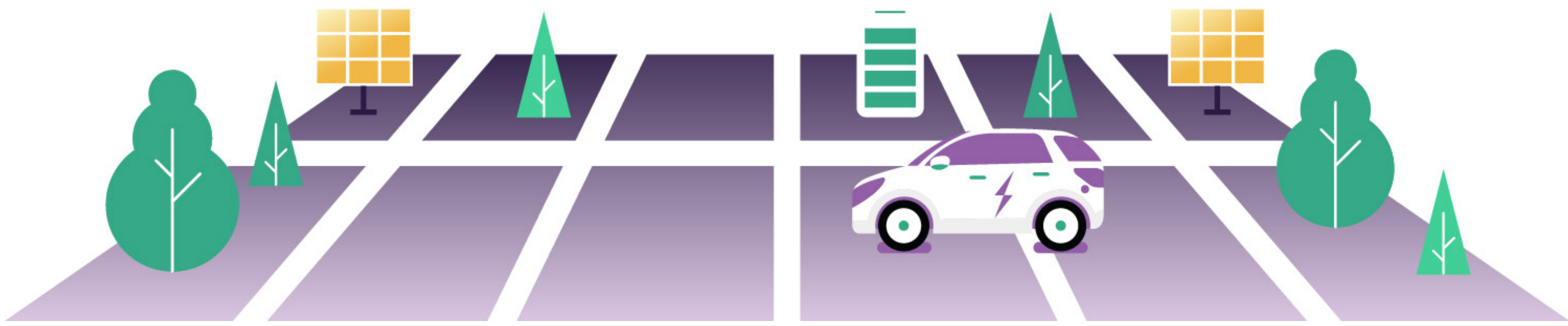
POWER PURCHASE AGREEMENTS

If on-site generation isn't practical, PPAs allow businesses to buy renewable energy directly from a generator at an agreed price, usually over a long-term contract.

Benefits: PPAs offer price stability, as you can secure a fixed rate for renewable energy over several years. This shields you from market volatility and helps you meet sustainability targets without the upfront costs of installing equipment.

Considerations: PPAs typically involve long-term commitments, and you'll need to carefully assess the contract terms. Make sure to compare the pricing structures with your current procurement strategy to determine if a PPA will offer savings in the long run.

Planning tip: Evaluate different PPA models. For example, **Sleeved PPAs** allow energy to be delivered through your existing supplier, while **Virtual PPAs** provide financial benefits from renewable energy generation without directly receiving the energy. Understanding these models helps you choose the best fit for your business.



GREEN ENERGY TARIFFS

Many energy suppliers now offer tariffs sourced from renewable energy. These are often the simplest way to incorporate green energy into your procurement strategy without changing much operationally.

Benefits: Green tariffs can boost your sustainability profile with minimal effort. They're ideal for businesses that want to reduce their carbon footprint but may not have the capacity or capital for on-site generation or a PPA.

Considerations: While green tariffs are easy to adopt, they can sometimes be more expensive than traditional tariffs. You should review the breakdown of where the energy comes from (some green tariffs may only guarantee partial renewable sources) and assess whether this aligns with your business's sustainability goals.

Planning tip: When comparing tariffs, ask suppliers for a detailed breakdown of their renewable energy mix. Some tariffs may offer 100% renewable energy, while others may only include a percentage.

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When considering renewables, it's essential to evaluate both short-term and long-term benefits. Troo can help you assess the financial sense of renewable energy for your business, considering factors like cost savings and payback periods.

6 How energy brokers can save you time and money

Energy procurement can be complex, and many businesses lack the in-house expertise to manage it effectively. This is where energy brokers come in - they act as intermediaries between your business and energy suppliers, helping you secure a competitive deal based on your needs.

Timesaving
Brokers handle the task of comparing suppliers, negotiating rates, and managing the contract process. This allows you to focus on your business without getting bogged down in the technical details.

Expert evaluation
Brokers can assess your energy usage, financial position, and operational needs to recommend a competitive contract type and supplier. They also have insights into market trends, helping you secure favourable terms.

Ongoing support
Many brokers offer ongoing support, managing your contract and flagging up opportunities for cost savings or better deals before your contract ends.

Key benefit: Working with a broker removes the guesswork from energy procurement, giving you confidence that you're getting the right deal without the hassle.

7 Improving energy efficiency to lower procurement costs

Improving your business's energy efficiency is a crucial, ongoing process that directly impacts both short- and long-term costs. Reducing energy demand can significantly lower your overall procurement expenses, and it often requires a combination of technology upgrades, process changes, and better monitoring. Here's a detailed breakdown of how your business can enhance energy efficiency:

Identify and target high consumption areas

The first step is to understand where and when your business uses the most energy. By conducting an energy audit or using smart meters and energy management systems, you can get a clearer picture of your energy consumption. This will help you focus on areas with the highest savings potential.

Lighting systems: Switching to LED lighting can reduce lighting costs by up to 75% compared to traditional bulbs. Incorporating motion sensors or timers in low-traffic areas can further reduce waste.

Heating, ventilation, and air conditioning (HVAC): Regular maintenance of HVAC systems ensures they operate at peak efficiency. Upgrading to more energy-efficient models and installing smart thermostats that adjust based on occupancy or time of day can significantly lower energy consumption.

Industrial equipment: Ensure machinery and other large equipment are properly maintained. Regularly servicing these systems can improve their efficiency. In some cases, investing in more energy-efficient models can lead to substantial long-term savings.

Embrace voltage optimisation

Voltage optimisation is a technique that reduces the voltage supplied to your equipment without affecting its performance. This technology adjusts the incoming voltage to match the needs of your equipment, which not only improves energy efficiency but also reduces wear and tear on your machinery.

Why it works:
Most electrical equipment in the UK is designed to operate efficiently at 220V, but many buildings are supplied with higher voltage levels. Voltage optimisation can lower this input, reducing unnecessary energy usage by 5-10%.

Ideal candidates:
Businesses with significant electrical equipment usage—such as manufacturing, retail, or large office spaces—can see the most substantial benefits from voltage optimisation.

Implement smart energy management systems

Advanced energy management systems offer real-time monitoring and control over your energy usage. These systems provide insights into when and where energy is being used inefficiently, helping you make informed decisions about how to reduce consumption.

Data driven decision making:
With real-time data, you can quickly identify patterns, inefficiencies, and anomalies in energy use. This allows for quicker adjustments, such as turning off equipment when not in use or adjusting operational hours to off-peak energy times.

Automation:
Energy management systems can automate energy-saving measures, such as dimming lights, adjusting heating and cooling settings, or powering down equipment during periods of low demand.

Take advantage of energy efficiency incentives

There are various government-backed incentives and grants designed to encourage businesses to improve energy efficiency. These schemes can help offset the costs of upgrading equipment or implementing energy-saving measures.

ECA

Enhanced Capital Allowances:
This scheme allows businesses to claim 100% first-year capital allowances on investments in energy-saving equipment.

CCA

Climate Change Agreements:
By entering into a CCA, businesses can get discounts on the Climate Change Levy (CCL) in exchange for meeting energy-efficiency targets.

Local grants and support:
Many local authorities offer support to businesses looking to invest in energy efficiency, such as grants, subsidies, or low-interest loans for energy-saving upgrades.

Reduce standby power usage

Standby power, also known as "phantom load," is the energy consumed by devices that remain plugged in but not in active use. Reducing standby power is an easy and effective way to lower energy bills.

Smart plugs and timers:
Installing smart plugs or timers can help ensure equipment and appliances are completely powered down when not in use.

Energy audits:
A professional energy audit can reveal how much energy is being wasted on standby power and identify opportunities for cutting down this unnecessary consumption.

8 Planning early for contract renewals

Renewing your energy contract is an opportunity to negotiate better rates and terms. However, leaving it until the last minute can lead to missed savings.

Review and plan ahead
Start reviewing your contract at least six months before it expires. This gives you time to assess whether your current deal still suits your business and allows you to shop around for better options.

Supplier negotiations
Don’t assume your current supplier will offer the best renewal terms. Use the renewal period as a chance to negotiate and explore alternative options.

Exit clauses
Be aware of any exit clauses in your current contract, as some suppliers may charge penalties for early termination.Understanding these terms can help you plan better for your renewal.

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Final Tip: Keep track of your contract end dates, and don’t hesitate to explore other suppliers or renegotiate with your current provider to secure the right deal.

9 Future-proofing your energy procurement strategy

The energy market is always evolving, with new technologies, regulations, and market conditions affecting how businesses procure energy. Future-proofing your procurement strategy helps ensure that your business stays resilient and adaptable in this dynamic environment. Staying informed about changes in both regulation and technology is key.

Keep up with regulatory changes

Energy regulations can impact your business's costs and energy usage, so it's essential to stay up to date with policy developments. Keeping an eye on these trusted sources will help you stay informed and compliant:

Ofgem (Office of Gas and Electricity Markets): Ofgem is the UK's official energy regulator. Their website is the go-to source for updates on regulations, market rules, and policy changes. You can visit their site at **www.ofgem.gov.uk.**

Energy UK: As the trade association for the UK energy industry, Energy UK provides insights on regulatory changes affecting businesses. Their updates can help you understand how new policies might impact your energy procurement strategy. Visit them at **www.energy-uk.org.uk.**

Department for Energy Security & Net Zero

Department for Energy Security and Net Zero: This government department oversees energy policy and the UK's path to net zero. They regularly publish consultations, reports, and policy updates that can impact energy procurement. Check their resources at **www.gov.uk/government/organisations/department-for-energy-security-and-net-zero.**

By applying these strategies, your business can confidently handle the challenges of energy procurement. Whether it's selecting the right contract, boosting efficiency, or exploring renewable energy options, these practical steps aim to help you cut costs and manage risks effectively. If you need expert guidance to simplify the process or refine your strategy, Troo can provide clear, honest advice to ensure your energy decisions align with your business's needs, both now and in the future.

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Get in touch with us directly: troocost.com | 0800 164 2222 | hello@troocost.com