

# Adopting a risk management approach to buying energy & being efficient

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**T**he complex energy market is significantly different to other commodities. Therefore, successful energy buying for the UK milling industry in particular cannot be achieved through usual procurement methods. This means that energy market analysis and expertise are essential to ensure the best deals are achieved within the short, medium and longer-term markets.

The volatility of the energy market means that all energy contracts contain risk, so whether you are a small or large energy user, the decision you take will ultimately have a knock on effect on your bottom-line.

## Buying Strategy

The buying strategy employed will largely depend on the risk culture of the organisation. A risk-averse company will usually find comfort with a fixed price approach, while companies with a greater appetite for risk and the larger rewards that can be accrued, may take a more flexible approach to buying.

The success of this flexible approach will be based on the ability of the company to forecast price movements and buy (and sell) accordingly to maximise value. Funds can be regarded as a sort of hybrid between a fixed and a flexible contract: It is a product that allows you to eliminate the risk of securing your entire power requirement at the height of the market.

## Contract options available

Contract options are numerous, but in simple terms they have been split between 'traditional' fixed price contracts and 'flexible' contracts which allow the purchaser to break down the total volume required and purchase requirements in blocks.

These can cover seasons, quarters, months or a proportion of the total requirement for the period. The

## What should a risk strategy look like?

A typical risk management strategy should set out the following:

- ➔ A definition of the contract options
- ➔ Detailed roles and responsibilities
- ➔ Details of the contingency plans for operational and purchasing risks
- ➔ Upper budget price and lower budget price
- ➔ The initial steps and targets or other mechanisms to control the value risk
- ➔ Details for reporting and market updates as required by the budget holder

main advantage of the flexible approach over the traditional approach is that it offers price management and the potential for financial savings.

However, flexible contracts introduce more risk to the purchaser as the additional flexibility and opportunity to take advantage of market conditions is exchanged for the budgetary certainty of traditional fixed contracts.

**“As well as helping the planet, reducing your energy consumption & carbon emissions, makes real financial sense”**



### About EnergyQuote

EnergyQuote is a fast-growing, dynamic company. Since its launch in 1992, it has provided a high level of services to its clients, from the early days of the UK's deregulated market to today's sophisticated pan-European offerings.

The company has consistently led the way in developing new services that match the changing demands of major energy consumers, delivering greater energy efficiency, robust risk management, real energy & cost savings. They were the first to offer online energy procurement systems in 1995, and now have products & services that support today's demand for sustainability and corporate responsibility.

EnergyQuote remains a privately-owned company, with offices in London & across Europe.

More information about EnergyQuote can be found at: [www.energyquote.co.uk](http://www.energyquote.co.uk)

Another option is 'Energy Funds,' where customers are grouped collectively allowing members to immediately benefit from increased economies of scale. This is because physical volume constraints are removed, which allows smaller energy users to access buying methods normally reserved for organisations typically spending in excess of UK£5mn on energy per annum.

However, the risk here is that an organisation may enter a 'Fund' whose purchasing strategy does not match their risk appetite and decisions could be made that would result in higher prices than they could have obtained by themselves. To avoid this scenario, organisations must ensure that the provider of the 'Fund' fully understands individual members' risk profile, and has a strategy in place that all 'Fund' members have signed up to.

Ignoring the risks that different contract options can entail can lead to a significantly higher energy bill than if the risk had been properly managed. Greater flexibility in energy contracts

allows greater options to control this risk. A balanced strategy ensures a consistent approach to managing energy prices and contracts in order to minimise budget risk.

Establishing the strategy requires market expertise and an understanding of the risk appetite of the budget holder - while the level of skills and resource to manage energy risk is uneconomic without aggregation of volume.

If an organisation does not have the resources in place to monitor the markets, evaluate contract options and manage risk they should look to work together with a third party intermediary energy specialist who is recognised and qualified in risk management practices.

### Being efficient

As well as helping the planet, reducing your energy consumption and carbon emissions, makes real financial sense. More than a mere cost-saving exercise, being more energy efficient is becoming a matter of corporate responsibility and is a core element of the UK Climate Change Programme - a movement by the

The advertisement is split into two main sections. On the left is a photograph of a large industrial grain storage facility with several tall, cylindrical silos and a complex network of metal walkways and ladders. In the foreground, there are rows of smaller, horizontal silos. On the right is a green graphic with a pattern of white squares. It features the text 'corn?' above a small image of corn, 'rice?' above a small image of rice, and 'other?' above a small image of other grains. Below this is the SILOS CORDOBA logo, which consists of the company name in a bold, sans-serif font next to a stylized white square logo. At the bottom of the graphic, it says 'smart storage solutions' and 'According to the needs of each client... SILOS CORDOBA builds plants to store and transport your grain in the best conditions. more details at WWW.SILOSCORDOBA.COM'.

**“The milling industry is striving to use less energy and in our experience, energy savings of between 10-20% can be made by employing low-cost to no-cost measures”**

government to promote energy efficiency in businesses within the UK.

The fact that the UK has come out top in a European Energy Wasters' League, according to a survey of the energy habits of some 5000 Europeans, means increasing public awareness and understanding of the importance

of reduced energy consumption, is essential.

In fact, energy efficiency and reducing emissions should be written into the company policy so it remains a focus within the organisation.

The milling industry is striving to use less energy and in our experience, energy savings of between 10 and 20 percent can be made

by employing low-cost to no-cost measures. Not only will you be able to save money by implementing measures, you will also help the environment.

There are a number of policies and governmental bodies already in place to help businesses and the public sector improve their energy efficiency, these include:

- Carbon Trust – SME loans scheme
- Carbon Trust – Salix revolving loans fund and grants scheme
- Building regulations
- Energy Performance of Buildings Directive (EPBD)
- Regional and local advice and information programmes
- Product and procurement standards, including Quick Wins
- Climate Change Levy
- Enhanced Capital Allowances

## EnergyQuote in practice

In today's complex environment, energy buying is as much a risk management process as it is a procurement function. EnergyQuote will work with you to develop a risk management strategy based on your company's individual risk profile and best practice risk management techniques. The overall strategy gives clear direction to all energy purchasing decisions, and helps you stay in control by mitigating your exposure to a wide variety of risks.

EnergyQuote's risk management service is built on three 'layers'.

**Risk Analysis:** European energy buyers face many forms of risk: price risk, operational risk and, in an era of environmental concern, political and reputation risk. EnergyQuote works with you to identify your risk profile: the particular threats you face, their potential impact and your attitude to them. Your risk profile helps set the boundaries for your strategic purchasing decisions.

**Procurement Policy:** EnergyQuote works with you to create a policy that outlines your energy procurement objectives, ensuring these are in line with your risk profile. The procurement policy provides the context for your Purchasing Strategy and helps to ensure your risk tolerance is not exceeded.

**Purchasing Strategy:** The strategy determines the 'trigger' points that will prompt purchasing decisions. EnergyQuote works with you to set a strategy that is appropriate to your supply contract and that gives you control over purchasing decisions. The strategy is based on in-depth market intelligence provided by EnergyQuote's analysts and proprietary traders.



## An edge over the competition

Adhering to environmental legislation, and taking steps to reduce your carbon footprint, can lead to significant cost savings and provide a significant edge over your competitors. Failure to act responsibly can bring you into conflict with your shareholders, stakeholders and customers - generating bad publicity. More pressing is that failure to comply with environmental legislation can carry serious criminal and financial penalties.

Currently, many organisations are exempt from formal mandatory carbon constraints, but it will only be a matter of time before all businesses become carbon constrained under government legislation. It is therefore timely for companies to start looking at voluntary climate approaches.