

British business needs to become smarter in the face of changing energy policy

Dramatic changes to energy policy and infrastructure will mean that regulation, in addition to the wholesale market, needs to be a main cost consideration for UK business users.

Ofgem's Project Discovery is calling for urgent reform of the energy markets to avoid energy bill price hikes caused by low carbon legislation and infrastructure upgrades. This should be a major wake-up call for large British businesses who need to adapt their energy purchasing strategies or risk losing their competitive edge.

Ofgem's proposals are only the latest in a series of changes about to affect energy prices. The Low Carbon Transition Plan, announced last summer, will see a raft of new measures introduced from this April. Each of these measures, -from upgrading the UK's energy infrastructure to incentivising the growth of renewables, is a necessary step to a long-term, sustainable energy policy, yet each will also involve costs that need to be accounted for in businesses energy purchasing strategies.

For example, the regulator recently announced a £7.2 billion upgrade to the distribution network over the next 5 years, effective from the 1st of April, to replace out of date infrastructure, accommodate more renewable energy and support large scale trials of smart grids and other technologies. The bill, naturally, will be recovered from electricity users with business consumers bearing the brunt of that cost.

Furthermore, while the grid itself gears up, the incentives intended to encourage the growth of renewable generation will also add additional costs to the corporate electricity bill. At present, the main policy mechanism for stimulating renewables growth in the UK is the Renewable Obligation (RO), whereby renewable electricity generators are paid by suppliers for each unit of renewable power they produce. The cost of the scheme is ultimately passed on to customers and currently represents around 4% of a business customers' bill. This is set to grow in the near term as suppliers strive to meet their obligations under the scheme.

On top of this the Government has just announced the introduction of the Feed-in Tariff (FIT) or 'clean energy cashback'. From April 2010, all renewable generators producing less than 5 MW of electricity will be eligible for a generation payment and export payment from their supplier, another cost that will ultimately have to be passed on to the business customer.

In addition, business users also have to face the associated costs of measuring and managing their energy usage under the rules of the Carbon Reduction Commitment (CRC), many are already subject to the Climate Change Levy (CCL) and will soon also be subject to a Carbon Capture and Storage Levy (CCSL) to fund development of carbon capture and storage technologies.

The combined impact of these charges will be felt for the first time later this year and will come as a severe shock to many. For the first time around 40-50% of business users bills will be accounted for by changes to accommodate the low-carbon transition rather than the wholesale energy market. It is time companies placed this firmly on their radar and started talking to their electricity suppliers about ways to plan ahead so as to minimise the risks to their business.

Some companies, such as M&S, are already purchasing 100% renewable electricity to avoid paying the CCL charges and to show their support for local renewable generation.

However, not all suppliers can offer this, and energy solutions will vary. Purchasing managers need to move away from a 'one size fits all' model and demand a flexible, tailor made solution from their supplier in order to stay ahead of the game.

Other, more industrial energy users should even consider generating their own power on-site as a more appropriate solution to meet their energy needs.

Large businesses are increasingly choosing this option as a way of avoiding the risks associated with volatile energy markets. Moving away from the network can mean improved energy security and better budget certainty. Any excess electricity that is not used on-site can be sold back to the grid, representing an additional revenue stream for the company.

Furthermore, most on-site renewable generators are eligible for RO certificates (ROCs) or FiTs even if their power isn't sold to the grid. The costs associated with the Low Carbon Transition can therefore be turned into opportunities with the right energy partner who can structure agreements to maximise returns for you the client. Your business can stop being a passive consumer and start a more two-way relationship with your energy company.

Whichever path you choose, UK energy policy is changing and energy purchasing strategies need to evolve to embrace these changes. Costs associated with the delivery of a low-carbon future are not going to go away and must be accounted for at senior management levels in big businesses. The leading British businesses of the future will be those that can turn these costs into opportunities, aligning their economic and environmental goals and starting up a productive dialogue with their energy suppliers.