Connecting UK business customers with the wholesale energy market

PRODUCTS AND SERVICES

Offset Supply

Energy is playing an increasingly vital role in business life, so it is ever more important for all organisations to explore new ways to optimise the returns from their investment in this field, especially for businesses with onsite generation.

For companies that can generate electricity, either at a single site or at multiple locations, a strategy for "offsetting" any surplus generated power against the electricity consumption needed at other geographically dispersed premises can be a very attractive option.

This approach, which is also referred to as "self supply" or "netting off", can deliver six-figure net savings to those with the right ratio of import/export requirements, even at export levels as low as 1.5-2MW.

As an independent licensed electricity supplier providing direct and transparent access to the wholesale electricity markets, for both consumers and generators, EnDCo is ideally placed to offer this service because it does not add a margin to the power it trades and, as a result, its customers retain all of the benefits of offsetting.

How does it work?

An offsetting approach is one which works best when a business operating at multiple premises is in a position to meet most of their electrical load from their own generation sources, or even better when that generation capacity exceeds the consumption requirement. The generation asset/s may be located at a single site or dispersed over multiple locations, but in either event the generated power can be used to offset the consumption at any number of other power-consuming properties.

In these circumstances, EnDCo would enter into an agreement with the customer to allow all of its consumption to be offset by its own-generation. If there is any residual generation after consumption needs are met, this would be sold into the wholesale market or conversely, if there is insufficient generation to meet consumption for any particular period, then additional power would be purchased to make up the shortfall.

The terms on which power is sold into, or bought from, the market in the event of a surplus/shortfall are open to negotiation, but a typical approach would be to sell or buy any known (forecast) surplus/shortfall at prevailing market prices with any residual requirement taken at the published System Prices. Provision by the customer of accurate forecasts (for example, on a week-ahead basis) is a critical and integral part of the agreed service package.

Where is the benefit?

Whenever a customer consumes power at certain sites whilst exporting electricity from others, the traditional approach would be to enter into two separate contracts – one for the supply of electricity to the relevant sites, and another for the sale of power from those with on-site generating capability.

In each case, the supplier/offtaker of the power will, quite rightly, apply a premium to (or deduct a discount from) the prevailing wholesale market price for

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electricity. The value of this premium/discount will reflect the supplier's view of the imbalance risk, cost of market collateral, margin requirements, etc. associated with the contract. The aggregate value of this discount and premium can be called the ***retail market price spread*** between buying and selling power, which can be as much as £10/MWh in certain circumstances.

However, by electing to offset or self supply the customer can effectively retain the value of this ***retail market spread*** within its own business, and it is this that delivers the majority of the benefit in the offsetting strategy.

EnDCo's approach allows the customer to retain all of this retail 'buy/sell' spread, and any imbalance benefits (as well as any risk) resulting from its bespoke imbalance management service.

The following illustrative example highlights the typical savings that can be achieved through offsetting. It compares a simple ***fixed price approach*** to buying/selling electricity for an average sized company with its own generation capability, with that of an ***offsetting strategy***.

The illustration being based on the following assumptions;

- The company has –

  (a) A capability of generating and exporting to the grid, on average, @ 2.5MW of electricity throughout the year – which equates to 21,900 MWh pa.

  (b) An import requirement of @2MW on average across its power consuming sites throughout the year – which equates to 17,520 MWh pa.

- The prevailing wholesale market price for Annual Baseload power is @ £40 / MWh.
- The retail Buy/Sell spread when compared to the wholesale market price for this company is +£4 to -£2 for import/export of electricity at fixed prices. This spread reflects the retail premium applied for imbalance risk, any market collateral and supplier margins.

Net Position for illustrative Company (Energy Only) using the Fixed Price Approach:

Cost of Imported Power:
Import Vol. x [Wholesale Price + Premium] = 17,520MWh x [£40 + £4]= £ 770,880

Revenue from Exported Power:
Export Vol. x [Wholesale Price – Premium] = 21,900MWh x [£40 - £2] = £ 832,200

Net Position = +£ 61,320

Net Position for illustrative Company (Energy Only) using the Offset Strategy:

Firstly the import power requirements of the company are met (offset) from its own generation/exported electricity volumes.
Hence it is only the net surplus exported power that is traded to the market.

Net Export Volume = 21,900 – 17,520 = 4,380 MWh

Net Export volume of 4,380 MWh x [£40 - £2] = +£166,440

NET BENEFIT (Energy Only) = +**£105,120**

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How EnDCo helps

EnDCo is able to provide an offsetting service to its customers because it is not seeking to make a margin on either the purchase or sale of electricity.

EnDCo fees are simply applied as a fixed monthly charge, which is independent of the power volumes imported or exported, although this does of course need to be taken into account in assessing the total net benefit.

In addition, EnDCo works closely with each customer, on an individual basis, to ensure that load and generation forecasts are as accurate as possible. In this way the value of residual sales is maximised (and residual purchase costs minimised). Revenues are also increased beyond that shown in the simple example above by adopting a more refined 'near curve' trading strategy. This approach also means that imbalance risks are reduced to an absolute minimum. *(For more information about EnDCo's Imbalance Management approach see the associated Product Sheet.)*

It should also be noted that EnDCo passes through 100% of any and all Embedded Benefits associated with the exported power, an approach which can further enhance the customer revenues when compared to a more traditional arrangement.

Key Benefits:

- Offsetting helps protect customers from volatility in wholesale market prices in respect of the offset import/export volumes by virtue of the fact that they are effectively contracting to supply themselves.
- It ensures that the customer retains within its own business the value of the retail market price spread that would traditionally be retained by the chosen electricity supplier/off taker.
- EnDCo brings its extensive expertise and capabilities in managing any imbalance position that arises from surplus generated power (or any shortfall), through its willingness to trade on behalf of individual customers on an intra-day, day or week-ahead basis.

EPG Energy Limited Hurst House, 131-133 New London Road, Chelmsford, Essex CM2 0QT
Telephone: +44 (0)1245 254 910 Fax: +44 (0)1245 492 705 Email: info@endco.co.uk www.endco.co.uk