

Improving the Welsh Dairy Supply Chain

Electricity Contracts



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Electricity Contracts

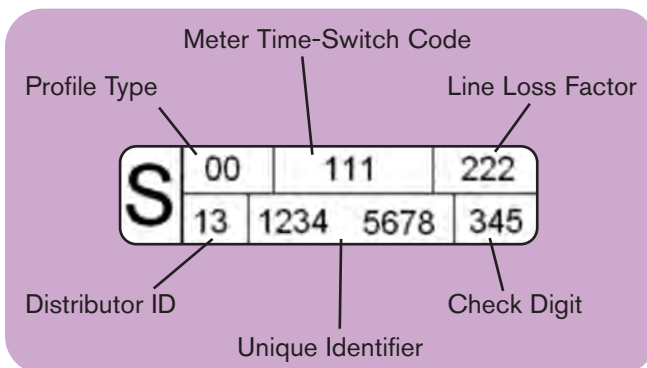
Since privatisation of the electricity industry, electricity consumers buy power from the public electricity system through registered suppliers, of which there are about twenty of significant size. Most of the market is dominated by the 'Big 6' (British Gas, EDF, E.ON, Npower, SSE and Scottish Power).



These suppliers buy energy from generators, add on overhead fees from transmission companies, local distribution companies and meter operators, and offer a price to customers in the form of an electricity contract.

Supply numbers

Prices for most farms are available from suppliers based on what is known as the supply number, a unique reference number given to each metered supply in the country. The supply number can be found on all electricity bills and looks like this:



Different parts of the number indicate different characteristics of the supply - for instance:

- **Profile type** - is the broad category and size of customer (e.g. domestic, business, over 100kW large business, etc.).
- **Distributor ID** - the area of the country that the supply is in.
- **Meter time switch code** - the type of meter/time switch for the supply.
- The '**line loss factor**' determines some of the distribution costs.

Contract types

For users with demands up to around 60kW, (03 and 04 profiles) contracts are based on kWh (unit) charge and a fixed charge. Prices for most sites are available from suppliers based on the supply number. These are generally quarterly accounts although monthly direct debit arrangements are common, using calculated annual estimated use to ascertain the monthly charge.

For supplies of capacity between 60kW and 100kW, (05 to 08 profiles) monthly billing is the norm and charges may include supply capacity charge as well as unit charges.

Supplies of 100kW and over (00 profile) require special metering which records energy used in every half-hour period. In these cases the energy contract is individually quoted based on the previous year's use. The energy consumption is stored in a half hourly data file. It's common to use this file to go out to tender. It's possible for very large consumers to enter into complex flexible deals, where a portion of the energy use is fixed in price for months or even years in advance with the remainder traded on the month-ahead market. Flexible arrangements are more volatile and require significant management inputs and a thorough understanding in order to make them work well.

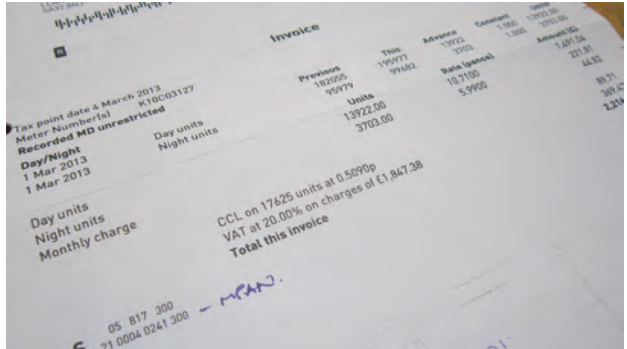
Key management issues with contracts

Best contracts for dairy farmers

Nearly all dairy farmers will benefit from a day/night tariff profile which gives a cheap night rate electricity period of around 7 hours. This is good for dairy farms as in most

cases all - or a big part of the morning milking will take place during this period.

Also, storage water heaters and storage ice builders can be set to operate during the cheaper period. To compensate for the cheaper night units, the day unit price increases marginally, but this can be offset by using 15% or greater in the cheap night rate period.



Dairy farmers typically use 25% of their electricity during the night rate period by default and many succeed in pushing this up to over 50% by timing the use of equipment well.

Arranging a new contract

It's worth starting to get prices for a new contract at least three months before your current contract's expiry date. In most cases it takes a month from giving instruction for a change of supplier to the new supplier taking over the account, so it's best not to delay. Once you've signed a new contract, the supplier takes care of closing the old account and starting a new one, so you shouldn't need to worry about the process. Once a new contract has been arranged it's wise to read the meter so a 'change-over' point can be defined.



The right price

When comparing contracts, take into account all charges and work out how much you'll pay for a typical years energy use. It's sometimes misleading to compare unit charges or fixed charges in isolation, as the level of usage will have a bearing on what the best contract will be. For instance, a site using very little electricity might be better with a high unit charge but a zero fixed charge contract. On the other hand a lower unit rate will be best for a user who requires lots of energy as this will quickly offset a high fixed charge.

Also don't forget extras like VAT, Climate Change Levy, Feed-in Tariff charge, etc., these may, or may not, be included in a contract so read the small print. Also be aware that, if they are included and should they rise in the future, then the electricity company may be able to include any increases on the bill.

Metering

For smaller supplies, metering and meter reading costs are included in the charges from the energy supplier. For 00 profile supplies however, metering is a separate item payable to the meter operator. The meter operator supplies and maintains the meter and any communication equipment connected to it. Most metering contracts are for 5 to 10 years and are payable on an annual basis. Where the meter operator and the supplier are the same company, meter charges can appear on the energy bill. The important thing to note here is that metering is a competitive market and savings can be made by shopping around.

Similarly, for this type of supply, data collection and aggregation (DA/DC) can also be a separate element offered by an independent supplier.

Suppliers are increasingly using Smart Metering (automatic meter reading) even for smaller supplies. This enables energy consumption to be monitored on a web service. New contracts may include an upgrade to this type of metering. If it's offered check out the consequences if you moved to a new supplier in the future. They may make a surcharge for using this metering system.



Other aspects of a new contract

Different payment methods may be available depending on the company you are buying from. Some insist on direct debit or will charge a premium for other types of payment method. The way payments are calculated also varies. Some companies work out a fixed payment schedule each month based on historical use (fixed direct debit). Others modify payment depending on meter readings either taken by you or taken by the meter reader (variable direct debit). If you have a very variable use pattern, you may prefer the latter.

A new supplier will invariably carry out a credit check and, where a company has a chequered payment history or has not been trading long, may ask for a security deposit for the life of the contract or until such time as credit worthiness has been proved.

Brokering services on offer from other companies are numerous and sometimes sales can be very high pressure. When dealing with a broker, members should insist that all commissions, terms and fees are declared as it's not uncommon to find that hidden charges are high.

Terminating a contract

Don't expect to be able to get out of a contract just because you have reached its end date. Most contracts have an automatic 'roll-over' which means if you do not explicitly terminate the contract, it will be automatically renewed, usually at a higher price. Moreover, you may need to terminate a contract within a typical 'window' of time as defined by the supplier. You need to write an e-mail or a letter in the 'time window' to the supplier saying you wish the contract to terminate on the specific end date. Do this even if you intend to stay with the same supplier.

If you don't renew a contract or if you take over a supply with no contract in place you will be charged out-of-contract or 'deemed' rates. These are very high so it's worth getting your new contract sorted out as soon as possible.

For further information visit www.ddc-wales.co.uk/energy