

WALLIS CUTTS

EMR Costs Warning

What is EMR

Electricity Market Reform is the single element that is going to have the biggest impact on future electricity cost. It is a direct tax on consumption and we are urging all our clients to look at projects that can reduce consumption.

EMR is a gradual ramp up but the costs begin to significantly escalate in 2017 so longer term projects should be considered mitigating the risk of future high consumption. We have calculated the additional costs directly associated with EMR & related schemes will increase energy costs by a crippling 42%!

Commodity Price-v- Consumption

Electricity costs have been increasing over several years both in terms of consumption and composite rate.

Building a comprehensive forecast covering 2015 to 2020 inclusive emphasises the considerable cost push we are yet to experience and the purpose of this document is to highlight the need to reduce consumption rather than rely on commodity prices in order to mitigate future cost increases.

Conclusion:-

Electricity costs are rising significantly and the way to mitigate this is not through commodity price but through consumption. We are urging clients to lock out commodity at current levels and focus on reducing consumption, be it through general housekeeping or longer term projects such as LED lighting



EMR will add 42% to your 2015 energy bill by 2020

Commodity prices had been steadily rising over several years until 12 months ago when oil prices halved. This coincided with other market shifts, causing energy commodity prices to fall. Commodity prices are currently at a level where indications are there would appear to be not too much more scope for reduction – in fact it's safe to say there is a greater risk of upside than downside but the background to this needs to be understood.

Grid / DNO Pass Through Charges

Essentially charges for using the physical infrastructure, or when we use the physical infrastructure. These costs have been gradually increasing, some elements such as DUoS double digit annual increases, and they are all charges levied on levels consumption.

Taxation

This is the area where there has been the most significant levels of increases which is only going to worsen. There are 2 areas of taxation, firstly those costs recharged through our Supplier bill such as Renewable Obligations and Climate Change Levy, and secondly CRC Tax paid directly to the Government. All taxes are again levied on consumption.

A new area of taxation, Contracts For Difference and Capacity Mechanism (Electricity Market Reform), are now being charged from 2015 and the ramp up in rate is startling. *For one of our customers, we anticipating an increase from £11k in 2015 to an estimate of £3.1m in 2020 – again levied on consumption with no opportunities to 'opt out'.*

Welcome to Wallis Cutts

Reactive & Planned Maintenance

We already provide reactive and planned maintenance services to several high street names.

Energy Procurement

Helping clients secure the best rate for their energy and providing financial models to unlock energy projects.

Energy Management

Providing Energy Management Training and support to reduce energy consumption wherever possible.

Software Solutions

Developing FM and Energy Monitoring Systems with highly detailed modelling but easy to understand graphical interfaces.

Data & Telecoms

Assisting with IT, Telecommunications solutions, IT Support, Hosted Servers & Mobile Phone Services.

Consultancy Services

We provide a full range of consultancy services covering cost, construction & Technical consultancy services.

Get in Touch:

Wallis Cutts Group
The Elsie Whiteley Innovation Centre
Hopwood Lane
Halifax
HX1 5ER

t: +44 (0) 844 585 3400

e: info@walliscutts.com



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Forecast:-

The following table shows a Forecast of how electricity costs for a typical business will increase over the next 5 years. We have assumed the commodity price remains flat over this period to demonstrate the significant increases in the other areas (our current view is that over this period of time it will start to go back up but for illustrative purposes we have assumed flat across the period).

We have also assumed CRC Tax increases at 3.5% per annum as we currently have no indication of predicted rate movements.

* source Npower Forecast estimates @ June 2015

	2015	2016	2017	2018	2019	2020
Commodity	8,705	8,705	8,705	8,705	8,705	8,705
Pass Through*	5,090	5,171	5,711	6,038	6,640	7,064
Taxation*	3,972	4,826	5,518	6,474	8,509	9,922
CRC Tax	1,602	1,658	1,716	1,776	1,838	1,903
Total Cost	19,369	20,360	21,650	22,993	25,692	27,594
% Increase		5%	11%	18%	32%	42%

Cost Reduction Strategy:-

The commodity part of the overall electricity cost to the business is getting smaller and smaller and with prices currently at an attractive level we would recommend clients endeavour to lock in to the current prices.

The real prize is in the consumption, and this is where the focus should be – every aspect of the bill is influenced by consumption. If this particular business was to reduce consumption by 10%, it would achieve the

	2015	2016	2017	2018	2019	2020
Total Cost	17,522	18,418	19,583	20,798	23,232	24,949
Saving	1,847	1,942	2,067	2,195	2,460	2,645

following revised cost forecast:-

Electricity Market Reform is the single element that is going to have the biggest impact on our future electricity cost base which is a direct tax on consumption. Businesses need to be looking at projects that can reduce consumption as a matter of urgency. EMR is a gradual ramp up, but the costs begin to significantly escalate in 2017 so longer term projects are vital if we are going to mitigate the cost increases that have been clearly identified in this document.

Conclusion:-

Electricity costs are rising significantly and the way to mitigate this is not through commodity prices, but through consumption. We recommend locking out commodity costs at current levels and focussing on



e: info@walliscutts.com