INSIGHTS

Retailers must act now to minimise the impact of rising energy prices

Retailers across the UK are facing unprecedented rises in energy prices, impacting their operations and profitability. For over a decade, smart connected facilities management has added value to historically compliance-based contracts. Now, these same tools can be used to bridge this financial gap. Clear FM strategy to reduce energy consumption and cost while increasing revenue is vital.

Why are prices increasing?

The COVID-19 crisis was the foundation of a global wholesale energy market price surge. Global gas production was disrupted throughout 2020 and while consumption did reduce, it was not proportional. A cold winter in 2020/21 increased consumption, compounding this deficit by further depleting EU stores. Alternative energy sources then failed to replenish the deficit, with low wind in 2021 reducing wind farm production. With supply and stores both low, the wholesale energy market is now facing increased demand from Asia and speculation of political influences reducing supply from Russia. The UK energy market has been especially affected due to:

- Lower stores than many other EU countries following demolition of gasometers across the country
- High reliance on gas to generate 1/3 of our electricity and 85% of our heating
- Electrification of transport and heat to meet net zero targets, increasing energy demand
- Alternative energy sources are still unable to meet demand. The UK has the largest tidal system in the world, but it is insufficient in isolation

Purchasing strategies have softened the blow

Unlike the UK domestic energy market, there is no price cap within the commercial market. Businesses who did not plan and purchase energy strategically have therefore been exposed to large and sometimes immediate increases.

For retailers purchasing in excess of £1million annually it is beneficial, now more than ever, to buy strategically at an appropriate risk profile. By placing more risk with the supplier, agreeing a longer-term fixed rate for example, businesses may have paid an initial premium, but this 'hedging' has delayed the full impact of rising energy prices for many retailers.

Quantifying the rise and the impact

To quantify the financial implications of these rises for retailers we can look at a relevant example:

Retailer A forecast a combined gas and electric spend of £150million in 2021, which was exceeded.

Their forecast for 2022 is £210million, a 1/3 increase in one year.

With energy directly linked to inflation, it is surprising that the average supermarket grocery basket price only increased by 3.4% in 2021 according to Which?. Manufacturers say this increase was driven by supply chain pressures, rising wages, and freight costs. This illustrates how many retailers have so far been able to absorb or pass costs to their supply chain, but this is not a long-term solution. It is vital to identify alternative measures to balance this cost increase.

Improving efficiency is the number one priority

Sustainability has driven energy efficiency targets for over a decade. Improving efficiency should now be the number one priority in balancing both financial and environmental impact. A combination of best practice principles and innovative technology has enabled one national retailer to achieve the same energy spend despite their estate nearly doubling over 10 years.

FM best practice

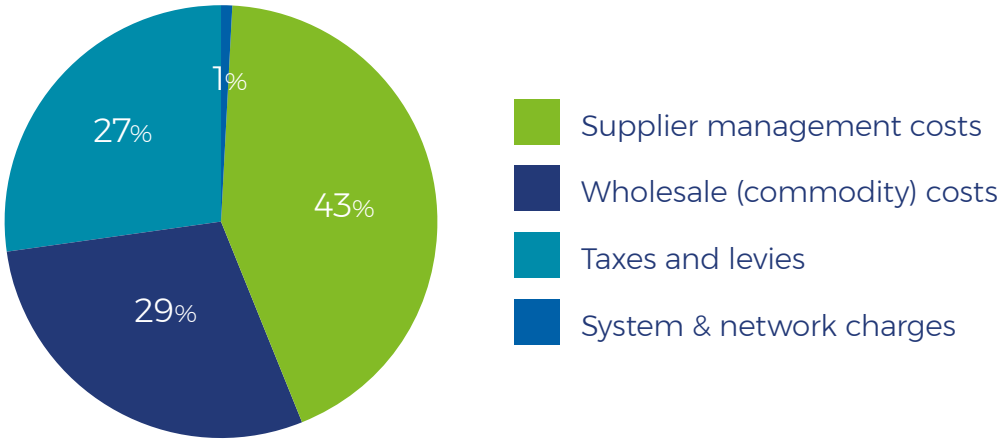
- Improved controls, alarms and response
- Load shedding
- Optimised PPM scheduling delivering marginal gains. Poorly maintained assets use up to 20% more energy
- Conscientious, engaged technicians delivering maintenance with energy in mind
- Collaborative planning

Technology

- Alternative cooling processes using less energy
- Efficient EC fans
- Global tools adjusting estate parameters remotely
- Recovering waste heat from assets to heat water and air temperature while improving asset efficiency
- LED lighting

Identifying financial savings & revenue

In addition to efficiencies, there are many ways retailers can achieve financial savings and revenue streams. Commercial energy prices comprise a number of elements, typically split into the following proportions:



Financial energy strategies can reduce levies and system network charges while creating a rechargeable commodity, transforming the average energy bill.

The current Climate Change Agreement (CCA) scheme started in April 2013. There are 52 government CCA sectors each with its own federation managing the scheme. Each federation offers practical energy efficiency advice and support with compliance, offering a levy tax discount up to 92%. CCAs apply to individual locations, so viability should be considered on a site-by-site basis to ensure that the cost to implement does not outweigh the levy discount achieved.

Other facilities projects developed with retailers over the last decade to make savings and generate revenue include:

Solar panels owned either by the retailer or a 3rd party. Depending on the installation scale, energy purchased is reduced and additional income can be earned from 'Feed-in-Tariffs'.

Virtual 25MW Power Station
The first of its kind in the UK. The connectivity of 1,000s of assets creating thermal inertia supporting National Grid fluctuations at peak times with zero emissions. Representing huge savings and additional revenue.

Using **generators to make energy** beyond their requirements enables retailers to 'sell back' purchased energy to their provider at a higher rate than they purchased it for.

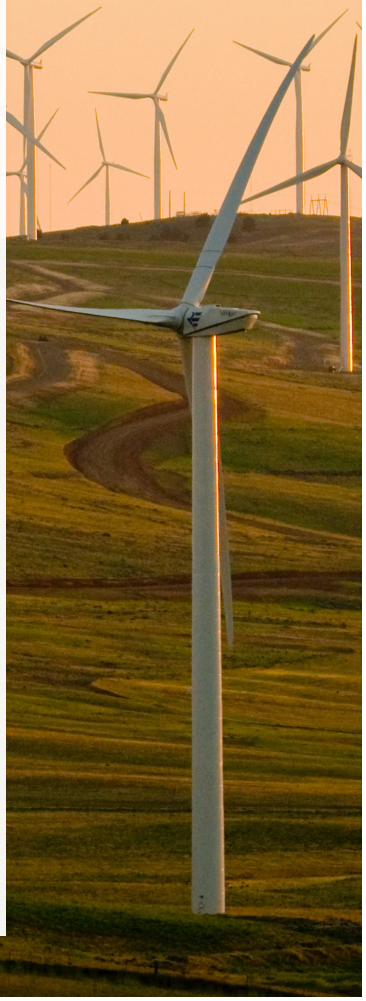
Gas meter upgrades have seen standing charges reduce dramatically as they can take advantage of 'cheaper' tariffs.

Supporting the switch to renewable energy

Retailers are also under pressure from the government and consumers to decarbonise the energy they consume to achieve RE100 membership, in addition to reducing costs. The two main options available in the market to purchase renewable energy are Power Purchase Agreements (PPAs), backed by Renewable Energy Guarantee of Origin (REGO), and REGO certified products.

PPAs are an ideal model for retailers to source renewable energy direct from sustainable energy suppliers, as they are completely transparent. Schemes vary in size from small community windmills to large offshore windfarms. An example of one of these schemes is Amazon who are due to receive 170MW of their energy in 2022 from renewable sources under a PPA agreed with BP in 2019.

In the long term, PPAs often deliver more effective rates than REGO certified products but there are barriers to establishing them such as due diligence, legal structure and commitment length. FM Energy Bureau experts can support retailers to overcome due diligence barriers by reviewing the market and assessing potential providers and their strategic alignment, making PPA a more viable option.



The future of commercial energy management

With the majority of current energy sources remaining finite and demand increasing, it is likely that energy price rises will continue until renewable sources are more advanced. Long term solutions are required and retailers supported by FM experts need to become active participants in their consumption. Through best practice, innovative technology and expertise, a path to 'energy maturity' can be established to minimise the impact of rising energy prices.

To learn more about how City can transform your organisation's energy efficiency, speak to a member of our specialist team.

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