

## Energy deals cut costs

## Market go-between captures hidden value

The cost of generating renewable energy is falling, but for end users the benefits often remain out of reach.

The problem is that the prices paid by users don't necessarily reflect the fall in the cost of producing that electricity.

That's where renewable energy offtake agreements - where businesses contract directly with renewable energy generators - can help.

Stacey Vacher, managing director of Edge Energy Services, says: "The opportunity with the renewable offtake agreements is very much about trying to link the price of energy more to the cost of generation, as opposed to where the traded, visible liquid forward market may be."

Prices charged by electricity retailers are traditionally linked prices set in the forward market.

"Pretty much every retailer, and plenty of generators as well, are off diversifying and taking advantage of renewable projects and the reducing cost of renewable products," she says.

"But they're still pricing to the retail customers at the forward curve."

That has created an opportunity for Edge Energy Services, which puts together and implements energy solutions for its clients.

The aim is to rescue the cost saving now being captured by the energy generators and retailers and to deliver it to the customers.

"The retailers weren't prepared to pass through that benefit, so we're out there proactively seeking it."

There are benefits to be passed on even from the old base-load generators, which still enjoy prices comfortably above their production costs.

"They're aggressively going to customers and trying to cut deals behind the scenes as well," Vacher says.

Momentum is building for big commercial and industrial energy users to sign up for energy offtake agreements.

"I feel that next year we'll see a lot more corporate offtake agreements.

They've done their homework, they've taken 18 months or two years to get there, and they're really willing now to start committing," Vacher says.

Not long ago, procurement deals were typically between the customer and the energy retailer, but they are becoming more flexible.

"With increasing volatility and increasing prices, it's about trying to get more control back into the hands of the customer, making sure the retailer is exhausting every opportunity in the market and delivering all the value back to the consumer," Vacher says.

"We've been able to do that by involving wholesale counter-parties as well."

While the traditional arrangements might have locked in a price with a single energy retailer, Edge negotiates directly with third parties as well.

It can arrange delivery - and billing - through the retailer itself, a process known as "sleeving".



Edge Energy Services puts together and implements energy solutions for its clients.  
Inset: Stacey Vacher. PHOTO: TYLER ALBERTI



"Then if we outperform what the retailer's putting on the table, if we ensure the flexibility's in the terms and conditions from the outset - which is our job, that's what we're there to do - ultimately we can feed those wholesale deals through the retailer," Vacher says.

"If it delivers more value than they've been able to procure, then we'll sleeve it."

The key is making sure electricity sale agreements have that flexibility built in from the start.

Even so, there are some hurdles to be cleared. One is what's known as "shape risk".

That's the risk that the flow of energy from the renewable project - its generation profile - is not the same as the profile of energy a business needs.

Edge's senior portfolio manager and market

**It's about trying to get more control back into the hands of the customer**  
Stacey Vacher, managing director of Edge Energy Services

analyst, Thomas Dargue, calls the solution a "firming product" - a procurement agreement that "firms" supply by working around the potential mismatch.

"It's more a financial issue than a security of supply issue, because most of our customers would still be connected to the grid," Dargue says.

"So even if the generators that they'd had an offtake agreement with are not producing, they would actually get the balance of their energy consumption from the grid."

That does not necessarily mean falling back on traditional base-load generation.

Users can take advantage of the natural diversification from many renewables generators feeding into the grid at the same time.

Another hurdle for big energy users is how to integrate their procurement process into their corporate structures in a volatile market dominated by derivative products, regulatory uncertainty and complex, rapidly evolving technology.

Dargue says businesses are aware this has to be actively managed, but have not worked out how to locate it within their systems and how to resource it.

"The business's first response is to try and jam it into existing processes, and I think they're now going 'no, actually, we need more information to make these sorts of decisions'."

Vacher singles out a renewed carbon pricing scheme as a key risk, pointing to energy users who were hurt because they failed to build it into their agreements the first time around.

By contrast, she says, Edge were "proactive with carbon when it came in the first time and saved customers tens of millions of dollars".

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