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Take or Pay

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Take or Pay is a contract clause, meaning an organisation either 'takes' what energy is allocated to them or 'pays' the supplier a penalty.

Overview

Although Take or Pay clauses have historically been for larger gas supplies, they can now be found for smaller users as well as in larger electricity contracts.

When negotiating a contract the supplier allocates a set amount of energy for that contract. If you use far more or far less than expected then a Take or Pay clause in your contract with the energy supplier may be enforced.

Why has Take or Pay become more of an issue?

Government Carbon Taxes

Government enforced carbon taxes like the Climate Change Levy (CCL) are forcing organisations to think about their usage, encouraging them to find ways to reduce the amount used.

Recession


In an economic downturn, organisations cut back on usage, either through necessity or because production levels have fallen.

Price Volatility for Energy Suppliers

Wholesale electricity and gas market price fluctuations are difficult to predict. The energy suppliers use the contracted amounts to purchase the correct amount of energy at the best time possible.

Why is it enforced?


Every electricity and gas meter has an estimated average amount it uses based on past data. Annual Quantity (AQ) for gas & Estimated Annual Consumption (EAC) for electricity.



If too much has been used, the supplier will have to buy extra to make up the shortfall, which is risky as wholesale prices may have increased since the start of the contract.

Suppliers use this figure when generating a quote so they can calculate how much energy they need to buy on the wholesale market to supply a contract.

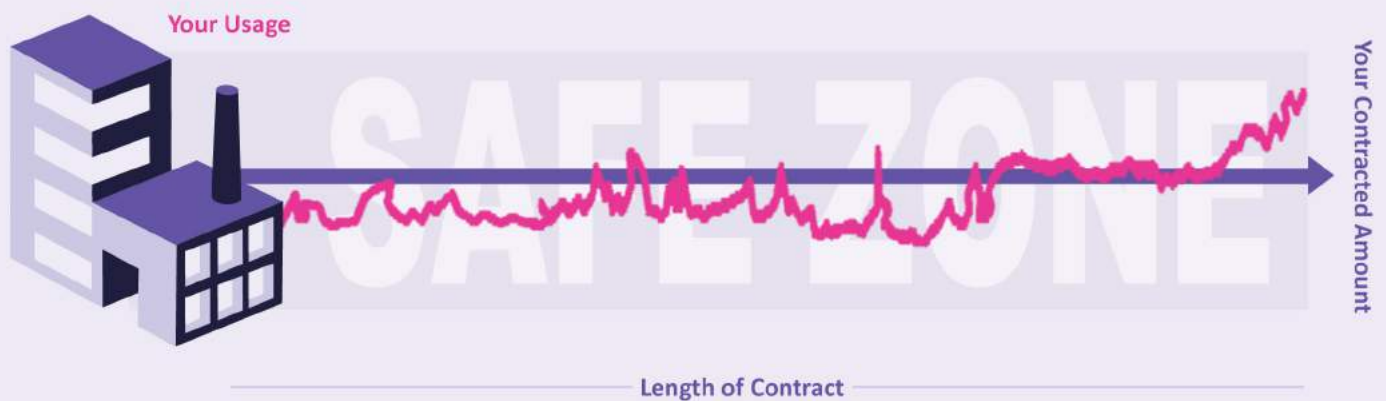
The problem arises if, the amount used is considerably different to what the supplier was expecting.



If too little has been used, the supplier is left with an excess that they will have to sell back to the wholesale market at the current market price, which could result in a loss.

Take or Pay clauses safeguard them from this risk.

Does it affect you?



If your contract includes a Take or Pay clause it should specify what your supplier deems to be an acceptable threshold of consumption for your meter(s).

There will be two percentage figures – one specifies the allowed usage above the contracted consumption total and another detailing the allowed usage below the contracted consumption total.

We have found that this is usually no less than 20% below and no more than 20% above the set amount. We call this the 'Safe Zone' but it can be known as "volume tolerance" and/or "tolerance band".

Keeping inside your Safe Zone for the duration of the contract will protect you from Take or Pay.

Pointers

- Does your contract include a Take or Pay clause?
- What is your Safe Zone?
- Track & regularly monitor your usage
- If you know you will exit your Safe Zone let your supplier know and discuss your options with them.

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About Indigo Swan

We believe everyone is entitled to the truth about their energy and shouldn't be penalised because they don't have the knowhow.

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The information in these guides has been prepared in conjunction with Cornwall Energy who provide strategic energy market intelligence.

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