

## ► Take or Pay

Version: 5

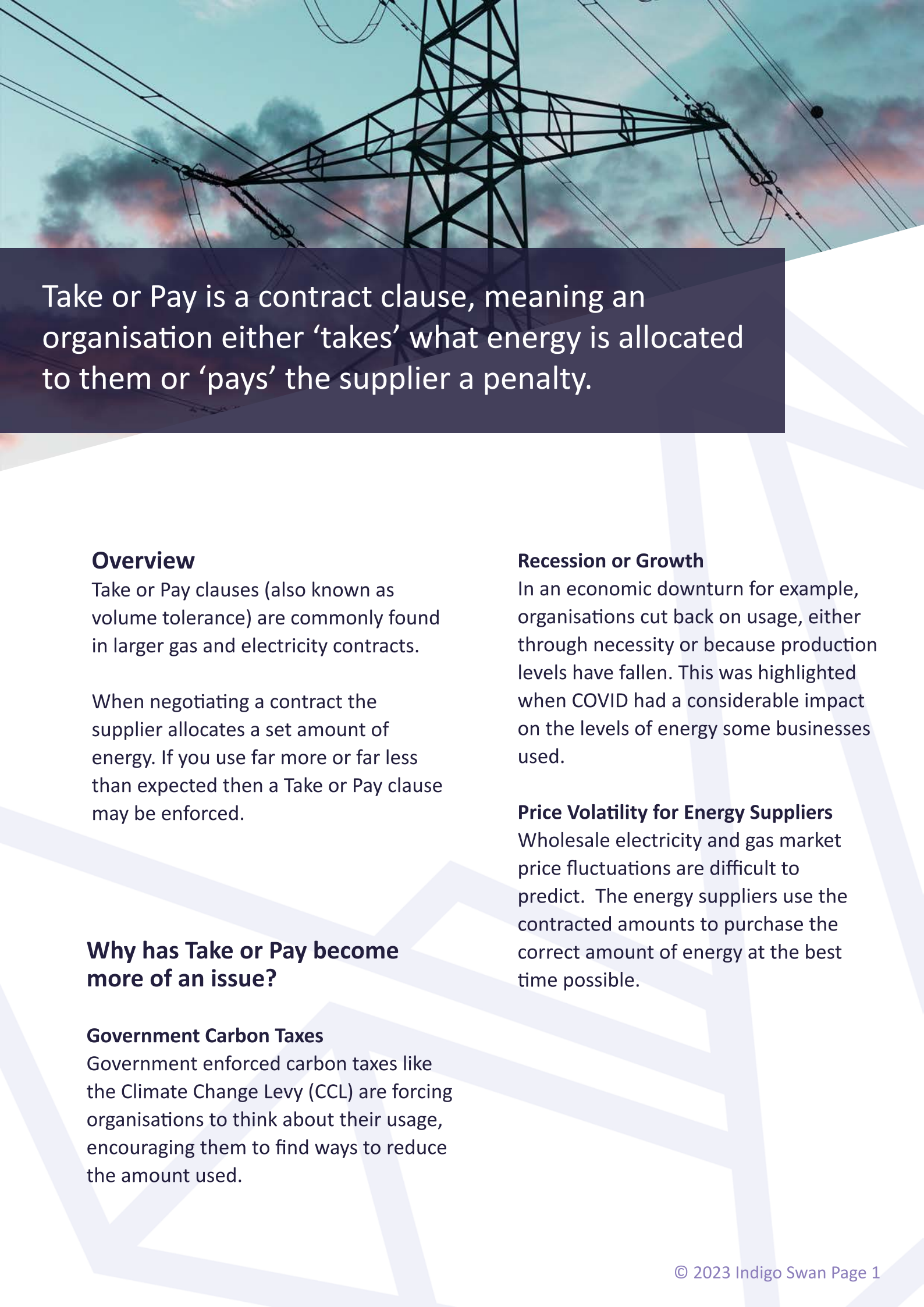
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energy enthusiasts





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**

Take or Pay clauses (also known as volume tolerance) are commonly found in larger gas and electricity contracts.

When negotiating a contract the supplier allocates a set amount of energy. If you use far more or far less than expected then a Take or Pay clause 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 or Growth**

In an economic downturn for example, organisations cut back on usage, either through necessity or because production levels have fallen. This was highlighted when COVID had a considerable impact on the levels of energy some businesses used.

#### **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 amount it uses based on past data. Annual Quantity (AQ) for gas & Estimated Annual Consumption (EAC) for electricity.

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 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 contract was signed.

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

Take or Pay clauses safeguard them from this risk.

The wholesale price volatility seen since 2021 has highlighted the potential exposure that energy suppliers face if contracted consumption levels are incorrect.

## 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 10 to 20 more and less than the contracted volumes. If you know you are likely to have a large variation, look to get the Take or Pay increased or removed in tender negotiations.

## Pointers

- ▶ Does your contract include a Take or Pay clause?
- ▶ Track & regularly monitor your usage
- ▶ If you know you will breach your limits, let your supplier know and discuss your options with them.



## ► About Indigo Swan

We're Indigo Swan, energy contract enthusiasts. Our tailored service fuses relentless efficiencies with a colourful personality, and an unflinching commitment to finding a better way. We're proud to be exceptional. This, alongside our world class team, is what makes our service award-winning.

## ► Contact us

Email: [hello@indigoswan.co.uk](mailto:hello@indigoswan.co.uk)

Telephone: 0333 320 0475



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