

Everything You Should Know When Negotiating Energy Supply Agreements

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Several aspects of energy agreements can easily trip up even the most seasoned procurement professionals. Unless you are aware of some key terms and slight verbiage adjustments that can drastically affect the price you pay on your bill, you could walk away thinking you secured a good deal – when the agreement tilts in the supplier's favor.

The same focus applies when negotiating an energy supply agreement, such as electricity or natural gas. Everything seems to come down to price. **After all the talk and all the negotiation, ultimately, the decision comes down to one question: "What am I paying?"**



Keep reading to uncover the five energy agreement aspects to pay attention to when negotiating energy contract terms.

It's Business, Not Personal

Like almost any industry where the customer pays for some service regularly, energy suppliers often treat penalties and fees as a source of revenue. The first thing to be aware of is that energy suppliers may try to capture revenue through additional fees resulting from agreement terms more favorable to them than the purchaser. This process isn't to suggest that suppliers are sneaky or underhanded. It's just business.

The five elements below can result in additional fees depending on how you negotiated your agreement. While many terms comprise an energy supply agreement, a handful directly affects what you pay monthly.

1. Payment Terms

While the most familiar, this aspect of your agreement can also be the trickiest and potentially costly. To achieve a lower cost, agreeing to a shorter payment window, for example, may earn you better rates but can also result in hefty late fees.

2. Termination Fees

Among suppliers, termination fees are typically the least flexible of the points we address here. Termination fees are assessed if you terminate an agreement before it expires. The rationale for the payment is that when you sign an energy supply agreement, the supplier buys that specific amount of energy for you. If you terminate early – without using/paying for all the energy, they secured for you – the supplier will need to sell that unused energy back into the market.

Termination fees can range. On the low end, some suppliers charge the cost of selling that unused power back into the market. On the high end, other suppliers include exorbitant penalties for terminating on top of any losses incurred from selling the energy back into the market.



3. Adds/Deletes

Buyers for large entities must deal with expansion and adding (or deleting) meters to (or from) their energy agreements. Energy expansion is typical for customers with multiple meters spread over various locations, groups that frequently open new locations or build new sites, or enterprises that establish (or remove) lots of infrastructures need to pay close attention to these clauses.

Most suppliers do not include an add/delete clause option. It is an administrative hassle, and market uncertainty makes it a risky proposition for the supplier. Working closely with your energy advisor to structure agreement language is key to your agreement's success. Failure to do so can add penalty fees when not correctly negotiated.

4. Usage Bandwidths

Many agreements are restrictive regarding energy use that falls outside (above or below) the pre-estimated monthly volumes. Bandwidth limits can make for a costly bill if you buy energy outside your agreement terms while the market is much higher than when you first secured your agreement rate.

Suppliers are across the board regarding their standard agreement language about usage bandwidth. Some suppliers offer unlimited bandwidth initially, while others may offer it as a negotiation tactic. Natural gas agreements, for example, typically do not allow bandwidth changes. In contrast, electricity agreements, on the other hand, often have a guaranteed rate regardless of the actual amount of electricity you use.

5. Material Changes

Regardless of anything else in your agreement, if your usage changes "materially" and negatively impacts the supplier, the supplier has the right to impose high penalties, unilaterally reprice your rates, or even terminate your agreement.

As you negotiate one of these in your favor, the supplier will enact countermeasures in the other two to swing the agreement back into their favor. If you arrange a clear and limited definition, the supplier may counter that by lowering the add/delete percentage or reducing your usage bandwidth.

In a Perfect World, What Are the Ideal Terms?		
<i>Contract Term</i>	<i>Ideal Customer Arrangement</i>	<i>Ideal Supplier Arrangement</i>
Payment Terms	As long as possible	Immediate payment
Termination Fees	No fee	Recoup all losses plus fee to cover administrative costs
Adds/Deletes	Unlimited changes	No add/delete provisions
Usage Bandwidth	Unlimited usage	0% Usage bandwidth
Material Changes	Avoid the clause entirely	A very vague, broad definition

Key Takeaways

When negotiating energy agreements, it's not just the sticker price that impacts your overall spending. The terms and conditions play a massive part in the amount you pay. Do you want to control your energy spending without dealing with legal agreements and roadblocks, as mentioned above?










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Reduce Costs On Electricity & Natural Gas

Many Public Sector and MASH entities that buy energy don't realize that rates can be competitively bid or how the volatility of electricity and natural gas prices can impact their overall energy costs. Depending on market conditions, using an advisor can often reduce overall energy costs or stabilize rates, so budgeting is easier and energy programs are more manageable. Even in regions where energy is not deregulated, services such as analyzing tariff rates and auditing energy bills can reveal opportunities for saving or improved efficiencies.

Comprehensive Energy Risk Management & Procurement Solutions

 <p>Market Research & Intelligence</p> <ul style="list-style-type: none"> • Wholesale energy market insight & pricing • Primary research reports • Regulatory & legislative tracking 	 <p>Bill Processing & Payment</p> <ul style="list-style-type: none"> • Energy & utility usage and spend reporting • Increase efficiency & reduce expenditures
 <p>Strategic Risk Management</p> <ul style="list-style-type: none"> • Exposure analysis • Assess market dynamics • Evaluation of strategic options 	 <p>Communications</p> <ul style="list-style-type: none"> • Quarterly contact to review current supply agreements, procurement opportunities and related issues
 <p>Energy Procurement & Supply Management</p> <ul style="list-style-type: none"> • Electricity, natural gas & solar • Supplier vetting & management • Customized reverse-auction RFPs 	 <p>Sustainability</p> <ul style="list-style-type: none"> • Solar energy project evaluation and installation • Renewable energy procurement • Power Purchase Agreements (PPA)
 <p>Data Management & Reporting</p> <ul style="list-style-type: none"> • Online contract management • Budgeting & forecasting • Usage & cost tracking 	 <p>Client Education</p> <ul style="list-style-type: none"> • 2-day energy risk management seminars • Price forecast seminars & webinars • Monthly product & service webinars
 <p>Client Services</p> <ul style="list-style-type: none"> • Reporting & communication • Bill verification • Dispute resolution 	 <p>Demand Response (DR)</p> <ul style="list-style-type: none"> • Generate a new revenue stream • Avoid price spikes / reduce costs
 <p>Tariff Rate & Tax Analysis</p> <ul style="list-style-type: none"> • Utility bill audits • Cost recovery 	 <p>Demand-Side Management</p> <ul style="list-style-type: none"> • Energy efficiency audits • Project recommendations

Contact:
 Connor McMahon, Energy Advisor
 Connor.McMahon@TraditionEnergy.com
 www.TraditionEnergy.com/kinetic-gpo