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The Manufacturers' Organisation

ENERGY PROCUREMENT: THE COST OF COMPLACENCY

CONTENTS

INTRODUCTION

Towards the end of 2022, energy prices hit the headlines for all the wrong reasons. A surge in energy prices saw the cost of energy fast become the number one issue for UK manufacturers. With no signs of prices falling, manufacturers took a range of actions to mitigate the impact of this considerable overhead, with some companies opting for subtle changes and others taking more drastic action.

Energy procurement became central to these discussions. Furthermore, it soon became clear that those companies with a firm energy procurement strategy in place were better able to weather the storm.

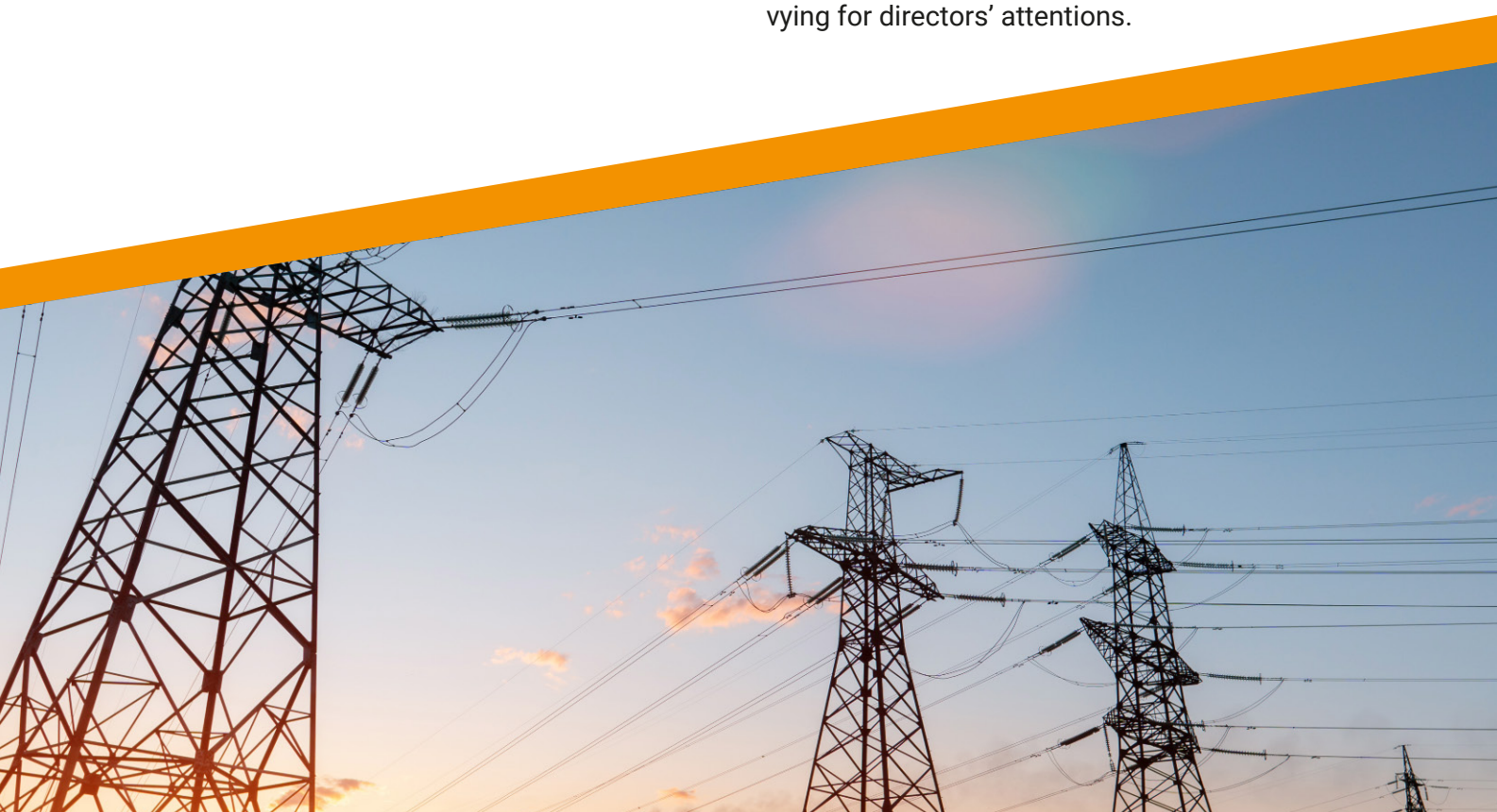
But not everyone took such measures. Even now, we expect many manufacturers still do not have an energy procurement strategy within their business. And with energy prices now falling, there is a risk that they never will, until another energy crisis hits their door.

The energy crisis did not occur in isolation. Instead, the crisis reflected a culmination of years of rising vulnerabilities in the global and domestic energy landscape. Geopolitical frictions, particularly the war in Ukraine, exposed Europe's fragile reliance on natural gas imports.

For the UK, this dependence on external energy sources compounded already existing challenges, including the increasing costs of meeting environmental obligations and the underinvestment in renewable infrastructure that may have otherwise had some potency in offsetting the impact of foreign price shocks.

The challenge was even more acute for smaller firms, which the UK manufacturing market is comprised of ~99% SMEs. Without the benefit of dedicated procurement teams or access to flexible purchasing options, many were left vulnerable to fixed price contracts that had been negotiated and signed during price peaks.This further widened the competitive gap between manufacturing firms, as larger companies were often better equipped to navigate the crisis thanks to established procurement strategies, or even without that, being able to benefit from raw economies of scale.

For many, the volatility in the energy markets at the time revealed just how interconnected energy procurement was with broader industrial and economic trends, not least the UK energy market's connectedness with that of the continent's. At the time, it was more difficult to separate the effects of the crisis to a business' bottom line, as it coincided with rising general commodity inflation, supply chain bottlenecks and simmering wage pressures, vying for directors' attentions.



All the while, the ability to forecast energy expenditures and secure competitive pricing became not just a clever financial bonus but a strategic necessity to remain competitive both in the UK and abroad, particularly as national governments across Europe scrabbled to intervene and support their own sectors to varying degrees of success.

Energy security and sustainability has been thrust onto centre stage ever since for not just the industry, but its stakeholders and the Government too. Policymakers and representative groups, such as Make UK, advocated increasingly for the transition to renewable energy to reduce exposure to global price fluctuations.

Although the slow rate of grid upgrades, the lead times for renewable energy infrastructure projects and uncertainty on successive governments' policy priorities for industrial support all served to ensure there was no quick fix to insure the UK's sector from energy market risks. At least for now, individual businesses must take an eyes-wide-open approach to their energy purchasing, as operational resilience regarding to energy remains almost entirely in their hands alone.

However, the crisis underscored the importance of robust energy procurement practices as a core tenet of operational resilience. Nevertheless, as prices began to fall in early 2024 there are some early signs that some of the industry are taking a step back from focussing on prudent procurement practices, leading to the concern as to whether the lessons of 2022 have translated into lasting change.

Have manufacturers become too complacent? This report seeks to answer this question and determine whether energy procurement strategies are now deemed as business critical, or have they taken a back seat?

Survey response demographic: Make UK surveyed its members in October 2024. 139 manufacturing companies responded to the survey across a range of manufacturing sub-sectors and across each region of England and Wales. 19% of those surveyed had less than 50 employees, 29% had between 51-100, 20% between 101-259, 18% between 251 and 500 and 14% had more than 500 employees.

WHAT DO WE MEAN BY ENERGY PROCUREMENT?

Generation and distribution

The UK's energy market infrastructure is a complex system which ultimately delivers electricity and gas to millions of homes and businesses. Where businesses are concerned - and in the case of this report, manufacturers - understanding the foundations of the UK's generation and distribution models can help in making the right decisions for any given procurement strategy.

The term 'generation' refers to the process of producing electricity (or other forms of energy) from primary energy sources. Generation is stratified by a mix of power sources, each contributing to the grid's total output. The core sources are:

1. **Fossil fuels** such as coal and gas have been the longest standing primary sources for energy generation in the UK market. UK generation remains particularly dependent on natural gas where capacity is required at short notice, as the ability to generate energy from natural gas is more flexible and reliable. It is this demand-peak dependency on natural gas which left the UK's energy market vulnerable to global gas price and supply disruptions in 2022. Coal, the foundation of the UK's historic industrialisation, has now been phased out, leading to a reliance on other sources.

2. **Renewable energy** has grown significantly as a share of the UK's power mix over the last decade. Examples of renewable energy sources would include wind, solar and biomass generation. In 2024[1], renewable energy generation accounted for a record-high 45% of generation capacity, testament to the UK's shift away from traditional and more carbon-intensive sources.[2] Nevertheless, some forms of renewable generation have inherent vulnerabilities, such as in solar and wind, where fluctuating weather conditions will dictate the reliability of their production efficacy.

3. **Nuclear power** accounted for 13% of the UK's generation mix in 2024[3]. Despite providing a very stable and low carbon form of energy, exceedingly long development times and high initial costs exacerbate political and sentiment-based concerns around its future role in the UK's power generation composition.

4. **Other sources** such as more emerging technologies like hydrogen and wave power have started to enter the mix albeit only contributing a small share. More investment and innovation commitment will be required to reach widespread commercial viability of these forms of generation to achieve significant shares of the generation pool.

5. **Interconnectors** – The UK has a growing number of electricity and gas interconnectors with Europe, where gas and electricity can flow to and from the UK. These interconnectors help to provide some supply security and access to countries who typically have cheaper prices, and electricity interconnectors provided 10.4% of the electricity consumed in the UK in 2023[4]. Nevertheless, interconnectors flow both ways, so also serve to increase the potential volatility we can see in the market.

Once generated, the energy must then be subsequently transmitted to customers, domestic users, and businesses alike. This transmission starts with the high voltage transmission network, which is operated by the well-known National Grid, designed to transmit power from the various sources of generation previously outlined to regional networks.

The gas transmission network is also managed by the National Grid, bringing gas from domestic production fields, import terminals (pipes/ports) and storage facilities to more local distribution systems.

1 https://www.carbonbrief.org/analysis-uks-electricity-was-cleanest-ever-in-2024/

2 https://www.nationalgrid.com/the-great-grid-upgrade/big-bright-future

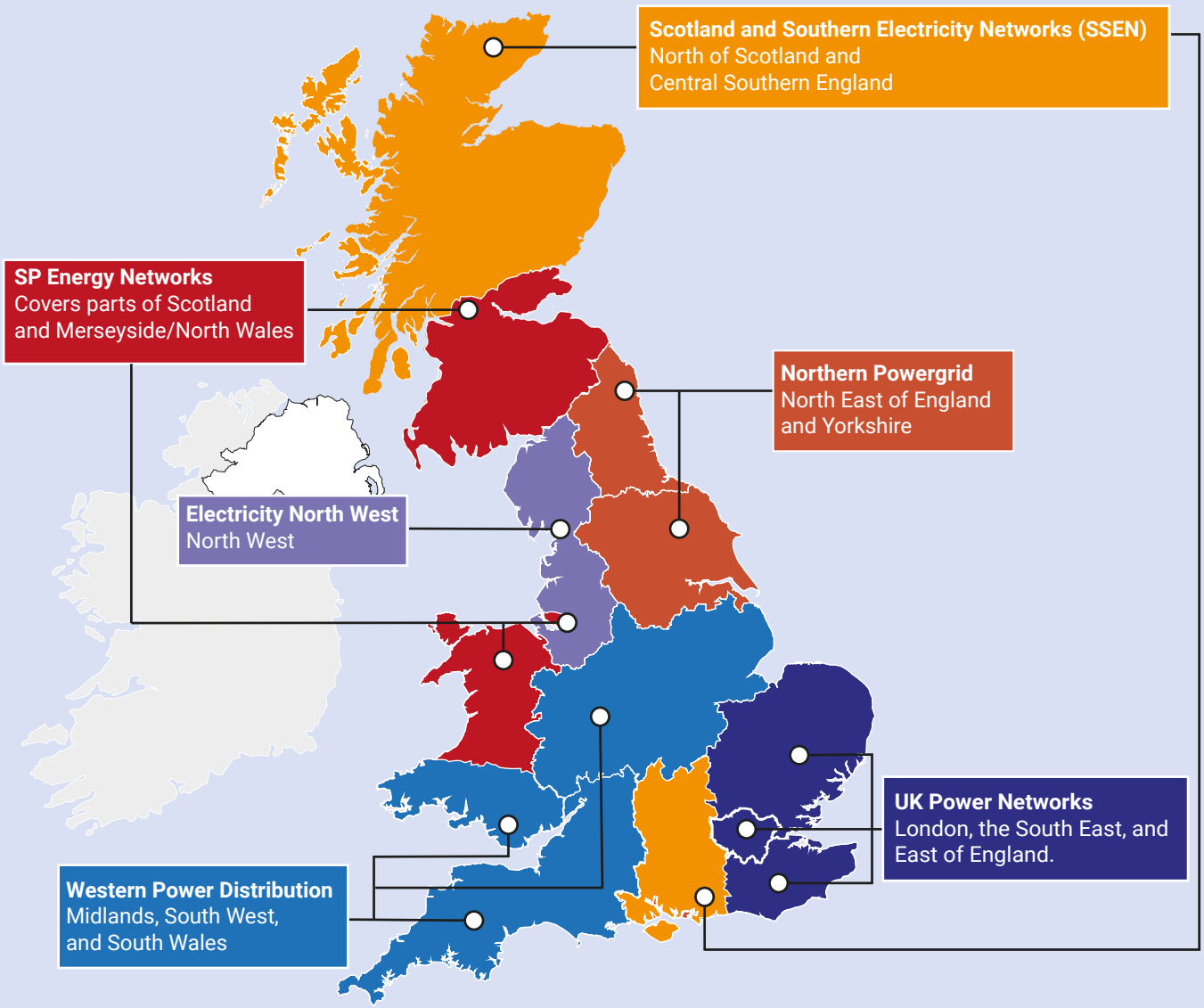
3 https://www.carbonbrief.org/analysis-uks-electricity-was-cleanest-ever- in-2024/

4 https://questions-statements.parliament.uk/written-questions/detail/2024-03-25/20214?utm

Once the energy transmission from the National Grid reaches its intended locale, regional distribution networks come into play, handling the 'last mile' transmission to end customers.

In the case of electricity, voltage is stepped down through transformer substations. There are six regional Distribution Network Operators (DNOs).

Chart 1: The six regional Distribution Network Operators and their local markets



While these DNOs provide the critical last mile service, their existence adds another layer of cost that is ultimately borne by the customer. Gas operates in a not too dissimilar fashion, but instead of stepping down voltage, gas transmission pressures are reduced for safety and practicality reasons.

The traditional relationship between generation and distribution and its impact on customers is evolving in the UK as more customers look to alternatives to typical procurement, whether it be for cost, reliability, or capacity constraints. Self-generation, whether solar, wind or otherwise, coupled with significant advancements in on-site energy storage, means that more and more customers are taking a different approach to the generation-transmission dichotomy.

The wholesale market

The wholesale energy market enables electricity and natural gas to be bought and sold in large volumes. Generators and producers, who supply electricity or gas to the market, sell the energy and suppliers or retailers purchase energy to supply to end users. However, there are other market participants who neither generate or sell energy to end-users. These participants, often investment funds, trade energy for their financial gain and ultimately help with market liquidity. For manufacturers, the wholesale market, and subsequently the determined market price, plays the largest role in defining what a business ends up paying for their energy.

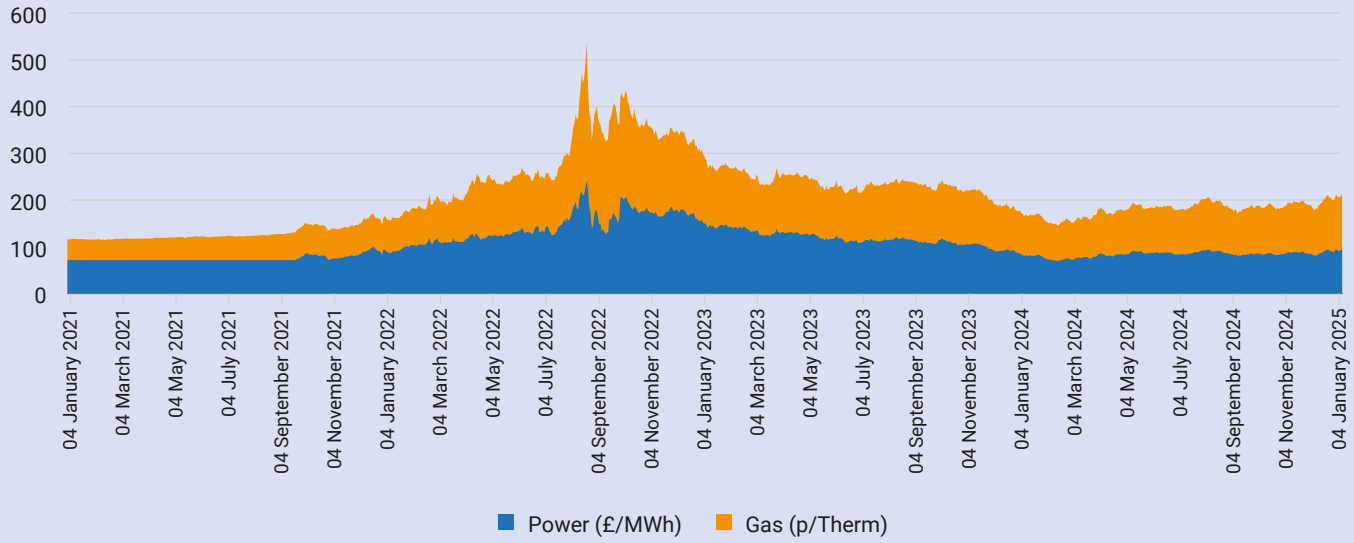
The wholesale market is complex, hence why end-customers almost universally do not engage directly with it, using a supplier or broker instead. Nevertheless, there are two main mechanisms with which stakeholders engage within these markets: **bilateral contracts**, also known as Over The Counter (OTC), and **exchanges**.

Historically, energy has been more commonly traded OTC, where buyers and sellers trade products through a broker and prices are agreed bilaterally. Recently, there has been a clear increase in exchanges being used, especially for intraday/next-day power trading, as the exchanges provide much greater transparency and liquidity.

Wholesale market prices are incredibly variable. Seasonal demand, changing weather and the availability of renewable generation capacity all have a determining role in wholesale market price setting. Most customers will be most familiar with this phenomenon at the end-user level when the price of domestic gas increases in winter as more people increase their gas usage to heat their homes. This price change is an example of a result of the demand/supply interplay on the wholesale market.

Inversely, in summer months higher levels of solar generation can put downward pressure on electricity prices. The 2022 disruption to gas supply routes associated with the Ukraine war is a significant example of how a supply-limiting shock impacted the wholesale gas price markets.

Chart 2: Energy costs: Day-ahead prices



Source: Inspired purchasing data 2025

Business routes to market

In essence, 'business routes to market' refers to the pathways through which manufacturers, amongst others, secure their energy supply. These routes are defined by the structure of the energy sector, the type of energy procurement contracts available and the growing prominence of self and decentralised generation. Understanding these pathways is critical for manufacturers to select the most suitable and cost effective procurement strategy.

In its simplest iteration, the market offers two main routes for businesses. Either engaging with suppliers directly or by entering into contracts that enable energy market access with third parties on businesses' behalf.

Energy suppliers

The most prevalent form of market access is seen through direct engagement with licensed energy suppliers. These suppliers act as middle facilitators between generators and end-customers by purchasing energy on the wholesale market and reselling to those same end-customers. Business typically have a range of choice of energy suppliers, all competing with each other in a secondary (separate to the wholesale energy market) supplier market for businesses by offering a variety of contract and incentives to end customers.

From these suppliers, most contracts fall under one of two categories: fixed price or flexible contracts.

Fixed price contracts offer certainty over a set period of time, protecting that end-customer from any potential market volatility in the contract period. They are more popular amongst the SME community, as they afford a business the freedom to 'fire and forget' at the time of contract negotiation, freeing up resource to focus on other operational needs.

However, this comes at a cost, or rather a cost of convenience, as the suppliers are taking the risk of the volatile market in securing a fixed cost for the commodity you are being supplied. When taking that risk, suppliers – just like any other business – ensure their coverage by adding additional premiums to the prices secured in the wholesale market.

On the other hand, **flexible contracts** allow end-customers – in this case businesses - to purchase energy in set increments, generally tracking wholesale market trends. This allows end-customers to take in the benefits of any favourable wholesale energy market conditions with the caveat of requiring a keen eye to be kept on the market for the time of the contract. In doing so, the premiums suppliers charge for these types of contracts are much less, as the supplier is not taking any risk.

Direct agreement with generators

For the largest energy users, of which many fall into the manufacturing category in the form of energy intensive industries (EIIs), direct contracting with the generators themselves can represent a beneficial route to market.

Power Purchase Agreements (PPAs) are long-term contracts between a generator and a (large) end-customer, enabling a user to buy energy at an agreed price over the longer term, and often from dedicated infrastructure, such as a wind or solar farm. This agreement certainty assists the generator with their capital requirements, typically for a given infrastructure project, so they are sometimes able to offer agreed energy pricing beneath what the wholesale market can offer at the time.

- **Purchase Power Agreements (PPAs)** are long-term contracts (typically up to 15 years) between a supplier and a (large) buyer of electricity. A PPA will include the amount of electricity that is being supplied by the supplier, the negotiated and agreed price and any penalties if the contract is not honoured. PPAs have recently caught Government's attention including within the Government's Industrial Strategy Green Paper in which it asks about examples of international best practice to support businesses on energy, such as PPAs, that respondents would recommend to

increase investment and growth. For Make UK, our argument remains that a lack of clarity around the future cost of industrial energy is having a negative impact on the development of PPAs in the UK. This contracts with European markets where there is transparency around future electricity policies and costs.

Corporate Power Purchase Agreements (CPPAs) play a crucial role in local initiatives, such as partnerships between regional industry and energy companies.

Government-backed and/or Pay-as-Produced (rather than fixed-volume) CPPAs allowing a guaranteed payment to the generator over the duration of the contract would shield them from penalties in the event of temporary reductions in generation during economic downturns. Even smaller companies are able to enter in 'multi-buyer' PPAs, combining their energy demand and collectively purchasing through a shared contract.

International examples show how corporate PPAs set up through strategic partnerships can drive the expansion of existing technologies, stimulate diversification into new technologies, support other industries and communities which in turn improve resilience and sustainability.

- **Hydropower** is a renewable source of energy that generates power by using a diversion structure to change the flow of a river or other body of water. Hydropower uses a combination of turbines and generators to convert kinetic energy into electricity which can then be fed into business. However, access to hydropower for industrial sites is very much dependent on whether a site is located near a hydropower plant (i.e. near a water source). Therefore, it can be seen as a bit of a postcode lottery for businesses, who are unlikely to set up or move their business simply to be closer to a hydropower plant.

- **Wind power:** Wind is increasingly seen as a key clean, renewable source of energy, providing much-needed electricity without burning fuel. It is a low-cost form of energy generation which is increasingly being used in the UK. Indeed, the UK is the sixth largest wind energy producer in the world. Many manufacturers already benefit from wind power and some have even gone so far to invest in wind power directly on their industrial bases. This form of on-site generation is likely to continue in the years to come.

- **Solar power:** A form of on-site generation that manufacturers will opt for themselves is industrial solar power. This form of power can not only help manufacturers reduce their energy bills but also their emissions, therefore helping them achieve their net zero ambitions. For manufacturers they will need to ensure they have the available space for the number of panels required as well as consideration of maintenance and lifespan. However, overall, solar power is a more accessible for industry.

Third party intermediaries and brokers

As energy costs have become a critical concern for businesses, intermediaries and brokers now have a more prominent role in the market.

Energy markets are complex, and this route to market enables businesses, particularly SMEs who may lack energy market resource or expertise, to still avail from the best market contracts on offer. Many of these intermediaries offer a fully managed service, where multiple supplier access, negotiations and market management all happen without input required from their end-customer.

Collective and cooperative purchasing

Collective purchasing provides smaller users who want a proactive and more flexible approach to energy buying, compared to a traditional fixed price, access to the wholesale market and a range of different strategies to suit their risk appetite and requirement for budget certainty.

Groups of similar business profiles can pool their energy usage via a consortium to place a specific energy contract. Collective purchasing offers a suitable "middle ground" for many businesses that are too small to access the wholesale market in their own right, but understand the risks of securing all of their energy on one day through the traditional fixed price route. This method of purchasing offers advantages like better rates through higher volumes purchased, lower risk and supplier premiums and access to favourable near-term market prices, not available on fixed

price contracts, by spreading risks over multiple transactions. A reputable TPI, like Inspired, can facilitate collective purchasing.

On-site and decentralised generation

With the rise in accessibility of on-site generation, typically seen as plant-topping solar panels for the even the smallest enterprises, an increasing number of businesses have been able to reduce their exposure to the wholesale energy market, subsequently reducing their exposure to risk. There also is the opportunity to sell excess energy back into the grid, although many manufacturers have seen this as a complex procedure.

For many manufacturers that have installed on-site generation, the objectives are typically wider than cost concerns alone. On-site generation offers the benefit of a more secure, or at least more predictable, energy supply while also meeting decarbonisation goals depending on the type of generation employed.

POLICY AND REGULATION

The UK's energy policy is comprised of two main mandates which do not always pull in the same direction. The first, to ensure the secure and affordable provision of energy to domestic and business users. The second, to achieve decarbonisation targets. Balancing these two mandates is a difficult task, and not one without controversy. The 2022 crisis saw perhaps the greatest widening between these two mandates for over a decade.

Core policies such as the 2008 Climate Change Act, which committed the UK to net zero carbon emissions by 2050, have the most potent impact on energy market participants. Supporting policies, such as Contracts for Difference (Cfd) and the Capacity Market, encourage investment in low carbon and renewable energy generation while preserving grid stability. Critically for manufacturers, these policies promote the availability of green energy in the market but come at a cost as levies are passed down through non-commodity charges.

Ofgem, the UK energy regulator, oversees market behaviour, but only in the domestic market and not in the industrial equivalent. Ofgem is most known for setting the domestic price cap, a limit which energy suppliers cannot charge their customer more than. This protects the domestic market from wholesale market upheaval but can leave suppliers vulnerable in unfavourable market conditions. Industrial users do not benefit from a price cap, which has often led users of the market to describe the UK business energy market akin to the 'wild west,' as the structure almost entirely relies on free market levers through supply and demand.

Policy levers such as the Renewables Obligation (RO), the Feed-in Tariff (FiT) and previously mentioned Contracts for Difference (CfD) contribute to renewable energy undertakings and grid improvements, however, they inevitably raise overall energy costs for business as non-commodity charges, also increasing energy bill complexity. The ultimate impact of policy levers on industrial pricing is very important for manufacturers not just for the raw effect of increased prices, but on what impact it has on UK manufacturers' footing on the competitive world stage. For many manufacturing subsectors, energy is one of the largest, if not the largest, consumable variables in their production process, and as such, governs businesses' abilities to compete in international markets on product pricing, particularly where competitor nations may have more favourable industrial energy policies, often through a form of subsidy.

While the UK does have exemptions and provides support for defined energy intensive industries (EII), there is a high bar for eligibility and the scope of the relief is limited, leaving the vast majority of UK manufacturers without express energy price support.

MANUFACTURERS AND THEIR ENERGY BILLS: COMMODITY VS NON-COMMODITY

Before exploring the extent to which manufacturers understand their energy bills, it is important to look at the make-up of these bills.

There are two 'types' of costs within an energy bill – commodity and non-commodity. **Commodity costs** are the charges a business will bill pay on the energy they have used, based on that firm's level of consumption. These are fairly easy for companies to understand.

Non-commodity costs however are arguably more complex. These are charges added to a firm's energy bill to cover the cost of delivering the energy to that business. These costs can be systems charges but also government levies.

For example:

Government Levies:

- **Renewables Obligation (RO):** This is focused on supporting renewable energy generation. All licenced electricity suppliers are obliged to source a set proportion of the electricity they supply from renewable sources.
- **Contracts for Difference (CfD):** This is collected by the Low Carbon Contracts Company who then make payments to CfD generations. It pays for the operational costs of renewable projects through CfD.
- **Feed-in Tarriff (FiT):** This is a government incentive that pays renewable producers a fixed rate for the electricity they generate and return back into the Grid.
- **EII Support Levy (ESL):** This is aimed at reducing electricity costs for Energy Intensive Industries (EIIs). There are various components to the scheme.
- **Green Gas Levy (GGL):** This places obligations on licenced gas suppliers, including a requirement to make quarterly levy payments to fund the Green Gas Support Scheme.
- **Capacity Mechanism:** This pays for the operation costs to support the Capacity Marker scheme to ensure the security of electricity supply during times of peak demand.

Systems Charges:

- **Transmission Network Use of System (TNUoS):** These charges typically cover the cost of using a transition network and are paid to the National Grid to cover the cost of installing and maintaining the Transmission Network.

- **Distribution Use of System (DUoS):** These charges relate to the expense of using the distribution network and are paid to one of the six Distribution Network Operators.

- **Balancing Services Use of System (BSUoS):** This charge is paid to the National Grid to cover the cost of maintaining the entire network.

And this is not where the costs end, new Levies - including carbon capture, usage, and storage (CCUS), nuclear and hydrogen - are all on the horizon.

It is vital that firms understand the differences in these costs, as their ability to reduce their energy bill will depend on which costs can and cannot be decreased. The same goes for influencing from a policy standpoint. When it comes to policy solutions, which we explore later in this report, some charges would be easier to reduce or indeed remove, than others.

As outlined previously, there are many non-commodity charges, which can cause a degree of confusion and misunderstanding in itself. The other challenge is in understanding the way in which non-commodity costs are calculated, which can vary between consumption and the number of contracted days (p/kWh or p/day).

Overall, though these costs are fixed and are, in a way, non-negotiable, they are deemed as a pass-through cost.

Commodity costs on the other hand give businesses more ability to influence their energy bill. While variable and extremely volatile, the cost of energy can be managed. The challenge for businesses is understanding when the best time to buy is and how far ahead they should buy.

An average manufacturer will not be able to do this alone – hence why so many companies use Third Party Intermediaries (TPIs), also known as brokers. We explore their role later in this report.

Understanding when is the best time to buy will always be an extremely hard decision to make in a commodity market as volatile as energy.

Chart 3: 12-month pricing over the last four years

Source: Inspired purchasing data 2024

This is why ensuring the procurement strategy a business adopts must align with their goals i.e., purchasing to achieve the best price, but then choosing a traditional fixed price contract in the hope the market is the lowest its ever going to be before the current contract expires – which is unlikely.

For businesses with futures markets access and the willingness to be proactive, or desire to secure budget certainty and long-term price visibility, the market has shown us that actually buying three years before renewal, out turns the best price versus a contract that is bought one year before renewal. The chart above shows this.

Chart 4: Paying a premium for more straightforward products

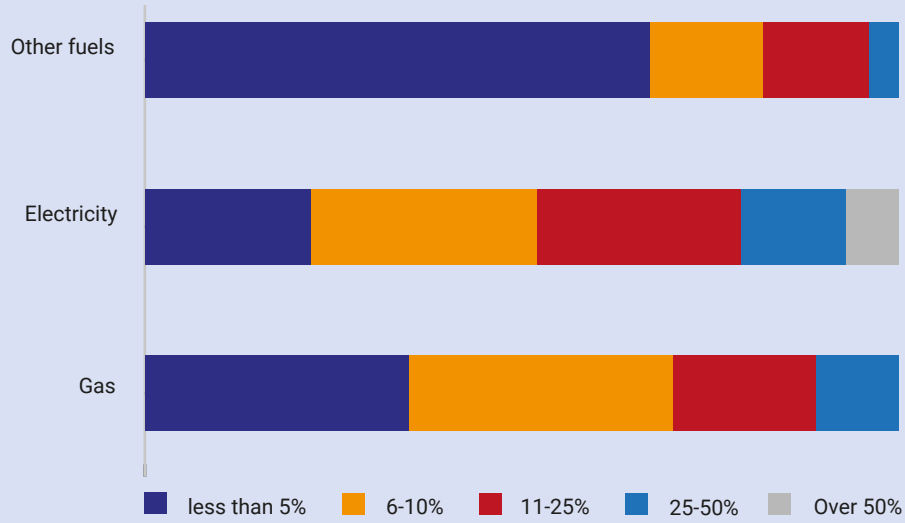
ENERGY COSTS: ALIGNING ACTIONS WITH AMBITIONS

Manufacturers have increasingly told us in recent years that energy costs are consuming a large portion of their total business costs, and this remains the case today.

In fact, over a quarter (27%) of companies say that electricity costs are between 11-25% of their total business costs and 19% say that gas costs are between 11-25% of their total business cost. Unsurprisingly, gas and in particular electricity costs are subsuming a far greater amount of total business costs than other fuels.

Chart 5: Gas and electricity consume a large proportion of total business costs

What % of your total business costs are you spending on:



Source: Make UK/Inspired, Energy Procurement Survey (2024)

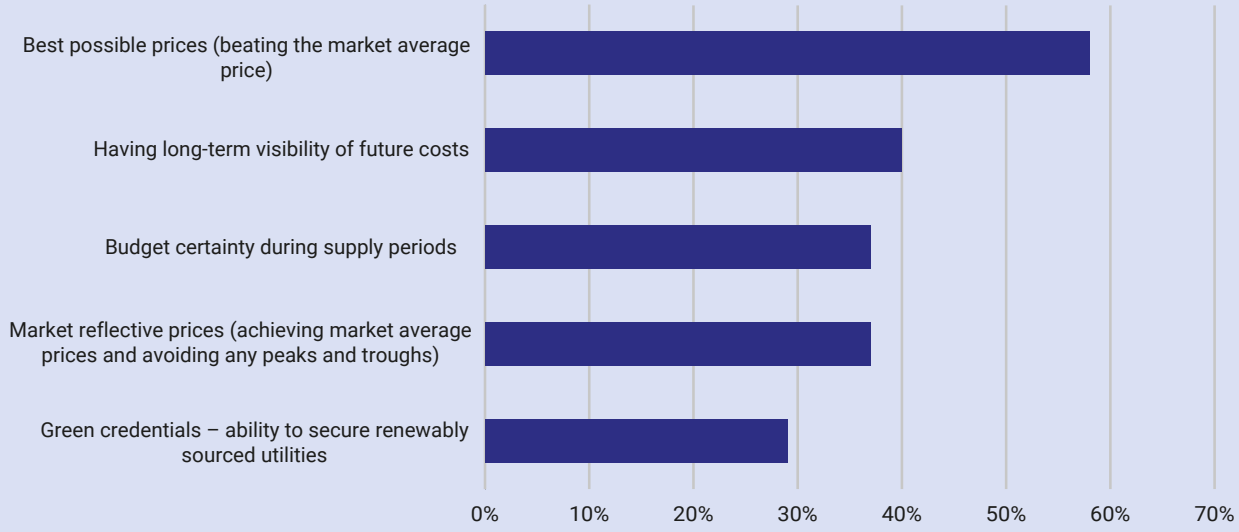
This aligns with Make UK's wider research which has continued to show concerns around increased energy costs. Make UK's *2025 Executive Survey* published at the start of 2025 revealed that 70% of manufacturers saw energy costs as a risk to their business in the year ahead and companies were continuing to identify ways in which they could mitigate these costs.

This survey shows us the role that procurement strategies play when it comes to cost – in particular, cost visibility and getting the best prices.

Of those companies with a procurement strategy in place, almost six in ten (58%) have one to help them obtain the best possible price, and, importantly, beating the market average price.

Two-fifths (40%) say one of the key objectives of their procurement strategy is having long-term visibility of future costs, again a necessary mitigating exercise.

Chart 6: Cost visibility and the best prices are key objectives of procurement strategies



Source: Make UK/Inspired, Energy Procurement Survey (2024)

Manufacturers' concerns about price increases have not faded away, as the vast majority (86%) of firms in this survey are either very or somewhat concerned about potential increases to energy costs in the next 12 months and the impacts these may have on their business.

Yet, despite these concerns, budget certainty during supply periods is lower down the list when it comes to being a key procurement strategy objective, instead the focus remains on beating the market price.

Interestingly, how manufacturers are buying energy does not quite align with their ambitions.

Over half (55%) of manufacturers say they last bought a fixed price, fixed term contract. However, this is not always the best means to secure the best price or most appropriate flexibility. While fixed price and term contracts offer predictability, they do limit the ability for businesses to respond and subsequently take advantage of favourable shifts in the energy market. While being shielded from short-term volatility is likely the core motivator for most who choose this procurement strategy, businesses on this path lose the ability to adjust procurement strategies to accommodate changing operational demands and any potential capitalisation on falling wholesale market prices.

The realisation of these disadvantages for some became rapidly apparent as the cooling of the 2022 energy crisis came about, as those who fixed at inopportune times found themselves locked into higher fixed rates as the wholesale market cooled, and given unstable manufacturing market conditions, demand for many manufacturing subsectors' products dropped, further punishing those on fixed contracts that were unable to benefit from more dynamic consumption options given a reduced operational energy necessity.

To demonstrate this in practice, we have provided some analysis of different approaches to energy purchasing during this time.

Option 1 – Fixed Price Contract: Secured one quarter before renewal, which was the most popular choice for survey respondents, contracted 1st July 2022 under a 12-month fixed price, starting 1st October 2022.

Option 2 - Price achieved within low risk / budget certain consortium: 72.5% saving vs fixed price.

Option 3 - Price achieved within medium risk / lower budget certain consortium: 66% saving vs fixed price.

While not appropriate for everyone, flexible risk-managed contracts either through a collective (32% of the industry) or standalone (12%) may offer better resilience, especially where future energy market uncertainties become increasingly complex. Despite the complexity, risk-managed contracts have the potential to provide more tailored and cost-effective answers to the proportion of manufacturers on fixed contracts.

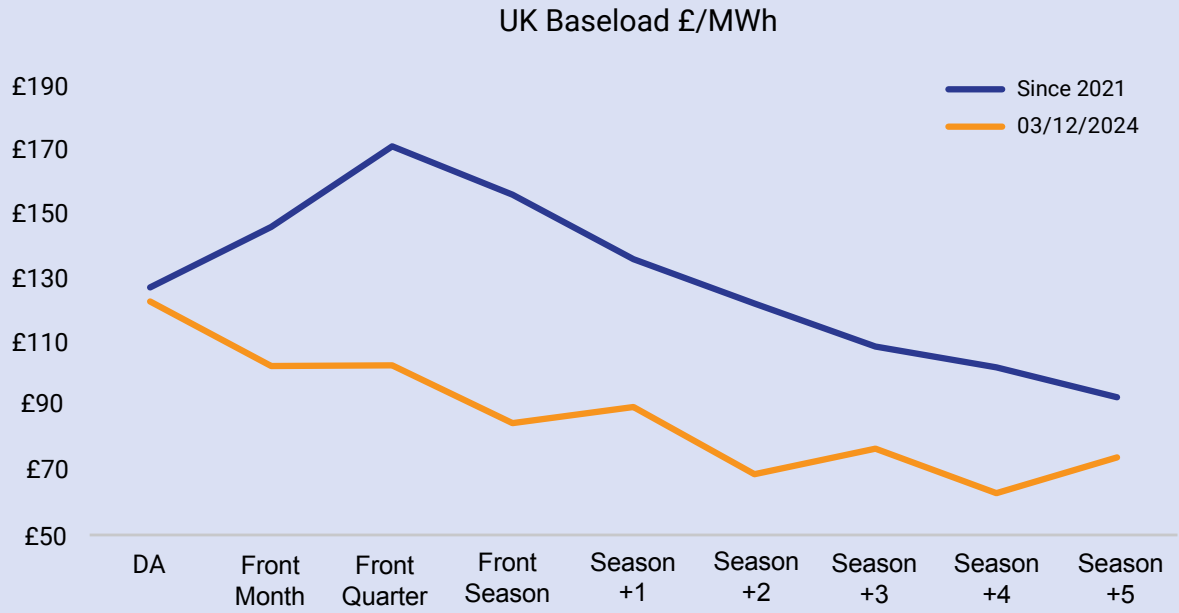
Aligning actions with ambitions clearly requires further work. Manufacturers require advice and guidance on the types of buying and the benefits of reviewing and buying further ahead.

Buying longer term

80% of respondents stated that they reviewed their supply contract within six months of the renewal date, again contradicting the goal to obtain the best possible price and beat the market average price.

The below chart shows how electricity commodity prices have traded over the last four years. The market has shown us over this time period that in order to achieve the best possible price, the optimum time to review and secure your next contract is 2-3 years ahead (Season +4 and Season +5 on the chart below) of your renewal date.

Chart 7: Electricity commodity prices over the past four years



Source: Inspired purchasing data 2024

- The market is currently "backwardated" as the near-term reflects geopolitical risk-premiums and concern regarding supply/demand balances in 2025, post-Winter and without Russian gas into 2025. Later-dated contracts reflect the expectation that supply will increase in the longer-term, meaning there will be more contingency for any supply shocks.
- With the growing interconnectedness of the global energy market, this is a trend that could continue.

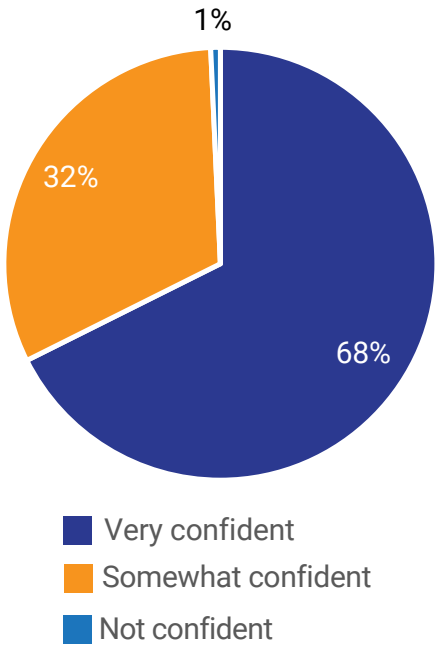
The longer the trading horizon, the more opportunities there are to enter the market and optimise rates, as well as increase certainty in the long-term. In both current market conditions and conditions since 2021, this certainty comes with year-on-year reductions in commodity costs.

BUYING STRATEGIES

Manufacturers are extremely confident in understanding their energy bills

In fact, less than 1% say are not confident in understanding their bill.

Chart 8: Manufacturers' confidence in understanding energy bills



Source: Make UK/Inspired, Energy Procurement Survey 2024

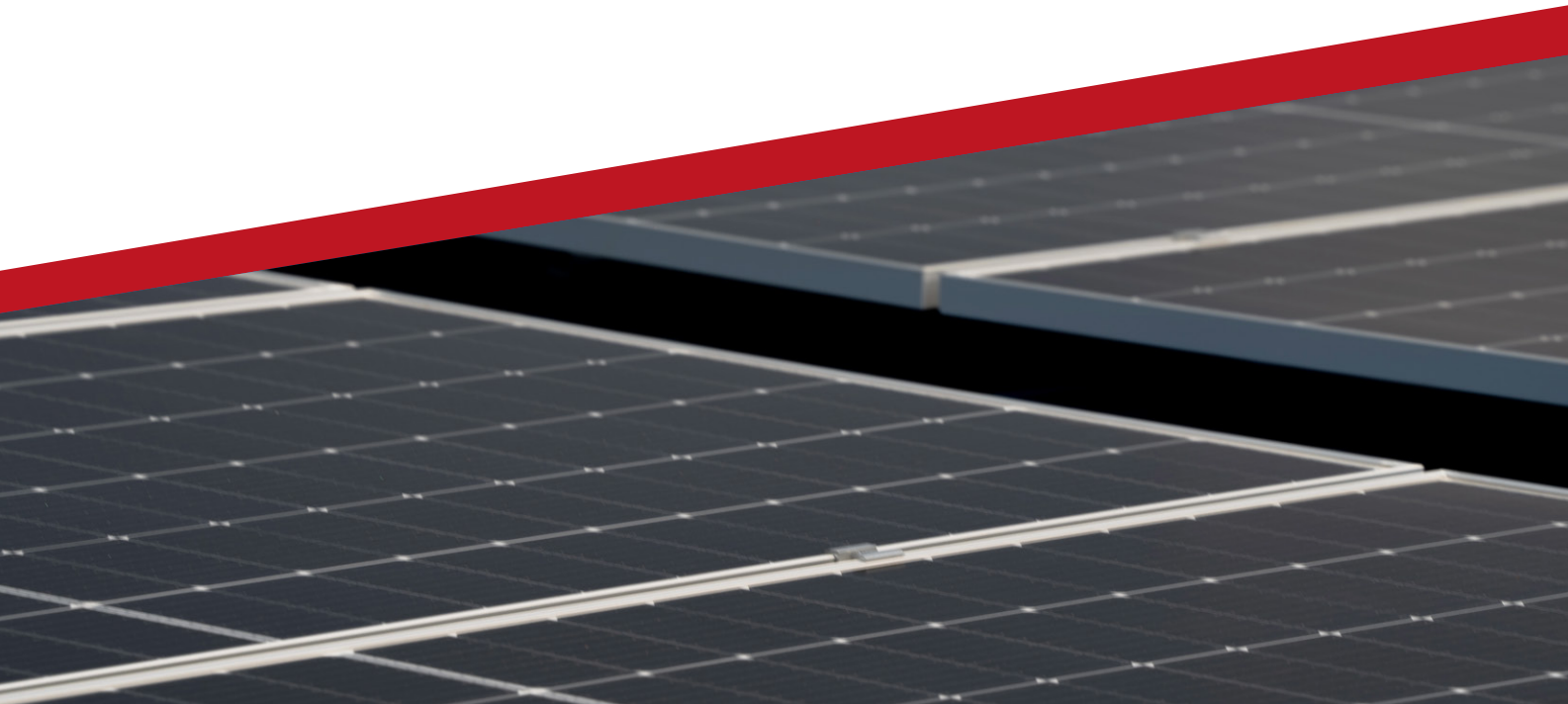
This is worth unpicking. Many fixed contracts will embed demand and timing premiums. With most companies buying fixed, can they be certain they understand the risk premiums that they are paying for that fixed contract?

Fixed charges have changed considerably, especially since the energy crisis, and further education could be required regarding some of the newer charges. One might question whether, with this understanding and knowledge, energy procurement may look different and deliver different results for businesses with this further knowledge.

The majority of firms have an energy procurement strategy but where it sits in the business differs.

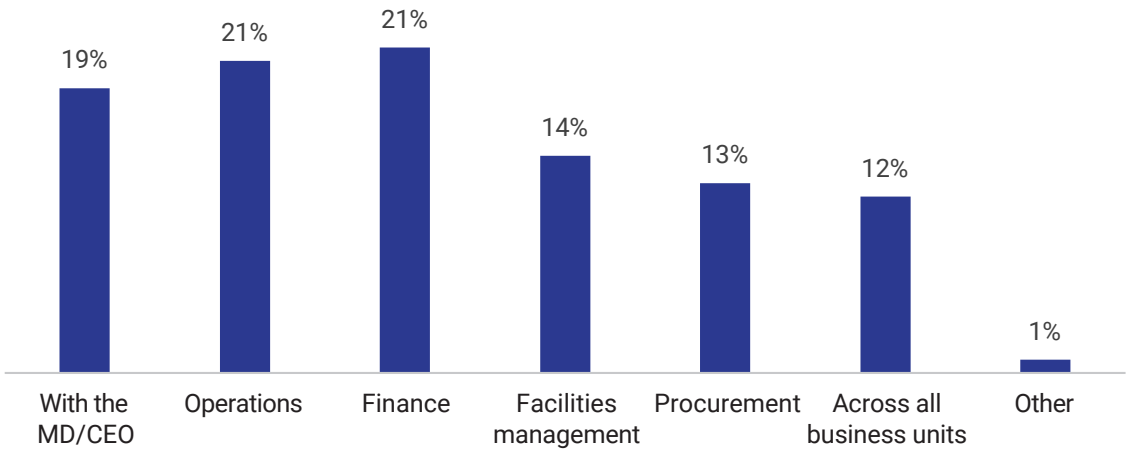
Most firms (81%) do have an energy procurement strategy and this figure has likely grown since the beginning of the energy crisis. This is particularly the case for firms with either 101-250 employees (93%) and 251-2500 employees (92%). Meanwhile, this figure dips for smaller firms with less than 50 employees (73%).

What does differentiate however is where the strategy fits within the business. Generally, procurement strategies sit within either operations (21% of firms) or finance (21%) of firms, or shortly behind that with the MD/CEO (19%).



There is some variation when we break down by company size. Smaller firms (up to 50 employees, or 51-100 employees) are more likely to say that their strategy sits alongside the MD/CEO as they are less likely to have specific procurement functions within their business. On the other hand, larger firms are more likely to have strategies sit within facilities management or dedicated procurement functions.

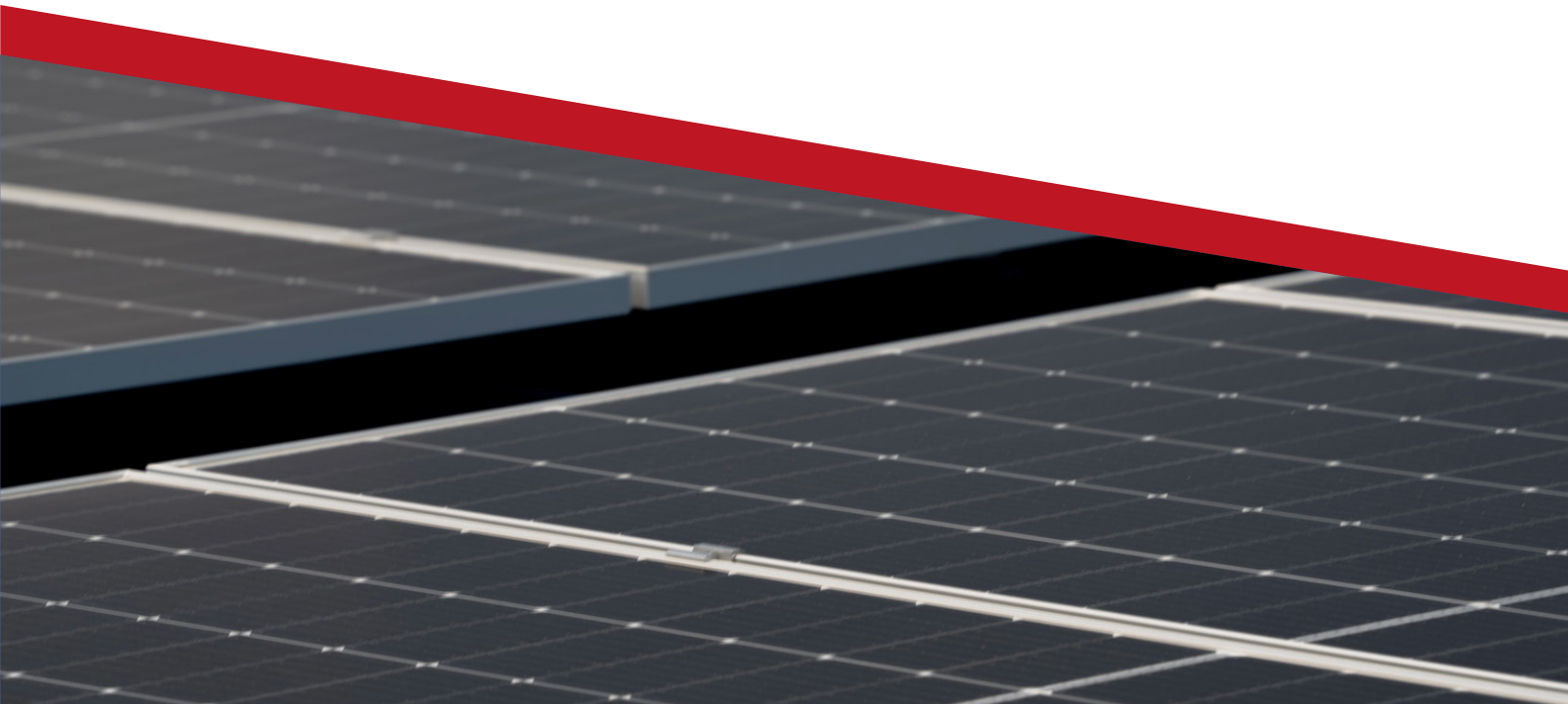
Chart 9: Procurement strategies can sit within various business units



Source: Make UK/Inspired, Energy Procurement Survey 2024

Manufacturers are reviewing their strategies every year (if not before) and most have undertaken a review since the 2022 energy crisis

A key aspect of a successful strategy is reviewing and refreshing it. Like many other strategies and policies within manufacturing businesses, most manufacturers (53%) review or revise their energy procurement strategy every 12 months. Some 13% take a long-term approach and opt for 24 months and a third (34%) are reviewing every six months. Reviewing every six months is likely a result of the energy crisis with companies keen to keep abreast of the market and ensure they are not caught out by volatile price changes.



The value of a robust strategy:

- A robust risk-management strategy ensures your energy purchases align with your organisation's risk appetite. However, without regular reviews, your strategy may fall short of its potential.
- A flexible contract ensures that businesses are buying their energy professionally and prudently manage the risks associated with energy procurement. It is imperative that businesses on a flexible contract have a risk-management strategy that reflects their business' risk profile and objectives.
- This means stakeholders must come together as a committee to understand their business-specific appetite for risk, ability to absorb risk and oversee the forward energy procurement strategy.
- Considerations could include what the business wants to achieve, what they consider risk to be, how the budgets work and whether costs can be passed on, as well as the potential for energy consumption to change. Each one of these questions has a multitude of possible answers which needs to be incorporated into any risk-management strategy. A clear organisational framework within which decisions are made is also required. With markets being so volatile, businesses are increasingly choosing to give TPIs the discretion to make decisions within the agreed parameters of a strategy on their behalf, though there are some businesses who wish to retain ultimate control.
- A defined measurement system to evaluate the performance of the strategy is also needed. Businesses need to evaluate their strategy frequently as their requirements and the surrounding markets change – sometimes as frequently as quarterly. This ever-changing market also requires constant monitoring.
- Reassessing your approach periodically is essential. Access to market insights, along with your business' cost and consumption data, enables you to evaluate your performance effectively and anticipate necessary adjustments for continued success.
- For those businesses opting for a fixed contract, the above process should be followed to provide direction on timing and length of renewals.

What can businesses do to keep their energy bills from spiralling when wholesale costs are high?

Every business should seek to reduce their consumption in any way they can, because the cheapest kWh is the one that you do not use.

Businesses should also regularly verify their energy bills for accuracy, as errors are common and can lead to overpayment. Given the complexity of business energy bills, partnering with an intermediary is highly recommended. Consultants can not only navigate these complexities but also assist in recovering costs from past billing errors through a process known as revenue recovery—potentially helping to offset high energy prices. A trusted partner can also check whether their business qualifies for any environmental levy exemptions which can make a significant difference to their bills.

THE ROLE OF THIRD PARTY INTERMEDIARIES (TPI)

Manufacturers, or businesses of any kind, do not have to procure energy alone. Third Party Intermediaries (TPIs) sit between energy suppliers and customers and help companies to better understand the energy marketplace and secure the best possible contracts.

TPIs have been in the policy spotlight recently, with Government consulting on introducing a regulatory scheme for TPIs in the retail energy market, with the aim to enhance consumer protection and facilitate the transition to a cleaner energy system.

But to what extent are manufacturers using TPIs and how effective have they been?

Two-thirds of manufacturers are using TPIs to help them develop and execute their procurement strategies. This is slightly behind the industry average, with a report from Cornwall Insight finding that 73% of firms use a TPI.

A TPI eases the administrative burden of finding suitable contracts, managing technical jargon, and optimising energy costs, freeing you to focus on core business activities. With a Letter of Authority (LOA), a TPI can even handle communication with your current supplier to gather essential details on your behalf.

The TPIs marketplace is vast, so selecting the right one can be challenging.

Here is what to look out for:

1. Independent Market Expertise

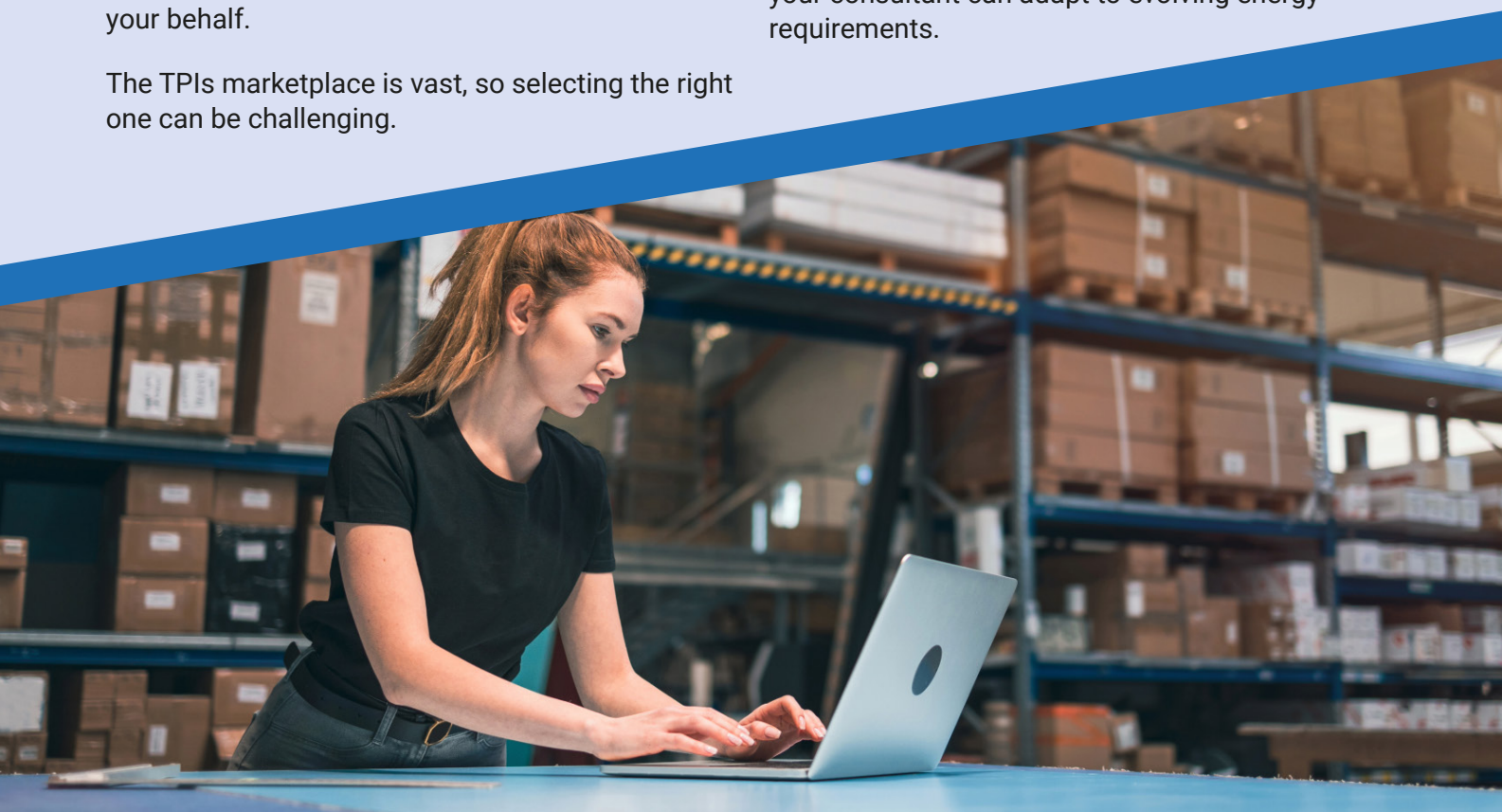
A good TPI provides expert market insight without adding overheads to your business. Choose an independent consultant with access to a wide range of tariffs and strong supplier relationships to secure the best prices. They offer unbiased comparisons and create strategies to manage energy cost risks effectively.

2. Transparent, High-Quality Service

Look for a TPI with a clear pricing structure and a commitment to delivering competitive deals. A reliable consultant should continuously monitor market changes, providing proactive advice. Ensure the TPI offers direct access to a dedicated account manager for consistency and personalised support.

3. Comprehensive Solutions

The best TPIs offer a wide range of services, from invoice validation to energy efficiency strategies, which indicates their ability to meet diverse needs. These services are invaluable as your business grows, moves, or faces new challenges, ensuring your consultant can adapt to evolving energy requirements.



GOVERNMENT SUPPORT AND ACTION

According to our survey, manufacturers remain concerned about rising energy costs. While it is clear that effective procurement strategies can alleviate some of these concerns, further policy intervention is needed from Government.

When asked what government action manufacturers would like to see in this space, policy proposals were ranked as follows:

1. Stronger incentives for on-site generation
2. An industrial energy price cap
3. Grid capacity and infrastructure expansion
4. Variable energy subsidy (equivalise to Eurozone pricing)
5. An industrial energy market regulator

Some of these proposals are more likely to come to fruition than others, but it is clear that there is scope for further Government intervention and support in this space. For that reason, we have set out three key policy recommendations for Government:

- **Incentives for on-site generation:** Manufacturers are making green investments, and we welcome the current 12 months reliefs. However, green investments should have a minimum of a 3-year relief to reflect business' payback period for their investments as opposed to the current 12 months. The first three-year relief could be available for a limited time early in the duration period of the scheme (between now and 2035) to spur immediate investment or bring forward investment plans.
- **Grid capacity and infrastructure expansion:** Increasing the capacity and flexibility of the Grid is an urgent matter. Government needs to work to promptly resolve queue management issues for access to connections on a 'first ready, first served' (rather than on a 'first-come') basis. This is critical to enable willing and ready companies to obtain connections which will enable them to feed the energy they generate back into the grid. Adjusting the Demand Flexibility Scheme (DFS) to work for the manufacturing sector will enable many more participants to access it. Doing this early will avoid wasting a proportion of investment in power-generating assets in the first place. Without this, even if the right policies are in place, their implementation will not be possible in practice, jeopardising the overall energy security
- **An industrial energy market regulator:** The non-domestic market is currently unregulated. This means there is no real protection for businesses, particularly SMEs, who have been burnt over the past few years due to a lack of understanding of the energy market. There is therefore a case for Ofgem and others to intervene more strongly in the non-domestic market, to protect businesses, particularly SMEs, from the impacts of poor behaviour.

VIEWPOINT

INSPIRED PLC

The last few years have been incredibly difficult to navigate for manufacturers – the pandemic, supply chain disruption, introductions of plastics / packaging taxes, the energy crisis and increasing legislation. Furthermore, the Autumn Budget brought unbudgeted spend from April 2025 in the form of NI increases to many.

Balancing these challenges, along with many other demands of your focus and time, has resulted in manufacturers finding the quickest and easiest way to remove one of their problems – energy costs via a fixed price contract.

Following the energy crisis, the market has become much more volatile and sensitive to world events. Whilst prices are much lower than those during the peak of the energy crisis, they are still around twice the pre-pandemic average. This is not a time to be complacent, as that complacency could result in you paying the ultimate price.

Our years of experience, along with the insights from this survey, have told us that many manufacturers understand their energy purchasing goals, such as budget security, best price, long-term visibility of costs.

However, for some the execution of their procurement strategy is not aligned with their goals and is causing clinch points within their operations.

Given how sensitive the market remains, businesses need to review their strategy and ensure it is aligned to their goals and how the energy markets are behaving. This strategy should be dynamic and regularly revisited, to ensure it continues to achieve your goals and offers protection in a changing market.

As the Energy and Carbon "Advantages Partner" to Make UK, Inspired offers a free-of-charge, no-obligation strategy review. Offered as part of Inspired's free Energy and Carbon Health check, the team will learn about your purchasing goals, assess your current contracts, advise you on what to expect at the point of renewal and make recommendations on how you could save money.

Dan Hulme
Head of Sales: Key Accounts
Inspired PLC

HOW MAKE UK AND INSPIRED CAN HELP

Inspired focus on helping Make UK members and their clients to control costs, reduce energy consumption, carbon emissions, and remain compliant in the regulatory landscape.

These challenges, or the "4Cs" include – Cost, Consumption, Carbon, and Compliance – and offer a full range of practical solutions through their four divisions to tackle them.

Our 4Cs approach

Cost control

Energy is one of the most volatile commodity markets in the world. Without professional energy procurement advice, businesses could risk failing to manage high price risks or capitalise on low-cost opportunities. Inspired's procurement specialists offer expert insights and tailored risk management strategies to help clients navigate this landscape more effectively. Working with an expert partner helps businesses to make informed energy choices, protect themselves against price shocks and take advantage of any price drops. Our energy accounting analysts challenge and validate every bill component, interfaced directly with clients' accounting systems to ensure clients are billed accurately for their consumption.

Consumption reduction

Rapidly evolving technology presents both a challenge and an opportunity in reducing consumption. For over 15 years, the Inspired team have helped their clients reduce their carbon emissions and energy consumption. They collaborate with major UK brand boards, as well as smaller businesses, to identify critical areas and reduce carbon emissions and energy consumption through comprehensive solutions.

Carbon emissions

Reaching net-zero is a gradual process. This is why Inspired offer practical, incremental strategies to help their clients and our members achieve their goals over time. Every organisation's requirements are unique, and they work with their clients to set ambitious but achievable objectives for their short-, medium-, and long-term goals. They also provide practical solutions to reduce their carbon emissions and navigate their journey to net-zero. Ranging from green energy procurement to on-site energy generation delivery and Scope 1, 2 and 3 carbon emissions reduction solutions, their experts provide effective solutions to make an immediate and lasting impact.

Compliance obligations

Businesses must remain accountable for their operations in the continuously developing climate reporting landscape. Not only must they understand their full societal impact by mapping out emissions and creating a carbon balance sheet, but develop an action plan to reduce their impact. Such disclosures have become revenue critical as supply chains and customers increasingly expect them as a pre-requisite to purchasing. Inspired's ESG service delivers data-driven reporting in a robust, auditable, and repeatable format. Our experts will process complex data to help businesses deliver accurate and auditable disclosures.

MAKE UK MEMBER CASE STUDY

Clwyd Compounders - Energy Management As A Service (EMaaS)

Clywd Compounders is a manufacturer of custom rubber compounds based in North Wales.

Their business is energy-intensive, and as such, an increase in energy costs has a huge impact on their production.

Background

After their supplier withdrew from the market, they looked to mitigate the impact of energy price rises and increase their efficiency measures, and they engaged Inspired to help them achieve their goals.

The Challenge

Clwyd were keen to get the best deal on procurement when they renewed their energy contracts, as well as optimise their production efficiency.

They also needed to respond to both government targets and client expectations in regard to *net-zero* and sustainability.

They had little insight into how they consumed energy on site and wanted to understand how they could become more resilient and self-sufficient with their energy supply.

Savings achieved:

- ✓ £64,500 – Circuit Level & Water Monitoring
- ✓ £116,000 – Energy Procurement
- ✓ 33 tons of CO2

The Solution

Clwyd partnered with Inspired and used our EMaaS solution to address '**the four Cs**' challenge.

- **Cost:** The Inspired team moved Clwyd onto a new energy supplier to manage future costs flexibly, and protect them from future cost increases whilst still being able to take advantage of falling prices. In addition, our Bill Validation service gave the client peace of mind they were being charged correctly and only paying for the exact energy they consumed, which supported their internal budgeting process. We then worked with the client to assess their potential for on-site generation.
- **Compliance:** We took over management of Clwyd's Climate Change Agreement (CCA) scheme to maximise relief whilst remaining compliant. We also provided performance reporting to benchmarking against targets and minimising the risk of penalities.
- **Consumption:** We deployed Circuit-level (CLM) and **water monitoring** equipment on site so that Clwyd could better understand their energy usage "behind the meter", giving them granular visibility of individual assets and circuits.
- **Carbon:** To assess Clwyd's environmental impact, we are measuring their Scope 1, 2 and 3 emissions. This will lead to the development of a net-zero strategy and target which will, in turn, reduce their carbon footprint and ultimately benefit the business commercially.

The Results

The implementation of ***Circuit-level Monitoring*** quickly identified opportunities to reduce consumption and increase efficiency, resulting in a saving of over **£48,000** and **22 tons of CO2**, meaning the client achieved an ROI and profit within the first quarter of service delivery. The water system findings also mounted to an additional £16,500 and **10 tons of CO2 savings**.

By providing Clwyd with access to ***risk-managed*** strategies for energy procurement, Inspired has managed to secure savings of **£62,734** for this year's energy contract and in-line with current trading, Clwyd can expect to see a further reduction of **£53,679** for next year.

Inspired's on-site feasibility study found that Clwyd's Wrexham site was suitable for ***solar PV generation*** which, following install from our specialist team, generates over 290,000 kWh of renewable energy per year.

Clwyd now generate their own renewable energy, reducing their exposure to the volatile wholesale market. The client's payback on the current installation, which is on a 25-year warranty, is less than 2.5 years.

Watch the video case study.

Make UK, The Manufacturers' Organisation, is the representative voice of UK manufacturing, with offices in London, every English region and Wales.

Collectively we represent 20,000 companies of all sizes, from start-ups to multinationals, across engineering, manufacturing, technology and the wider industrial sector. Everything we do – from providing essential business support and training to championing manufacturing industry in the UK and internationally – is designed to help British manufacturers compete, innovate and grow.

From HR and employment law, health and safety to environmental and productivity improvement, our advice, expertise and influence enables businesses to remain safe, compliant and future-focused.

To find out more about this report, contact:

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Inspired PLC provides market-leading commercial energy and sustainability advisory services to help our clients achieve net-zero and thrive in the future low carbon global economy.

Every business faces a unique set of challenges and over 3,500 organisations have partnered with Inspired to find the best solutions for them. We focus on helping our clients control costs, reduce energy consumption and carbon emissions and remain compliant in the regulatory landscape.

We have been recognised with the London Stock Exchange's Green Economy Mark since 2020 for our environmental and strategic advice and support to clients and have held our position in the Cornwall Insight ranking as the leading advisor for industrial and commercial consumers since 2018.

We value our role in meeting the UK's climate targets, and we will be net-zero ourselves before 2050. The steps we've taken on our own decarbonisation journey mean we're ready to lead others towards adapting to a net-zero economy.

Today's partner for a better tomorrow.

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MAKE uk
The Manufacturers' Organisation

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