



# Energy Procurement

*An alternative approach*

Graeme Low

Energy Conservation Team Leader

**ON ENERGY**

 ISLINGTON

# Overview



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# Background



Islington Council has historically had a broad approach to Energy Services delivery.

- 30+ years of providing energy efficiency services for both Council and external clients.
- Always maintained 100% control over the purchasing of Gas and Electricity for Corporate and Housing stock.
- Outsourced services e.g. Leisure Centres have obligation to use energy purchasing services.
- Schools engagement is high with over 80% of primary schools signed up to traded services agreements.



# History of Procurement


## Summary



- From 1990-2019 Moved from 12 month fixed contracts to:
  1. Dynamic purchasing (reverse e-auctions)
  2. Frameworks
  3. Flexible purchasing within long term agreements (4 year)



# What we buy

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- 51,200 MWH of electricity per year.
  - 145,000 MWH of gas per year.
  - 3,000+ individual sites from Housing and Corporate Buildings to Leisure Centres, Schools and external Academies and Colleges.
  - Value ~ £8m - £10m pa
  - In 2016/17, the cost of gas and electricity for all Council and external sites totalled some £7.3 million, a reduction of £1.5 million on the previous year, made possible by flexible purchasing in a falling market.



# Information Sources

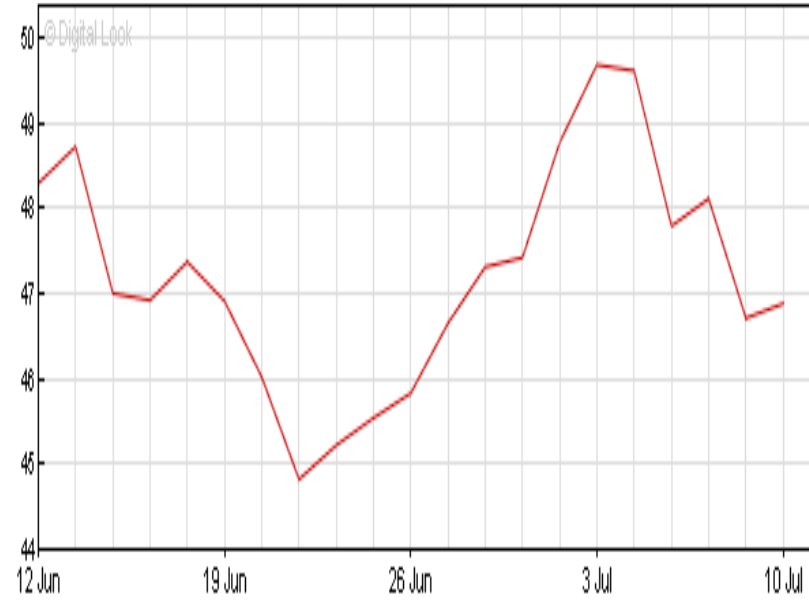


- Energy Services holds consumption data for all main gas sites and the largest electricity sites over several (up to 10) years.
- Energy Management software used for storage/reporting/tenders
- Data gathered from various sources:
  - Invoices
  - Automatic Meter Reading (on large gas and electricity sites)
  - Site visits
  - Manual Readings



# Buying & Risk Strategy

- Risk Management Strategy written by consultants in 2012/13, regularly updated
- Buying on forward market
- Hedging against market rises
- Triggers providing budget security
- Analysis of Market data to prompt purchases
- Option to sell back trades made
- Options to buy fractional volume



# Risk



- Energy Risk Management Committee Meetings also:
  - Review of performance to-date.
  - Review of trades made.
  - Provide an up-to-date position report – exposure to the market.
  - Agree changes to operating parameters.
  - Review and amend the strategy.
  - Change management.





# Market Drivers



Energy Markets are effected by a myriad of factors some short term some long – these can included, but are not limited to:

- Weather
- Oil Price/OPEC/LNG/Shale Gas
- Currency Markets/Brexit
- Government Regulation
- Geopolitical and macroeconomic news
- Security of supply/Strikes



# “DIY” vs PBO - Advantages / Disadvantages

In-house Procurement (Business As Usual)	Using a Public Buying Organisation (PBO)
<p><b>Positives:</b></p> <ul style="list-style-type: none"><li>• Continuity of supplier (same supplier for 4 years)</li><li>• Full control over whole process</li><li>• Fully flexible trading</li><li>• No PBO fees</li><li>• Single pathway to obtaining Leaseholder Dispensation</li><li>• Bespoke award criteria</li><li>• Ability to form relationships with suppliers over 4 years</li></ul>	<p><b>Positives:</b></p> <ul style="list-style-type: none"><li>• Part of larger Portfolio with potentially marginally lower prices</li><li>• Experienced Energy Brokers</li><li>• Greater opportunity for selling back trades/short buying</li><li>• Reduce Council officer time in making trades</li><li>• Shorter lead-in time as no OJEU required</li></ul>
<p><b>Negatives:</b></p> <ul style="list-style-type: none"><li>• Greater Council officer time monitoring markets/making trades</li></ul>	<p><b>Negatives:</b></p> <ul style="list-style-type: none"><li>• PBO Fees</li><li>• No control over energy trades/budgets forecasting setting</li><li>• No choice over suppliers</li></ul>



# Future Constraints



- Consolidation of building portfolio leads to lower buying power.
- Competing with mature brokerage market place increasingly difficult to maintain benefit.
- Consolidation of energy markets – less competition from suppliers.
- Reducing percentage of “*commodity cost*” element in bills.



# Conclusion

- The number of suppliers able to meet our requirements is shrinking = Less competition.
- Commodity element of overall energy costs are reducing.
- Need to understand data – beneficial to service.
- Able to be competitive – (BEIS stats and information sharing)
- Cost saving to Islington remains significant.

# Non-Commodity Costs

Commodity costs only make up 65-70% of the end delivered cost of gas and 45% of the end electricity costs – the rest is made up of non-commodity costs.

Apart from the suppliers profit margin (which we have fixed until 2020 via the tendering process and represent less than 1% of the total) we have no control over the costs set by Central Government and gas and electricity regulators