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The Energy Consortium (TEC).

TEC and the provision of Energy  
Frameworks to the Higher Education  
Sector.

# Items for review.

- TEC – Born in the HE Sector.
- TEC and Public Procurement Rules.
- TEC and Collaboration.
- TEC v The Rest – How do we measure?
- Competition on a fair and equal basis – Transparency
- Impact of Energy Market Reform.
- Budget certainty – but at what price?
- TEC as a delivery partner for the sector and opportunities in support of supply frameworks and reduced carbon.

# The Energy Consortium

A 'Not for Profit' Public Sector Buying Organisation.

Governed by its membership.  
Primarily UK Universities  
Transparency

Full member of English National Purchasing & UKUPC  
Referenced in the Diamond Report

Delivers OJEU compliant solutions.

Delivers Cabinet Office ERG 'Recommended Solutions'

Management of energy purchases for best value.  
Over £165 Million of Gas & Electricity Contracts

# Core Services

## 'Flexible Managed' Energy Contracts

Recognised as providing 'Best Value for Money'

Unique to 'The Energy Consortium'

Data Cleansing and Validation

Post Tender Negotiation and Dispute Resolution

Full Contract Management & Reporting Service

Annual Risk Management Forum

## 'Managed Non-flexible Fixed Term' Energy Contracts

Data Cleansing and Validation

Optimisation of time to market

E-tender Platform.

Post Tender Negotiation and Dispute Resolution

## Carbon Management Services

EU-ETS Phase II

CRC Help Desk

# Other Services

Biomass Fuel Supply

Electricity & Gas Retrospective Cost Auditing (PCMG)

Water Retrospective Cost Auditing (M&C Energy)

Bill Validation & Bureau Services (UTILYX)

Best Practice Guides

- Guide to Renewable Generation

- Project Managers Guide for Energy Efficiency in Buildings

# Membership Benefits

- As a TEC member you can also take advantage of benefits including:
  - Daily/weekly market updates
  - Newsletters and legislative updates
  - Annual Member Conferences
  - Preferential Seminar rates
  - Advice and assistance on markets and dispute resolution
  - Access to Utiyx Knowledge Hub
  - Dedicated Account Management
  - Access to members area at [www.energyconsortium.org.uk](http://www.energyconsortium.org.uk)

# EU Procurement

- TEC, as a legally constituted Contracting Authority can let Frameworks for use by HE and Public Sector bodies. This means:
  - Cost of procurement “sunk” into operating costs – no fees for procurement of a contract.
  - Member engagement in the specification and scope of frameworks to ensure appropriate and best-fit for sector.
  - Always significant supplier engagement as we are an “attractive sector”.
  - Best practice procurement to avoid the potential of challenges in an environment of “ambulance chasing”.
  - No need for a “flag of convenience approach, which is deemed illegal by HM Treasury Solicitors.



# TEC and Collaboration

- In order to remain relevant and maintain reputation, TEC seeks to collaborate with appropriate bodies inside and outside the sector.
  - TEC is an active member of English National Procurement (includes LUPC and SUPCand an example of genuine collaborative procurement in the HE sector (Diamond page 61).
  - Having started life as part of AUDE, we work with them on a regional and national level to maintain appropriate services.
  - Supporters of other sector bodies, including AUE, BUFDG, AUE, AoC, .
  - Also part of Pan-Government Energy Project, led by MoD, which won Procurement and Cabinet Secretary awards at 2011 Civil Service Awards.
  - Still at heart of Collaboration on OFGEM consultations, software development and procurement best practice.
  - Recently approached by Dept. for Education to look at energy contract solutions for academies.





## TEC v The Rest - Measuring The Gap

- What makes a TEC Flexible Contract “better” than a standalone fixed price, fixed term, or perhaps another provider’s flexible contract?
- We need to provide a figure to members, LUPC and HEFCE to demonstrate the benefits in support of Diamond targets.
- Evidence based “real” benefits (or savings).
- The model being adopted was written to support the Pan-Government Energy Project, but “failed” the political test.
- Approved by NAO and HM Treasury.
- Refresh to make sure it stays current.

# The difficult bit.....

- There is a temptation to try and compare energy purchasing performance between one organisation/basket and another.
- What is an appropriate measure?
  - Market Average?
  - Another portfolio?
  - Standard deviation? (NHS PaSA v OGCBS)
- A true comparison would have to be for an identical portfolio (shape and size).
- ..... And for an identical “buying window”.
- Comparisons are dangerous, but in the end they can only be comparisons of strategies, and not absolute performance as no-one “beats the market”.

# What can be measured?

## 1. Aggregation

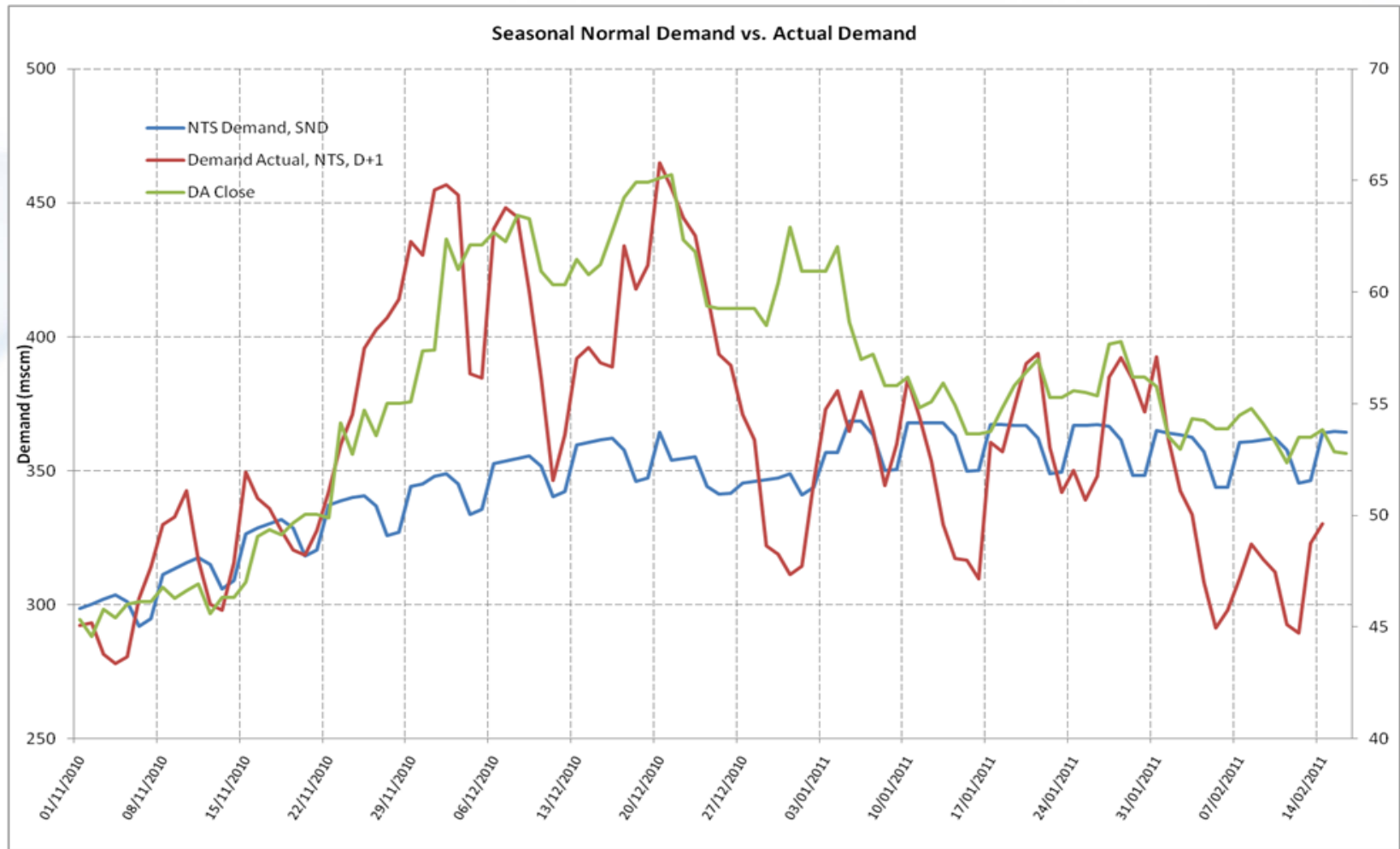
- Suppliers see benefit in dealing with a single portfolio (admin, credit, query resolution).
- Data cleansing and management – inaccuracy = risk.
- Standard management fees around standard terms delivered by a framework.
- Evidence – comparison of management fees/ admin charges/ cost to serve with supplier portfolio average. We are looking for a wider sample via the FP/FT framework supplier engagement.
- We are looking to add some aggregation benefits (margin discounts) in our FP/FT framework, but these are limited.

# What can be measured?

## 2. Price Risk and Balancing

- Fixed price contracts – a dying breed (more later)?
- Risk premiums are included to cover for within day wholesale price movement on gas and power.
- These premiums stay in the price even if the market doesn't move.
- Based on moving AQ's, there is not the facility to react through sell back, therefore suppliers include higher balancing fees on Fixed Price contracts to cover for extra balancing costs.
- Risk premium discounts on management fees for strong credit ratings – our sector wins here (0.1p/therm).
- Management fees with Gazprom reduced through a sensible change in strategy on balancing – benefit is measurable.

# Cost of 1 in 20 Winter





## Competition of a fair and equal basis. theenergyconsortium

- TEC play by the rules and have complete transparency.
- Private sector TPIs do not, so there are concerns around “hidden charges”, and rightly so.
- OFGEM Consultation leading to code of practice – TEC and other PBOs participating in this process.
- TEC operate capped fees in service areas supported by Utiyix and average on new arrangements is equivalent to 1.16 – to 1.47 pence per therm.
- Evidence – Gazprom have provided a range of unit rates paid to TPIs. We have requested the same of SSE and also other suppliers as part of the FP/FT framework re-let.





## Evidence – TPI Charges - Gas. theenergyconsortium

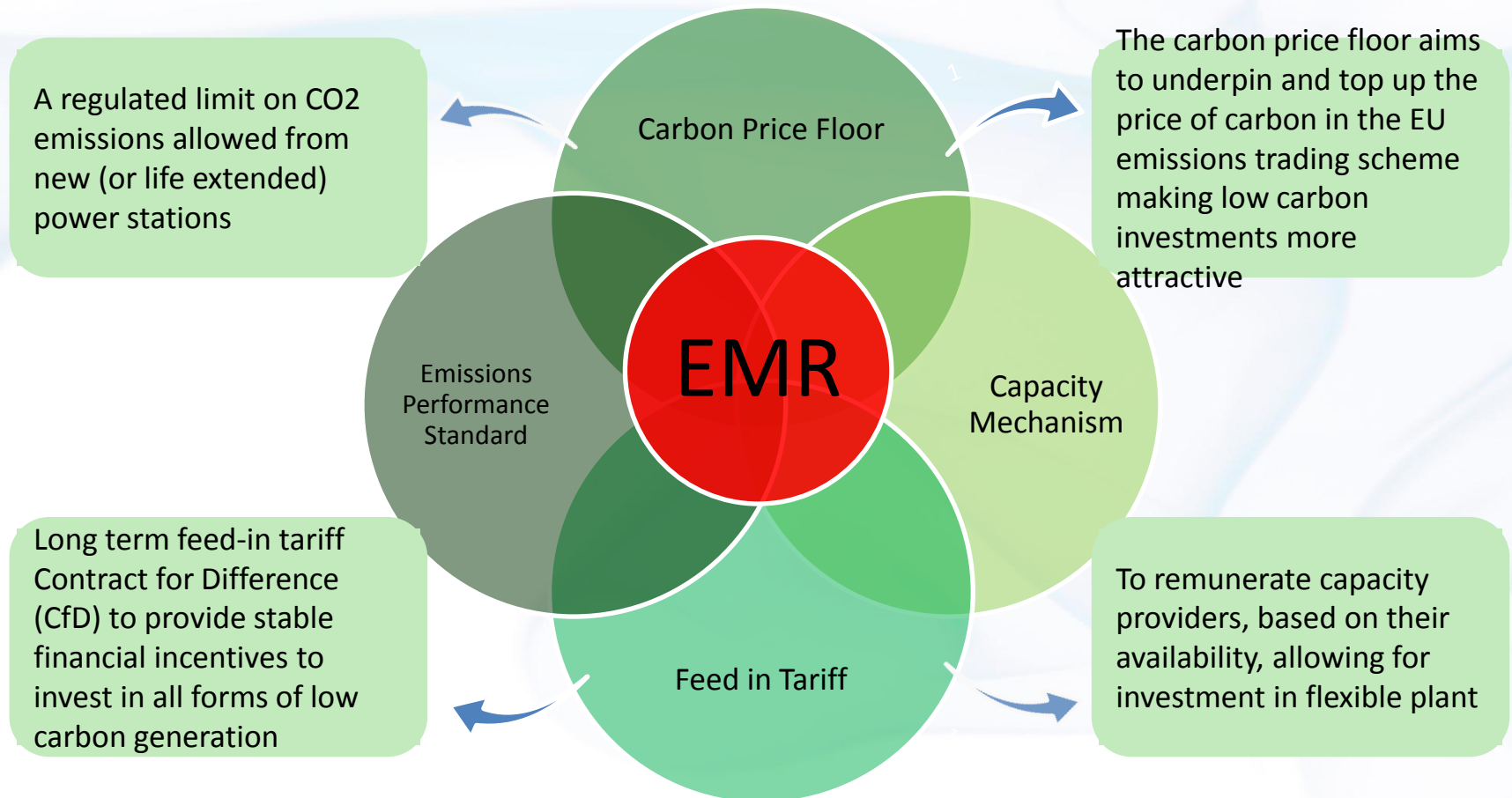
- SME Client - 5.8 p/therm
- Large Industrial - 0.6 p/therm
- **Other I&C** - **2.9 p/therm**
- TEC Flex - 1.16 – 1.47 p/therm

Further evidence to follow as part of FP/FT engagement.

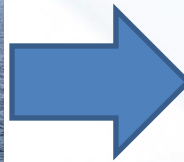


# The energy markets are also set to change: Electricity Market Reform

**FOUR CENTRAL POLICY INSTRUMENTS PROPOSED IN DECEMBER 2010  
WILL TRANSFORM THE UK ELECTRICITY MARKET FROM APRIL 2013**



# A connected Gas market

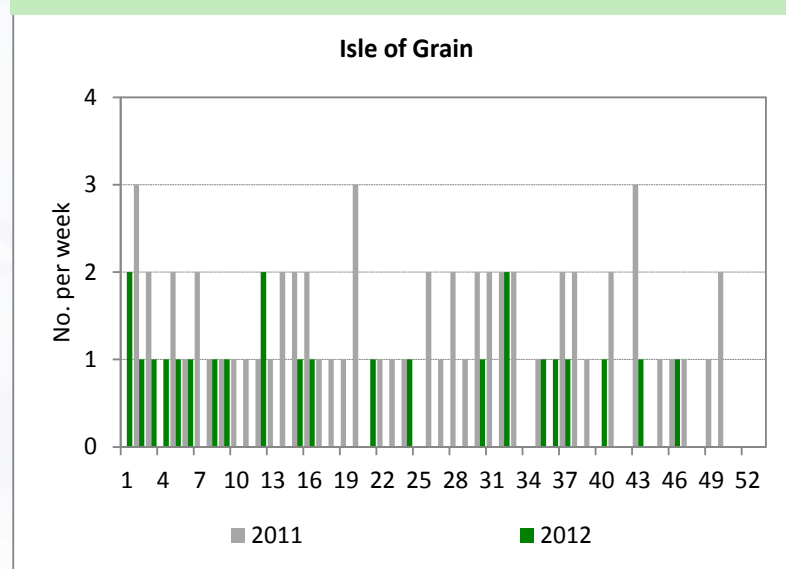
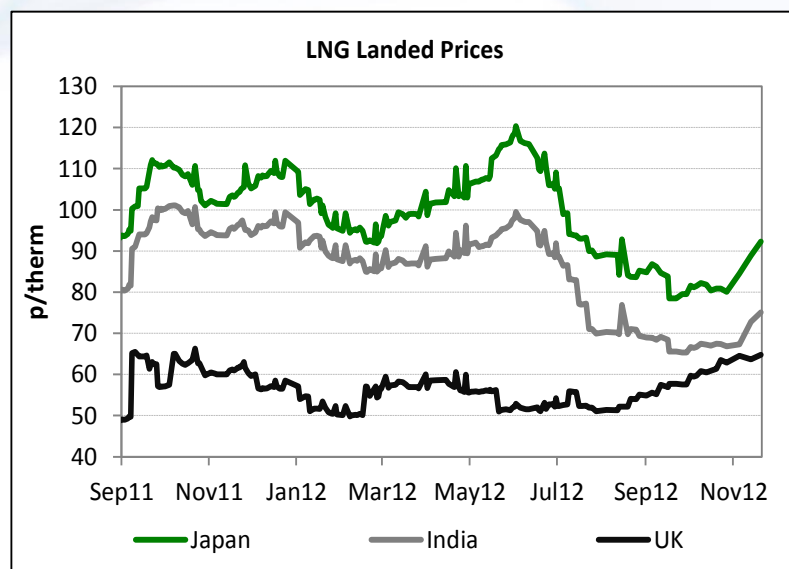




# Asian LNG prices firm restricting supplies to the UK

Along the curve, supply risks prevail. UK prices are still below Asian price levels. Asian imports increased 5.4% in October y/y primarily in Japan, which jumped 11.5% y/y. Korean nuclear shut downs could trigger a jump in demand for spot cargoes.

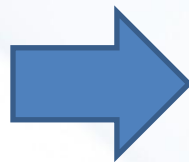
The UK will have to compete with Asia for spot LNG cargoes meaning the system will need to balance with higher storage gas. Spot cargoes tend to go to the Isle of Grain terminal. In Q1 13 next year incremental demand from Malaysia's Melaka and India's Kochi terminals will tighten the market further.



Source: Point Carbon, ICE Futures Europe – analysis Utiylyx Research

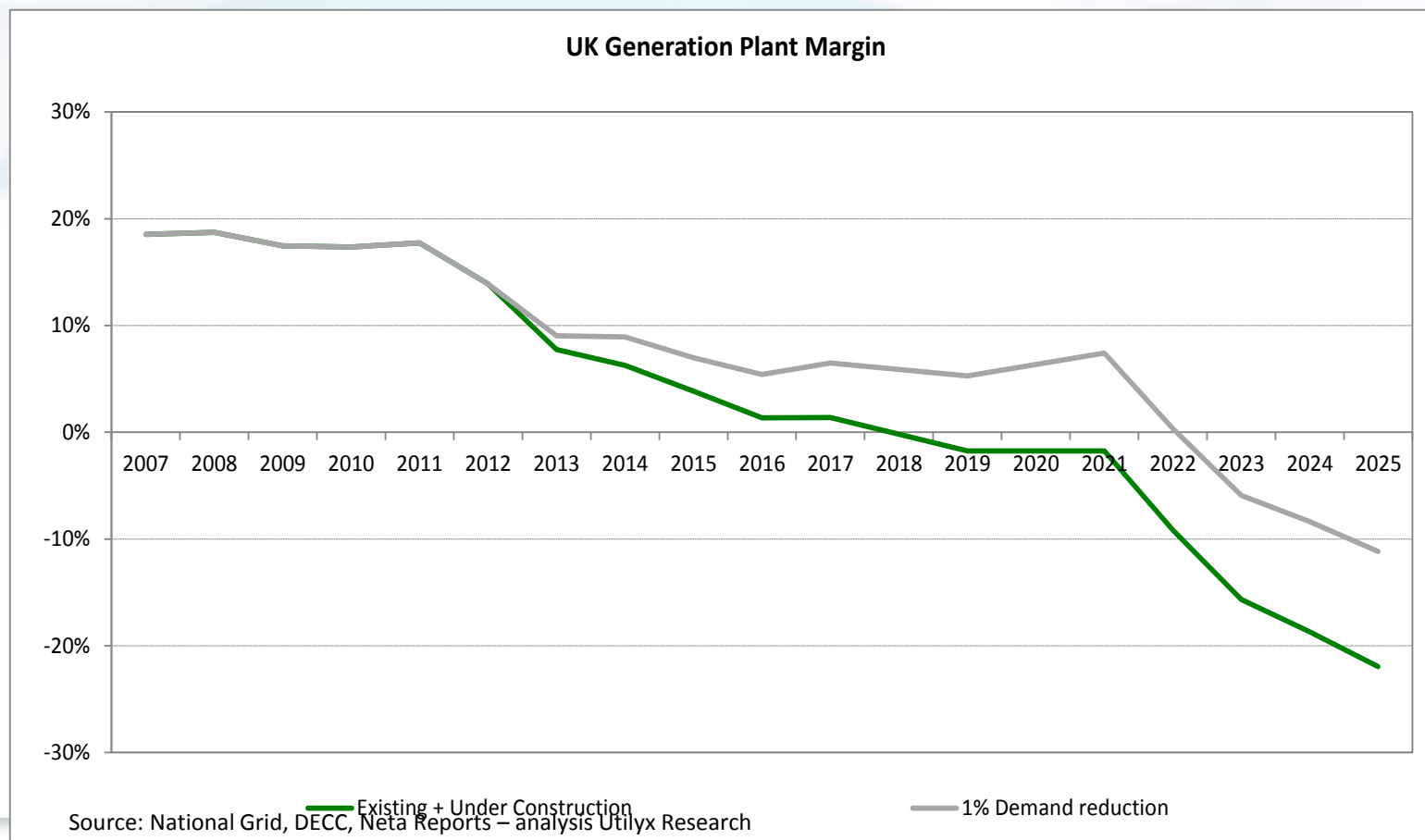


# Decarbonising UK Generation?



# Generation margins set to tighten rapidly as coal and nuclear plant retired.

**The UK is fast approaching a supply slump by the middle of the decade, which is set to get worse beyond 2020 as nuclear closes. The Government hopes that energy efficiency measures will reduce the impact**

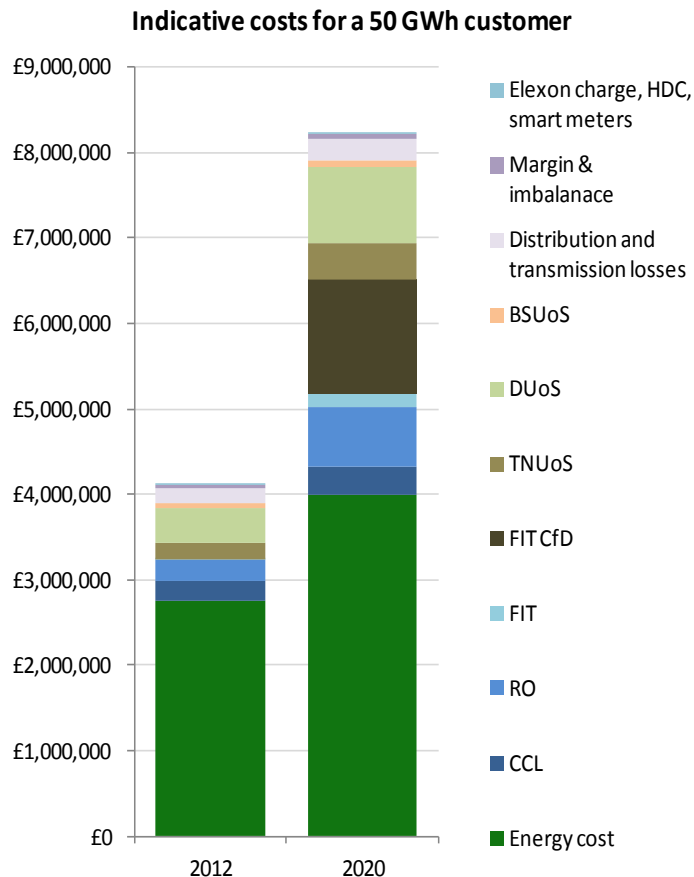


# The nature of a Customer's Bill is changing

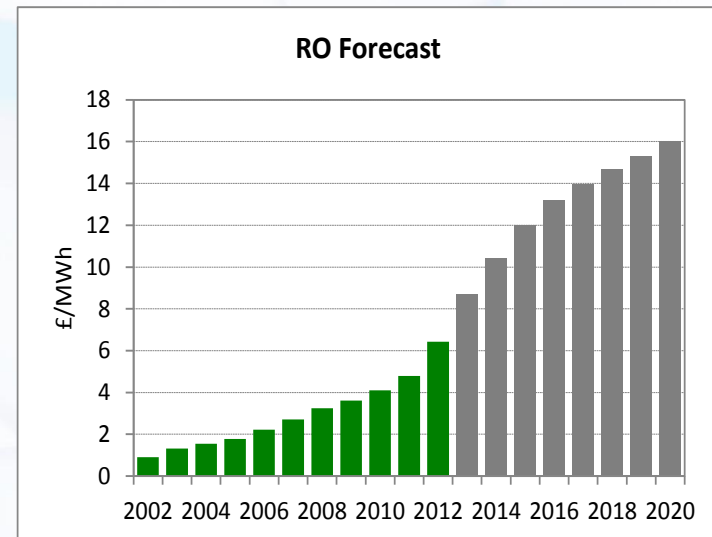


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**35% of the energy bill now relates to infrastructure charges and renewable levies. All are forecast to increase significantly. None are directly controllable by the customer through 'standard' energy contracts**

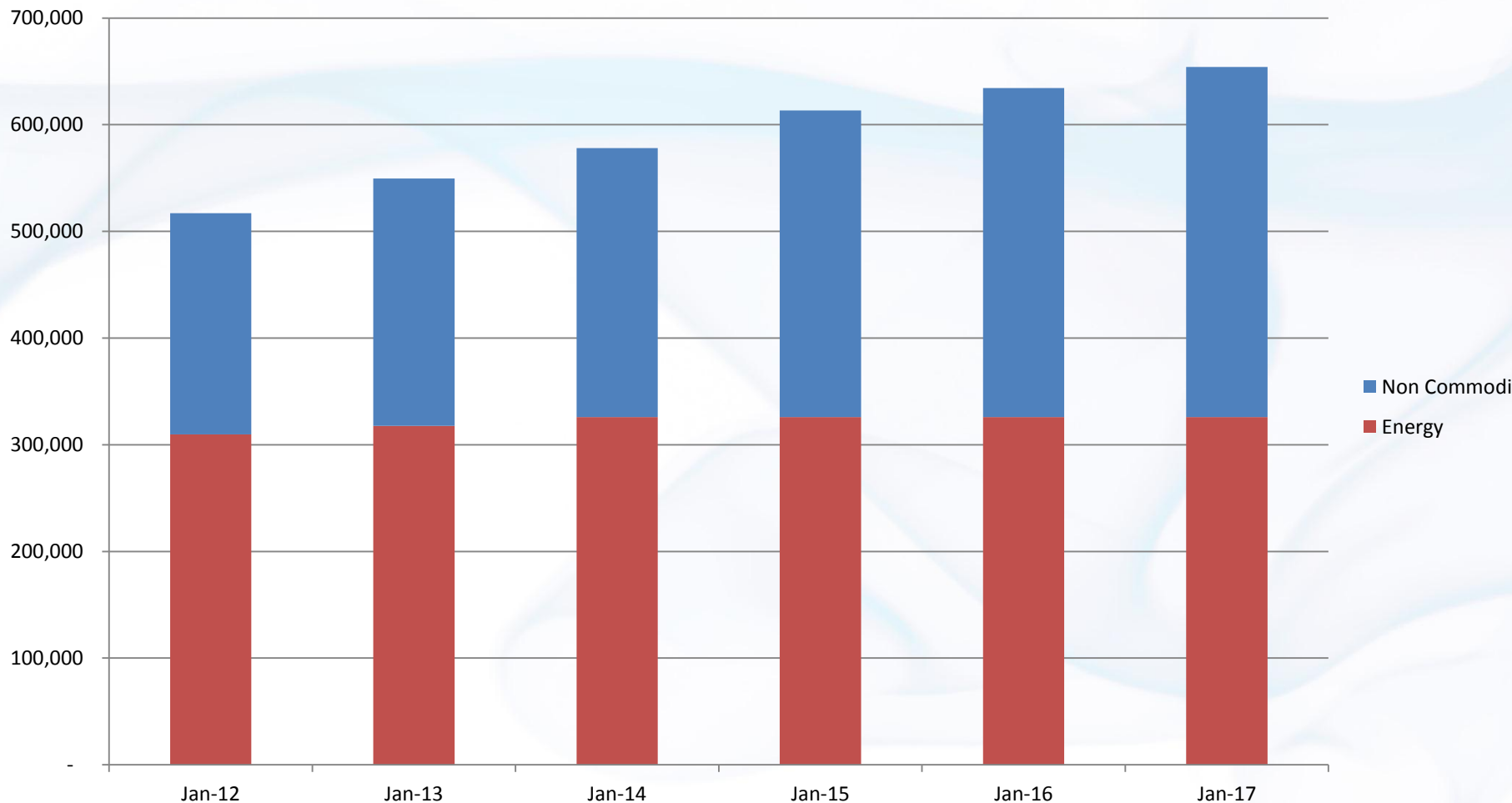


Source: Oryx Research



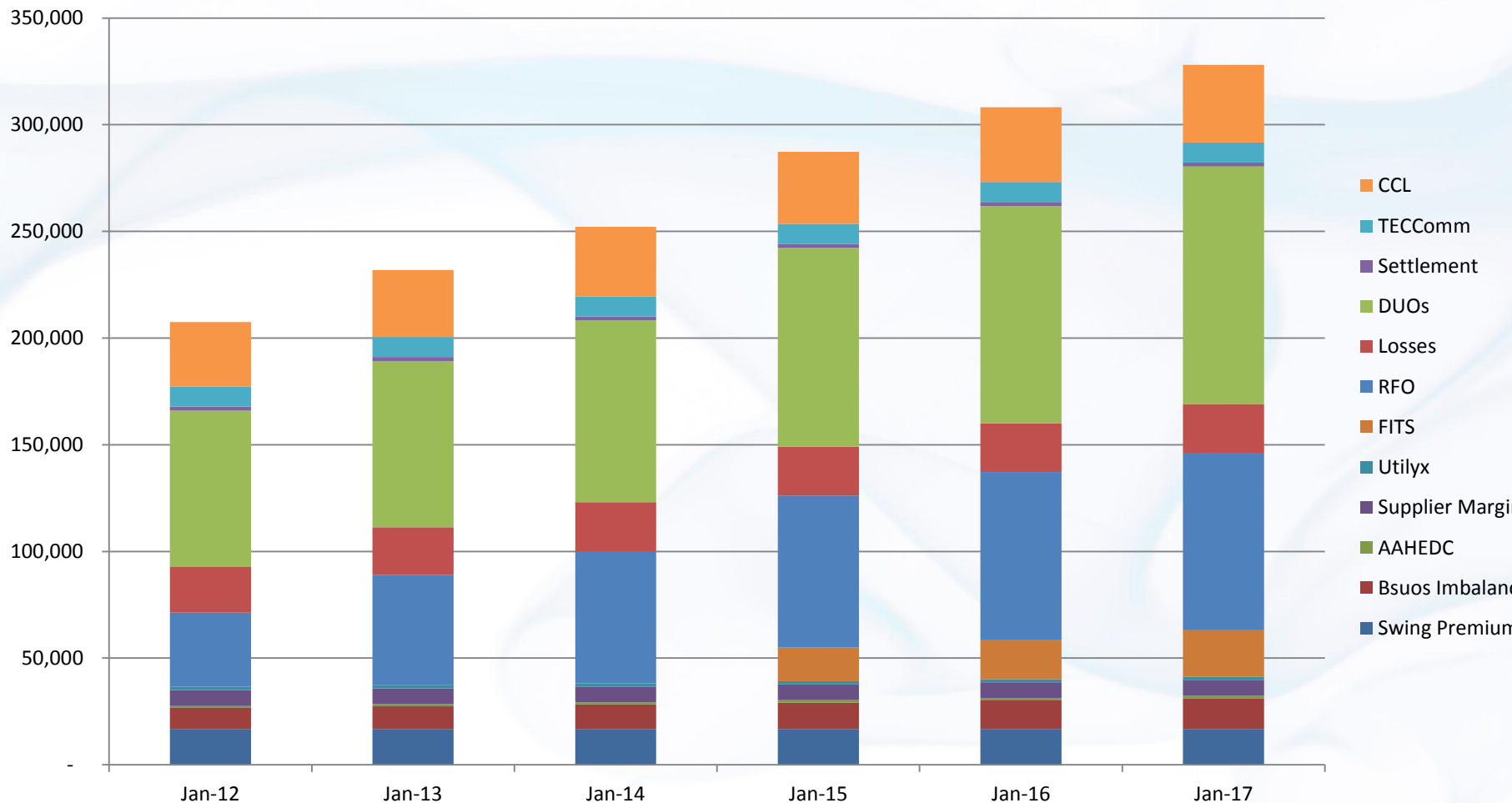
Rate £/MWh MSP	Previous FIT Forecast	Current FIT Forecast
Apr-11	0.58	0.65
Apr-12	1.89	1.6
Apr-13	2.38	1.91
Apr-14	2.92	2.24

# The Electricity Landscape – Changing bill make-up.





# Cost of Electricity Delivery



# EMR drives changing customer needs

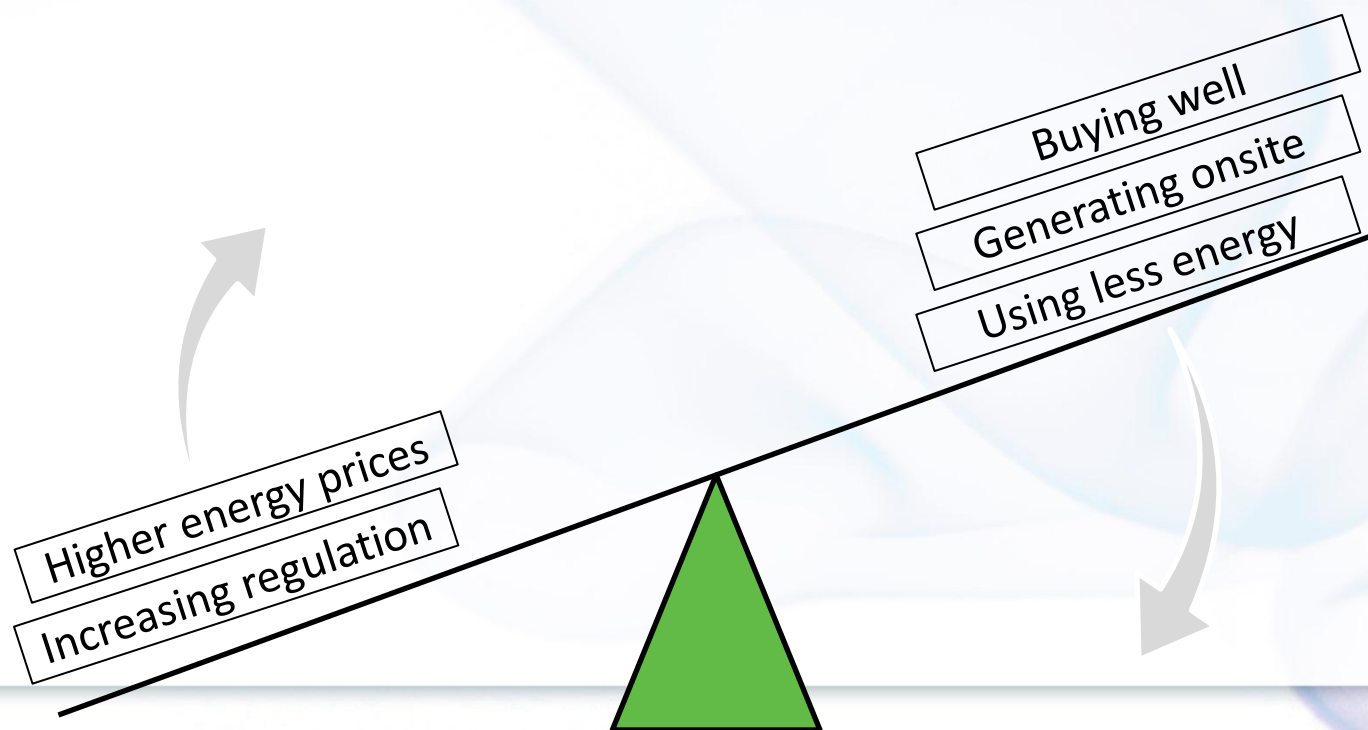
Ability to manage total cost will be key - focus on commodity cost will no longer be sufficient.  
Growing emphasis will be placed on ability to reduce consumption and/or diversify supply source





# There are a wide range of ways to mitigate the risks – What we need to do

ORGANISATIONS HAVE AN OPPORTUNITY TO MAKE THESE CHANGES A POSITIVE, RATHER THAN AN EXTRA COST AND COMPLIANCE CHALLENGE. IMPLEMENTING A JOINED UP ENERGY AND CARBON PLAN CAN TIP THE BALANCE.



## TEC – The Delivery Partner for the Sector.

- Aggregation and sticking together gives benefits and access to “different” markets.
- TEC maintain relationships with key stakeholders – Estates, Finance, Procurement, Environment.
- Access to EPC funding – we’re a safe sector.
- Insource v Outsource. Ensure value delivered through appropriate resource.
- Develop capability of staff – better able to support the vision through skills and knowledge development.
- Secure long term power through PPA.

# Questions?