

Anglian Water Outsources its Energy Procurement and Data Management

The selection of a partner

After coming to the conclusion that a combination of internal resources and specialist external expertise and technology would deliver the greatest value in the field of energy procurement and management; Ian Burnell and Tom Lee, on behalf of Anglian Water Services, issued a formal request for proposal to 15 UK Energy Consultants to tender and help manage their annual electricity requirement. The project was to be overseen by Ian Burnell, the Commercial Manager at AWS, co-ordinated on a daily basis by Tom Lee the Partnership Development Manager, and would cover historic analysis of the AWS supply agreements, procurement of a new contract commencing April 2004, and energy management.



Required to meet stringent criteria in compliance with both OJEU and internal processes, Tom and Ian analysed the responses and then revised the list down to seven companies. Further evaluation then whittled the options down to four companies; all of whom would be met. After four to six hours with each company, the final decision was made to go with EnergyQuote on the basis of corporate fit, value offering, breadth of service and their approach being the most professional. The fact that EnergyQuote offered an e-sourcing solution as part of the package enhanced what Ian and Tom perceived to be an already strong offering.

The Initial RFP requirements

The RFP clearly set out AWS's requirements as follows:

1. To review the former half-hourly supply account from October 99 to Sep 2001.
2. To verify and re-calculate where necessary half-hourly electricity supply bills for the then current supply contract running from October 2001 to April 2004.
3. To create and execute a strategy to procure a new half-hourly contract effective from 1st April 2004 that would meet OPEX budgetary needs in a way that ensured there was clear and unambiguous evidence which demonstrated that the OPEX had been minimised. Furthermore, the contract needed to align with the AWS environmental targets which meant that no less than 1.2% of consumption to be obtained from renewable resources.
4. The provision of an energy management service including: bill-checking, the creation of dummy invoices and the production of both push and pull reports on consumption and cost which would need to be available for key AWS personnel to view, interrogate and utilise online. These would make up the basis of a monitoring and targeting strategy designed to move AWS from a passive position with regards to its electricity costs to one where the various stakeholders could take control of the efficiency of assets and sites across the company.

The EnergyQuote solution

EnergyQuote designed a bespoke package of energy services that would fulfil and where possible exceed the expectations set out in the RFP:

1. Dummy bills were created with the half hourly data split up into relevant time bands and applied to the relevant contract rates per site. Analysis was then conducted to compare the settlements data billing outturn as calculated by EnergyQuote with the actual bills as delivered over the last two and a half years. This would provide a clear picture of outstanding monies due to Anglian Water from their supplier.

2. EnergyQuote equipped AWS with a clear energy procurement strategy, based on wholesale market movement, recommending when they should take their contract out to competitive tender, and what mechanism they should use to obtain the most competitive supply contract. An e-sourcing event was recommended as the procurement method likely to deliver the best result. Given the strategic importance of electricity to any water company's day to day operation, Ian and Tom involved the board at AWS in the strategy – ensuring that in the lead up to the e-sourcing event the directors were sent weekly bulletins compiled by EnergyQuote outlining the key drivers in the electricity markets so that they could keep themselves up-to-date with market conditions and how these were impacting on the agreed strategy and the projected OPEX out-turn position. In addition Ian and Tom were given access to EnergyQuote's unique web-pricing tool - the wholesale pricing charts updated daily direct from Platt's Assessments. These are widely recognised to be the European Yardstick for energy prices and ensured that both men had an independent source of unrefined information to cross check all their decisions and recommendations.

3. EnergyQuote was able to offer a wide range of energy management tools such as bill validation, financial reporting, monitoring and targeting, and energy consumption reporting, all of which are delivered via the web. These tools enable AWS to undertake meaningful comparison of monthly usage/cost, year on year usage and cost, and actual vs. target usage, amongst others.

Pre-event preparation

In their strategy document, EnergyQuote advised AWS to take up a 12 month contract rather than an 18 month contract. This was due to uncertainty at the time over the Emissions Trading Scheme and the substantial risk margins suppliers were facing (and passing through to clients) when trying to secure capacity that far out along the forward curve. This, along with the green requirements,

payment terms and other AWS specific needs, was specified out in the RFP issued to the suppliers by EnergyQuote. All this was done in strict compliance with OJEU procedures and the internal financing requirements of AWS.

From the outset, AWS had stipulated they wished to pre-qualify suppliers. A day spent at the EnergyQuote offices was therefore arranged between Ian, Tom, the appointed AWS legal team; and all the major suppliers, to negotiate terms and conditions.



Prior to the e-sourcing event, meter operator agreements, connection agreements and MPAN's were checked to ensure that when the time came to instruct the suppliers to begin quoting, moving supplier would not cause AWS any registration difficulties.

Given the volatile nature of the UK energy markets the consumption data was put out to market as soon as the accuracy of this information had been confirmed. The suppliers were then primed, ready and waiting to execute a full e-sourcing tender within 48 hours of EnergyQuote and AWS triggering the event.

The tender event

The energy strategy document stated the 15th March 2004 as the last possible date to conduct the e-tender to ensure a favourable contract price whilst still ensuring registration. However as this date fell on a Monday – traditionally a poor day to

trade due to a severe lack of liquidity in the market as everyone settles down to understand the impacts of activities from the weekend - and given that it was felt the optimum prices would be seen that week, the e-tender was rescheduled for Tuesday 16th. Due to the thorough data preparation which had been undertaken to date it was felt that there were minimal risks associated with registration failure.

The auction was initiated based upon EnergyQuote's view of the wholesale market, the AWS strategy and the wishes of the executives of AWS who were working alongside EnergyQuote to make the decisions.

Once the e-sourcing event was underway analysis was undertaken of movements in the wholesale price versus movements in the retail prices so that AWS could gain an understanding as to how the procurement exercise was going relative to the pricing environment.

Automated interpretation of ALL possible tariff structures through the system, complete with ranking feedback to the five participating OJEU and client pre-qualified suppliers, enabled Ian, Tom and the EnergyQuote Team to retain dealings with all these suppliers throughout the day and to concentrate on negotiation rather than complex Excel based interpretation models. This resulted in a board sanctioned decision based upon the strategy and predicted OPEX outturn being made that day, the 16th March, which ensured that the winning supplier had no need to factor in daily price swing risk into his price as he was able to price and source from the same trading book.

The results

1)The procurement value added by EnergyQuote, the AWS team and the e-sourcing strategy

In the intervening period between the existing contract prices with the incumbent supplier being

agreed in June 2002, and the middle of March 2004, wholesale energy prices rose by 31.74% presuming a 2:1 ratio of Baseload to Peak Energy. This was equal to an expected retail contract price increase of around 22%. Factoring in the Duos and Tuos revisions as well as a dip in the Energy prices between strategy and execution, the expected increase sat at around 21% on the day of trading. The outturn represented an 11% increase in contract price, a result which illustrated that the combined efforts of EnergyQuote and the AWS procurement team on the project secured a substantial 10% value add. This represented value well in excess of £1.5 million. Not only did the financial argument stack up, but the target of 1.2% green was exceeded with in excess of 1.5% being secured on a cost neutral basis. The excellence of the upfront data sets ensured a 99.9% registration success rate on over 375 half hourly metered sites, with the solitary failure achieving back-dated registration at no cost to AWS.



2)The Bureau Service and associated Monitoring and Targeting performance

The nature of energy management and M&T work being what it is, the results of this will continue to bear fruit on an ongoing basis as Tom, Daryl Pope and their team get to grips with how best to target the AWS energy management resources going forward. The first bills are in, have been checked, and so far so good.

Ian Burnell said of the event: **“We were always very aware of how important the choice of energy consultant was going to be in light of an increasing wholesale market and therefore the associated**

board level attention that the electricity contract was attracting due to its strategic importance to us as a company. I feel that we could not possibly have undertaken a more thorough evaluation of the consultancy market than the fifteen companies we saw – and I am very pleased with being proven right in our choice for a partner. Energy is more than just an annual contract to buy, and we believe that only through a close integration of AWS with EnergyQuote will we maximise the opportunities and minimise the threats out there. They have kept every promise, met every deadline and in the process streamlined our energy purchasing and management efforts whilst securing value well north of £2 million. I look forward to a long and prosperous partnership with Kevin, Gary and the

EnergyQuote Team and am keen to see whether we can extract more money out of suppliers having over-billed us over previous years. The trick now is to ensure that we don't wait three years to isolate the problem and eliminate it. That is where the Bureau Service will come into its own."

In September 2006, EnergyQuote was nominated by Anglian Water Services as a finalist in its Supplier of the Year Award Ceremony. Working with over 1,500 suppliers EnergyQuote was delighted to come within the top three suppliers. To be nominated signifies the faith that Anglian Water Services has in EnergyQuote.

EnergyQuote services available include:

- Customer Managed – where you have full control and make all the decisions but without the frustrations and complexity
- Managed Service – our most popular service now in it's 10th year – for those of you who want to use our expertise but monitor progress as it occurs
- Electricity NHHM Service – solves the huge logistical problem faced by companies with hundreds of smaller electricity sites in the non half hourly metered market
- GasQuote – the solution for your gas purchasing requirements in the UK and European markets
- Benchmarking – understand where your current position stands against other companies with similar requirements
- European Service – provides a Pan-European centralised buying tool for Power and Gas across 11 major European countries
- Bureau Services – a fully on-line Energy Management suite with data warehousing management and financial reporting on usages and costs
- Energy and Water Audits – a service which offers variable solutions to Energy Efficiency and provides advice on schemes available in the market
- Market Intelligence – comprehensive market analysis, industry guidance and advice on timing to market that supports your procurement decisions
- Price Forecasting Service – we provide outlook reports that brief you on the level of uncertainty and risk in key markets and the range of prices that might develop over time
- Policy and Strategy Consultancy – our team of experts provide valuable analysis and advice on policy development and strategy implementation tailored to your individual circumstances

The EnergyQuote Solution

EnergyQuote offers a comprehensive range of solutions to mitigate risk and minimise cost in today's volatile energy markets. A provider of risk management structures such as hedging funds and flexible strategies for power and gas customers we are continually coming up with innovative procurement solutions and products that deliver bottom-line benefits to major energy users in the UK and Europe.

So wherever you are in the purchasing cycle we can support you with all the tools you need to enhance your position.

We offer a smart, straight-talking and sophisticated service to over 600 of the largest energy users in the UK and Europe, turning a time consuming and difficult process into a seamless activity.

Taking the next step

To discuss this service and any other services available from the extensive solutions offered by EnergyQuote, please contact us on T+44(0)20 7605 2300, F+44(0)20 7603 6415, email enquiries@energyquote.co.uk or visit our website www.energyquote.co.uk