

Breaking down the barriers

Is there really a European market for power and gas? Liberalisation has brought supplier choice to customers, but customers still behave as if they are operating in 15 different markets. Now a UK energy broker is helping its customers crack pan-European procurement. **Paul Whitehead** spoke to Energyquote CEO Christopher Lydiard-Wilson.

Liberalisation of the power and gas markets is all about choice. Customers in liberalised markets are able to choose who supplies them with energy and change that supplier whenever they want. But when the European Union embarked on power and gas market liberalisation in the late 1990s the aim was not just to give customers a choice, but to extend the concept of the EU's Single Market for goods and services into the energy sector.

Most businesses have now had ten years to get used to the idea of the single market. They themselves face competition not just from domestic rivals but from companies in other EU countries, but they know they can also find customers or source components right across the EU's 15 nation single market. But what about energy? Can business customers count on a genuine single market for electricity and gas? Probably not. For while the EU directives on electricity and gas have led to more open markets across the EU, individual member states have moved at different speeds and sometimes in quite different directions when opening their markets.

Indeed, the European Commission has itself conceded that the original electricity and gas directives did not serve to create a single European market, but a patchwork of 15 liberalised markets. The new liberalisation package was proposed in order to resolve this, and it does go quite some way towards creating a more homogenous landscape, but for 15 states to reach agreement there would always be a need for compromise and for the subsidiarity principle to allow individual some leeway in their interpretation of the new directives (see *EUE 61/21*).

The fragmented nature of EU power and gas market is very much in evidence when it comes to procurement. Try as they might, large industrial consumers with operations in a number of EU countries have struggled to clinch a deal with a single supplier. Even big name multinationals like Ford or Kraft foods have struggled to find a single supplier capable of offering them a competitive price across a number of countries and have opted instead for an array of separate contracts with different suppliers for different sites. Even in the Nordic area, where a single wholesale power market – Nord Pool – and a common set of rules for market transactions, the retail power market still seems constrained by national borders, as many customers from Denmark, Finland and Sweden shun the currency risk of Nord

Pool-linked contracts, which are denominated in Norwegian Krone.

Whereas in the Eurozone, differences in regulation and the vexed issue of cross-border transmission capacity are obvious hurdles that stand in the way of the pan-European supply deal and they are taking years to iron out. But equally important in the elusive pan-European deal is that suppliers are still not geared up to operate across borders. Even those like France's EdF or Germany's Eon that have built up a strong presence beyond their national borders have done so through acquisition – and many of the companies they acquired continue to function as autonomous national units, as is the case of UK utilities Powergen, Innogy and London Electricity, Sweden's Sydkraft or Germany's EnBW.

Customers want pan-European deals

This does not mean, however, that customers are not interested in pan-European procurement deals. But tendering on a pan-national basis needs to be simple (uncomplicated) and cost-effective for it to work in the interests of consumers.

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One UK energy broker, Energyquote, is certainly confident that this is the case. After launching the UK's first electronic energy procurement platform in 1995, the company is now pushing into the rest of Europe offering its customers the chance to buy power [and maybe, eventually, gas] on a pan-European basis.

Energyquote CEO Christopher Lydiard-Wilson told *EUE* that the decision to expand into other EU countries by offering pan-national procurement was taken on the back of substantial customer interest.

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200 of these, including multinationals like [French oil major] Total or [engineering group] Alfa Laval, wanted to do business on a pan-European scale,” Lydiard-Wilson told *EUE*.

According to Lydiard Wilson, however, one of the key challenges facing customers seeking to move to pan-European procurement is that of “understanding and interpreting a myriad of different tariff structures, transmission charges and taxes”. Energyquote claims it can help customers overcome these problems as a result of its technology which, he claims, is able to “analyse complex information at speed and save valuable time by enabling you to compare supplier quotations on a like for like basis.”

Many companies have tried to adopt a pan-European approach to energy procurement but have run up against difficulties due to different regulatory and legal characteristics. “Airbus tried to go pan-European and gave the job to their procurement specialist. But buying electricity isn’t like sourcing other things on the European market and she [the Airbus procurement specialist] found she couldn’t make sense of the data”.

Energyquote is now offering its online power trading service in ten EU countries: Belgium, Denmark, France, Germany, Italy, Netherlands, Norway, Portugal, Spain and Sweden as well as the UK. Lydiard-Wilson said customers would be able to use its systems to centralise procurement for all their sites in each of the countries.

First deals done

The first pan-European tenders have already been organised by Energyquote. During trials of its European systems the company organised international tenders on behalf of clients including Finnish packaging company Huhtamaki and data centre operators Telecity.

Huhtamaki, which supplies packaging to large multinational food and household goods providers, catering companies and retailers, has plants in Finland, Sweden, Italy, the UK, Holland, France, Spain, Germany and Ireland. It spends around €24m/yr on electricity. It has already trialled Energyquote’s system

at its four German sites. These spend a combined €7m on electricity, the biggest proportion of the company’s total electricity spend. Following a successful German trial, Huhtamaki is proposing to procure power on a pan-European basis from next year.

The auction for the German sites saw an average of 20 quotes per site from 14 suppliers active on the German market, including some from outside Germany. The price Huhtamaki is paying after

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selecting the winning bidder is 6% higher than when it last tendered its German sites in 2001. However, Lydiard-Wilson points out, wholesale prices in Germany have risen by around 10% over the same period according to Platts wholesale market price assessments.

“The decision to change the tendering process and use an e-provider was the right one. The tender was carried out with high transparency and good results, meeting suppliers we had not even known before,” comments Kurt Kaeuffer, senior purchasing manager with Huhtamaki in Germany.

Data centres operator Telecity wanted a single broker to handle energy procurement at its data centres (internet hotels) in Amsterdam, Dublin, Frankfurt, London, Manchester, Paris and Stockholm. Over 50 suppliers responded to the tender organised by Energyquote, which analysed a range of 60, 30, 15 and 5 minute consumption data. Bids were submitted in four different languages and the registration process differs from country to country so this also had to be taken into account. While Platts data shows that prices across the countries concerned rose by an average of 12% between 2001 and 2003, Telecity secured lower prices for supplies to its sites in Germany and the UK and the number of bids for its German sites increased from 3 to 36 according to Energyquote, including some outside Germany.

Lydiard-Wilson believes most companies can save between 5-18% by opening their tenders up to pan-European competition, but he concedes that transparency is still an issue in countries like Germany where contentious issues like grid access mean that prices remain rather opaque. He also accepts that it is difficult for many companies to make the leap to pan-European procurement because contract start/end dates vary from one country to another.

Five tips for pan-European procurements

- 1 Understand the language (incl. technical terms)
- 2 Understand market peculiarities (eg contract law)
- 3 Collect clean and reconcilable data
- 4 Identify the key 200 suppliers
- 5 Be able to interpret bids that come back

Source: Energyquote