

The forgotten art of best practice - Ben Dhesi head of energy management at Pulse Commercial Utilities believes that this can only be achieved across the electricity procurement supply chain

Under much scrutiny in recent years, Third Party Intermediary (TPI) electricity brokers, seem to have shifted the top end of their market to take on increased RISK only where supply company's wish to relinquish it.

Of course with an understanding of Risk/Return this may be acceptable in the search for improved price outcomes, especially as non-commodity and commodity components of fully delivered prices come under pressure.

The vogue for more innovative and challenging 'flexible' commodity procurement arrangements does not appear to be abating.

However, has this change in focus left behind some fundamental elements of procurement best practise, where greater 'value added' can be realised at lower risk?

A FORENSIC analysis of the electricity procurement supply chain can deliver improved price outcomes even before commodity purchasing has to be considered.

One such tool is PROFILE OPTIMISATION (or shape analysis), where half hourly metered data can be evaluated to provide certainty of product requirement and assist in BOTH supplier and procurement strategy selection.

A universal procedure used by TPI's is to provide half hourly data to potential suppliers offering a forecast dataset for the contract period under scrutiny. Each supplier has vastly different methodologies of analysis for such information, and utilising various software algorithms, derives potentially conflicting volumes of PEAK, BASE and RESIDUAL electricity which must be procured in supporting vertical markets.

Such apportionment can therefore immediately affect the

competitiveness of a contract offer as each component will have vastly different market fundamentals and accepted trading methods.

Alongside a FORENSIC analysis of non-commodity charges, the starting point in the supply chain, the evaluation of base data appears to be a 'forgotten art', such that supplier selection now largely excludes this fundamental consideration; and many 'flexible' contract options are entered into with a large slice of 'trust' that the supplier interpretation of the 'shape' is in the mutual interest.

In simple terms it is possible to break down forecast electricity consumption to 'fit' underlying vertical markets. As an example consider a consumers' electricity consumption over the course of a contract year.

After aggregating each of the consumers supply points, suppliers will seek initially to interpret data according to EFA month and then to apportion the forecast volume into constituent parts, firstly detailing PEAK consumption which coincides with the national system peak demand; ordinarily classed as 07:00am to 19:00pm on a weekday.

The remaining volume is then either demarcated as BASE LOAD or RESIDUAL (BUY/SELL) and trading solutions positioned accordingly.

In the first instance the apportionment of PEAK load to a flexible procurement solution is not always necessary; and often through innate understanding and negotiation of the supplier requirements for balancing and settlement, such tacit volumes can be reduced, if not eliminated from the volume risk.

This can have a dramatic effect on fully delivered prices as evidenced in the example shown overleaf:

Example Client:

Total annual contract volume of 14,400,000 kilowatt hours (kWh) apportioned as 61% BASELOAD and 39% PEAK as illustrated according to the EFA month split shown below.

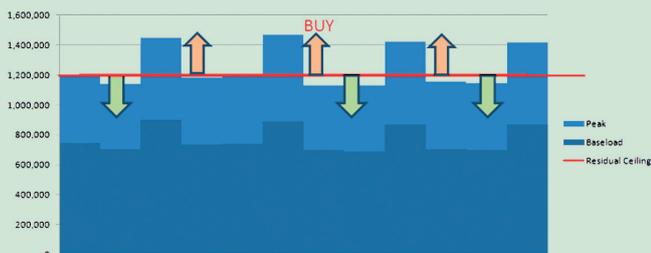


Using the example of both October 2014 PEAK and October 2014 BASE products, the variation in market price is clear to see – showing an average 13% differential or £8.51/MWh.



Therefore by mitigating the total Peak volume the commodity price risk of 39% of the total shape can be reduced by 13% in this instance. (A weighted average TARGET saving of 5% to the whole shape).

A further differential is evident to commodity costs for BASE and RESIDUAL products; so once RESIDUAL is identified (either BUY or SELL) careful negotiation can be undertaken to mitigate the volume risk in RESIDUAL markets.



In this simple example only 4% of the shape is RESIDUAL, and although there are different markets for residual buy and sell, the weighted average (W/A) price of the two products is significantly above the £/MWh costs for comparable Base products.



Using the market average prices previously shown, and recent indicative peak buy/peak sell prices the following is offered:

With the W/A price for residual at £74.39/MWh (in this example) an average difference of £9.99/MWh is evident in comparison to the BASE average commodity price.

Even allowing that only 4% of the shape is residual, total elimination of the residual elements will reduce the commodity price risk by a further 5%; offering a potential 10% saving to the fully delivered price if average prices are achieved.

When combined with high quality and innovative risk and procurement strategies, BEST PRACTISE can again be claimed, as TPI management 'across' the electricity procurement supply chain offers consumers a lower risk with improved outcomes.



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