

Categories of savings identified under the framework are as follows.

Aggregation Economies Of Scale

Aggregation savings are those identified as part of a customer's portfolio being included as part of a larger buying group, such as ESPO's. Larger portfolios are more attractive to suppliers leading to lower supplier margins and can typically deliver cost savings due to the economies of scale in the suppliers cost to serve – not in the price of the wholesale energy.

The size of the portfolio allows up to 24 separate purchasing decisions per month for the required volume to be purchased, therefore providing greater protection against volatility and a more effective risk strategy.

Fixed to Flexible Savings

Under traditional fixed price contracts, suppliers would tender a price based on the wholesale market on the morning the tenders are due and include a margin to cover volatility during the day – but reserving the right to withdraw prices if the wholesale market moves outside the built in tolerance. When energy is purchased through flexible contracts the suppliers' margins only are subject to competitive tendering and fixed in advance. The buying organisation purchases the wholesale energy in real time at live market prices, with no delays, which means that the suppliers' exposure to price volatility and the associated the risk premium is eliminated. Therefore, energy purchased through a flexible contract achieves a saving of this premium. This is an intrinsic benefit of flexible procurement that does not vary with the price of energy.

Additionally, and in common with most financial and commodity markets, energy markets have both a buy and a sell (bid / offer) price quoted at any one point. For fixed term fixed price contracts the price quoted is based on a supplier's own view of the market offer, based on the offer price. When energy is purchased via a flexible framework the purchasing organisation has direct access and 100% price transparency to the live wholesale market, allowing energy to be purchased at much closer to the bid price. As the "price" methodology calculates the savings relative to the market mid-point (i.e. half way between the bid and the offer) it is necessary to take into account that there is a saving between the mid-point and the offer price that would be used in a Fixed Term Fixed Price contract.

Supplier Margin Savings

This saving is simply calculated by comparing the margin (cost to serve) charged by the supplier on the previous contract to those on the current framework contract.

Commodity Purchasing Savings

The benefits are calculated by comparing the average market prices available during the trading period that the risk strategy allows purchases to be made, to the average actual price achieved for all the purchases made by the traders.

Measures of purchase price performance are based on the actual price achieved compared to the average of all the prices available during the trading period. As it is possible to have a positive price performance even when prices have increased, therefore, this can only be regarded as a measure of performance, rather than a “saving” in the accepted sense. The measure of price performance will, therefore vary each year. It should also be noted that the actual price achieved is to an extent, a function of the risk strategy approved by the stakeholder Governance Panel.

Frameworks are competitively tendered to allow all parties that are interested in becoming the contract supplier to submit a bid. The submitted tenders are then evaluated and scored on both quality (Service and added value) and price (Supplier Margin), the supplier with the highest score is then awarded the contract. Frameworks like ESPO operate a flexible energy purchasing contract in line with best practice advice for energy purchasing within the public sector. This method delivers best value as prices track the wholesale market and remove the peaks and troughs associated with the market. The contract also ensures that business has been tendered in compliance with EU Regulations.

The margin that the supplier submitted during the tendering exercise will remain the same throughout the framework period (usually 4 years), likewise the fees for using the contract will also remain constant. ESPO for example has an in house trading team which makes numerous purchases usually over a 36 month period on a hedging strategy in advance of the supply commencing, once all purchases have been completed this will form the wholesale element of the total price which represent around 45% of the total bill for electricity and around 60% on gas costs.

The rest of the price is made up of distribution, metering, transmission and government environmental charges and subsidies to generators, these elements are charged purely on a pass through basis from the network operator to the end user customer, neither framework nor the supplier add anything to these charges.

In terms of benchmarking against other suppliers, this information is not available to frameworks as this is highly sensitive data, which other utility provides will not share, it is all very difficult to get like for like comparisons between the suppliers. Frameworks can give some indication of savings, which will look at aggregation economies of scale due to bulk purchasing, fixed to flex savings and how well our trading compares to the market average. Benchmarking and comparisons are difficult within the industry.

Benchmarked Comparison

In the gas benchmarking exercise the rates outlined for one year were

Provider 1	£267,473
Provider 2	£284,109
Provider 3	£338,113
Provider 4	£1,430,836.00