The Tender Process:

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 is under the OGC / Cabinet Office guidance http://www.sustainabilityexchange.ac.uk/files/energy_buying_-_the_effective_way_to_mange_risk1.pdf

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.

Risk-managed energy approach can reduce volatility and get the best price for the commodity by spreading market price risk and avoiding buying during periods of peak market pricing. Gas and electricity market prices are highly volatile and price changes can be sudden and sizeable. Framework agreements seek to manage this risk, but it is reliant on the purchasing strategy of the lead Purchasing Organisation or their broker.

The Council has to decide between the renewal terms offered through ESPO or other frameworks or to change supply and if not approved, the Council may be faced with paying out of contract rates. These rates can be up to 300% higher than the contracted rates obtained through a Framework Agreement.