Procurement
Delivering better value through best practice energy procurement

Energy buying:
The effective way to manage risk

www.ogc.gov.uk

Contents

Introduction	3
Pan-Government Energy Project	4
Best practice energy procurement	5
How to adopt best practice energy procurement	7
Central Purchasing Bodies (CPBs)	10
Selecting the right CPB	11
FAQs	14

The effective way to manage risk

Introduction

The Pan-Government Energy Project recommends that all public sector organisations adopt aggregated, flexible and risk-managed energy procurement. The Project, sponsored and chaired by the Ministry of Defence, has developed best practice recommendations for energy procurement, in consultation with customers and public sector buying organisations.

The purpose of this document is to explain best practice in energy procurement and offer guidance on how to make effective decisions in public sector organisations. It also provides details of how to make use of aggregated, flexible and risk-managed frameworks through public sector buying organisations acting as Central Purchasing Bodies (CPBs). Further information on CPBs offering best practice energy frameworks is available in the companion guide, *Energy buying: Working together for better results*, including the key services available and the areas and sectors within which they operate.

This document provides guidance for those responsible for energy procurement in all public sector organisations including, but not restricted to, local authorities, educational establishments, health trusts, central government departments, their non-departmental public bodies and executive agencies.

Pan-Government Energy Project

In January 2007 HM Treasury announced *Transforming Government Procurement*, an initiative to review government spending. In response, OGC launched the Pan-Government Energy Project, sponsored by the Ministry of Defence. In 2008/09, energy spend across the public sector was estimated to be £3.8bn, with more than 250 OJEU notices issued over a two-year period.

The Pan-Government Energy Project – Buy Smarter, Use Less
The aims of the Project are to review public sector energy usage and procurement; to deliver increased value for money through both cost and carbon savings; and to encourage a managed approach to energy procurement, thereby contributing towards the commitments of the current Comprehensive Spending Review (CSR07) and improved corporate social responsibility.

A series of recommendations for improving energy procurement and management have been developed by the Project's collaborative team. The team members have substantial energy procurement expertise and their organisations buy over 65% of all public sector energy. The Project is expected to deliver significant savings during the CSR07 period, whilst providing customer choice and improving the ability of all public sector organisations to achieve their sustainability targets.

Key recommendation 1 – Procurement
The Project recommends that all public sector organisations buy their energy through an aggregated, flexible, risk-managed framework managed by energy experts. An increasing number of government departments and local authorities are already recognising the specialist nature of energy procurement, and are turning to Central Purchasing Bodies (CPBs) for help. This guide provides an overview of best practice in energy procurement, what the benefits are and how organisations can access frameworks that meet this best practice. *Energy buying: Working together for better results* provides an overview of those CPBs offering best practice specialist energy procurement services. This can be downloaded at *www.ogc.gov.uk/energy*

Key recommendation 2 – Sustainability
The Project also recommends that all public sector organisations have a programme of demand reduction in place to reduce energy consumption within their estate. The Government is committed to improving the sustainability of its operations and there are various targets for public sector organisations to achieve.

The focus of this guide is energy procurement. However, the Project has also produced guidance on the major demand reduction and sustainability initiatives that are available for all public sector organisations.

Information on energy efficiency and the initiatives promoted by the project can be found at *www.ogc.gov.uk/energy*

Best practice energy procurement

The energy market is extremely volatile. Prices can vary significantly on a daily basis with dramatic rises and falls over a 12-month period. Moves of plus or minus 20% in a single month are possible.

Such market conditions make it difficult to manage budgets and to control costs. One effective way to counter this is to adopt flexible, aggregated, risk-managed energy procurement. The three key characteristics of best practice energy procurement are:

1. Flexible purchasing
Flexible purchasing allows the price of raw energy to be fixed over a number of trades in the wholesale market, over a specified period. The benefits of this method of purchasing compared with traditional fixed-price, fixed-term procurement are that:

- the purchaser is not solely reliant on the supplier's view of the market
- all costs that make up the delivered price of the energy are fully transparent
- purchasing on the wholesale market allows the removal of certain costs e.g. purchasing is conducted in real time so there is no additional premium for keeping a price open to cover the risk of wholesale price movement whilst a decision is made
- flexible purchasing also allows for the adoption of a risk management strategy.

2. Aggregation
Aggregation means combining energy volumes across organisations to form a larger portfolio. The benefits of large scale aggregation are that:

- larger portfolios are more attractive to suppliers
- larger portfolios can attract lower supplier margins which can reduce costs by as much as 3%
- aggregation provides the minimum volumes that are required to trade on the wholesale market
- there is the potential to increase risk management options
- smaller organisations can gain the benefits arising from larger volumes.

3. Risk management
Given the volatility in the market, it is crucial that any energy purchasing is carried out in accordance with a defined risk management strategy. Effective risk strategies are developed from a thorough knowledge and experience of the energy markets, statistical analysis and also an understanding of the customer's need for budget certainty. Risk strategies should be 'living' documents that are continually reviewed and updated, and should always be underpinned by robust governance.

To maximise the performance of a risk management strategy, the Project recommends minimum volumes of >500GWh for buying electricity on the wholesale market, and >20 million therms for gas – significantly larger than most public sector organisations are likely to purchase on their own. This is where aggregated frameworks can help all organisations gain the benefits arising from larger volumes.

Promoting best practice within the public sector
To improve the standard of energy procurement across the public sector, a set of best practice criteria has been developed by the Project including:

- access to wholesale markets (including multiple purchasing opportunities)
- robust governance and risk management
- transparent pricing mechanisms
- minimum volumes for frameworks
- access to future options.

Future options that are being investigated include buying directly from generators, which could reduce long-term price risk and increase security of supply, including the use of new, renewable sources of energy.

The energy procurement frameworks let by the CPBs engaged with the Project, (and outlined in the companion guide *Energy buying: Working together for better results*) are all being evaluated to ensure they meet these best practice criteria. Those which meet this standard become recommended solutions that will be reviewed annually to monitor performance and to ensure they continue to meet the criteria.

The full best practice criteria can be found at *www.ogc.gov.uk/energy.* Any CPB not currently engaged with the Project, but wishing to be so, can contact the Project at *energy@ogc.gsi.gov.uk*

[1]This is not the same as a cost reduction compared to a previous year's price as the market conditions may be different

How to adopt best practice energy procurement

One of the smartest ways for public sector organisations to buy energy is to use recommended frameworks that offer flexible purchasing, have aggregated volumes and enable best practice risk management.

Recognise the risks
Wholesale energy prices are influenced by a range of factors including security of supply, weather trends, exchange rates, European prices, geopolitical issues and market sentiments. This complicated mix can result in price volatility of 5% to 10% or more, over a few days.

Control costs
Purchasing annual or longer-term energy supplies on a single day (often referred to as a fixed-term, fixed-price deal) is a high-risk strategy, with a 1-in-250 chance (assuming 250 working days in the year) of getting the best price. In contrast, purchasing the same energy requirement in 'chunks' over multiple trades and over longer periods of time (known as flexible procurement) avoids these risks. Flexible procurement facilitates the adoption of a robust risk management strategy that can enable more effective management of the price risks inherent in the current energy markets.

Reap the benefits
In highly volatile markets such as energy, adopting a risk management strategy through a flexible framework avoids fixing prices at the highest points in the market. Between 2005 and 2008 public sector organisations that were operating flexible frameworks delivered an average of 5% cost reductions against the average wholesale market price, a cost reduction that is passed on directly to their customers[1]. In addition, by buying direct from the wholesale market and by aggregating volumes, these organisations can reduce costs in other areas, which can lead to an additional 3.5% cost reduction for customers.

Use specialists

Managing a flexible energy framework is a specialised function and should only be performed by market experts. One way of accessing specialists is by using a CPB with the relevant knowledge, experience and information, and whose frameworks are being evaluated by the Project to ensure they meet the best practice criteria. Such CPBs are listed in *Energy buying: Working together for better results*. An organisation would not expect its procurement department to trade its pension fund on the stock market and, as energy commodities are even more volatile than the stock market, similar principles should be applied to the purchase of energy.

These frameworks will also enable you to meet the minimum volumes required to add value from buying wholesale energy flexibly, as these CPBs aggregate volumes across the organisations within their portfolios.

Many CPBs use a private sector, third-party intermediary (TPI) to assist in developing and implementing an energy strategy. If an organisation is using a TPI directly, it must be satisfied that it is getting the best value through an aggregated, flexible, risk-managed contract, with full price transparency, including TPI fees and any commissions paid by suppliers to the TPI.

Budget certainty versus price

When considering which framework is most appropriate, account must be taken of the organisation's need for budget certainty. Different CPBs offer different risk strategies; some offer flexible buying prior to the supply start date. An 'average' price is calculated and a locked price provided for the period, thus providing the same budget certainty as a fixed-price, fixed-term deal. This is often referred to as a flexible locked option (see Figure 1).

Other options allow for energy to be bought flexibly both before and during the contract period. This allows energy to be bought closer to supply, to take advantage of any price falls. There will be an indicative billing price at the start of the supply period with price reconciliation at points during this time. This is often referred to as a flexible variable option (Figure 2).

CPBs will be able to discuss their various risk strategies with the organisation. Senior managers and chief officers should be involved in these discussions.

Fig. 1. Flexible Locked Option

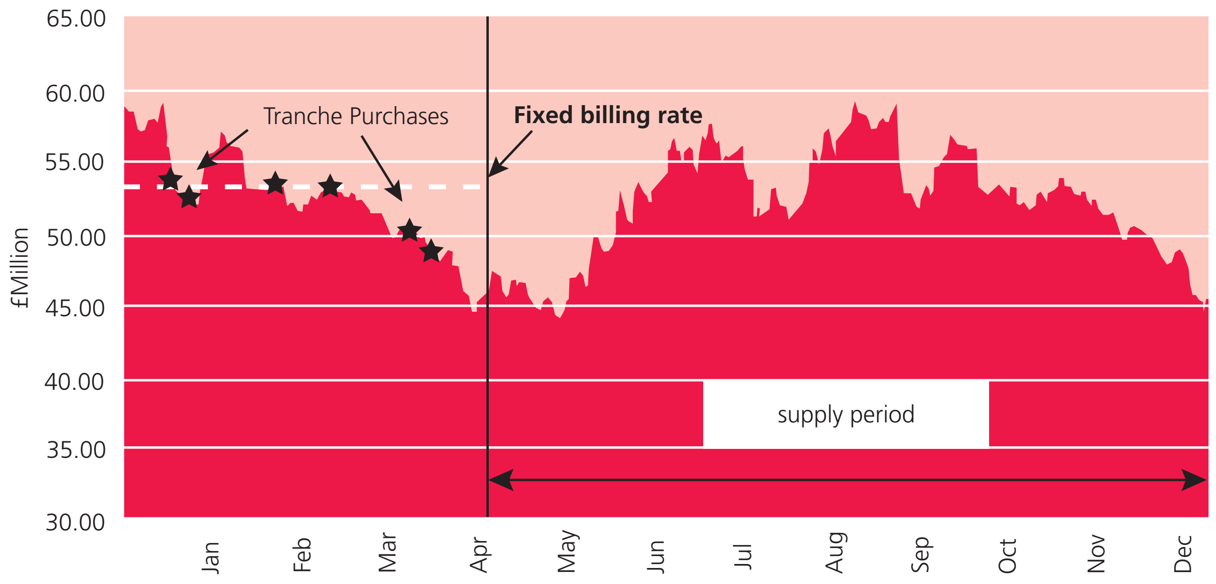
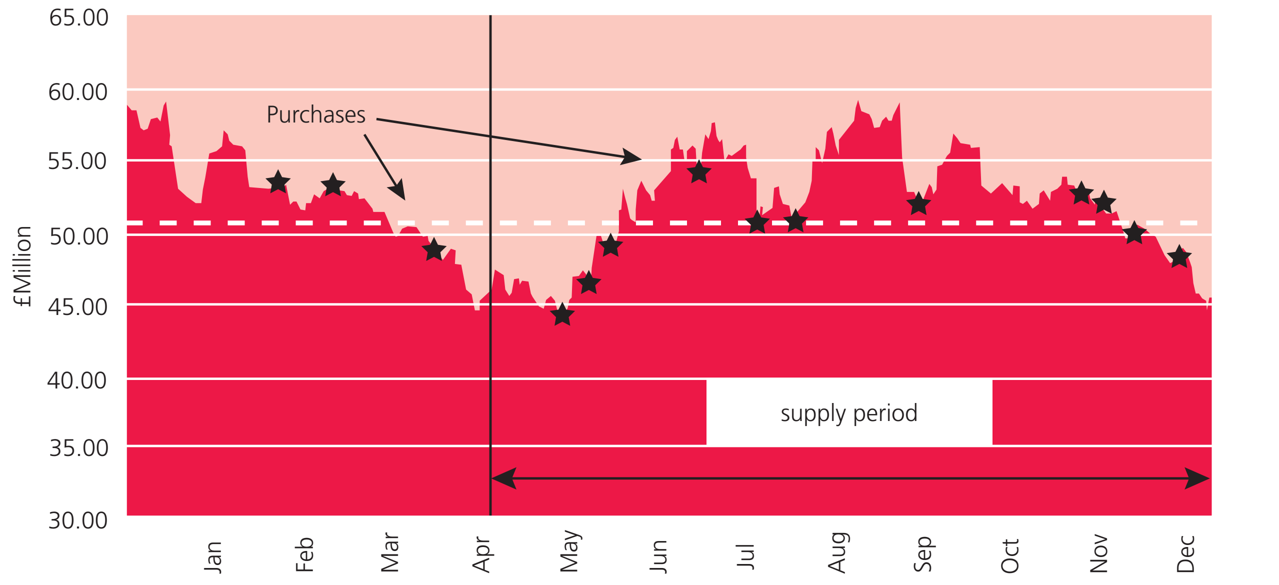


Fig. 2. Flexible Variable Option



Cut acquisition costs

Going through the tendering process can be costly, particularly if an OJEU notice and an electronic platform to evaluate tenders are needed. By using a CPB framework, an organisation will not need to go through this process, thus saving time and money. In addition, there will be no need to follow the markets, or make difficult decisions over when to buy. The CPBs' ability to react quickly to market-price falls or rises will assist in achieving better prices and they will dedicate significant resources to doing this on a daily real-time basis. By using a CPB to undertake the expert job of market analysis and energy buying, in-house staff can focus on other important issues, such as energy efficiency and carbon reductions through developing and implementing appropriate strategies.

Gain commitment

Depending on how the organisation is structured, energy management and procurement units should share knowledge and skills to inform any decisions. It is also important to involve the finance department early in the process, so it fully understands the business case for change, and the impact energy prices can have on budgets. Senior manager and chief officer sponsorship and engagement are also critical to ensuring that the organisation is aware of, and can effectively manage, the risks involved in energy procurement.

Central Purchasing Bodies (CPBs)

What is a Central Purchasing Body?
All organisations listed in *Energy buying: Working together for better results* are public sector buying organisations that act as CPBs. A CPB is defined in the Public Contracts Regulations 2006 as "a contracting authority which:

- acquires goods or services intended for one or more contracting authorities
- awards public contracts intended for one or more contracting authorities; or
- concludes framework agreements for work, works, goods or services intended for one or more contracting authorities"[2].

CPBs can only offer services to other contracting authorities. Some CPBs provide national coverage across all sectors including central and local government and the wider public sector. Other CPBs may be area- or sector-specific (eg, they may be limited to providing services to local government or in a particular geographic location).

Different CPBs use various fee structures to charge a (relatively low) fee for their services to recover the costs they incur. The fee type should be agreed with the CPB prior to using its services.

Why use a CPB?
CPBs typically combine the requirements of many customers to create aggregated portfolios of sufficiently large volumes to enable specialist resources to be dedicated to buying energy. This allows the CPBs to access contract options that would be unavailable to individual organisations. Through the aggregation of volumes and – subsequently – more attractive portfolios for suppliers, better prices are achieved and process times are reduced. This allows energy and procurement professionals within organisations to focus on other issues such as energy management.

What are the other benefits?
There are considerable benefits in using an aggregated, flexible and risk-managed framework through a CPB:

- **Specialist skills:** energy markets are incredibly complex, therefore CPBs employ individuals with the necessary skills, professional experience and knowledge to operate in these markets.
- **Contract support team:** most flexible frameworks are awarded to one supplier for four years. This, combined with the scale of portfolios, brings significant benefits from supplier performance on billing, dispute resolution etc. It also means that suppliers will usually assign dedicated personnel to manage accounts, usually with named contacts.
- **Dispute resolution:** CPBs have resources dedicated to energy which allow them to develop knowledge of industry procedures and contacts so that queries and disputes can be resolved as effectively and as quickly as possible.
- **Risk management:** recommended frameworks operated by CPBs will have large volumes allowing for a range of risk management options to be offered to customers.
- **Continuity of skills:** as CPBs have teams dedicated to energy there is a greater degree of resilience to staff absence or turnover than is likely within an individual organisation's procurement team. This also provides organisations with access to a greater skills and knowledge base than if they acted alone.
- **Lobbying:** CPBs actively lobby the energy regulators and consumer representatives on behalf of their customers, both directly and through consumer groups.
- **Value-added services:** CPBs also offer a range of additional services either from their own resources or through arrangements with other parties. These may include market intelligence, bill validation, site surveys or energy management.
- **Leverage with suppliers:** by aggregating volumes, the business becomes more significant to the supplier thereby increasing the consumer's leverage (and the allocation of risk between the parties).

[2]Regulation 2 of the Public Contracts Regulations 2006

Choosing the right CPB

Step 1 – Preparation
Organisations should:

Establish which CPBs are able to supply services to the organisation. Factors to consider may include the organisation's ability to access the framework (for example, depending on how the framework was advertised, there may be geographical or sector-specific restrictions).

Understand the requirements of the organisation in terms of service provision and business model.

Gather accurate site data to enable any transfers to new suppliers. The type of information organisations should provide can be found in the London Energy Project Energy Procurement Action Plan at *www.capitalambition.gov.uk/energy*

Ensure that the correct delegated authority is in place to allow a CPB to make purchasing decisions on behalf of the organisation and in line with the risk management strategy agreed with them. This may involve changing existing Contract Standing Orders and/or Financial Regulations. For a local authority which buys energy for social housing, for example, leaseholder consultation may also be needed.

Consider taking appropriate legal and other relevant professional advice.

Step 2 – Consider the options
The CPB may offer a Full or Intermediate Contract Management service.

Full Contract Management: a fully-managed service will include initial supplier engagement, periodic meetings, dispute resolution, contract amendment/variations administration, management information (MI) and distribution and monitoring of performance against key performance indicators (KPIs).

Intermediate Contract Management: a part-managed service with contract amendment/variation administration and dispute resolution. Individual organisations joining the framework arrange their own meetings, the receipt of MI and monitor performance against KPIs and Service Levels.

All the CPBs engaged with the Project operate 'evergreen' arrangements for their energy framework agreements. This means that when a framework is due for renewal, the CPB will tender for the new framework and their customers will be able to procure energy under the new arrangements. As most flexible frameworks are for four years, this should mean that changes in supplier are restricted to once every four years.

Other factors to consider may include the level of service offered and the compatibility of the risk management strategies with the organisation's objectives. The organisation will also need to consider whether a particular CPB offers best value for money for the services they offer.

Step 3 – Understand the risk management
When choosing a CPB, there is a need to understand how the energy is purchased, how the framework operates and what customer service is provided. One of the most complex, but also one of the most important, areas to understand is the risk management strategy being adopted.

Aims of the strategy
What are the aims of the risk management strategy and how do they relate to the organisation's objectives? For example, is the strategy predominantly focused on achieving budget certainty for its customers, or does it lean towards achieving prices in the lowest quartile of the market? In either case there are trade-offs; often these are between knowing the costs in advance and the potential opportunity to take advantage of downward price movements.

Measurement and management
How is risk measured and managed across the portfolio and what risk management tools are being used to do this? The CPB should be able to provide evidence of how performance of the risk strategy is assessed and how that performance is communicated to customers.

Strategy execution
An understanding of the skills, experience and knowledge of the buying team is important, as is an understanding of the procedures that are in place to govern execution of the strategy and the actions of individual energy buyers.

Step 4 – Ask the right questions
The following list of questions has been compiled to help organisations ask the right questions of CPBs, or anyone who may be buying energy on their behalf. Alongside each question are suggestions of what should be addressed in the answers.

No.	Questions on Energy Purchasing	Typical 'Green' answer	Typical 'Amber' answer	Typical 'Red' answer
1	What is the procurement strategy and how is energy price risk managed?	Clear explanation with full details provided of how energy price risk is managed and an example of risk management levels and controls, along with an outline of governance procedures in place and the experience of the staff executing the strategy.	Risk management in place but no visibility of strategy or controls.	None or insufficient details provided, or only fixed-term fixed-price offered.
2	Over what period is price risk managed?	Energy price risk is managed over a minimum six-month buying window, with options for longer price risk management (eg, up to three years). For larger portfolios there are a variety of risk management strategies that the customer can choose between.	Energy price risk is managed over a six-month buying window only.	Fixed-term, fixed-price contract or managed over less than six months.
3	What are the future performance targets?	Full and clear explanation of performance targets and how these relate to the market average or budget certainty over a specified period.	Future performance targets not clearly communicated, with limited details or lowest cost on the day.	None provided.
4	Can the CPB provide details of past performance against performance targets or the market average?	Yes. Full details of up to five years' past performance against market prices and agreed targets.[1]	Some details provided.	No.
5	Is there a size constraint for individual organisations entering flexible wholesale framework?	No. Any size of organisation can access all wholesale flexible framework options due to aggregation with other organisations' volumes.	Yes. Individual organisations must have volumes above 100GWh. There are limited options for smaller organisations for flexible procurement (eg, no day-ahead options or non-half-hourly frameworks).	Flexible procurement not offered.
6	What is the size of the total aggregated CPB portfolio?	The aggregated portfolio is over 500GWh for electricity or 20 million therms for gas.	The aggregated portfolio is over 150GWh for electricity or 10 million therms for gas with plans in place to grow the portfolio.	Do not aggregate customer requirements, each organisation's requirements are procured separately.
7	Does the CPB accept devolved authority for quick decisions?	Yes, the CPB takes devolved responsibility for purchasing decisions, allowing it to purchase on the wholesale market in "real-time".	Only for specific organisations/sizes or only with regular involvement.	No, customers must agree individual purchases.
No.	**Questions on the Framework**	**Typical 'Green' answer**	**Typical 'Amber' answer**	**Typical 'Red' answer**
8	Was the framework procurement process compliant with Public Contracts Regulations 2006?	The procurement process was compliant.	N/A	The procurement was not compliant.
9	Can your organisation access the framework?	The CPB has the power to allow your type of organisation to use its frameworks and the OJEU notice advertising the framework stated that your organisation is a potential user of the framework.	The framework is only available to consortium members and you will need to join the consortium to access the framework.	No. The OJEU notice did not list your organisation as a potential user.
10	Does the CPB offer flexible wholesale supply frameworks?	Frameworks offer flexible wholesale procurement that has been recommended by the Pan-Government Energy Project. An up-to-date list of organisations offering recommended solutions can be found at *www.ogc.gov.uk/energy*, along with the criteria used for assessment.	Operating flexible wholesale procurement that meets the best practice criteria detailed at *www.ogc.gov.uk/energy*	Does not offer flexible wholesale procurement - only offers fixed-price contracts.
11	Is there transparency of all costs, including energy price, pass-through (i.e. regulated) costs, supplier's cost to serve and CPB management fee?	Yes - energy prices and all costs from suppliers are transparent. CPB fees are fully transparent.	Some transparency.	No.
12	What is the process for using the framework, and what contractual commitment does this entail?	Clear, formal process for using the framework with explicit information on contractual obligations including details of termination clauses and all fees and charges.	Informal but visible correspondence, limited details of termination and contractual obligations.	No information and no visibility of contractual obligations.
No.	**Questions on Customer Service**	**Typical 'Green' answer**	**Typical 'Amber' answer**	**Typical 'Red' answer**
13	How does the CPB communicate with customers, including reporting purchasing performance and other management information?	Agreed regular management information reports sent to customers, detailing information such as updates of indicative prices for each risk strategy to enable customers to manage budgeting process, purchasing performance reports, market information, performance on supply point administration and dispute resolution progress. Dedicated contact point and process for managing customer queries.	Reporting is ad hoc and mainly on request. Information on price only supplied once all purchasing is complete, other communication is done as and when needed.	No regular communication channels.
14	Can the CPB provide examples of negotiated terms and conditions or Service Level Agreements (SLAs)?	Yes, details of existing contracts and SLAs provided.	Example of proposed or past contracts or SLAs.	No.
15	What are the billing arrangements and how are billing queries managed?	Full visibility of arrangements between the supplier, CPB and customer for billing and resolution of queries including a clear process for the escalation of queries within specified time periods.	Visibility of arrangements between the supplier, CPB and customer for billing but lack of clarity over responsibilities for resolution of queries.	Lack of visibility. No escalation route for billing queries.
16	What additional services can be provided?[2]	Full explanation of additional services included in the procurement service, for example bill validation.	Some details provided, but no clarity over what is included in the fee.	No additional services provided.

[1] If the CPB has not been operating flexible frameworks for five years, full details should be available on performance to date and how this will be measured on an ongoing basis.
[2] This applies where additional services are required, this may not be relevant if procurement is the only requirement.

The effective way to manage risk

FAQs

We are already adopting flexible, aggregated, risk-managed procurement through a CPB. How do we know we are getting value for money?
The frameworks listed in *Energy buying: Working together for better results* have been, or will be, evaluated by the Project to ensure they meet the best practice criteria. If it is not clear how an organisation's energy is being bought by the CPB, speak to the current provider to understand their risk management strategy. The information in this document should help with asking the right questions. A switch away from a provider should be undertaken on the basis of ineffective performance in strategy design and execution, or poor customer service – not on the basis of a retrospective analysis of price for a single year. In all cases, customers are advised to address their concerns in the first instance through a detailed discussion with their current CPB.

If you require any further assistance, please contact the Pan-Government Energy Project via the OGC Service Desk.

Which CPBs operate aggregated, flexible, risk-managed energy frameworks?
Energy buying: Working together for better results provides information about the major CPBs engaged in the Project that provide energy procurement services to the public sector.

Particular mention is also made of those CPBs that currently meet the best practice criteria, and therefore are offering recommended solutions, and those who are actively working towards becoming a recommended solution.

Why is the energy price achieved not the most important consideration?
For many commodity items, straight price comparison is a commonly used indicator of value for money. The Project, however, does not believe that this is a suitable indicator for energy buying. Extreme fluctuations in energy prices over the course of a year mean that a simple one-year retrospective price analysis will not provide an accurate indication of a CPB's ability to buy energy well. Therefore comparing the prices achieved by CPBs for the previous year will not, in itself, tell you which CPB to use (see question 4 on previous page for a more suitable question on past performance).

There are two main factors that determine purchasing performance:

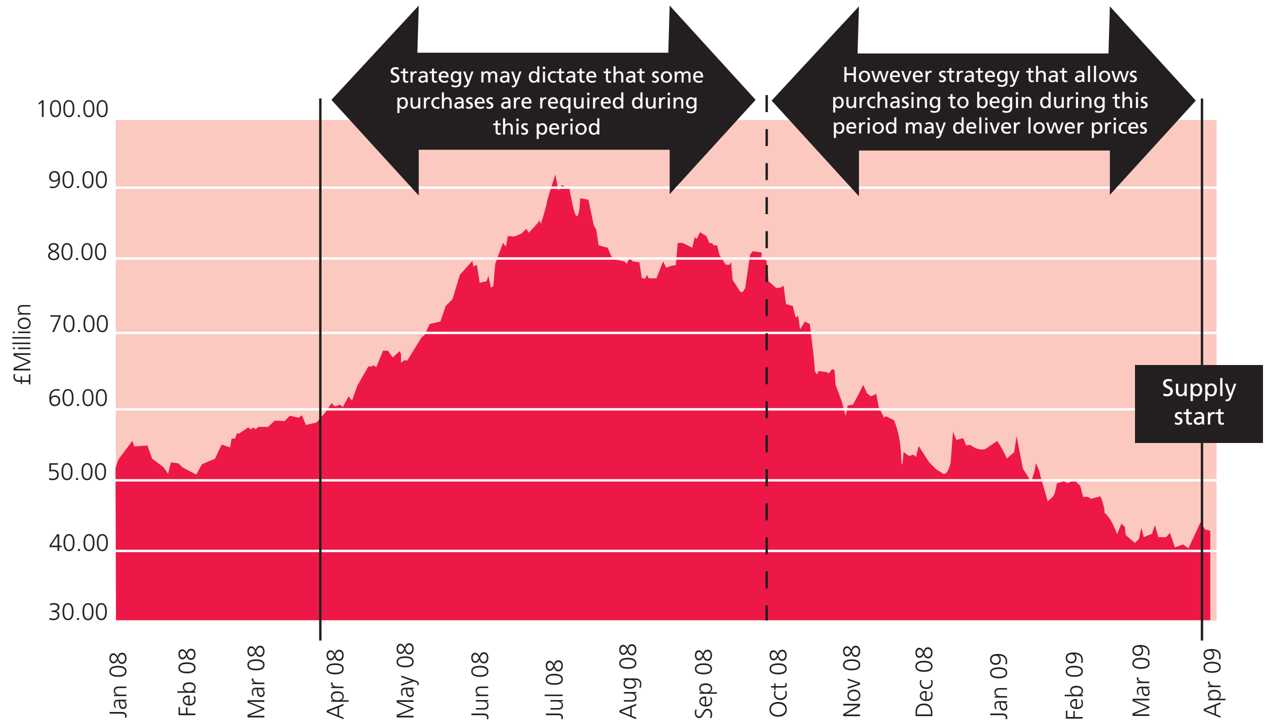
- the risk management strategy deployed
- the detailed execution of the risk management strategy by the CPB's energy buying team.

Therefore, an assessment of the ability of an energy buying team should therefore focus on the:

- quality and robustness of the risk management techniques used
- governance arrangements in place to support the execution of the strategy
- suitability of the strategy when measured against an individual organisation's needs.

The final energy price achieved is a direct result of the timing of the CPB's purchases from the wholesale market, and the risk management process that it employs to reduce customer exposure to volatility in the market. Therefore the conditions in the market during the period that the CPB has to buy the energy will have a large impact on the final price achieved. This is best illustrated by considering the following two examples.

Fig.3. Price movements for an April 2009 supply start



The effective way to manage risk

Example 1: Buying for an April 2009 supply start
Figure 3 shows the movement of prices for an April 2009 supply start. In this example, a risk management strategy that required some purchases to be concluded at least six months prior to the beginning of the supply period will now be delivering higher prices than one that allowed purchasing to begin much closer to the supply period.

Example 2: Buying for an October 2008 supply start
A customer's demand for budget certainty across an annual supply period, combined with a purchasing window of six months, may lead to a CPB buying all the energy prior to that period (the flexible locked option). If the market price subsequently falls, this strategy will deliver higher prices than those strategies where purchasing six months before the supply start and purchasing within the supply period is allowed (the flexible variable option). This is illustrated by looking at the price movements for an October 2008 supply start (figure 4).

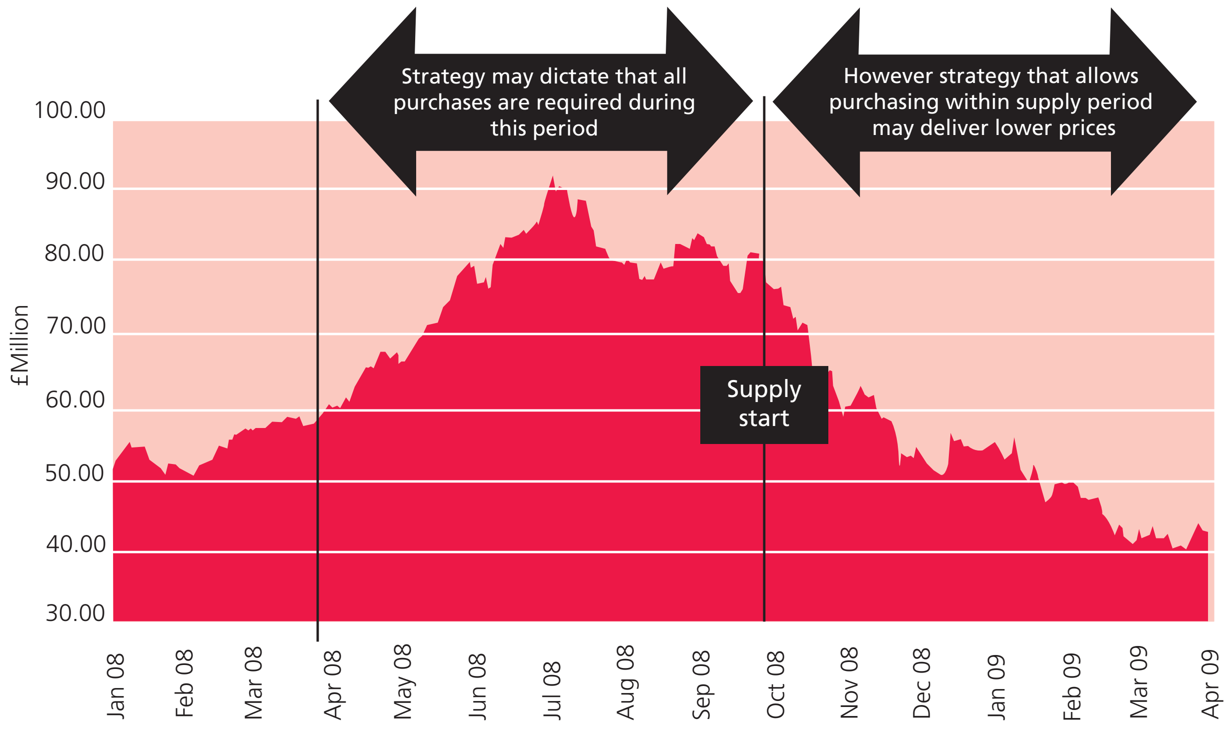
In neither example is the strategy itself 'wrong' nor, over time, is one strategy worse than the other – in fact, over a different period the performance of each strategy could be better than any others.

These examples illustrate that a one-off comparison for a single year does not provide an accurate indicator of the quality of the CPB's purchasing or more importantly, its future performance.

Sometimes even well thought-out, well-executed strategies will deliver a poor result due to an unforeseeable event. This is often referred to in risk management circles as the 'black swan' phenomenon. Normally swans are white but occasionally a black one is born and there is no way of predicting when this will occur. For example, in summer 2008, most analysts were predicting that oil would rise to $200 a barrel by Christmas. However, oil price fell steeply from August due to the extent of the economic crisis, which was largely an unforeseen event.

Any strategy is a compromise between knowing costs in advance, and the ability to take advantage of downward price movements. In addition, longer purchasing windows will often provide an increased opportunity to manage price volatility. It must also be noted that all this takes place in the context of a complex series of global interdependencies, the effects of which cannot be predicted.

Fig.4. Price movements for an October 2008 supply start



The dangers of retrospective price comparison

An associated problem with using retrospective price analysis as a basis for choosing a CPB is that this practice can be exploited by competing organisations, which can use selective data sets to justify why they would perform better than a current provider. This is particularly easy to do in a falling market. Any attempt to forecast future price competitiveness needs to be qualified by the knowledge that:

- most variations in energy costs are a result of commodity price fluctuations, and all buying organisations, whether in the public or private sectors, are accessing the *same* commodity markets and will therefore have almost exactly the *same* prices available to them, at any given time, on any given day
- even the most sophisticated trading organisations cannot foretell the future with certainty.

So, promises of competitive advantage and lower future prices should always be treated with caution.

As a general rule, purchasers should seek to increase understanding of how CPBs design and execute their risk management strategies.

Need more information?

More information on the Pan-Government Energy Project and an up-to-date list of all frameworks recommended by the Project can be found at *www.ogc.gov.uk/energy*. You can also download *Energy buying: Working together for better results* from this website.

Information on all enabled and recommended frameworks is also available on the OGC Contracts Database: *www.ogc.contractsdatabase.gov.uk* or from the OGC Service Desk on 0845 000 4999.

The effective way to manage risk

Organisations involved in the Pan Government Energy Project:

Buying Solutions

Department for Business, Enterprise and Regulatory Reform

Department for Children, Schools and Families

Department of Energy and Climate Change

Department for Innovation, Universities & Skills

Department for Work and Pensions

Eastern Shires Purchasing Organisation

HM Revenue & Customs

Laser

London Energy Project

Ministry of Defence

NHS Purchasing and Supply Agency

North Eastern Purchasing Organisation

Office of Government Commerce

Procurement Scotland

Regional Improvement and Efficiency Partnerships

The Energy Consortium

Value Wales

West Mercia Supplies

Yorkshire Purchasing Organisation

OGC 1 Horse Guards Road
London SW1A 2HQ

Service Desk: 0845 000 4999
ServiceDesk@ogc.gsi.gov.uk
www.ogc.gov.uk

About OGC
The Office of Government Commerce is an independent office of HM Treasury.

The OGC logo is a trademark of the Office of Government Commerce in the United Kingdom.

OGC Service Desk
OGC customers can contact the central OGC Service Desk about all aspects of OGC business.

The Service Desk will also channel queries to the appropriate second-line support. We look forward to hearing from you.

You can contact the Service Desk 8am – 6pm Monday to Friday

T: 0845 000 4999
E: ServiceDesk@ogc.gsi.gov.uk
www.ogc.gov.uk

Press enquiries
T: 020 7271 1318
F: 020 7271 1345

This document is printed on material comprising 75 per cent recycled fibre.

CP0211/06/09