

Procurement Summary – Client B (Electricity).

Date: 17th April 2015 - Electricity

SmartPower was asked by Client B to assist the management team in procuring energy for the upcoming year 2015 (Start date 1st May 2015).

This report summarises the electricity offers received from vendors.

Recommendation: Supplier 1 beat off stiff competition at the close and are offering two attractive options. The first is a Standard Time of Day (SToD) contract. When compared to the wholesale market between the start of March 14 and the end of February 2015 the rates work out at € 30,982 more expensive when measured off this baseline; (this cost covers the Supplier 1 management fee and hedging costs).

The Supplier 1 offer beat the final Supplier 2 SToD quote by a very narrow margin of €1,092.

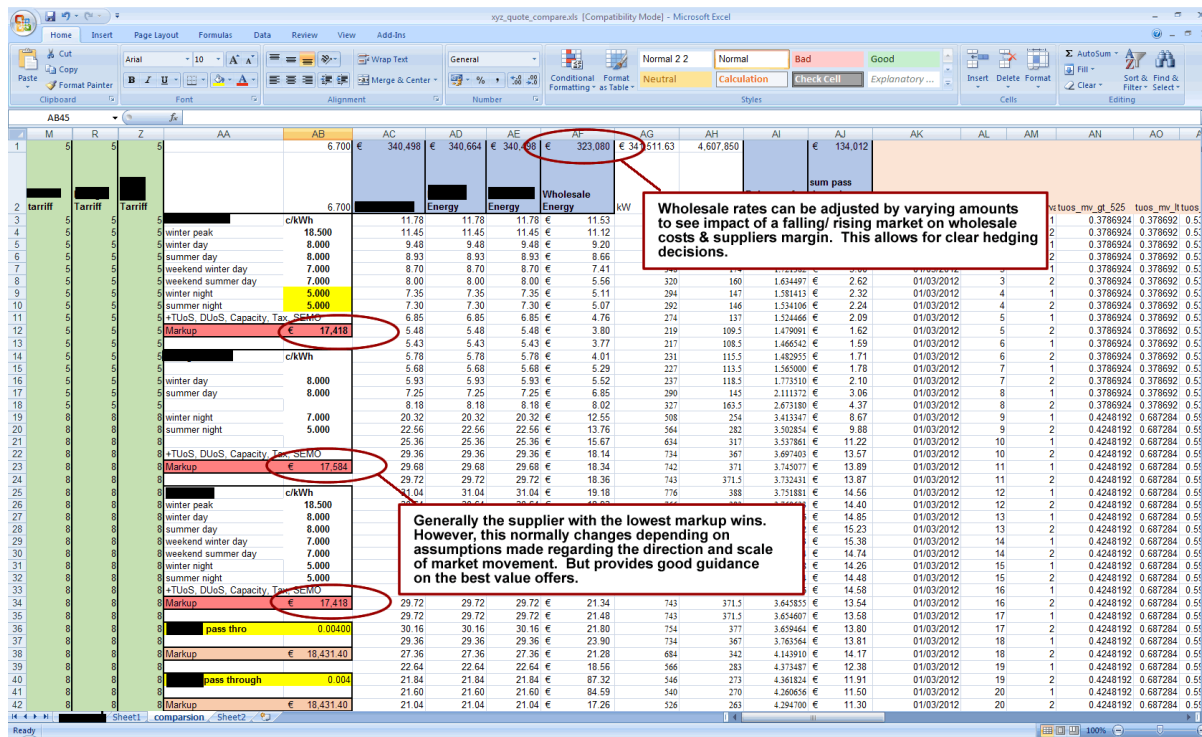
The alternative contract type is known as the “Pass through tariff”, where all wholesale costs are passed through to the customer without mark-up and an administration fee is applied to each kWh used. In this case Supplier 2 offered a fee of 0.3c/kWh (€16,578 for 12 months), with BGE there is the flexibility to move to a SToD tariff during the contract.

If the electricity wholesale market increases year on year by an average of less than 4.1%, then the Pass through tariff offers the best value, if it rises by more than this amount then the SToD contract will deliver the best rates.

We feel that while both alternatives offer good value, our recommendation at this stage is to accept the pass through offer from Supplier 1.

Methodology

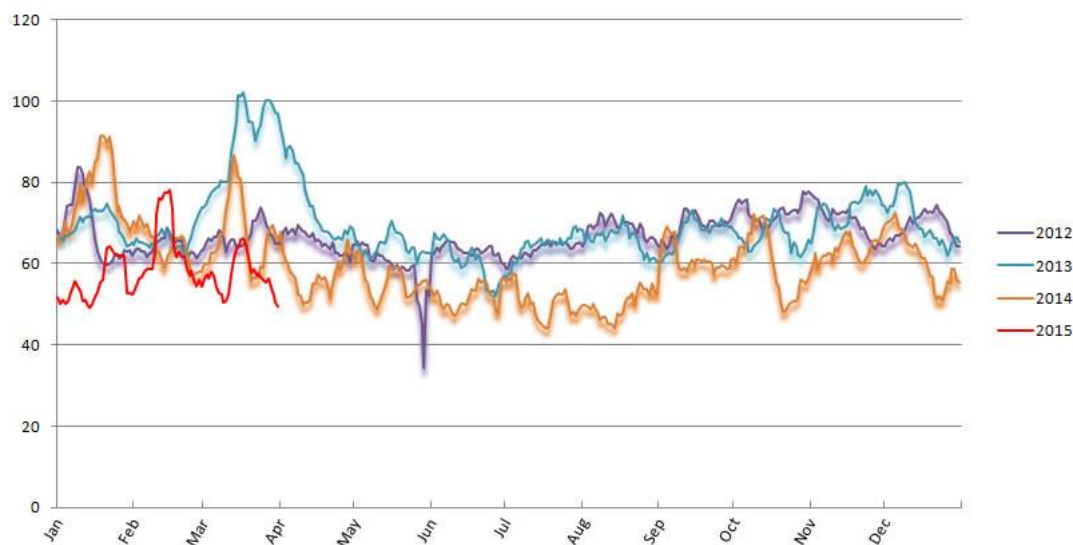
Each quotation was compared using client ½ hourly meter data to historical wholesale costs. This allows for very clear and simple mark-up analysis.



Wholesale rates can be adjusted by varying amounts to see impact of a falling/ rising market on wholesale costs & suppliers margin. This allows for clear hedging decisions.

Generally the supplier with the lowest markup wins. However, this normally changes depending on assumptions made regarding the direction and scale of market movement. But provides good guidance on the best value offers.

The prices relate to the wholesale electricity market between the 01/03/2014 and 28/02/2015. In effect, if last year's wholesale rates are duplicated in the coming year, then these are the mark-ups that each supplier would make. In reality the wholesale market is different every year, but this methodology gives a fair and objective method of comparing costs.



The graph above shows the Electricity prices between March 2014 (brown line) and the end of February 2015 (red line).

As we stated in our introduction, the electricity market has been at very low levels for the past 12 months and in our opinion will probably remain at similar levels or rise slightly in the coming 12 months.

Price Drivers

In the short term, the risks to gas prices rising (which would have a knock on effect to electricity prices) are the following;

1. Most importantly we expect a further decline in the Euro against Sterling which has a direct impact in electricity costs as nearly all gas (for power generation) in Ireland is purchased in Sterling.
2. Unexpected maintenance required on gas infrastructure. (Unscheduled Norwegian production shutdowns and maintenance issues at the Rough Gas Storage facility caused recent price spikes).
3. Colder weather than normal Autumn and Winter 15/16.
4. Political events e.g. Eastern Ukraine; Russia resurfacing.

On the positive side,

1. LNG imports into the UK are expected to pick up as a maintenance shutdown at Qatar's Ras Laffan LNG terminal has ended.
2. Lower LNG Gas demand in Asia.
3. More gas coming on stream worldwide.
4. Oil prices have seemed to stabilise below the €60 per barrel.

Supplier Tariff Summary

See Attached PDF