Utilities Procurement Decision and Results
Electricity Tender 2021

MAPP - Procurement - Utility Decision - Sept 21

Context

MAPP is appointed by over 50 clients across the UK to provide a comprehensive utility management service, which includes the management of their utility contracts and procurement. MAPP’s approach is to conduct aggregated group-wide tenders in order to benefit from the economies of scale in the utility markets. We align clients contract terms in order to increase our influence and negotiable buying powers with suppliers. This provides noticeable improvement to the overall terms and rates to our clients and administrative efficiencies for the utility and validation services. Our purchasing value on electricity and gas contracts is circa. £23 million per year. Our strategy is to have the most appropriate procurement process with these five main objectives in mind:

- Administrative Simplification – Efficient contract management
- Cost effectiveness - Using economy of scale to mitigate costs to clients
- Utility contract procurement – Maximising appeal to suppliers on volume
- Proactive time management to sign Vs Commodity trading and risk management
- Renewable source energy suppliers (REGO / High quality green tariffs / Virtual CPPA)

Procurement Cycle

Within the 2021 procurement management cycle, we had our group electricity contract come up for renewal, which was aligned to an expiry date of 30th September 2021. The group Gas contracts still have another year before they expire on 30th September 2022. This resulted in the following steps:

1. MAPP instructed our Energy Broker to package and begin a tender of the group electricity contracts in June/July.
2. Tenders were sent out to our current approved suppliers Ecotricity, Good Energy and Green Energy
3. Two additional and portfolio suitable suppliers (Scottish Power and EDF Energy) are included within the tender for comparative purposes.
4. Our Supply contracts are to remain on fixed and all-inclusive contract terms in line with our procurement strategy and KPIs
5. Utility review meetings conducted with utility experts from Alfa Energy, MAPP’s Head of ESG & Utilities and the Executive Director of Sustainability and Utilities to decide on the right suppliers, contracts, rates and KPIs.
6. Contracts are then secured before the expiry dates to ensure smooth transition of the suppliers and avoidance of any deemed rates.

**Results from 2021 Electricity procurement cycle**

As many have seen in the UK media in the recent months, there has been a significant increase in both electricity and gas prices, mainly driven by gas market issues. Unfortunately electricity is heavily dependent on gas in the UK due the energy mix shown in chart 1. This meant that our fixed contracts were subject to increases as a result. In addition to this, electricity also had a significant increase in the standard charges due to the reform of the TNUoS (Transmission Use of System) and DUoS (Distribution Use of System) charges implemented by Ofgem, known as the Targeted Charging Review (TCR).

![Chart 1 - UK Energy Mix 2020.](https://www.spglobal.com/)

The tender process and procurement cycle typically takes 2 / 3 months to complete and we were two thirds of the way through then the market suddenly shifted into an unprecedented upwards position which required us to act fast and secure our clients position. This proactive action resulted in MAPP securing group electricity contracts on w/c 13th Sept with all our managed supplies at an average increase +50% while also maintaining our KPIs, renewable tariffs and administrative effectiveness. The Market has since significantly increased further and market predictions are that increases will continue until Q1 2022.

It must be noted that, each meter within our group contracts are individually priced and therefore the increase differs per meter per building.

Looking at chart 2 below this illustrates the impact of the electricity market in the past 21 months, particularly the last 4 months. The red dotted line indicates where we signed the new contracts thereby mitigating more increases. The increases could range from 30% to 100% and we worked proactively with our brokers to mitigate these costs as best as we can. Note - we have shown 36-month price trends on the chart below but no suppliers were offering them due to the market increases and risks on their side.
Key Highlights for KSP:
➔ A +51.09% increase on average on Kent Science Park electricity contracts
➔ Fully fix contracts for 24 months (expiry 30th Sept 2023)
➔ Maintained our KPIs, renewable tariffs and administrative effectiveness
➔ Aligned and reduced our exposure to poorly performing suppliers
➔ (TNUoS (Transmission Use of System) and DUoS (Distribution Use of System) TCR charges from OFGEM is the main driver of the increase as you can see the standing charges have a 11973.37% increase from previous contract.

Previous contract rates to rates from 1st October 2021

Previous contract rates: Day - 12.33p/kwh  
Night - 8.66p/kwh  
Standing Charge -109.63p/day

New contract rates:  
Day - 18.64p/kwh  
Night - 13.35p/kwh  
Standing Charge -13236.52p/day

Comparison quote - Ecotricity - Day - 20.21p/kwh  
Night - 14.41p/kwh  
Standing charge - 12872.67p/day
Deemed Rates currently if we held back and risked being out of contract - 27.5p/kwh - Variable so changes with the market, looking like this will be 40p/kwh in the next few weeks.

The procurement process is very comprehensive and we are confident that we achieved the best possible outcome considering the current market conditions. The sustainability team at MAPP are happy to answer any further questions you may have in relation to the procurement process and can be reached via Sustainability@wearemapp.com