

## **Response from Robert Leask, Scottish Procurement, 8<sup>th</sup> June 2012 (sent via email)**

### **Background**

Scottish Procurement manage the Scottish Public Sector energy supplies and as such I act on behalf of 200+ public bodies across Scotland. Network volatility is a significant issue for us as it has had a large impact on the public sectors energy bills over the last few years with several types of supplies seeing charges vary in excess of 100%. Visibility of this charges does come late and in essence has not been well communicated. The result is a significant disruption to the budgeting process of public bodies prior to the commencement of the budget year necessitating in some cases further late unplanned cuts to public services. We have taken action and have now established better contacts with the network operators and it was interesting to note that we were amongst the first customers they had had contact with.

In summary both the volatility in charges and their scale is causing end customers significant issues on their energy bills. The scale of these charges are such that in some cases we are no longer buying energy but are in fact purchasing a network and the energy costs are becoming incidental to these. Also many consultants are starting to focus on this volatility as it out stripping the volatility in raw energy prices. The average table you display does not illustrate the regional volatility.

### **General**

I would agree that energy suppliers are charging risk premiums to fix out these charges particularly if customers wish to only have one change per year. Indeed one supplier said to me that in fixing these charges "we would not lose any money" indicating that the risk premiums are indeed set at conservative levels resulting in larger bills for end customers. Also we are being told that suppliers are only offering fixed prices with the caveat of claiming back additional network costs if required.

### **Question Responses**

2.1 The characterisation of the scope of the problem has been appropriately addressed. However, I would suggest that it is further extended to cover the impact on end customers who are on the receiving end of the volatility. This is more than an issue for suppliers dealing with unknown costs coming forward.

2.2 Customers who are on pass through contracts are also affected. In these circumstances the supplier does not bear the financial risk and consequentially the customer is on the receiving end of the volatility and charge impacts.

2.3 The assessment criteria I believe is incomplete as it focuses on the risks of suppliers and network operators. There is no cognisance of the impact on end customers and also the ability of end customers to manage budgets and in some circumstances the ability to pay these increased charges. The latter is of particular note especially if the network operator has under recovered in a previous year and is due further revenues from additional network investment i.e. a double whammy!

3.1 The main impact on volatility is the difficult task of network operators predicating consumption and trying to allocate network charges to those customers and types of supplies

utilising their network. This mechanism is only open to degrees of "failure" as getting this absolutely correct is almost an impossible task. Therefore the question of how to deal with the impacts is critical. Currently the impact of over / under recovery is corrected during the following year together with further assessment. This only locks all stakeholders and customers into a cycle of over/under recovery and volatility. A mechanism to smooth out this over / under recovery would be very welcome to customers who ultimately pay the price. In arriving at a mechanism to do so then some form of limit on these additional charges should be implemented to account for customers ability to pay.

3.2 No I think the initial assessment are not full and robust and include the impact on customers.

#1 Allows customers better visibility of pricing to take corrective budgetary action. NO benefit in relation to price volatility and ability to pay

#2 Reduces frequency of change on customers but has the impact of increasing the magnitude of any changes to once per year.

#3 Agree that this would be beneficial to customers

#4 Agree that this would be beneficial to customers

#5 Implementation would be beneficial to end customers particularly in the current economic climate as it would allow customers to plan future bills

Hopefully the above is helpful. Happy for you to contact me for further information.

Regards

**Robert Leask**

Senior Portfolio Manager - Utilities