

As energy prices prove they can fall as well as rise, the UK's largest retailer is paying careful attention to its **purchasing strategy** to optimise its energy budget.

Tesco, the UK's largest retailer, is also one of the country's largest commercial consumers of electricity, with over 1,800 stores nationwide. With a multi-format portfolio which ranges from small convenience shops to large out-of-town superstores trading 24 hours a day, the business of managing energy requirements is a challenge.

Tesco has been an EDF Energy customer since 2003. Over this period, the relationship has progressed from a traditional fixed price annual contract to a fully flexible electricity procurement arrangement on a long term basis.

#### Why change to a flexible deal?

Wholesale electricity prices actually represent the bulk of the total unit price paid for electricity – over 70% in recent years. Up until the end of 2003, wholesale electricity costs had declined as a result of competition and other structural changes in the energy



industry. This trend was reversed suddenly and dramatically by a number of factors, including rising crude oil prices affecting gas prices and declining stocks of North Sea gas.

The resulting combination of higher prices and volatility created a much greater energy cost risk than had previously been experienced by industry in the UK. This prompted customers to look for a different way of buying energy, rather than simply taking a gamble on a single decision once a year and hoping for the best.

#### What is flexible buying?

In short, a flexible contract allows customers to make their own decisions as to how much and when to buy their energy. Instead of purchasing everything in one go, buyers are given the control to purchase smaller portions of their energy needs over time. For example, customers may choose to buy some of their requirement a year or more in advance, some a month in advance, and leave the remainder at a 'floating' price on the spot market. In some circumstances, customers are also able to 'unfix' their purchases, enabling them to vary the mix of their electricity portfolio in accordance with changes to their risk management approach.

#### What motivated Tesco to adopt a flexible contract?

James Summerbell, Senior Buying Manager at Tesco, says, "It became clear to the Board very early on that we had significant exposure and no real control over the volatility in the market. Moving to a flexible contract allowed us to take that control and align the energy risk to the rest of our business, whilst giving us the opportunity to create a competitive advantage."

He continued, "Taking this step is not for the faint hearted – buying energy like this is very complex, and our scale means that it is essential to ensure that the organisation dedicates sufficient resources to it."

*"It is vital that the risk policy is agreed and signed off at Board level, and that decisions are based upon the best information available. We get live price data and market news from Bloomberg, and benefit from market intelligence from various sources including EDF Energy and advice from consultants such as Utiyix and Encore."*

#### Top tips for buyers considering flexible contracts

- Understand the product. Make sure of how it changes your budgetary process and cost control and hence why you want to do it.
- Be realistic as to what you want to achieve – set a risk strategy that is appropriate to your business – don't take unacceptable risks in an attempt to 'beat the market'.
- Ensure that all stakeholders in the business have signed on to the strategy, and that the Board understands the risks and is fully supportive. An 'Energy Risk and Policy Committee' made up of representatives from Energy purchasing, Finance, Treasury and (ideally) at least one Board member is a good way of developing and managing a well balanced and acceptable strategy.
- Good advisers can pay for themselves in helping to put together the contract, and in the development of strategy and day-to-day operation.
- Choose a supplier capable of delivering the end to end service you need, from day to day procurement services, accurate and timely billing to great customer support.



**Tesco**  
**James Summerbell**  
 Senior Buying Manager – Energy  
[James.Summerbell@uk.tesco.com](mailto:James.Summerbell@uk.tesco.com)  
[www.tesco.com](http://www.tesco.com)