

CASE STUDY



Dixons Academies Trust Saves £1.25 million on their energy contracts with Dukefield Energy

Crescent Purchasing Consortium



Department
for Education



BACKGROUND

Dukefield Energy procured electricity contracts for Dixons Academies Trust in October 2022 commencing 1st May 2023 running for 24 months.

MARKET BACKGROUND

Wholesale prices were particularly volatile and high in the second half of 2021 due to gas storage being low across Europe. An explosion at the electricity interconnector between France and the UK in September 2021 sent wholesale prices sky high and this trend continued throughout 2021 and into early 2022.

Early 2022 saw increased tensions between Russia and Ukraine with threats of invasion and Russian troops amassing near the border. 24th February 2022 saw Russia invade Ukraine and this sent the markets in to unprecedented territory with suppliers suspending all pricing activities for around 3 weeks.

Europe was heavily reliant on Russian gas and although the UK previously only sourced around 3% of it's gas from Russia, we had big stakes in the European market and as such, a bidding war ensued for alternatives to Russian gas.

Parts of Asia were previously outbidding the west on LNG (Liquified Natural Gas) but a deal was struck with the USA to provide Europe with LNG from it's Freeport terminal. There was then a large explosion at this terminal on 8th June 2022 and it remained closed until Q3 2023.

Planned maintenance at Nord Stream 1 (the Russian pipeline that feeds mainland Europe) was scheduled for approximately 10 days from July 2022. All had gone smoothly until a turbine that helps power the pipeline had been lost in transit. It was then found however Russia then said they are unable to accept it's return owing to European/NATO imposed sanctions on them.

AT A GLANCE

Background

- Dukefield Energy procured electricity contracts for Dixons Academies Trust in October 2022.
- Wholesale prices were particularly volatile, peaking in September 2022.

Results

- Dukefield Energy advised Dixons Academies Trust to consider a flexible contract approach.
- Dixons Academies Trust signed a flexible 24-month Energy Contract.
- Dukefield Energy's buying strategy has saved Dixons Academies Trust over £1.25 million annual spend on their electricity contracts

ABOUT DIXONS ACADEMIES TRUST

Dixons Academies Trust are a well-established multi-academy trust of 16 schools serving the communities of West Yorkshire and the North West. These consist of 10 secondary academies, 3 primaries, 2 all-through academies and a standalone sixth form academy.

Since then, on the 26th September 2022 there was a large explosion at the Nord Stream 1 pipeline, this has since been explained as sabotage. The Pipeline remains unusable and any possible hope that gas may flow from Russia into mainland Europe was gone.

Wholesale prices peaked in September 2022 at 50p/kWh for the electricity and 20p/kWh for gas.

Since then, we have seen a gradual decline in prices into Q2 2023 due to a number of factors. Unseasonably mild weather during winter 2022/3 EU as gas demand fell by more than 60% down to the mild temperatures and reduced consumption due to the high prices. China's economy was halted for most of 2022 due to Covid which meant their Liquefied Natural Gas (LNG) shipments fell by 20% allowing Europe to buy these up at a discounted price. The UK wind generation has gone up 30% year on year for the last 3 years which also helped drive prices down.

RENEWAL STRATEGY

Renewal quotes were obtained throughout October 2022 with fixed priced offers for electricity coming in at over £3 million of annual spend. Dukefield Energy advised Dixons Academies Trust to look at the idea of a flexible contract approach taking advantage of the dropping market and allowing to buy the commodity at the lowest points.

FIXED VERSUS FLEX

Historically, the customers that Dukefield have procured energy for have favoured a fixed term contract. A fixed term contract is where all the costs are set in stone for the duration of the contract and this allows for a greater level of budget certainty. This is the contract type Dixons Academies Trust were currently on.

There are many different types of flexible contracts and suppliers have thresholds for the type of products that they are willing to offer customers. The flexible product that suppliers are willing to offer Dixons is where the non-energy costs (also known as third party costs/TPCs) are fixed and the energy is 'flexible'.

With this type of contract, we have the opportunity to purchase different 'clips' of energy throughout the duration of the contract. These are traded at months, quarters and seasons. We are also able to set upper limits, so if the wholesale price reaches this limit, a pre-determined amount of energy is purchased at that price.

The main benefit of procuring a flexible contract is to take advantage of any drops in wholesale prices. With the markets being so high at the moment, a lot more customers are signing in to flexible agreements so that if/when wholesale prices do fall, they won't be tied in to an expensive fixed-term contract.

OUTCOME

Dixons Academies Trust signed a flexible 24 month energy contract on the 26th Oct 2022 after taking the advice of Dukefield Energy. The non-energy costs were fixed meaning there was budget certainty for these. This then allowed Dukefield Energy to purchase the energy element at the right time during the contract with full consultation between both parties.

By signing into a flexible contract Dixons Academies Trust have saved a substantial amount of money. At the time of signing a fixed price contract was over £3 million of annual spend. With Dukefield Energy's buying strategy this has now been reduced to £1.75 million, saving Dixons Academies Trust over £1.25 million annual spend on their electricity contracts.