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# **Beyond Procurement Centralization of Purchases: The Case of Energy**

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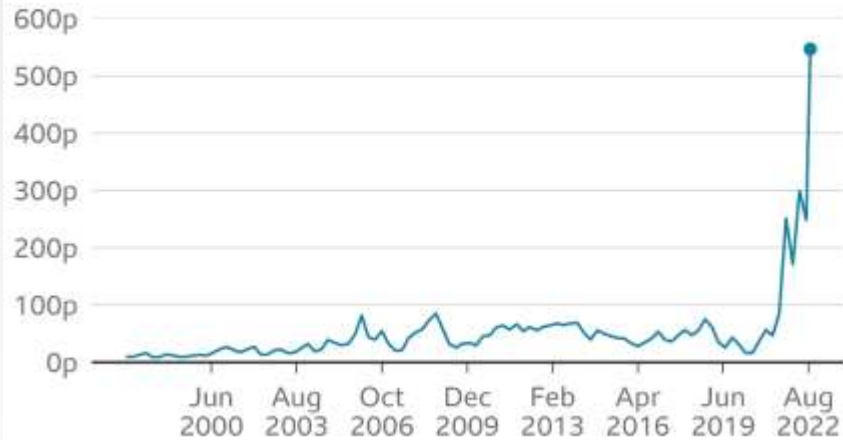
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# Current gas prices

## Gas prices are still rising

Daily price of UK gas futures



Source: Bloomberg

BBC



# Back in May and June... July

Europe's Economy Today    U.S. Rates News    Europe News by Country    Global Crisis Price Feed    UK's Energy Price Cap

## European Union countries agree to jointly purchase gas.

European leaders announced the agreement Friday, an effort to ease their reliance on Russia and contain energy costs.

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The entire page is an Open Access article.



A detailed second gas supply in July. The new agreement allows for shared storage capacity in the EU's gas network and proposed for joint purchases. View the article on the New York Times.

By **Wolke Forewick**  
March 22, 2022

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## EU Energy Platform

The platform will play a key role in pooling demand, coordinating infrastructure use, negotiating with the international partners and preparing for joint gas and hydrogen purchases.

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The EU Energy Platform was established on 7 April 2022, at a [first meeting](#) with EU countries, to secure the EU's energy supply at affordable prices in the current geopolitical context and to phase out dependency on Russian gas.

The platform is a voluntary coordination mechanism supporting the purchase of gas and hydrogen for the EU. It ensures cooperation in areas where it is more effective to act in a coordinated way at EU level rather than at national level. It was first proposed in the REPowerEU Communication "Joint European Action for more affordable, secure and sustainable energy". The EU's Heads of State or Government endorsed the idea shortly after, at the European Council on 23 March.



# EU Joint purchasing mechanism: December 2022

## EU Energy Platform

The platform will play a key role in pooling demand, coordinating infrastructure use, negotiating with international partners and preparing for joint gas and hydrogen purchases.

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About the EU Energy Platform

AggrEUEU - a demand aggregation and joint purchasing mechanism

Governance

Transparency and information exchange

Related links



The EU Energy Platform was key to EU's diversification efforts in 2022, facilitating the signature of Memoranda of Understanding with the main gas exporting partner countries and enhancing international outreach to support the REPowerEU Plan.

It will focus on organising demand aggregation and joint purchasing of gas for coming winter's (2023-2024) gas storage filling season. Close cooperation amongst the European Commission, EU countries and the industry will be crucial and the Commission will provide guidance to ensure that the joint purchasing mechanism complies with EU competition rules.

- Part of RePowerEU + Energy Platform Task Force
  - demand aggregation, coordination of capacity and negotiation of energy supplies
- Combines with the EU External Energy Strategy
- An alternative to a massive change in the electricity regulation system



# **Developing Aggregate EU: Energy Purchasing Platform**



# Goals: Security & energy solidarity

- **Emergency mechanism** – Article 122 TFEU
  - “to protect citizens and the economy against excessively high prices” (Art 1.2)
- Joint purchasing can help achieve **security of supply**
  - Find new suppliers & reduce/eliminate Russian dependence
- Security of supply in two dimensions:
  - **Volume & affordability**
- Joint purchasing can ensure more equal access for undertakings across Member States to new or additional gas sources
  - **Improving energy solidarity**



# Benefits of joint purchasing

- Aimed at the creation of **buyer power**
- Usually **pro-competitive**: lower end prices, larger output/quality, increase innovation.
  - If “they are limited to what is **objectively necessary** to ensure the arrangement’s proper functioning and exercise its **buying power in relation to suppliers**” (EU Commission, 2022)
- Joint purchasing is about **collective activity**
- In the case of gas, may help small(ish) buyers face very large sellers
  - Countervailing power



# How does this work? Two steps

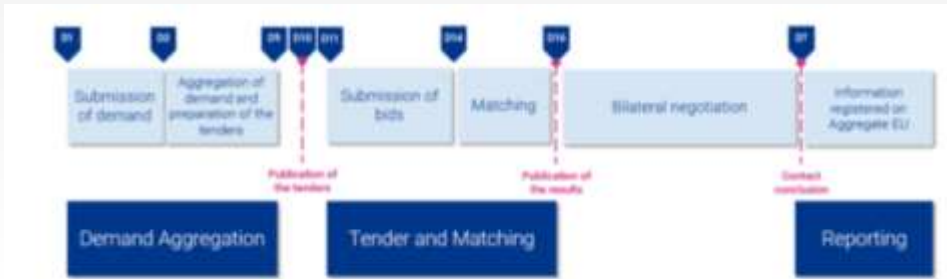
- **First step:** undertakings aggregate their gas demand
  - **Aggregation** is done through a service provider
    - Eliminates many small offers/requests
      - Puts them together
    - Allows gas suppliers to make **offers based on large aggregated volumes**
- **Second step:** and *outside* the platform – buyers and sellers conclude **gas purchase contracts**
  - Between buyers and sellers that match
  - Contracts may be concluded individually or in a coordinated manner with others between buyers and suppliers





# How does this work?

- Monthly tender procedure in 4 steps:
  1. Demand aggregation and tendering
  2. Matching with potential buyers
  3. Contracting (outside the platform)
  4. Procurement transparency



Get ready to participate in the first tender process on April 25!



## So... in procurement terms, what is it?



- It is inspired but it is *not really* a classic procurement tool
- Sounds as if it were a **CPB**
  - But the centralized purchasing is done by an agent (not the platform) or the companies directly
    - A bit like an agent CPB



# So... in procurement terms, what is it?

- The procurement is *cross-border*
  - But it is not really a joint-cross border mechanism
    - But in a way it could be too
- The platform is a **matchmaker** (more active than TED?)
- The matches are to lead to a contract
  - Matches based on best price
  - But contracts are later on discussed bilaterally



**Let's dive into details**



# Who organizes the procurement?

- The Commission hires contract a service provider
  - Through a procurement procedure Reg 2018/1046: **PRISMA**
  - Works... a bit like a CPB but it is really a bit like *Tinder*
- Provider develops an appropriate information technology tool ('IT tool') and organises the process of *aggregation of demand* and *joint purchasing*
  - Monthly tenders
- Fees could be collected from participants of the joint purchasing to cover operating costs.



# What can be purchased and who can participate?

- Current focus is on gas
  - Pipeline natural gas
  - LNG
  - May be expanded to *hydrogen* at some point
    - In such a way, AggregateEU may push for “renewable energy” by creating demand
- Who can sell?
  - Anyone but Russia/Russian-controlled entities



## Gas for what and how long?

- Demand aggregation and joint purchasing can be used for procurement of gas for **any purposes**, be it for storage filling or supplies to customers.
- Contracts will have a maximum **duration of 12 months**.
  - Focus is ensuring sufficient energy supply in 2023/2024



# What can be purchased and who can participate?

- Who can buy?
  - EU undertakings or in the Energy Community countries
    - Including “authorities of Member States”
  - **Excludes:** EEA, Switzerland and UK (and everyone else)
  - Cooperation models such as central buyers and agents/shippers
- Minimum demand per tender: equal or higher than 5 GWh at VTP (value still under consideration) and 300 GWh at the European Virtual LNG.





# Submitting demand to PRISMA system

- When submitting demand, the buyers would need to specify:
  - Gas quantity expressed as energy i.e. GWh
  - Delivery period
  - Delivery point
- For each location and for each period a potential buyer can submit up to one demand for himself and/or the group it buys for (central buyer)



# Purchasing cooperation mechanisms

- Central Buyer
- Agent/Shipper



# Central buyer – a CPB in a CPB?

- Smaller buyers may prefer to outsource to a **professional ‘central buyer’**
  - Smaller end-consumers sign a contract with the central buyer
- Central buyer registers and **places the aggregated demand** on AggregateEU
- Central buyers may offer their services on the AggregateEU platform
- Tenders take place, then
  - **Central Buyer negotiates and sign** gas sale and purchase **agreements** with upstream gas suppliers
    - to match the volume, profile and timing of the aggregated gas demand of its customers



# Agent/Shipper on behalf model work?

- Companies join the platform - where their **demand would be aggregated by Prisma**
  - They negotiate and sign **individual contracts** with suppliers following matches
- Then typically contract with another that provides services such as transport or timing services (LNG or natural gas ships, slot in a terminal, etc) – ***the agent/shipper***
- Companies may contract an agent/shipper either outside/before or after the tender
- Agent/shipper advertise their services on the AggregateEU platform



# Is there a need to cooperate?

- No.
  - AggregateEU **allows forming consortia** (*reverse joint bidding* – anyone?) to sign contracts with suppliers
    - Partners agree to cooperate or to set-up a consortium: coordinate conditions of purchase (volumes, price or delivery points and time)
    - This may facilitate the signature of contracts that follow
- However, **cooperation between buyers is encouraged**, explicitly, for buyers that
  - would like submit demand lower than the minimum volume foreseen a tender
  - do not have expertise in negotiating gas purchase contracts,
  - do not have necessary transmission, LNG or storage capacities
    - The gas SMEs?



# Tendering

- Every tender is independent
  - The matching is non-discriminatory
    - every potential buyer shall be treated equally and have the same quality of matching (i.e. equal access to best prices)
- **Sellers have to indicate** per bid:
  - the quantity the seller is willing to sell
  - the price at which the seller would like to sell the gas
- The sellers' offers will be ranked from the lowest to the highest price
- In case of over-demand or over-supply, a pro-rata mechanism applies



# Is the matching binding?

- NO.
  - *Aha?*
- After the matching, the companies will start negotiating **outside AggregateEU.**



# Is there an obligation to purchase gas on AggregateEU?

- No.
  - *Aha?*
- The only mandatory element relates to the mandatory submission of demand (15% of storage obligation), but not to gas purchasing.
- It is for the companies to negotiate and make a business decision to purchase gas via AggregateEU or not (for storage or generally)





# Liability – a bit like a CPB?

- Central buyer:
  - The negotiations and the signing of the contract will occur between the Central Buyer and the gas suppliers.
  - **Two different liabilities:**
    - i) stemming from the contractual relationship between the Central Buyer and buyers (if there is more than one buyer, liability can be joint and several, although this will depend on negotiations);
    - ii) arising from the contracts signed between the Central Buyer and the gas supplier.
- Agent/shipper:
  - the signing of the contract will occur between every single individual buyer and the gas suppliers.
  - a contractual relation between the Agent on Behalf and the buyer purchasing its services; and another one between the buyers and the gas suppliers.



# Final comments

- Interesting scheme: not a CPB, no joint procurement but something else
- Complex system – let's see if used
- Voluntary
- May create competition law issues for the users of the platform
  - And may detract some entities
- Would this work in practice?
- May lead to upstream concentration?

