

CASE STUDY

BRITISH AIRWAYS

Fixed to Flex delivers 23% Saving



CASE STUDY

The Company:

British Airways (BA) is a subsidiary of the International Airline Group (IAG).

IAG has a fleet of nearly 600 aircraft, flying to 279 destinations carrying 118 million customers annually.

British Airways is headquartered in West London near its main operational hub, Heathrow Airport.



The Background:

Alfa Energy has been British Airways chosen energy consultant for seven years. We provide Risk, Portfolio and Account Management.

Historically BA has favoured fixed term, fixed price utility contracts given that spend for these categories are relatively modest. However, what is important for the business is to achieve price certainty and fixed price contracts achieved this objective, but often at the expense of achieving an optimal unit price in any one calendar year.

The Challenge:

During the 2019 budget process in mid-2018, it became clear that commodity costs for the budget year had increased significantly during 2018. If the business had fixed at these levels, then the operating divisions would've seen a significant increase in commodity costs year on year.

The Solution:

In order to mitigate these significant cost increases, Alfa Energy presented a number of options to the BA business. It was agreed that in order to try and deliver a unit cost comparable with previous years, a hedging policy would be instigated that would ultimately optimise the delivered unit rate for calendar year 2019 and 2020.

Result/Conclusion:



Whilst with all hedging policies there is no return without risk, Alfa Energy were confident that they would be able to deliver a unit cost commensurate with previous year. Ultimately Alfa Energy achieved a result for BA that delivered a 23% saving over the fixed price option that was on offer at the time the decision was made to review the procurement policy, i.e. moving from a fixed price supply contract to a flexible arrangement.

Looking ahead, buying gas on a flexible supply contract will facilitate BA taking advantage of commodity markets dips whilst limiting any significant upturn. In turn this approach will continue to support Alfa Energy to meet BA's pre-set budgets and eliminate price shocks going forward.

Commenting on the outcome, Steve Barnes Manager, Estates at British Airways added that this was "the best possible financial outcome for the airline given the market conditions that faced the business. We'd like to thank Alfa Energy for their alternative ideas to traditional energy procurement processes and their support in flexible gas purchase and supporting BA to meet its internal budgets."