

Subject:	Corporate Procurement of the Council's Electricity and Gas Supplies		
Date of Meeting:	12 February 2015		
Report of:	Interim Executive Director, Finance & Resources		
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Wards affected:	All		

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 This report seeks delegated authority to re-procure the Council's half hourly and non half-hourly electricity, and gas supplies comprising the Council's operational property portfolio of approximately 1740 sites including most schools together with some housing sites where the Council is responsible for the energy bill with a total annual cost of £6.36m.
- 1.2 The Council currently procures its metered electricity and gas requirements through a Central Purchasing Body (CPB) –the LASER Energy Buying Group. The energy market remains volatile and this method of procurement provides OJEU compliant supply frameworks that are commercial best practice.
- 1.3 The current LASER flexible supply framework is used for the Council's gas and larger 'half hourly' electricity supplies and is due to expire on 30 September 2016. LASER has renewed the flexible framework to start from 1 October 2016 and is seeking commitment in order to forward purchase the Council's energy requirements for the 2016 start date. This could be up to a year in advance. The requirement to forward purchase energy ahead of the required supply period is a key part of a risk managed energy strategy. Purchasing well in advance of delivery is vital in protecting the Council against adverse wholesale market price changes. The current wholesale market conditions are very favourable and forward purchasing presents an excellent opportunity for securing the value for money 2016+ energy requirements.
- 1.4 The LASER fixed supply framework, used for our smaller electricity supplies, expires on 31 March 2016 and LASER will be renewing this framework within the next year.
- 1.5 For nearly ten years the Council has specified that its electricity supply must be produced from 100 percent renewable sources. However this requirement alone does not guarantee additional renewable energy generation in the market or any additional environmental benefits and suppliers simply sell a proportion of the renewable energy they are obliged to produce under the Renewables Obligation Scheme. This report details the Council's options for renewable supplies.

2. RECOMMENDATIONS:

2.1 That the Committee grant delegated authority to the Assistant Director Property & Design–

- (i) to award a contract effective from 1 October 2016 for a maximum period of four years for the Council’s large (over 50kW) electricity supplies from 100% renewable sources and gas supplies through a flexible framework agreement offered by the LASER Energy Buying Group;
- (ii) to award a contract effective from 1 April 2016 for a maximum period of four years for the Council’s non half hourly (sub 50kW) electricity supplies from 100 percent renewable sources through a fixed compliant framework agreement;
- (iii) to award a six-month bridging contract with the existing LASER flexible supplier to allow a proportion of the supplies referred to in 2.1 (ii) above to switch to a flexible arrangement from 1st October 2016.

3. CONTEXT / BACKGROUND INFORMATION:

Overview of Current Energy Supply Contracts

3.1 The Council has three main utility contracts procured through LASER – one for gas and two for electricity that cover the bulk of the Council’s property portfolio. The electricity provision is currently split into two contract groups, the half hourly (over 100kW) contract relating to large sites and the non half hourly (sub 100kW) contract relating to smaller sites. Street lighting unmetered electricity supply is a fourth separate contract currently procured through a different CPB, see section 4.5. Table 1 below identifies the duration and approximate value of each contract.

Table 1 – Overview of current energy supply contracts

Utility Contract	Contract Period	Approx. Value	Supplier	Sites
Gas	01.10.2012 to 30.09.2016	£ 2.355m per annum	CPB: Laser Supplier: Total Gas & Power Ltd Purchasing Type: Flexible Purchase in Advance, annual pricing	Approximately 300 sites requiring gas including schools, corporate and housing
Electricity (over 100kW)	01.10.2012 to 30.09.2016	£1.877m per annum	CPB: Laser Supplier: Npower Purchasing type: Flexible Purchase in Advance, annual pricing	Approximately 38 larger sites including Kings House, Brighton & Hove Town Halls & some secondary

				schools
Electricity (sub 100kW)	01.04.2013 to 31.3.2016	£2.128m per annum	CPB: Laser Supplier: Scottish & Southern Purchasing type: Fixed prices for 3 years	Approximately 1400 smaller sites

Overview of Performance - Current Central Purchasing Body (LASER)

- 3.2 The Council currently procures its energy supplies through a Central Purchasing Body (CPB) – the LASER Energy Buying Group - rather than directly from an energy supplier. This reduces the risk to the Council of price fluctuations within the utility market through increased flexibility in purchasing as well as being part of a large bulk buying consortium offering economies of scale.
- 3.3 LASER’s flexible procurement model aggregates the energy volumes of all its customers comprising 115 local authorities. LASER closely monitor energy market prices and drivers, purchasing energy requirements in multiple blocks over a period of time prior to the point of use. Gas and electricity market prices are highly volatile and price movements of more than 10 percent in a week are not unprecedented.
- 3.4 By aggregating energy spend with other local authorities through a CPB, delivered energy costs are significantly lower than any one customer can achieve independently.
- 3.5 LASER’s current flexible frameworks have performed well. For the period October 2009 to September 2013, benchmarking of LASER’s purchasing performance shows achieved wholesale energy prices (50-70 percent of the total costs) around 4 percent below market average. This equates to avoided costs of between £63,900 when compared to the average market price and £1,038,800 when compared to the maximum market prices over the past four years.

Flexible vs Fixed Purchasing Strategy

- 3.6 Gas and half-hourly electricity contracts are currently procured through a flexible framework meaning that LASER purchase our energy requirements in advance of the delivery period and our prices are reviewed annually. This allows the Council to take advantage of favourable market conditions. The advantages of a flexible framework to the Council’s smaller supplies are reduced and our non-half-hourly electricity supplies are currently on a non-flexible framework meaning that prices are fixed for a 3 year period.
- 3.7 A review of this arrangement has determined that there will be a potential cost advantage of moving some of our larger non-half-hourly electricity supplies (i.e. 247 supplies of between 50 and 100kW) to the flexible framework in the renewed contracts from 2016 in order to maximise cost mitigation. This will require a six month bridging contract with the existing LASER flexible supplier to allow these supplies to switch to a flexible arrangement from 1st October 2016.
- 3.8 The remaining non-half-hourly supplies will be re-tendered on a fixed term fixed price basis. LASER is about to begin the process of renewing the fixed framework which is currently set to expire in early 2016. Following LASER renewing the framework, the Council will go through an evaluation process to

ensure this option presents the best value for money, prior to entering into a contract.

Procurement 'Basket' Options

- 3.9 With the current LASER flexible framework the Council has a choice of approaches to forward buying energy. Customers select their preferred choice dependent on appetite for price risk and requirement for budget certainty.
- 3.10 Currently the Councils energy requirements on the flexible framework are 'Purchased in Advance' (PIA). The other main option is 'Purchase within Period' (PWP) which involves setting a reference price for a 6 month period and at the end of this period, a reconciliation takes place between the reference price and the final (achieved) purchase price.
- 3.11 Before entering into any future contracts, Property & Design will appraise the most appropriate purchasing options and split the portfolio where necessary, in order to maximise opportunities with market prices and to minimise risk in those areas that most need it.

'Fully Managed' v's 'Procurement Only'

- 3.12 In addition to energy supply procurement, CPBs can offer a 'fully managed' service which provides invoice validation, query management and portfolio optimisation and this attracts an uplift fee per kWh which is applied to the procured unit price. The Council are currently contracted to the 'fully managed' service for gas and half-hourly electricity and to the 'procurement only' service for non-half hourly electricity meaning that the Council's Energy & Water Team manage the supplier directly together with all bill validation in-house.
- 3.13 From 2016 the Council will revert to the 'procurement only' option for all areas of the portfolio as the in-house Energy & Water Team are now able to offer the full invoice validation and query management function and the fully managed services currently offered by LASER will be absorbed within the team. This will reduce fixed fees paid to LASER by 60 percent which equates to approximately saving of £55,000 per annum.

Renewable Electricity Tariff Options

- 3.14 Various options are now available for commercial electricity tariffs to support or encourage renewable energy generation including a 'Standard' tariff, '100% Renewable' and 'Green Certified' supplies which are described below:
- 3.15 **Standard Tariff**
A supplier's standard tariff is normally less expensive per unit of electricity than a '100% Renewable' or 'Green Certified' supply but, for the reasons noted below, may not offer any less support to encourage new sources of green energy than the '100% Renewable' option.
- 3.16 **100% Renewable Tariff**
For nearly ten years the Council has specified a requirement for 100% renewable electricity when procuring its energy supply contracts. However this sort of tariff does not provide any additional renewable electricity in the market or further environmental benefits; it just means that we are allocated a proportion of the

suppliers renewable sourced electricity (the proportion by which they are obliged to meet by law in any event).

100% renewable tariffs usually attract a premium to a supplier's standard tariff unit cost although this can be partially offset by a reduction in the Climate Change Levy (CCL) imposed by central government on energy bills but which isn't applied to 100% renewable tariffs.

However, LASERs new flexible framework offers 100% renewable electricity at a 5% discount to the prevailing rate of the Climate Change Levy in the first contract year. In the first year of the agreement this equates to a cost reduction of £23,000 from our current electricity costs. The arrangements for years two to four will ensure that the price of 100% renewable electricity will be no greater than cost neutral (i.e. the 100% renewable price premium will be offset by an equal reduction in Climate Change Levy charges payable by high-rate VAT sites).

3.17 **Green Certified Tariff**

These are certified by the Office of the Gas & Electricity Markets (OFGEM) and include a requirement that the supplier demonstrates that the activity associated with the green tariff is in addition to what they already have to do to meet their legal obligations and the Government's targets. This is the only form of tariff guaranteed to provide additional activity in the renewables supply market.

However, these tariffs are not a viable option for the Council's contracts due to the high premium attached to them. During the mini-competition process for the current non half-hourly fixed contract, prices were sought for this tariff and this would have resulted in an expected budget uplift of 40 percent.

4. **EVALUATION OF ANY ALTERNATIVE OPTION(S):**

4.1 **Other Central Purchasing Bodies (CPBs):** there are several other CPBs offering energy supply procurement options which are available for the Council to access. These have been evaluated and none offer any advantages over the LASER offer as summarised below:

CPBs	Reason for exclusion
Procurement for Housing	High framework procurement fees compared with LASER and low buying power.
ESPO	Current framework expires in 2016 and no further provision available at this time.
Crown Commercial Service	Higher framework fees than LASER. No provision for making renewable electricity cheaper than the prevailing Climate Change Levy fee (unlike Laser).

4.2 **Procuring electricity direct with a utility company:** the risk of market volatility is reduced by opting for procurement through a CPB which is also considered to represent best value for money due to economies of scale and the CPB's purchasing power.

4.3 **Energy brokers:** the Council is approached regularly by consultancies and energy brokers that secure prices direct from suppliers by monitoring market

prices. CPB's do everything the independent energy brokers do but with the added benefit of aggregating large Local Authority portfolios.

- 4.4 **Collaborative procurement with other authorities:** the Council have led on an exercise to establish the added benefits of procuring its energy supplies jointly with other members of the SE7 local authority group. However of the authorities who expressed an interest in pursuing this all were already with the LASER CPB and the conclusion was that the maximum benefit of joint procurement was already being realised. Grouping energy requirements with other local authorities was also investigated with the other CPB's, only one CPB offered a financial incentive to grouping but the benefits were outweighed by the cost of the framework fees.
- 4.5 **Addition of street lighting:** The unmetered street lighting supply has historically been procured through the Crown Commercial Services (CCS) framework in conjunction with East Sussex Council and is on a rolling contract. Current spend on this contract is £934k. The unmetered electricity contract has been evaluated and provides value for money compared with the current LASER offer and so no changes or decisions are required. The prices under this contract will be reviewed annually.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 As the gas and non half-hourly electricity contracts will directly affect leasehold housing tenants, the Energy & Water Team have been liaising with Housing who will lead on the statutory consultation notifications required and sufficient time will be allowed in the procurement programme to complete this process.
- 5.2 When undertaking the analysis of frameworks, the Council approached the major CPB's for information relating to our requirements.

6. CONCLUSION

- 6.2 Contracting through a Central Purchasing Body (CPB) offers the Council the best value procurement route.
- 6.3 Following an evaluation of the currently available CPB frameworks the LASER CPB is considered to offer the best route for purchasing the Council's flexible half-hourly electricity and gas requirements from 2016 onwards. Once LASER renew the fixed framework (to be in place from 2016), the Council will go through an evaluation process to ensure this route offers the best value for money.

7. FINANCIAL & OTHER IMPLICATIONS

Financial Implications:

- 7.1 Although Central Purchasing Bodies (CPB) are unable to provide an indication of price structures it is evident that the ability of CPB's to purchase in bulk and the increased flexibility on purchasing reduces the risk of future fluctuations in energy prices being passed through to the Council. The proposal to move a number of sites to the flexible framework (247 sites between 50kW and 100kW) will reduce further the risk of price fluctuations for more of the Council's larger sites. The proposal to move to a 'procurement only' service as opposed to a 'managed service' will reduce fixed fees paid to LASER over the 4-year contract period and

the cost of providing the fully managed service will be met through the in-house Energy & Water Team.

The Medium Term Financial Strategy includes pressure funding to cover increased energy costs above standard inflation for the general fund. Schools will meet energy costs through their delegated budgets. The Housing Revenue Account (HRA) recharges part of the energy costs through tenants and leaseholders and is accounted for within the long term business plan. For the Housing Revenue Account (HRA), electricity sites are currently under the fixed price framework which is due for renewal on 1st April 2016. The report proposes that 247 sites be moved to the flexible framework where prices will be renewed on 30th September 2016. Therefore this is likely to mean that prices for these sites will change twice during 2016/17 in order to achieve the best value for money. The budget setting process for 2016/17 will reflect these changes, along with the other annual price changes to ensure the accuracy of these budgets

Finance Officer Consulted: Rob Allen

Date: 09/01/15

Legal Implications:

- 7.2 The authority of Policy & Resources Committee is required for matters with corporate budgetary implications, such as the procurement of the Council's electricity and gas supplies for which the costs are going to exceed £500,000. Accordingly the committee is entitled to agree the recommendations at section 2 above.
- 7.3 Further, the Council's contract standing orders require that authority to enter into a contract valued at £500,000 or more be obtained from the relevant committee.
- 7.4 The procurement of contracts through framework agreements must comply with all relevant European and UK public procurement legislation as well as the Council's contract standing orders. Legal officers will be advising on this aspect once the committee has authorised the Assistant Director Property & Design on the terms set out in section 2 recommendations above.

Lawyer Consulted: Oliver Dixon

Date: 12/01/15

Equalities Implications:

- 7.3 There are no equalities implications.

Sustainability Implications:

- 7.4 Sustainability implications are discussed in Section 3.0 in the main body of the report.

Any other significant implications:

- 7.5 No other significant implications have been identified relating to this area.

8. REASONS FOR REPORT RECOMMENDATIONS

- 8.1 This report seeks various approvals to procure and award energy supply contracts. The report outlines alternative procurement and framework options,

including information on 100% renewable and green tariffs, and seeks delegated powers to enable expedient contract placement in order to maximise value for money within the volatile energy market.

SUPPORTING DOCUMENTATION

Appendices: None

Documents in Members' Rooms: None