

DECISION-MAKER:	CABINET
SUBJECT:	ENERGY CONTRACTS RENEWAL - APPROVAL TO FORM CONTRACT
DATE OF DECISION:	18 SEPTEMBER 2012
REPORT OF:	CABINET MEMBER FOR RESOURCES
STATEMENT OF CONFIDENTIALITY:	
None	

BRIEF SUMMARY:

The current electricity and gas contracts expire 30th September 2012.

The current contracts were procured by Kent LASER as part of their Flexible Energy Framework. The procurement of energy by LASER in the current 2009-2012 contract has been considered successful with a total savings recorded over the 3 years of £619K for SCC by using the flexible procurement methodology, over the estimated cost of fixed price contracts.

The volatile nature of the cost of gas and electricity on the open market require a higher level of focus and management over and above that which could be provided by the Council or CBC. Additionally, the nature of the energy markets is such that there is a need to be a major purchaser in order to gain cost and process improvements. In this respect the Council would not be considered to be a major purchaser Kent Laser have 120 public sector clients that are estimated to use this contract which has a volume in the region of £335 million p.a. It is therefore proposed that the Council continue participate in the energy management service provided by Kent County Council's commercial arm, Kent LASER.

Having complied with Rule 15 of the Council's Access to Information Procedure Rules:

RECOMMENDATIONS:

- (i) That the Council continue to engage Kent LASER to procure energy via the replacement flexible framework 2012 -2016, and where appropriate to provide a managed service. The total value of these contracts is Circa £6.9M over this 4 year period.

REASONS FOR REPORT RECOMMENDATIONS:

1. This report is presented as a general exception item in accordance with Rule 15 of the Access to Information Procedure Rules of Part 4 of the Council's Constitution. Amendments to Regulations 5(2) and 9(2), 2012 require 28 days notice to be given to all Key Decisions comes into effect on 10th September 2012. It has not been possible to meet the requirement of 28 days notice.
2. The '*best practice*' recommendations from the Pan Government Energy Project advocates the use of aggregated, flexible and risk managed energy procurement through Central Purchasing Bodies (CPBs) offering specialist energy procurement which is the service provided by LASER.
3. The LASER flexible procurement contract offers the greatest aggregation of demand with which to approach the market and a volume which is attractive to providers and promotes the lowest 'cost to serve'. The contract is used by

an estimated 120 local authorities.

4. The LASER contract provides flexible procurement which means rather than be tied to the cost of energy at the time of the tender return, LASER buy tranches of energy at the most economical time during the rise and fall in the market. This approach is proven to take advantage of market variation in order to procure at the best price.
5. LASER uses a governance process managed by representatives from its members from London Boroughs, County and District authorities and which provides an audited record of each buying decision.
6. The electricity provided by NPower in these contracts will be 50% from renewable sources of energy, despite market shortages in green energy.
7. The potential to add 3rd sector organisations to the SCC portfolio within this contract has been reviewed with the Energy Manager Jason Taylor but it is not currently possible within this contract, as it could lead to the council being obligated under CRC for the emissions of the 3rd party. Academies do benefit from using the contract; this is possible as SCC is responsible for their emissions as they operate on behalf of the council. In addition the logistics of making payments for the energy use of other organisations and claiming it back presents a barrier at this time. However, this will be assessed as part of the District Energy Report, currently in preparation by Jason Taylor for presentation to the Leader of the Council in September 2012. Any public sector body is able to join the contract in their own right. SCC will be working with Laser and the 120 member bodies to seek to identify opportunities for addressing fuel poverty. The use of this contract by SCC housing dept ensures that SCC tenants have energy procured in the most efficient manner and pay much lower energy costs than the tenant would be able to buy direct from the energy companies.
8. If the new contract were not to be adopted the tariff for electricity would revert to standard deemed rates which can be twice as much. For example a typical price under the proposed contract for a 03 profile site (low usage site) currently would be 10p /kWh and £5 per quarter standing charge, where the deemed rate would be 21.61p /kWh plus £47.50 per quarter standing charge.
9. The flexible framework contract has a value of £110M for gas and £335M for electricity and the substantial size of this spend means that Laser has considerable clout when it comes to leverage and contract management, SCC receives dedicated account managers and benefits from a level of priority which may not be afforded to lesser contracts.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED:

10. The Council to manage its own energy procurements. This has been rejected as this would not enable the Council to gain any benefits in terms of bulk buying leverage.
11. Fixed Term Fixed Price (FTFP) procurement only -
The risks involved with going to the market on a given day to satisfy the Council's entire energy requirement and fix a price for the next 24 months are considered to be high. Furthermore, this option would also not provide the additional management and control benefits.

12. Alternative providers have been investigated both in the public (Government Procurement Service) and private sector (TEC, EIC, BIU) for the procurement of energy. The cost of procurement via Kent Laser is £42k pa 0.6% of the total final delivered unit cost of the energy. Benchmarking has identified that it could be possible to save up to £8k from that by using an alternative provider however, no other supplier offers the same level of service (GPS require a higher level of user input which is likely to cost more than £8k) or the same degree of aggregation and any reduction in the procurement charges would be false economy, if the purchase price of the energy was negatively impacted. This option has therefore been rejected as a potential saving of £8k is very low in relation to potential risk of increasing the £6.9 M energy cost.

DETAIL (Including consultation carried out):

13. Consultation has taken place with the Council's Energy Manager and representatives from the major energy using departments including Housing, Civic Offices and Street Lighting and Accounts Payable. All are in agreement with the use of the proposed contract.
14. Kent LASER has 38 full time dedicated staff. These resources are all purely dedicated to utilities.
15. Prices are subject to market movement throughout the life of the Agreement. KCC/LASER will contract manage and monitor price movements to ensure purchases and therefore risk is hedged over a long period of time. All authorities involved will benefit from the same base electricity and gas prices but will attract their site specific pass through charges. Flexible procurement enables participating authorities to benefit from multiple purchases spread over a longer time frame in this volatile commodity market. The decisions regarding when and how to buy are managed by a governance board made up of representatives of the member authorities using rules and policies that they have established; market intelligence; financial controls and statistical analysis.
16. The Kent LASER arrangement is EU compliant and has been advertised in accordance with EU regulations.
17. The data provided by LASER during the current contract has supported the energy team in managing and reporting energy use. In 2011/12 the percentage of bills based on estimated readings fell from 8.1% to 2.7%. This has resulted in more accurate collection of energy consumption data, improved invoicing and Carbon Reduction Commitment (CRC) data. Where estimated readings are used an uplift of 10% is automatically added as a result of the requirements of the Carbon Reduction Commitment charge. By using more non estimated bills, not only has the council ensured that it is being invoiced for the correct energy usage, it has directly saved on the cost of 94 tonnes of CO₂ at a cost of £12 per tonne, saving £1,128 as the 10% uplift has been negated.
18. During the course of this contract cost avoidance of £530k has been identified by the energy team from identification of incorrect billing, finding sites that had not previously been on the corporate contract and Climate Change Levy (CCL) rebates. This has been made possible by greater

provision of data provided by LASER and management by SCC Energy team. With smart metering further savings and improved management will be seen.

19. The SCC energy team are working with Laser to improve the laser reporting process, which is proving an effective way of identifying further energy cost savings and will assist in the reporting of actual savings figures in the new contract.
20. The current contract is providing for the installation of smart meters across the entire portfolio, which will enable increasingly accurate records with reduced manual input from both sites and the energy team. Smart meters provide significant benefits, from lower risk energy procurement and therefore cheaper future energy costs to substantially reduced administration costs of verify data for CRC and invoice validation purposes. The installation of smart meters been a cost neutral exercise as they were included within the procured contract rates and have required very minimal project management and no up front capital to install. This alone has saved at least one FT equivalent project manager cost and also circa £200k in capital expenditure.
21. In addition to the above Procurement Services will work with Communities and the Energy Manager to investigate the options with regard to offering this contract to the to the third sector and to help them manage energy costs more effectively in order to reduce their cost of operation.

RESOURCE IMPLICATIONS:

Capital/Revenue:

22. 70% of the gas and 80% of the electricity for the first contract year has been secured and the forecast from Laser is that it will be possible to maintain gas prices and reduce electricity by approx 4.9% resulting in forecast savings of circa £100k

Property/Other:

23. There are no property implications

LEGAL IMPLICATIONS:

Statutory power to undertake proposals in the report:

24. The use of a Central Purchasing Body (CPB) complies with the requirements of the Public Contracts Regulations provided the CPB allowed for the possibility of the Council becoming a contracting authority entering into arrangements with it in its original OJEU processes.
25. The contracts take the form of tripartite agreements between SCC, Laser and NPower or Total Gas and Power, these agreement will be reviewed and approved by the SCC legal dept.

Other Legal Implications:

26. None

POLICY FRAMEWORK IMPLICATIONS:

27. The proposals are not contrary to the Policy Framework

AUTHOR:	Name:	John Spiers	Tel:	023 8083 4146
	E-mail:	john.spiers@southampton.gov.uk		

KEY DECISION? Yes

WARDS/COMMUNITIES AFFECTED:	All
------------------------------------	-----

SUPPORTING DOCUMENTATION

Appendices:

1.	None
----	------

Documents In Members' Rooms:

1.	None
----	------

Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	No
--	----

Other Background Documents

Integrated Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
------------------------------	--

1.	None	
----	------	--