

**DECISION-MAKER:** CABINET  
**SUBJECT:** ENERGY PROCUREMENT CONTRACT RENEWAL  
**DATE OF DECISION:** 21 APRIL 2015  
**REPORT OF:** CABINET MEMBER FOR HOUSING AND SUSTAINABILITY

**CONTACT DETAILS**

**AUTHOR:** Name: JASON TAYLOR Tel: 023 8083 2641  
E-mail: [jason.taylor@southampton.gov.uk](mailto:jason.taylor@southampton.gov.uk)  
**Director** Name: ANDREW LOWE Tel: 023 8083 2049  
E-mail: [andrew.lowe@southampton.gov.uk](mailto:andrew.lowe@southampton.gov.uk)

**STATEMENT OF CONFIDENTIALITY**

None.

**SUMMARY:**

The Council procures in excess of £10.5 million of electricity and gas per annum covering all commercial and housing operations. All of Southampton City Council's (SCC) gas and electricity is procured by LASER Energy Buying Group as part of a 2012-2016 Flexible Energy OJEU compliant Framework. LASER procure over £350 million of energy per annum for 115 other local authorities and are a public sector Central Purchasing Body (CPB) part of Kent County Council Commercial Services.

**RECOMMENDATIONS:**

- (i) To enter into a rolling 2 year bi-lateral energy purchase only contract with LASER to cover the council's electricity and gas supplies through an OJEU compliant flexible framework agreement offered by Kent LASER starting October 2016 for a maximum period of 4 years.
- (ii) Delegate authority to the Chief Financial Officer to do anything necessary give effect to recommendation (i) above including, but not limited to, procuring and entering into appropriate contract arrangements.

**REASONS FOR REPORT RECOMMENDATIONS:**

1. As the current electricity and gas tripartite contracts will expire on 30<sup>th</sup> September 2016 this paper proposes to continue the procurement of electricity and gas through LASER from 2016 utilising the OJEU compliant framework, bilateral agreement, proposed by LASER.
2. To reduce cost risk to the Council LASER is requesting a formal decision to commit to a new contract by April 2015. SCC currently opts for the Procurement in Advance (PIA) buying option to procure all electricity and gas, which helps to reduce cost risk. As a consequence, the longer the period LASER has to purchase SCC's energy prior to September 2016 the greater the opportunity there will be to take advantage of falls in market prices.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED:**

3. The Council procures another third party to individually manage energy procurement requirements. This has been rejected as this would not enable the Council to gain any benefits in terms of bulk buying leverage and additional experienced resources that would be required for this purpose.

## **DETAIL**

4. The Kent County Council (KCC) LASER flexible procurement contract offers the aggregation of demand with which to approach the market and a volume which is attractive to providers and promotes the lowest 'cost to serve'. Kent LASER procure an estimated £350M per annum for 115 other Local Authorities.
5. SCC has procured its grid energy needs in this way since 2009. This provision of energy and procurement services by LASER in the current 2012-2016 contract has been independently benchmarked and shown to be best value by the London Energy Project.
6. It is estimated that the benefits achieved through the current LASER flexible frameworks, including through market purchases and aggregation, reduces SCC's energy spend by circa £568k per annum.
7. From October 2014 the Energy Team took on a Fully Managed Service previously provided via LASER and now deliver the energy managed service internally. This has changed the way SCC manage the corporate (non-housing) energy account. Bringing in the managed service has:
  - Reduced the external fully managed service cost by circa £55k per annum. This now covers the costs of utilising internal staff to deliver the service. Thus securing in-house expertise that delivers significant added value to SCC.
  - Set up an electronic invoice process that significantly reduces the administration and cost impact of managing and paying energy invoices.
  - Enabled the council to switch from a fee paying service to a potential fee earning service.
  - Enabled more proactive validation and energy cost saving identification
8. 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 clips 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. LASER has delivered under the procurement in advance option an average cost of -1.2% and -0.4% for electricity and gas purchasing respectively, less than the market benchmark price between 2011 and 2014.
9. This report recommends that the Council commits to signing a 2 year bi-lateral contract rather than signing up to a full tripartite (2016-2020) agreement as the two year forward commitment provides greater flexibility to manage changes within SCC's scope, status and assets, at a time of significant change.
10. Market liquidity (the availability of raw gas and electricity within the wholesale market) beyond the first 2-3 years is limited, therefore, a rolling two to three year buying window is sufficient to enable LASER to effectively manage price risk on a continuous basis.

11. The 2016 to 2020 LASER framework contracts have been awarded to NPower for electricity and Total Gas and Power for gas. These are our current energy suppliers and would provide continuity across the contracts and enable longer term investment opportunities such as improved metering, locally generated energy sales and invoicing arrangements.
12. LASER uses a governance process managed by representatives from its members from London Boroughs, County and District authorities. The governance panel helps to set the buying strategy and provides an audited record of each buying decision.
13. The electricity provided by NPower under the new LASER framework will enable SCC to procure renewable energy for the duration of the new frameworks through to September 2020. For the first year of supply, October 2016 – September 2017, this will also be offered at a 5% discount to the prevailing rate of the Climate Change Levy (CCL).
14. There are also a number of other additions that will benefit SCC from 2016 including Power Purchase Agreements (PPAs) and demand side management aggregation. This will enable SCC to increase the cost benefit from our installed solar photovoltaics and electrical generation capacity.
15. There are a number procurement options within the LASER framework that will enable SCC to procure energy using the most effective buying option to suit each meter consumption profile.
16. SCC has currently opted for the procurement in advance buying option to procure all electricity and gas to reduce cost risk; therefore, the longer the period LASER has to purchase SCC's energy needs prior to September 2016 the less cost risk we should experience from September 2016.
17. There will be further assessment of the purchasing strategy to ensure that the correct buying option is being used for each of our contracted energy meters. There may be differing options that would reduce our costs on average over the agreed contract term. This assessment will take place at least 6 months prior to contract start i.e. by March 2016 and will be undertaken in conjunction with the London Energy Project, LASER and our internal Finance and procurement advisors.
18. As a commodity wholesale energy prices fall and rise and are affected by many local, national and international problems or issues.
19. Almost 50% of our energy price comes from fixed and other non-energy related costs, which will see significant changes over the 2015-20 period. By being part of a central purchasing body like LASER we can mitigate or reduce the risk of price increases, and market volatility, and help to lessen some of the fixed pricing mechanisms more easily, leading to a lower delivered price.
20. Both SCC energy accounts (Corporate and Housing) will only be utilising the procurement only option (POSO) with LASER. The costs of procurement of both the corporate and housing energy accounts will be circa £36k per annum.
21. There has been a lot of speculation in the press that the reduction in oil prices are having a significant impact on energy prices in the UK; however it is worth noting that recent energy price reductions in the UK are mainly due to other factors such as mild weather and high gas storage levels and not the falling

price of oil. If the UK were to experience a significant period of cold weather, gas prices would be likely to rise sharply regardless of oil prices.

22. The fall in oil price has, however, had indirect impacts. It has resulted in a reduction of overall production costs for coal and gas, as well as reducing the costs for the fuel required to transport these products to the UK.
23. Energy markets are volatile and it is not uncommon to see prices move as much as 10% in one week. By collectively buying via a CPB, we are able to use the group energy spend to negotiate the best possible supplier energy prices and reduce delivered prices. Additionally, the nature of the energy market 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.
24. Alternative providers have been investigated both in the public (Crown Commercial Services (CCS)) and private sector (Bergen Energy) for the procurement of energy. The cost of procurement is £36k pa or 0.003% of the total final delivered 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 supplier offers the same level of service (CCS require a higher level of user input) 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 £10.5 M per annum energy cost.

## **RESOURCE IMPLICATIONS**

### **Capital/Revenue**

25. As set out in the report

### **Property/Other:**

26. There are no property implications.

## **LEGAL IMPLICATIONS:**

### **Statutory power to undertake proposals in the report:**

27. Section 1 of the Localism Act 2011. There is a requirement in both the Public Contracts Regulations (PCR) and the Council's Contract Procedure Rules (CPR) for the Council to comply with EU procurement regimes when procuring the supply of energy.
28. Compliance is achieved via theLASER (the Central Purchasing Body)Energy Procurement and Supply framework..
29. All the regulatory requirements on the Council to tender for the energy supply have been complied with..

### **Other Legal Implications:**

30. None.

## **POLICY FRAMEWORK IMPLICATIONS**

31. As set out in the report

<b>KEY DECISION?</b>	<b>Yes</b>	
<b>WARDS/COMMUNITIES AFFECTED:</b>	<b>All</b>	
<b><u>SUPPORTING DOCUMENTATION</u></b>		
<b>Appendices</b>		
<b>1.</b>	None	
<b>Documents In Members' Rooms</b>		
<b>1.</b>	Flexible Energy Frameworks 2016-2020 – Information Pack	
<b>2.</b>	Energy Contracts Value for Money Assessment 2011 – 2014 - LEP Executive Overview	
<b>Equality Impact Assessment</b>		
<b>Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out?</b>		<b>No</b>
<b>Other Background Documents</b>		
<b>Equality Impact Assessment and Other Background documents available for inspection at:</b>		
<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>	
<b>1.</b>	None	