

Flexible Energy Contracts

1. Electricity for streetlighting is supplied on a contract tendered by the Central Buying Consortium; a group of 17 local authorities including Central Bedfordshire. Using the Consortium enables the energy volumes of many organisations to be aggregated to obtain better prices and lower supplier margins.
2. Energy buying is a specialist task, and the Central Buying Consortium now works closely with 'Laser', a commercial service of Kent County Council. Laser are full time energy buyers, procuring energy on behalf of 87 local authorities.
3. Electricity and Gas have traditionally been purchased on 1 or 2 year contracts at prices fixed at the start of the contract.
4. Energy prices are influenced by many factors including the weather, supply constraints, geo-political issues, exchange rates and market sentiments. They are therefore highly volatile. The traditional approach of procuring energy at a fixed price for a fixed period can be regarded as a high risk strategy because of the high risk of fixing at a price which subsequently does not prove to be a low point on the price curve.
5. Laser have developed a flexible procurement approach that is designed to minimise the risk of fixing prices in volatile market conditions. Flexible procurement means that 'blocks' of energy are bought at varying times both before and within the contracted supply period. The arrangement removes the risk of settling an authority's requirement on a single day. Aggregating the volumes of members within the arrangement enables effective market hedging. This means that Laser will take advantage of the market by buying more blocks when prices are relatively low and fewer blocks when prices are high.
6. The flexible contracts are available under an EU tendered framework. As of January 2010 86 of the 117 authorities for which Laser procure have signed up to the flexible contracts. Executive endorsed the use of Laser's Flexible contracts for energy supply to corporate buildings at its meeting on 15 September 2009.

Advantages of Flexible Energy Procurement

7. (i) Flexible procurement of energy reduces the high risk associated with fixing prices on one date.
- (ii) Flexible procurement of energy is recommended by the OGC (Office of Government Commerce), the RIEP (Regional Improvement and Efficiency Partnerships) and DCSF (Dept for Children, Schools and Families). The Laser flexible procurement model has been assessed as “Compliant” to best practice for energy procurement by the OGC Energy Review Project team.

Disadvantages

8. (i) Because flexible procurement involves continual buying activity during the contract there is an additional cost of £800 - £900 per annum.
- (ii) Flexible procurement removes the risk of a fixed price in a volatile or falling market. However, a fixed price may be more advantageous in a continually rising market. Unfortunately, this is only apparent with hindsight.

Flexible Procurement Options: Purchase in Advance or Purchase within Period

9. On a flexible contract, all the energy ‘blocks’ can be bought in advance of the contract year commencing. This is known as Purchase in Advance (PIA). This means that at the start of the contract year, the price is known, and so has advantages for budget setting. However, it gives no flexibility to take advantage of price movements within the contract year.
10. Purchase within Period (PWP) allows energy to be bought within the contract year and therefore offers maximum flexibility to take advantage of beneficial market conditions. Because the price is not known at the start of the contract year, a price is set for the summer and winter energy seasons, and a reconciliation takes place at the end of each season with the actual prices obtained. Most authorities on the Laser flexible contract have opted for PWP for larger corporate spend (eg streetlighting) and PIA for smaller spend and schools.