
Meeting: Corporate Services Overview and Scrutiny Committee
Date: Date of meeting
Subject: Procurement of Future Electricity and Gas Contracts
Report of: Cllr Maurice Jones, Executive Member for Corporate Resources.
Summary: The report proposes that the Council continues to use the LASER flexible energy contracts for electricity and gas supplies to Council buildings and Street lighting for the period 1 October 2016 - 30 September 2020

Advising Officer: Deb Broadbent-Clarke, Director of Improvement and Corporate Services
Contact Officer: Paul Meigh, Chief Procurement Officer
Public/Exempt: Public
Wards Affected: None
Function of: Executive

CORPORATE IMPLICATIONS

Council Priorities:

The recommended approach supports the Council's priority of Value for money – freezing council tax.

Financial:

1. The cost of ongoing electricity and gas supplies for properties (including Schools) is approximately £3.7m per year. The charges for using the recommended procurement approach work out at around 0.5% of total energy spend. The anticipated savings over market rates for using the recommended approach are 2.7%-4.7% so this represents an overall saving. Whilst the approach cannot protect the Council from the likely rises over time of energy cost it will insulate the Council from the risks of large fluctuations in the wholesale cost of energy.

Legal:

2. The flexible energy contract frameworks have been procured in an OJEU compliant manner. Contracting Authorities that act as Central Purchasing Bodies, need to comply with EU Procurement Regulations. Where the EU rules have been followed by the Central Buying Consortium, as in this case, this Council may use the Framework Agreement as long as they have been included in the OJEU Notice.

Risk Management:

3. The flexible procurement of energy through a public sector buying organisation minimises the financial risk and enhances the control of expenditure in a volatile market.

Staffing (including Trades Unions):

4. Not Applicable

Equalities/Human Rights:

5. There are no implications for equality or human rights.

Public Health

6. This will not have any implication on public health and wellbeing in the area.

Community Safety:

7. Not Applicable

Sustainability:

8. Whilst there are sustainability implications from the use of energy (greenhouse gases, pollution etc), the route to market for the procurement of energy has no implications on sustainability.

Procurement:

9. See body of report.

RECOMMENDATION(S):**The Committee is asked to:-**

Endorse the proposal that Central Bedfordshire Council continues to use the Central Buying Consortium's flexible energy contracts for electricity and gas supplies to Council buildings and street lighting for the period 2016-2020, and continues to make these contracts available for schools to use should they wish.

Introduction

10. The Council procures electricity and gas to supply corporate and service buildings (offices, libraries, day centres, residential homes etc) and electricity for street lighting. The annual cost of these supplies is around £1.5m. The Council also makes these contracts available for schools to use, bringing the total annual contract value to about £3.7m. Schools are charged a small administrative fee for use of the contracts. Because of the value, these contracts must be fully compliant with European (“OJEU”) procurement rules.
11. To Secure best value for the Council we use a Central Purchasing Body to aggregate the volume of energy we require with other authorities and to set up the frameworks for the contracts we require.
12. The Central Purchasing Body we use for our gas, street light electricity and our main electricity contracts is LASER. This organisation is part of Kent County Council Commercial Services (the name LASER was originally derived from “Local Authorities South East Region”). LASER have been dedicated to buying energy for the public sector since 1989 and currently buy energy for over 120 local authorities and other public-funded bodies and manage contracts in excess of £350m.
13. Central Bedfordshire Council has been using LASER since 2009 as both Kent County Council and CBC are members of the Central Buying Consortium.
14. Our main contracts on the LASER frameworks will expire on 30 September 2016. LASER are looking for commitment from customers by the end of December 2014 for supply contracts post October 2016. The reasons for requiring such early commitment are explained below.
15. We have a smaller electricity contract which is on an ESPO (Eastern Shires Purchasing Organisation) contract. This contract also terminates 30 September 2016, and the intention would be to incorporate these supplies within the approach to be taken for the main contracts post September 2016.

Flexible Supply Contracts

16. Since September 2009 we have been using LASER’s flexible supply contracts. This means that instead of tendering for fixed supply prices at a point in time, we use 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 before (and sometimes within) the 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. This is illustrated on the diagram below.

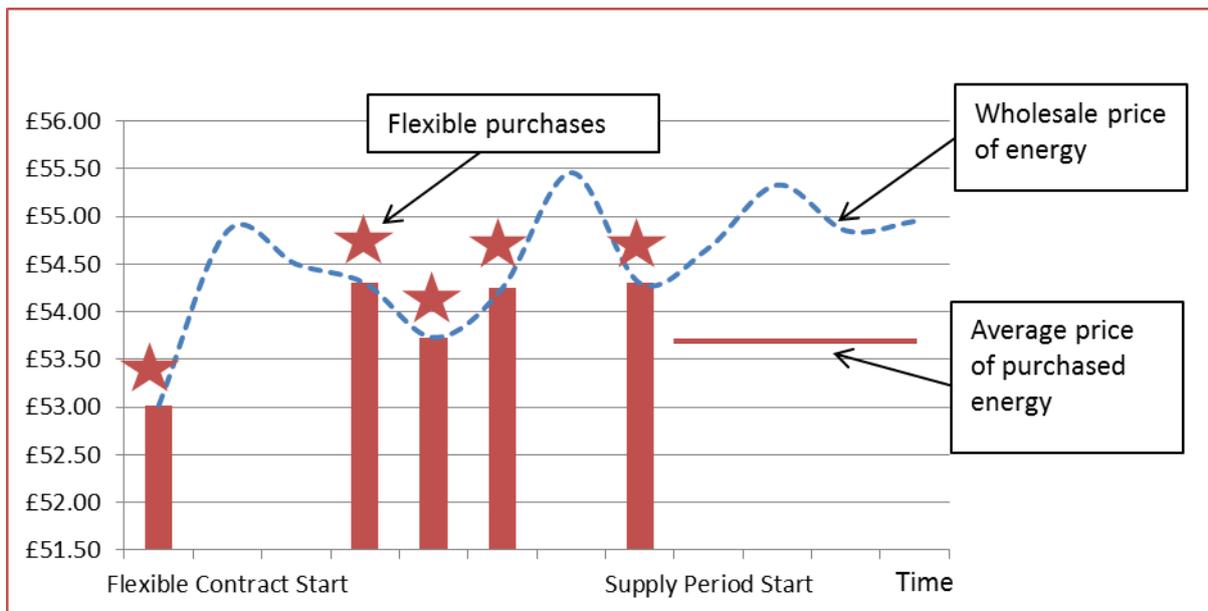


Diagram: Illustration of flexible energy purchasing

17. The dotted line represents the wholesale price of energy as it changes over time from the start of the commitment to the flexible contracts to the start of the supply period. In the context of this report, the flexible contract start is early 2015 following Executive approval, the supply period start date is October 2016 and the first supply period end date is September 2017.
18. Prior to the supply period, at times considered to be the most opportune moments (represented on the diagram by star shapes) purchases of energy are made (represented by the solid bars). These purchases are aggregated and the average price for the supply period is determined (the solid line on the right hand side of the diagram). This is the price that is charged for the period.
19. In the flexible approach to energy procurement it is the purchasing body (in this case LASER) which make the decisions to purchase, not the energy supplier. The role of the supplier is to provide access to the wholesale markets, to deliver the energy (only a licenced supplier can do this) and administer the billing.
20. This explains why LASER are looking for early commitment to the post October 2016 supply period: the earlier LASER can begin to make flexible purchases on behalf of customers, the more scope they have to take advantage of good buying opportunities and therefore the lower the supplied price may be.

Contract Performance

21. It is extremely difficult to benchmark energy contract prices due to the number of variables involved. Amongst other things, prices are determined by the date the energy is purchased on the wholesale market, the patterns of consumption for the supplies being purchased, the length of the contract, the payment terms, the distribution costs in force at the time, etc.

22. LASER have released performance information which indicates that over the period 2009-2013 they beat the market average wholesale gas price by 2.7% and the average wholesale electricity price by 4.7%. LASER estimate that this performance, plus the benefits from aggregating the spend and other factors, has reduced the energy spend of the Council and schools by £290k per year. Use of the flexible contracts has also protected the Council and schools from the risk of potentially having to secure energy contracts at times of peak market prices.

Costs

23. The energy rates will not be known until the supply period (commencing 1 October 2016). Because LASER are undertaking constant management of the purchase of energy and operate on a commercial footing they need to recover their costs. Laser charges work out at around 0.5% of total energy spend and are therefore covered by the savings over market average prices previously demonstrated. There may also be some additional value that LASER can provide on bill checking and consolidation which could reduce costs going forward.

Alternatives

24. LASER are not the only public sector Central Purchasing Body. Both CCS (Crown Commercial Services) and ESPO operate similar flexible contract frameworks to LASER. Both claim to offer savings achieved by aggregating demand and achieving better than market average rates. However it is not possible to determine which PSBO has or will achieve the best rates. The Council has a good track record of using LASER, who are the largest provider of energy procurement services to local authorities in the UK. Laser provide services to most of the Councils in the Central Buying Consortium and to 120 councils and 45 other public sector bodies in total.
25. There are also private sector companies who offer this service. In order to use one of these we would either need to undertake a full OJEU tender (which would require time and resources) or use a OJEU-compliant framework contract. For example "Procurement for Housing" have such a framework which can be used by local authorities for contracting with private sector energy brokers. We have no experience of using this framework and there is no evidence that use of such a framework would reduce our costs compared to the PSBO frameworks.

26. We would not be able to operate flexible contracts alone without a broker or Central Purchasing Organisation because we do not require sufficient volumes of supply to offset the administrative costs. We could tender our own energy contracts on a fixed price basis. This would be both expensive to do, as we would need to buy-in the expertise, and would not have the benefits that accrue from combining volumes to obtain better prices. It would not be the best practice approach.

Conclusion and Next Steps

27. As a member of the Central Buying Consortium, the Council has been using LASER flexible energy contracts since 2009. A review of alternatives has not identified a more preferable option. Therefore the Committee is asked to endorse the recommendation to seek Executive approval to commit to use of the LASER flexible contracts for the period 1 October 2016 – 30 September 2020. The Council Procurement Team will work with LASER to explore opportunities for any additional value that can be added through bill validation and consolidation.

Appendices:

None

Background Papers: (open to public inspection)

None