www.oxford.gov.uk

OXFORD CITY COUNCIL

Procurement Strategy

Contract Title: Provision of Energy

Project Initiative Reference:

Procurement Team
Version 2.0 March 2015

Part A – pre procurement

1. PROJECT DETAILS & GOVERNANCE

1.1 Background.

Since gas and electricity markets opened to competition in the 1990's, the energy market has become a highly specialised field of procurement. The complexity of the procurement options can create a risk if not managed by someone with the appropriate level of skills and expertise. It is also time consuming due to the potential number of suppliers and types of contract available.
In recent years the energy contract options have developed considerably with a range of contract types available and with increasing complexity requiring specialists to manage. For example, Flexible purchasing relies on specialist buyers monitoring the market on a daily basis to ascertain the best opportunities to purchase energy, including advance purchasing. Specialist support is now required to ensure value for money and appropriate risk management levels are applied.
Several buying organisations, both private and public sector, can secure such contracts on the Council's behalf. Public sector buying organisations (PBOs) are favoured because they focus solely on public sector needs rather than trying to match the potentially competing objectives and requirements of private and public sector organisations. In addition, these groups have long experience of acting on behalf of the public sector and are therefore well versed in their requirements and processes. Lastly, they will certainly comply with Public Procurement Regulations 2015.
The Council has used the public buying organisation LASER for the last 3 contract Terms.

1.2 Scope.

The Council is looking to purchase electricity and gas for its larger non-domestic buildings and sites that it operates within its estate. This includes half-hourly metered electricity supplies, large non-daily metred gas supplies (>73.200kWh per year) as well as quarterly billed electricity and gas supplies. There will also be a requirement to procure water supplies when the non-domestic market is liberalised in April 2017. Under the new arrangements customers will be free to purchase water from any water supplier (not just those within its supply region) which will present an additional procurement decision from that point to secure the most advantageous offering

1.3 Deliverables / Key requirements.

This procurement will ensure that the Council has gas and electricity supplies for the next 4 years. It is also an opportunity to consider the likely impact and procurement options arising out of the Water Act 2014, which moves ever closer to the opening of the water supply market in April 2017.

Options Appraisal

- Do nothing – not an option as the Council needs a supply of energy to function and deliver its services. If not managed properly and energy contracts are not secured, out of contract "deemed" rates would be incurred meaning significant

increases in energy costs at a time when budgets are getting increasingly constrained.

  - Run a procurement process in-house – this would be a costly exercise that would not necessarily guarantee value for money for the Council. Although the Council has a good skills base regarding energy management, it does not possess the specialist trading knowledge that is essential for operating within the energy market. The Council would also not be able to procure energy flexibly itself direct from the wholesale market due to its volumes being too low. The volumes that the Council will need to purchase would also not be as attractive as a stand-alone client for energy suppliers compared to aggregating purchase through a third party such as a PBO and using the collective purchasing power to secure the most competitive rates.

- Use a public (professional) buying organisation (PBO) or third party intermediary (TPI) buying organisation PBOs/ TPIs act on behalf of a client to purchase its energy and related services for a commission. This is a fast and growing area with both not-for-profit public sector focussed (PBOs) and profit driven private sector players on the market. Whilst there are a number of reputable and well-established private sector organisations available for hire with some of these organisations do not procure energy under the Public Contract Regulations 2015. PBOs present a closer match to local authority purchasing requirements and it is our opinion - whilst this market is developing (and TPI codes of practice being developed by Ofgem) to remain with a PBO for the next energy purchasing framework period (October 2016 to September 2020). The developing market and procurement options will continue to be tracked and monitored with a view to future decisions on our approach to Energy (and water) purchasing.PBOs offer a fully managed, flexible and risk managed approach to energy purchasing and commonly have dedicated teams, experienced in energy trading that provide a compliant route to market for public sector organisations. There are various PBOs available to local authorities to procure energy, with some of the main PBOs as follows:
- Crown Commercial Services (CCS)
- Eastern Shires Purchasing Organisation (ESPO)
- London and South East Region (LASER)
- West Mercia Energy (WME)
- Yorkshire Procurement Organisation (YPO)
- It is very difficult to back-test performance of the various PBOs to gauge what energy costs may have been (compared to OCC's use of existing provider - LASER) given the fact that energy purchasing is happening in a dynamic way on a daily basis that informs the final price secured for a set purchasing period. The offerings available from the various PBOs are generally similar with some offering more flexibility and range of options than others. For this appraisal process and given the similar levels of service on offer from the various PBOs , it was decided to focus on two major PBOs based on existing experience of use of their services. LASER, employed successfully by OCC for the last 3 framework periods (also used by Oxfordshire County Council and other authorities in Oxfordshire – such as Cherwell District Council and West Oxon District Council) and WME – employed by Cotswold Borough Council , Forest of Dean Council and Gloucester City and County Councils:

West Mercia Energy (WME) is a PBO owned by 4 local authorities. They currently manage energy contracts for 11 local authorities and deliver energy to approximately 1,700 schools. WME has a team of 13. This framework offers fully flexible purchasing, with the ability to trade ahead of and within financial year. WME offers a capped price in line with the financial year, which gives 12 months budget certainty. In March of each year WME communicate the capped energy price for the forthcoming financial year, which is the maximum that a customer will pay. If wholesale prices increase there is no reconciliation resulting in further charges to be paid. The capped price is then reviewed in August and December to determine if any discounts off the cap can be given. The performance of WME has been positive and the predicted fund for the 4 local authorities (Gloucester County Council, Tewkesbury Borough Council, Forest of Dean District Council and Cotswold District Council) held at 31st March 2016 is £69,425 This PBO is also developing energy management services as part of their packaged service. WME offer a fully managed procurement service only meaning that energy bills are validated and processed by WME prior to passing on to the customer for payment. Fully managed services come at a higher commission to the PBO compared to procurement only services.

LASER established in 1989, has been managing public sector energy procurement for 25 years and it launched its first Flexible Procurement framework in 2008. LASER is currently purchasing energy for over 150 customers with an aggregated spend of £450million per annum. This PBO has a team of over 70 energy specialists working across the various teams. The various options on offer can be taken as "procurement only". LASER now offers a range of framework options including:
Fixed price, fixed term – where prices are agreed on a single day prior to the start of the contract. Prices can be fixed for, typically, up to 3 years. This can result in large variations in costs between contracts depending on the prevailing market prices.
Flexible purchase in advance (the option that the Council is currently using) - all purchases are concluded prior to the supply period (1st October to 30th September). Energy is purchased from the wholesale market several months in advance of the contract start date for each year (1st Oct) over a prolonged period (rather than on one day only) to spread and balance the risk so that the price for the supply period is known by the start of the supply period
Flexible purchase within period - this is similar to PIA with energy being purchased ahead of contract start date but a proportion of purchases are also completed within the supply period. Generally, this is a more risky strategy but can result in better prices overall. In such an arrangement, a target price is established for invoicing purposes and this is reconciled against actual prices either after each billing period or at the end of the supply period (usually one year). In each case, various control mechanisms are put in place, e.g. high and low price trigger points which are set to influence purchasing decisions; however any individual decision to purchase is not automatic but requires the agreement of two or more professional buyers employed by the PBO.
LASER has also introduced some new procurement baskets:
Flexible purchase day ahead – a fixed volume is purchased prior to delivery, with the remaining volume left to "float" on day ahead index. This operates on a

6 month supply period. A reference price is set at the beginning of the supply period with a reconciliation carried out. This option will be attractive to those customers who are able to manage their load.
Flexible set and reset– purchases are made in advance and within the supply period. They are determined on price triggers and based on either a 6 or 12 month supply period. If the triggers hit, then the resale of completed energy purchase is permitted. There is a subsequent buy back mechanism in place if this happens. The reference price is set at the beginning of the supply period with a reconciliation carried out. Recent analysis of this option indicates that it has been performing, on average, 10% better than the current market.
Flexible mechanistic purchasing (FMP) – all volume is purchased prior to delivery in equally sized blocks once a month. Purchasing takes place over a 24 month period and is for a supply period of 12 months. The price will generally be reflective of the average market price. Having discussed this, it is thought that this option is not really attractive as customers will generally want to better this pricing.
And finally;
Flexible forward lockout – this is where the total volume is purchased 6 months prior to delivery. Pass through charges (where things like transmission and distribution network charge increases are passed through to the customer) can be agreed and it is based on a 12 month supply period. Sum of all trades is used to calculate the energy price (this is how the power indices are calculated) The advantage of this option is that the customer gets to know their prices early, but will inevitably miss out on some months buying.
It is worth noting that the new options offered by LASER will only be offered if there is sufficient take up by customers.

<u>Recommendation</u>

Following early conversations with framework suppliers regarding any leverage that could be achieved by the Councils joining in a collaborative procurement process it was established that there was no further benefit to each organisation than if they approached the PBOs individually. Given prior experiences with LASER and WME and similar services on offer from other PBOs it was decided to focus on LASER and WME for further assessment. Representatives from Oxford City Council, West Oxfordshire District Council and Cheltenham Borough Council were involved in a supplier question and answer session in order to establish which framework would be the best suited for each authority. West Oxfordshire District Council and Cheltenham Borough Council want to eventually achieve a one contract energy supply situation for GO Shared Services (WME already supply Forest of Dean and Cotswold District Councils) and their volumes are much lower than Oxford City Council, therefore they will be recommending to their Cabinets the WME model. Although impressed with the WME set up, and in consultation with Paul Spencer, I am recommending continuation of use for the LASER framework given LASERs good track record of delivery for OCC (returning consistent prices below the average market prices), range of purchasing options (including free smart metering installation and Renewable energy options) and the fact that energy can be purchased as a procurement only option (more appropriate to OCCs developed internal expertise in this area reducing the costs further as

validation is being carried out in house – eg circa £94k worth of savings has been identified from OCCs in-house validation efforts from April 2015 to date this year. The procurement only option allows the Council to use its own Bureau services for bill validation and other energy management services and not pay for a service that it will never use.
The decision over which specific purchasing basket option to use has to be taken in consultation with the Head of Finance. The recommendation is to continue to place the larger sites under the "purchase in advance" option (with potentially some of the heaviest users under the flex & reset or Purchase within Period baskets). For quarterly billed, smaller consuming sites fixed term fixed price contracts remain the most appropriate purchasing option given the smaller volumes of consumption and lower price risk involved.

1.4 Governance and Stakeholders.

Responsible Corporate Programme Board	
Sponsor	Jo Colwell
Head of Service (if different to Sponsor)	Nigel Kennedy
Project Manager	Paul Spencer
Service Contract Manager	Paul Spencer
Finance Business Partner	Lyn Barker
Law & Governance	Lindsay Cane
Procurement Lead	Nicky Atkin, in consultation with Paul Spencer
Other (insert additional lines where necessary e.g. HR, ICT, incl. members of the Evaluation Panel etc)	Councillor John Tanner will be consulted on this procurement in the early stages.

1.5 Will the decision to award be a key decision?

Yes

If Yes, please ensure that steps are taken to include this on the Forward Plan

2. FINANCIAL AFFORDABILITY & SAVINGS FORECAST

2.1 What is the current spend.

If this is a continuation of a requirement, what is the historic spend per annum

Utility	Contract	Number of Accounts	Financial Spend 2014/15 [ex VAT]
Electricity	LASER Halfhourly HH	9	£502,031.98
Electricity	LASER NonHH Quarterly billed (Fixed term contract)	603	£325,123.07
Gas	LASER large gas supplies >73,200kWh per year)	29	£421,044.81

Gas	Quarterly billed (Fixed term contract)	35	£36,416.49
TOTAL		684	£1,412,902.93

2.2 Detail the cost and funding over the full term of the contract.

	Capital £	Revenue £	HRA £	Grant £	Total £
Estimated cost over full term					
Estimated cost per annum					
Total funding					

2.3 Provide details for any grant funding or third party contribution.

None

2.4 Funding has been confirmed by the Finance Business Partner? Yes

Note – the procurement should not commence without funding being confirmed!

2.5 Forecast and type of savings.

	One-off £	Recurring £
Cashable		
Non-cashable		

2.6 State any saving that can be claimed by Procurement.

2.7 Describe any risks that would prevent benefit realisation.

Global incident that materially affected the supply of gas / water / electricity

3. CONTRACT STRATEGY

3.1 Describe the opportunities for collaboration with partners.

At the planning stage of this procurement, the team had detailed discussions with West Oxfordshire District Council and then latterly with GO Shared Services to investigate whether collaboration would lead to any significant market leverage or other benefits in the market (see 3.2) This has, however, given the procurement team the opportunity to sell its procurement services to both Cotswold District Council and Cheltenham Borough Council. A further opportunity may arise from this collaboration with Cheltenham Borough Council for Oxford City Council to sell its Energy Bureau Services, enabling Cheltenham to achieve cashable savings from more proactive energy management solutions. The Energy team continue to explore this opportunity with Cheltenham Borough Council.

3.2 Describe the market conditions and the leverage the Council has in the market.

Complete analysis tools such as Kraljic, supplier preferencing, Porters 5 Forces, etc

3.3 Describe the rationale for the proposed contract term.

4 years aligns to the common length of framework period put in place by Public Sector Buying Organisations. The last Energy Contract was for a 4 year term.

3.4 What flexibility is planned to allow for early exit from the contract.

The contract would be locked in for a four year framework period with billing coming from Npower and Total Gas. This would also ensure that energy purchases can be made by LASER on our behalf over the full period October 2016 to September 2020 ensuring more chance of a lower energy price. This gives further budget certainty and supply stability. There is also a large administrative burden involved in changing suppliers on a regular basis given the volumes of invoices/supplies the Council manages (ca 1000 electricity, gas and water meters) and there would be no benefit in doing so. LASER are providing the aggregated, flexible and risk managed energy procurement as recommended as best practice by the Pan Government Energy Project.

3.5 If Services, describe how the Social Value Act or Corporate Social Responsibilities can be included.

Not applicable

3.6 If Services, does the contract come under the scope of Community Right to Challenge?

Yes / No.

Not applicable

3.7 Describe any areas of sustainable procurement that have been considered and how they will be incorporated.

Complete Sustainability Impact Assessment, where appropriate. The greenest sources of energy will be sourced where viable for the quarterly supplies on fixed term contract -and if no more than 2% above the cost of conventional supplies - with full traceability of supply requested. Renewable Energy is available in the LASER portfolio for the flexibly purchased supplies for the duration of the new frameworks through to September 2020. For the first year of supply October 2016 to September 2017, this will be offered at a 5% discount to the prevailing rate of Climate Change Levy (CCL)

3.8 Please state who will be managing this contract

Paul Spencer, Energy & Carbon Manager. Paul has successfully managed the last 2 terms of this contract and is a corporate accredited Procurement Practitioner.

4. RISK ANALYSIS

4.1 Attach a copy of a detailed risk assessment which includes also includes risks pertaining to the procurement stage.

Attached Yes / No

5. TENDER EXECUTION

5.1 What is the appropriate procurement procedure?

Procedure	Tick	Rationale *(should be based on research or evidence)*
Non EU – Open		
EU Open*		
EU Restricted*		
Competitive Dialogue		
Competitive Procedure with Negotiation		
Innovation Partnership		
Framework	√	LASER

** If an accelerated timeline is proposed please state justification for doing so.*

5.2 Does the procurement lend itself to being conducted via an eAuction?

No

Not applicable

5.3 Do any conflicts of interest exist

No

If Yes, please describe the conflict and how this will be managed in the project

5.4 Detail key milestone dates.

Milestone	Date
Gateway 2 - Approval to proceed	
Publication of OJEU Contract Notice *(where used)*	
Issue of Pre-Qualification Questionnaire *(where used)*	
Issue of Invitation to Tender	
Gateway 3 – Approval to proceed	
Key Member decision *(where required)*	
Notification of Preferred Bidder (Standstill period)	
Contract Award	
Contract Go-live	

6. COMMERCIAL PERFORMANCE

6.1 Detail the form of contract to be used.

This will be a tri-partite contract between Oxford City Council, LASER and the energy suppliers. Legal will be consulted prior to signing.

6.2 What key clauses that support the Council's corporate plan or policies are to be included into the contract?

This is not applicable to this contract

6.3 Describe what price controls will be contained in the contract.

If indexation is proposed, please state rationale and confirm that the Finance Business Partner agrees with the proposed indice.

6.4 Detail what KPI's will be applicable to the contract and summarise what management information will be required from the appointed Contractor.

Quarterly client meeting with LASER key account manager to assess portfolio performance Twice yearly customers meeting held at LASER HQ – one to be attended per year by member of the Council's energy team (finance/procurement personnel also encouraged/open to attend) Quarterly reporting of LASER basket performance and price projections to help inform ongoing procurement decisions (eg if strategically wanted to shift to another flexible basket during the contract) Prompt issuing of final unit energy price for the flexible contract cycle period 1 Oct to 30 Sept – as soon as practicable and no later than 1st November each year

6.5 Describe any mechanisms that will be put in place to ensure that the contract will deliver continual value for money.

There is full flexibility to move supplies in to the range of baskets that LASER offer during the period of the contract meaning that if performance of certain basket options are performing well, OCC could proactively arrange to move (6 months notice prior to each 1 October anniversary required – eg by 31 Mar 16 for 1 Oct 16 start). This is part of the roles and responsibilities of the Council's energy team. Quarterly meetings/reports on energy and water spend can be held with key finance personnel/business partners to provide overview of portfolio spend and assist with energy spend forecasting/budgeting (this will be facilitated further by the move to group electronic energy billing (this is independent of the energy supplier/broker service in place). This will also inform any decision on whether supplies would be swapped to alternative baskets.

6.6 Selection and evaluation methodology attached as Appendix A?

Attached No

Part A – Procurement Team approval to commence procurement process as per strategy outlined above	
Insert any comments	
Approved by	
Date	

Part B – post procurement

7. POST TENDER EXECUTION

7.1 Name(s) of successful Bidder.

7.2 Tender Evaluation Report attached as Appendix B?

Attached Yes / No

7.3 Has the Bidder agreed to all contractual terms?

Yes / No

If No, provide full details of the Bidders position

7.4 Is there any potential challenge to awarding the contract?

Yes / No

If Yes, please full details and mitigation action

7.5 Contract costs are in accordance with funding as detailed in 2.1?

Yes / No

If No, please copy and update the table from 2.1 here

7.6 Benefit realisation is in accordance with the forecast as detailed in 2.4?

Yes / No

If No, please copy and update the table from 2.4 here

7.7 Benefit realisation is in accordance with the forecast as detailed in 2.4?

Yes / No

If No, please copy and update the table from 2.4 here

Part B – Procurement Team is satisfied that the procurement process was conducted in accordance with the strategy outlined above and that the recommendation to award the contract is supported.	
Insert any comments	
Approved by	
Date	

This page is intentionally left blank