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OXFORD CITY COUNCIL

To: **City Executive Board**

Date: **11 February 2016**

Report of: **Head of Community Services**

Title of Report: **Energy & Water Supply Procurement 2016 – 2020**

Summary and Recommendations

Purpose of report: To seek approval for the approach to the procurement of energy and water for the period 1 October 2016 to 30 September 2020.

Key decision: Yes

Executive lead member: Councillor John Tanner

Policy Framework: An efficient and effective Council

Recommendations: That the City Executive Board resolves to:

1. approve the use of the Kent County Council energy procurement framework via its trading arm LASER (the specialist public sector energy buying organisation) for a further four years (2016-2020) to procure the Council's energy contracts from October 2016 and water contracts from April 2017;

2. approve the continuation of the energy purchasing approach of:
   - a flexible contract for larger electricity and gas supplies
   - a fixed term fixed price contract for smaller quarterly billed supplies;

3. delegate authority to the Director of Community Services in consultation with the Head of Financial Services to select the most appropriate 'flexible energy contract basket' option.

4. approve that, as part of the annual budget setting process, the Lead Member will determine the proportion of renewable energy purchased under the contract each year in consultation with the Head of Financial Services (S151 Officer) and Director of Community Services.

Appendices:
Appendix 1: Laser market performance
Appendix 2: Risk Register

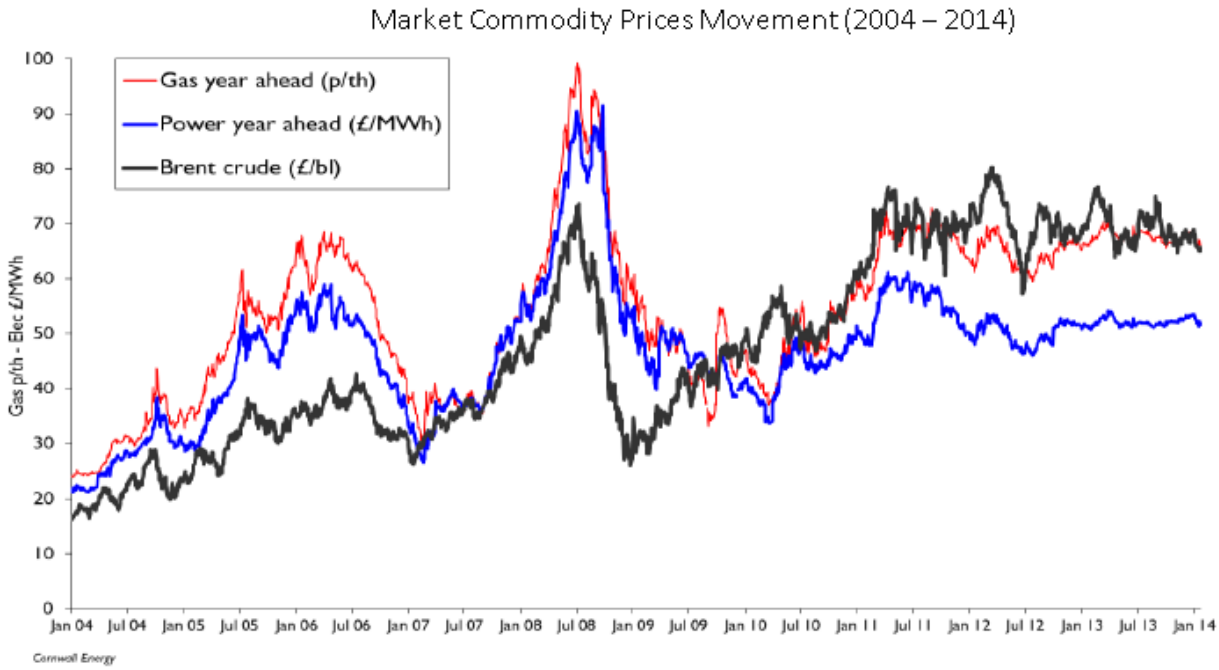
Background

1. The Council's current energy purchasing arrangements using the Public Buying Organisation (PBO) LASER as a specialist energy purchasing agent were agreed at CEB in June 2011. This covered the period 1 October 2012 to 30 September 2016. This report reviews past LASER performance over the last four years and makes recommendations for the energy (and water from April 2017) purchasing approach for the new framework period 1 October 2016 to 30 September 2020.

2. LASER has been used by the Council as its main energy purchasing agent for a number of years and LASER has continued to perform well both in terms of returned prices and overall service offering.

3. Energy is currently purchased through a Flexible Procurement approach for the Council's larger electricity and gas consuming sites. This follows the best practice approach as outlined by the Cabinet Office in the Pan-Government Energy Project which recommends that all public sector organisations should adopt aggregated, flexible and risk-managed energy procurement to manage the risk of a volatile energy market.

4. To outline the nature of this market, the chart below shows historic energy market price volatility over 10 years from 2004 to 2014.



5. Purchasing energy through a PBO like LASER on a flexible energy contract meets the Cabinet Office recommendation for Council's operating in this volatile market. This approach manages risk in securing the most competitive and risk-managed energy price in an increasingly volatile and complex energy market.

6. Our existing arrangements with LASER terminate at the end of September 2016. To give the best chance of securing lower energy rates it is advised that a new contract for the period October 2016 to

September 2020 should be in place no later than 31 March 2016. This will allow for a minimum of six months of advanced purchasing of energy under the flexible purchasing arrangement.

7. The Council currently spends circa £1.62 million a year on gas, electricity and water across all of its buildings and operational sites. (800 metered supplies). The expenditure is split as follows:

    - Gas - £0.46million
    - Electricity - £0.96million
    - Water - £0.20million

8. Efficiency improvements at the Council, which have resulted in reduced gas, electricity and water consumption, have also made the council circa £500k/year better off (2014/15) compared to energy and water consumption levels before a carbon management plan was in place.

9. The contracts for the supply of electricity and gas are broken down into lots by typical annual consumption and meter type. Current arrangements with their renewal dates and typical annual consumption figures are detailed below:

Energy supply	**Number of sites**	**Annual expenditure (consumption)**	**Contract type**	**Contract renewal date**
Gas (large supplies)	29	c. £460,000 (14.9 million kWh)	Flexible Purchasing Contract	Oct 2016
Gas (smaller quarterly billed supplies)	35	c. £36,000 (200,000 kWh)	Fixed-term, Fixed price contract	Oct 2016
Electricity (large supplies – “half-hourly” metered)	9	c. £500,000 (5.6 million kWh)	Flexible Purchasing Contract	Oct 2016
Electricity (monthly billed non-half hourly supplies)	8	c. £130,000 (800,000kWh)	Flexible Purchasing Contract	Oct 2016
Electricity (smaller quarterly billed supplies)	c. 603 sites	c. £325,000 (2.8 million kWh)	Fixed-term, Fixed price contract	Oct 2016

10. In terms of the Council's 123 sites being supplied with water (ca £200,000 annual spend), currently Thames Water is the only supplier. However, this will be opened up to competition from other water providers from April 2017. This paper recommends using the services of a specialist PBO like LASER to renew water supply contract maximising on opportunities for lower water rates.

LASER performance

11. The current agreement with LASER[1] bulk buying consortium is in place until 30 September 2016.

12. The total cost for using LASER across all the Council's electricity and gas supplies is currently £28,300 per annum ie 2% of the council's annual spend on these supplies (£1.4m).

13. This cost covers the management of the flexible purchase arrangement as well as bill validation on the council's larger energy supplies. This is described as the 'Fully Managed Procurement' option.

14. LASER's fees are in line with or lower than other similar PBOs available. Indicative market testing for other PBO's resulted in fee estimates of £34,000 per annum and £36,000-£54,000 per annum. LASER compares well with a current fee level of £28,200 per annum to deliver the service on the Council's portfolio.

15. In terms of prices returned from its energy purchasing provision, LASER has performed well in the market over the years, even within a relatively stable (downward trending) market where savings margins are lower. The latest LASER figures available for October 2011 to September 2014 contract period are shown in Appendix 1 of this report.

16. Independently, a London Energy Partnership report[2] evaluated the achieved purchase price with LASER against the average market price and rated LASER's performance as "Very good" and "Effective" on the two flexible baskets for which the Council is signed up.

Options appraisal

17. In seeking to review and renew the Council's energy (and now water from April 2017) contracts the following options are presented:
    - **Do nothing**
    - **Run a procurement process in-house**
    - **Use a public (professional) buying organisation (PBO) or third party intermediary (TPI) buying organisation**.

18. A detailed assessment of the above options has been carried out (See Energy Procurement Strategy, Background paper), the headlines of which are below.

[1] LASER is a Kent County Council trading arm.
[2] Value for Money Assessment by the London Energy Partnership, 2013

19. In summary, doing nothing is not an option as this would mean that the council would slip into very expensive deemed rates/out of contract pricing arrangements with its energy suppliers without an energy contract in place.

20. Running a procurement process in-house would both be time-consuming and expensive requiring specialist energy purchasing expertise and having to run as an Official Journal of the European Union (OJEU) tendered process. The Council also does not have the large scale of purchasing volume to warrant setting up its own energy contracts via a flexible purchasing arrangement. It would also not have the buying power that a PBO or similar purchasing consortia would offer.

21. Procuring energy through a PBO is regarded as a best practice approach to mitigate energy price risk in an increasingly volatile and complex energy market and is the recommended option for OCC to pursue. PBOs are also not-for-profit organisations geared for working with public sector organisations and the constraints they have to operate in. They also present a low-risk OJEU compliant procurement route to market.

Preferred option and benefits

22. It is recommended to continue using the services of a PBO to procure the Council's energy. Given its good track record and level of service provided to OCC over the past three framework periods (12 years), it is recommended to continue using LASER (a not-for-profit PBO) to purchase energy (and water from April 2017) on behalf of the Council. The Energy Procurement strategy background paper provides further detail on this rationale and also assessment of other similar PBOs which provide similar services for comparable fees.

23. However it is proposed to move from a previously Fully Managed procurement arrangement on its larger supplies - where larger energy consuming site bills are validated by Laser (at a cost of ca £28k per year or 2% of annual energy spend) to a procurement only option where the Council carries out its own bill validation using its own in-house developed expertise. This will reduce LASER costs to around £17k per year – saving ca £11k in procurement charges.

24. This is possible as the Council's energy team has now established the expertise to validate energy and water bills in house using the Sigma Energy software. This, along with other energy/water management services, are being explored as a revenue generating stream for the council where the team's services are offered to other public sector organisations or local SMEs.

25. LASER is now able to provide an increased number of purchasing options (so called Energy baskets) which further balance cost against

risk. Previously two options were available – the Purchase in Advance (PIA) option - which the council currently uses - and the Purchase within Period (PWP) option. Four additional baskets are now offered depending on the appetite for risk and the nature of the energy supplies. See the Energy Procurement Strategy Background paper for more detail on the options available.

26. Discussion will be carried out through the regular quarterly meetings between Energy & Natural resources and the Council's Financial services team and a decision made jointly on the most appropriate energy basket to select during each annual framework period. Six month's notice ahead of the subsequent framework cycle (Oct to Sept) is required if OCC wants to move any supplies to an alternative energy basket. Therefore decisions would need to be made by no later than 31 March in each year of the four year framework contract.

27. 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.

Legal issues

28. Kent County Council (KCC) is the 'Contracting Authority' for the flexible energy supply contracts operated by LASER. The energy supply contracts are procured through OJEU compliant tender processes. KCC is a 'Central Purchasing Body' ('CPB'), as specified in the Public Contract Regulations 2006. As such, other public sector bodies are able to use the energy supply contracts without having to run separate OJEU tender processes for either the appointment of energy suppliers or LASER's contract management services. An 'Open Procedure' procurement process, in accordance with European Combined Procurement Directive 2004/18/EC, has been utilised for the tender and award of flexible energy supply contracts for the period October 2016 – September 2020.

Financial Issues

29. The Council's Finance Team will be required to engage in discussion on the suitability of the various basket options and overall portfolio performance through regular quarterly meeting between the Finance Team and Energy& Natural Resources (ENR) team. This will be led and initiated by the ENR team who have overall responsibility for managing the council's energy contracts and also managing electronic billing of all energy and water bills through the Sigma energy and water billing software it employs.

Environmental Impact

30. Renewable energy is available in the entire LASER portfolio for the flexibly purchased supplies for the duration of the new frameworks through to September 2020. However, there is no guarantee of 100% availability and this would incur an additional cost with current indication (tbc by contract start date) to be around 0.2p per unit of energy supplied

(kWh). This would equate to around £45,000 additional energy spend per year on the supplies on flexible contracts. Officers will seek to maximise the proportion of fully traceable (see below) renewable energy supplies in the contract if the utility budget allows. As part of the annual budget setting process the Lead Member will determine the proportion of renewable energy purchased under the contract each year in consultation with the Head of Financial Services (S151 Officer) and Director of Community Services.

31. Traceability of electricity supply subject to the Climate Change Levy will be available through provision of Levy Exemption Certificates (LEC) for the supplies. This will enable renewable energy sources to be identified including a full audit trail of LECs and Renewable Energy Guarantees of Origin (REGO) certificates. This will be beneficial for providing greater transparency for OCCs Carbon and Sustainability reporting as well as backing the Council's aspirations around energy and carbon emission reduction.

32. The greenest sources of energy will be sourced where viable for the quarterly supplies on the fixed term fixed price contracts - and if no more than 2% above the cost of conventional supplies - with full traceability of supply requested.

33. Demand side management options will also be available to explore as a contract option via LASER with the potential ability to receive a cost reduction or cash payment in return for being able to curtail energy usage at short notice in the Council's buildings or other energy consuming sites. This will be of increasing benefit over the years as non-commodity price elements of energy bills continue to increase (and overshadow wholesale energy prices) and again provide increasing flexibility over conventional energy contracts. It will also provide for greater integration of the Councils' energy/carbon management and energy procurement strategies – an increasing trend in the current energy market.

Risk register

34. A risk register is appended with this report. Using a PBO to procure the Energy contracts is a recommended best practice approach in the increasingly volatile and complex energy sector. Purchasing energy on flexible contracts through a PBO is also an aggregated, flexible and risk-managed way of securing energy contracts as recommended by the Pan-Government Energy Project.

35. The highest risk to the council is to not have energy contracts in place and slip in to deemed/out of contract rates for its energy supplies which are significantly more expensive than contracted rates (of the order of 50% or higher compared to arranged contract rates). The purpose of securing contracts through a PBO is to avoid this happening and also to give the best chance of securing most competitive energy (and water) contract prices.

Equalities Impact

36. There are no equalities impact issues with this decision.

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List of background papers:
Energy Procurement Strategy, Oxford City Council