

Crawley Borough Council



**Report to Cabinet
3 December 2014**

Energy Procurement

Report of the Head of Partnership Services

Report No. DC&PS/003

1. Purpose

- 1.1 The Council has participated in a flexible energy procurement arrangement since 2008 under a Framework contract with LASER which is now due for renewal.
- 1.2 These contractual arrangements cover the supply of gas and electricity to the Council's operational buildings and have achieved significant savings for the Council.
- 1.3 This report contains proposals for the Council's continued participation in these arrangements over the next contract period running from 1 October 2016 to 30 September 2020.

2. Recommendations

- 2.1 The Cabinet is recommended to:

Approve participation in the LASER Framework Contract for energy procurement for the period 2016 to 2020.

3. Reasons for the Recommendations

- 3.1 LASER benchmarks their purchasing performance each year and shares this information with its customers. This benchmarking exercise indicates that LASER has been able to deliver prices to customers at 4% below the market average over the last 4 years. Based on current consumption this level of performance would equate to a total saving in energy costs over the next 4 year contract period of £60,000 assuming similar performance levels.
- 3.2 Given the estimated savings achieved through a flexible procurement strategy, it is recommended that the Council continue its arrangement with LASER and participate in the framework contract for the 4 year period from 1 October 2016 to 30 September 2020.

4. Background

- 4.1 The Council has had a long standing arrangement with LASER (Local Authority Energy Buying Group) who purchase energy on the Council's behalf under a

framework agreement. LASER currently manages the energy procurement for 160 local authorities including West Sussex, Horsham and Mid Sussex; with a total annual spend of £350 million.

- 4.2 Historically these energy contracts were tendered under fixed price arrangements which, in a relatively stable market, secured best value for the Council. However, wholesale energy price volatility over short periods in recent years made this an increasingly high risk strategy and in common with most LASER Members in 2008 the Council switched to a system of flexible energy procurement.
- 4.3 A wholesale flexible procurement arrangement enables the buyer to purchase blocks of energy at varying times both before and within the contracted supply period. The arrangement removes the risk of settling a LASER Members requirement on a single day. Aggregating the volumes of Members within the arrangement enables effective market hedging.

5. Description of Issue to be resolved

- 5.1 LASER has now completed the tender process for the next flexible energy framework contract which will run from October 2016 to September 2020 and requires confirmation from its Member authorities that they wish to participate in the new contract. The successful suppliers under this contract are:-

Electricity	-	Npower
Gas	-	Total Gas & Power

- 5.2 The framework contract covers electricity supply to the Council's larger sites and gas supplies to all sites with an estimated value over the contract term of £1,504,000, i.e. £970,000 (Electricity) and £534,000 (Gas). Flexible procurement arrangements are not available for the supply of electricity to the smaller Council sites which are covered under a separate fixed price contract with LASER which expires on 30 September 2016.
- 5.3 An early commitment is required by LASER from authorities wishing to participate in the new contract due to its nature which may involve energy purchasing on the wholesale market 12 months or more prior to the contract start date.

6. Information & Analysis Supporting Recommendation

- 6.1 Energy markets remain sensitive to political, geographical and economic influences and therefore the rationale for flexible energy procurement remains strong. In addition, this form of energy procurement, managed by an approved Public Sector Buying Organisation is recommended for all public bodies by the Pan Government Energy Review Project (ERP) (part of the Cabinet Office).
- 6.2 Market testing of other public sector energy buying groups was undertaken in 2008 prior to the move to flexible energy contracts with LASER. No financial or other benefit was identified which would have resulted from a switch from LASER and their procurement performance since then has been better or in line with that of other groups.
- 6.2 The current contract with LASER has performed extremely well, with overall achieved energy prices 4% lower than average market prices. The Council's

continued participation in the contract also provides continuity of supply and allows us to remain with our existing energy suppliers.

7. Implications

- 7.1 The Council needs to comply with EU Procurement Rules in putting in place a contract for energy procurement from 1 October 2016.
- 7.2 The procurement process undertaken by LASER is compliant with the EU procurement regulations and there are provisions for the Council as a Local Authority to utilise LASER as the intermediary to enter into contractual relations with the energy supply marketplace.

8. Background Papers

- 8.1 None.

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