

Crawley Borough Council

Report to Cabinet 26 June 2019

Energy Procurement Contract Arrangements

Report of the Head of Major Projects & Commercial Services - HPS/19

1. Purpose

- 1.1 The Council has participated in a flexible energy procurement arrangement since 2008 under a Framework contract with LASER (Local Authority Energy Buying Group) which is due for renewal on 1st October 2020.
- 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 1st October 2020 to 30th September 2024.

2. Recommendations

- 2.1 The Cabinet is recommended to:

Approve the Council's continuation in the LASER Framework Contract for energy procurement for the period from 1st October 2020 to 30th September 2024.

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 4.6% 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 £98,000 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 1st October 2020 to 30th September 2024.
- 3.3 The Pan Government Energy project recommended that to spread market risk, and avoid buying during periods of peak market pricing, "all public sector organisations adopt aggregated, flexible and risk-managed energy procurement" as provided under the LASER framework.

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 £450 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 1st October 2020 to 30th September 2024 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 and gas supplies to the Council's operational sites with an estimated value over the 4 year contract term of £2,140,000 i.e. £1,600,000 (Electricity) and £540,000 (Gas).
- 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. LASER cannot commence forward purchase on behalf of Council sites until a commitment to join the framework contract has been received.

6. Information & Analysis Supporting Recommendation

- 6.1 Gas and electricity market prices are highly volatile. Market price movements of 10% in a week are not unprecedented. Purchasing all energy requirements on a single day therefore carries the risk of buying when energy market prices are high, with a potentially significant associated budget risk.
- 6.2 Market testing of other public sector energy buying groups and procurement methods such as fixed pricing was undertaken prior to the move to flexible energy contracts with LASER. No financial or other benefits were 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 energy buying groups.

- 6.3 The current contract with LASER has performed extremely well, with overall achieved energy prices 4.6% 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.
- 6.4 In addition, the new framework contract offers additional services available to participants including battery storage, data collection, electric vehicle charging, energy efficiency and renewable energy consultancy.
- 6.5 Participation in the LASER framework arrangement requires no maximum or minimum commitment and sites can be added or removed from the procurement arrangement at any time during the contract period.

7. Implications

- 7.1 The Council needs to comply with EU Procurement Regulations 2015 in putting in place a contract for energy procurement from 1st October 2020.
- 7.2 The procurement process undertaken by LASER is compliant with the EU procurement Regulations 2015 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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