

Crawley Borough Council

Report to Cabinet 28 June 2023

Energy Procurement Contract Arrangements

Report of the Head of Major Projects & Commercial Services – **HPS/37**

1. Purpose

- 1.1 The Council has participated in a flexible energy procurement arrangement since 2008 by calling off contracts under the Framework Agreements managed by the LASER Energy Consortium (Local Authority Energy Buying Group). To secure competitive prices, Laser procure energy up to 12 months in advance in periods when the market is more favourable. This approach has generated significant savings for participating authorities and will require the Council to commit to the new contract term at least 12 months prior to the expiry of the current contract. This current contract expires at the end of September 2024 and this report recommends entering into a new four-year contract with Laser with effect from **1st October 2024**.
- 1.2 These contractual arrangements cover the supply of gas and electricity to the Council's operational buildings including Crawley Homes and have achieved significant savings for the Council.

2. Recommendations

- 2.1 The Cabinet is recommended to:
- a) Approve the Council's continuation in the LASER Framework arrangement and completion of an Access Agreement to commit to procuring electricity and gas through LASER for the period from **1st October 2024 to 30th September 2028**.
 - b) Delegate the negotiation, approval and completion of all relevant legal documentation, to the Head of Major Projects and Commercial Services, Head of Governance, People and Performance, in consultation with the appropriate Cabinet Member (Generic Delegations 2 and 3 will be used to enact this recommendation)
 - c) Delegate the review of the green basket option to the Head of Major Project and Commercial Services, in consultation with the Cabinet Member for Resources and the Cabinet Member for Environment, Sustainability and Climate Change (Generic Delegation 3 will be used to enact this recommendation). Any such change as a result will be recorded via a Significant Operational Decision.

3. Reasons for the Recommendations

- 3.1 LASER benchmarks their purchasing performance each year and shares this information with its customers. The current frameworks have delivered cost avoidance of £274.2k pa to Crawley Borough Council since they commenced. LASER's track record in monitoring the market and buying at lower-than-average market prices accounts for £246.4k pa of cost avoidance. This calculation compares the prices achieved by LASER from the start of the framework with the average market price. Lower Supplier Management Fees also account for £20.5k pa, with reduced fees from our gas and electricity suppliers compared to buying as a stand-alone customer. This has been shown to reduce delivered energy costs by ~4% pa.

- 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 2024 to 30th September 2028**.
- 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. One of the benefits with the new framework is Protection Against Supplier Failure. Since 2020, over twenty energy suppliers have ceased trading. LASER’s frameworks include a financial stability test to minimise the risk of a framework provider failing during the term of the agreement. The frameworks contain a panel of suppliers which provides a ready compliant route to appoint a new supplier should an existing supplier fail (either because they cease trading, or they materially breach the terms of the contract).

4. Background

- 4.1 The Council has had a long-standing arrangement with LASER who purchase energy on the Council’s behalf under a framework agreement. LASER is one of the largest energy buying organisations in Europe, purchasing over £500m of energy per annum and serving over 200 public sector customers including West Sussex, Horsham, and Mid Sussex local authorities.
- 4.2 The arrangement works specifically by the Council committing to procure electricity and gas through the LASER Framework Agreement(s); LASER purchases energy from the wholesale market in order to secure our allocation of energy on the national grid and when the Council has decided on which specific tariff/green/net-zero purchasing option to take up, call-off contracts are then setup with the named suppliers on the LASER Framework.
- 4.3 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.
- 4.4 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 agreements for gas and electricity which will run from 1st October 2024 to 30th September 2028 and requires confirmation from its Member authorities that they wish to participate in the new contract. LASER has selected Bidder A and Bidder B as the most advantageous options for the Council under the energy framework agreement

- 5.2 The framework contract covers electricity and gas supplies to the Council's operational sites which includes a total of 640 supplies. The estimated Council Expenditure on Energy in the current year is as follows:

TOTALS	
GAS CRAWLEY HOMES	£121,481
GAS General Fund	£547,686
TOTAL	£669,167

ELEC CRAWLEY HOMES	£303,405
ELEC General Fund	£978,211
TOTAL	£1,281,616

Based on these current Oct22-Sep23 energy spend figures, LASER's fees work out around 3% of our overall energy spend p/a.

- 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 (for the subsequent call-off contracts) until a commitment to join the framework agreement has been received.

6. Information & Analysis Supporting Recommendation

- 6.1 Market testing of other public sector energy buying groups and procurement methods such as fixed pricing was undertaken prior to the original move to flexible energy contracts with LASER. No financial or other benefits were identified by our shared procurement service 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. They have the best market research and due to the energy market being highly volatile at present, the risk appetite for moving away from LASER is low on all fronts. It is also more efficient to continue utilising our existing brokerage without having to setup a new commercial relationship with someone else.
- 6.2 The Council's continued participation in the contract provides continuity of supply and allows us to remain with our existing energy suppliers. They are supporting with identifying opportunities for further Automatic Meter Reading (AMR) installations across our portfolio which will improve billing accuracy and provide a better visibility of energy consumption so we can utilise these insights to make efforts towards reducing costs and environmental impact where possible.

- 6.3 LASER are developing a 'green basket' option where the council could move away from a conventional (brown) energy tariff. We could commit a proportion of our portfolio already within the LASER flexible basket to be procured through this route. The length of the commitment can be flexible. It is recommended that the green basket option is reviewed on an annual basis by the Head Of Major Projects and Commercial Services in consultation with the Cabinet Member for Resources and the Cabinet Member for Environment, Sustainability and Climate Change
- 6.4 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 however once the commitment to the LASER Framework Agreement is made the Council would not be able to source through an alternative route to market i.e., using an alternative Energy Consortium or procuring energy from the market directly.

7. Implications

- 7.1 The recommendation will ensure that the Council is compliant with EU Procurement Regulations 2015 in putting in place electricity and gas contracts for energy procurement from 1st October 2024.
- 7.2 The frameworks have been procured in accordance with the Public Contracts Regulations of 2015, as amended (PCR2015). Kent County Council remains the Contracting Authority for all LASER contracts. This permits a public body to access LASER's frameworks and services without the need to run a separate procurement process to do so.

8. Background Papers

- 8.1 None.

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