

Agenda Item No:

Report To: Cabinet

Date of Meeting: 12 September 2019

Report Title: Renewal of LASER Contract for the Supply of Gas and Electricity

Report Author & Job Title: Daniel Stone, Property & Asset Manager

Portfolio Holder Cllr. Paul Clokie

Portfolio Holder for: Regeneration & Corporate Property



Summary:

The Council currently purchases its utilities (gas and electricity) through the LASER consortium, an energy buying group which represents over 160 local authorities and other public bodies headed by KCC, of which this Council has been a member of since 1994. The current purchasing agreement comes to an end in September 2020 and the Council will need to enter into a new contract if it wishes to continue purchasing utilities in this way.

The purpose of this report is to identify the different options open to the Council when it comes to the procurement of utilities and explain the advantages of doing this; and to obtain Cabinet approval to enter into a new LASER contract so that the Council can continue to procure its utilities through the LASER consortium for the next 4 years.

Key Decision: YES

Significantly Affected Wards: All

Recommendations: **The Cabinet is recommended to:-**

- I. Approve the Council entering into a new LASER agreement, so that it can continue to procure its utilities through the LASER consortium until 30 September 2024.**
- II. Give authority to the Head of Property & Projects and in conjunction with the Head of Legal & Democratic Services to enter into such agreement in relation to the above recommendation.**

Policy Overview: Ashford Borough Council has agreed at full council that it aims to be 80% carbon neutral by 2025 and 100% carbon neutral by 2030. The formal strategy on achievement of this is yet to be ratified.

Financial Implications:	Current expenditure per annum on gas and electricity by Ashford Borough Council is just under £1million.
Legal Implications	The council would be entering into a 4 year agreement with LASER to procure utilities on the Council's behalf.
Equalities Impact Assessment	Not Required, this report deals with procurement of utilities and does not affect individual groups within society.
Other Material Implications:	None
Exempt from Publication:	N/A
Background Papers:	Appendix information on LASER information pack <ul style="list-style-type: none">• Flexible Energy Frameworks 2020 – 2024
Contact:	Daniel Stone (Property & Asset Manager) Tel: 01233 330305 / 07770 444760 Daniel.stone@ashford.gov.uk

Report Title: Renewal of LASER Contract for the Supply of Gas and Electricity

Introduction and Background

1. The purpose of this report is to :
 - a. Identify the different options open to the Council when it comes to the procurement of utilities
 - b. Explain the advantages of the Council procuring its utilities through the LASER agreement
 - c. Identify the savings that the Council has made during the term of the previous LASER agreement
 - d. Obtain Cabinet approval to the Council entering in to a new LASER agreement so that it can continue to procure its utilities through the LASER consortium up until September 2024

Proposal/Current Position

2. Cabinet is asked to consider the different options open to the Council when it comes to the procurement of utilities and whether or not it should enter in to a new LASER agreement so that it can continue to procure gas and electricity through the LASER framework until 30 September 2024

Implications and Risk Assessment

3. In order to maximise the window for making future energy purchases, and best manage market price volatility, the LASER contract is to be committed to by 31st March 2020. If we are unable to do this by this date we run the risk of losing the forward purchasing arranged for us by LASER and potential cost increases associated with direct purchase.

Equalities Impact Assessment

4. This report deals with the procurement of utilities and does not affect individual groups in society so no equalities impact assessment is required.

Consultation Planned or Undertaken

5. Background information has been obtained from LASER outlining the framework benefits. A cost analysis on how LASER's flexible framework has provided a reduction in costs (on average of £70.3k per annum) is highlighted below.

Description	Avoided Cost £/pa for ABC
Lower Supplier Management Fees	£28,346
Shaping benefits	£3,946
Entire Market Pricing	£1,942
Flexibility of Trading	£748
Volume Tolerance	£329
LASER's track record in monitoring the market and buying at lower than average market prices	£29,701
Transparency of pricing	£5,315
TOTAL	£70,327

Managed Service vs. Unmanaged Service

LASER offers a service of either managed or unmanaged (procurement only) services. Currently approximately 75% of our expenditure is on a managed service, the remaining 25% being unmanaged. There are benefits in consolidating this to a fully managed service in order to provide better administration of data relating to carbon savings to meet our 2025 & 2030 carbon neutral objectives. It is also anticipated that by going to a 100% fully managed service further cost reductions can be realised given the above mentioned cost avoidance benefits.

Other Options Considered

6. **Other Frameworks** - There are a number of other organisations that have set up frameworks however, these are very often restricted to authorities in specific parts of the public sector such as higher and further education, and the Ministry of Defence, and are not open to local authorities such as Ashford, or are specific to geographic areas.
7. **Third Party Intermediary** – a third party intermediary is an independent energy consultancy who would procure the council's energy requirements on its behalf. The consultancy would be procured via a competitive tender based on a fee for their services, or a gain/share arrangement based on the savings made.
8. **Direct Purchasing from a supplier** – The Council could tender for the supply of utilities directly with providers, but as mentioned above without the benefit of buying power offered by a consortium it would be unlikely that this would offer value for money. There would also be additional administration costs, and there is also the possibility that if using a new supplier, they may not be able to offer competitive pricing.

Reasons for Supporting Option Recommended

9. LASER is a consortium of local authorities that tenders and negotiates prices on behalf of around 160 local authorities in London and the South East of England. It offers a range of services that include fixed term fixed price contracts, flexible pricing contracts, bill validation and a number of other advisory services. Discounted prices are secured through the aggregation of demand of all participants.

10. The vast majority of all of the electricity and gas that the Council currently purchases is through the existing LASER agreement under a managed service.
11. LASER benchmarks its purchasing performance each year and publishes its findings. The current frameworks have delivered cost avoidance of £70.3k per annum to ABC, equivalent to 9.9% delivered spend.
12. Bearing in mind the successful track record that LASER has working both with the Council and the majority of Councils in the South East, there is no evidence available to the council to suggest that any other frameworks would offer any advantage to the Council.
13. A third party intermediary may be able to negotiate or procure better deals for some buildings but, without the benefit of the size of contract offered by buying consortiums, it is considered unlikely that they would be able to improve on the overall prices achieved via LASER or other frameworks.
14. LASER is working with Kent County Council on renewable energy supply initiatives that would link to our aims of becoming carbon neutral (80% by 2025 & 100% by 2030). These initiatives feeding in to a fully managed service would allow us to produce evidence to support our carbon neutral aims.
15. The new frameworks contain enhanced provisions to purchase customer generated electricity (e.g. from a solar farm or waste-to-energy plant) or customer-produced gas (e.g. from a landfill waste site). As an indication, a 5MW solar farm would typically produce electricity worth between £220k-£260k per annum. This electricity can be sold through the frameworks to generate revenue or can be allocated to other sites within your portfolio (mitigating the need to buy electricity from the market).

Next Steps in Process

16. Kent County Council, which heads up LASER, is a Central Purchasing Body and the Contracting Authority for the LASER frameworks. As such, this Council would not need to run its own procurement process to utilise the LASER frameworks available to us.

Conclusion

17. Given the Council's level of expenditure on energy of approximately £1million per annum, it is important that energy purchasing arrangements provide value for money and are managed effectively and efficiently. It is also important that any energy supplier we use can link to our carbon neutral objectives. It is considered that this is most likely to be achieved by confirming out interest in the LASER contract and accordingly Cabinet is asked to approve the recommendation.

Portfolio Holder's Views

18. This proposal has been discussed with Cllr Paul Clokie, portfolio holder for Regeneration and Corporate Property, who is in support of the proposal.

Flexible Energy Frameworks 2020 – 2024 Information Pack Post-Tender Award

Customer Name: Ashford Borough Council

Version: v1N

28 November 18

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Introduction

LASER Energy Buying Group
1 Abbey Wood Road
Kings Hill
Kent
ME19 4YT
Tel: 0800 484 0840

Dear Claire,

LASER has now awarded the new flexible energy procurement frameworks, covering the period October 2020 to September 2024. These new and improved contracts will replace the current frameworks for the supply of gas and electricity when they end on 30 September 2020. Npower and Total Gas and Power have been successful in retaining the electricity and gas frameworks respectively. A further seven suppliers have also been added to the framework to provide access to a range of procurement-compliant energy services, such as battery storage, renewable energy and energy efficiency hardware.

We have updated the Information Pack, distributed earlier this year, to assist with your decision to join the new frameworks from 1 October 2020 onwards. The pack outlines the benefits of the existing frameworks, which have been retained and built upon, and provides details on the new frameworks. The information pack contains an Overview section, which provides key information, along with Appendices of supporting material and analysis.

The current frameworks have delivered cost avoidance of £70.3k per annum to Ashford BC, equivalent to 9.9% of delivered spend. The new agreements will deliver a number of enhancements for LASER customers, including:

- Lower supplier management fees;
- Additional options for reducing energy spend, such as solar installations and battery storage;
- More stringent supplier Service Level Agreements; and
- Additional Social Value requirements.

We welcome any feedback from customers on this updated Information Pack and would be pleased to provide any further material and assistance you may need to support your decision to join the new frameworks. Should you have any queries, please do not hesitate to contact your Customer Service Manager, Account Manager or myself.

Yours sincerely



Nigel Hartnup
Director of Energy

Overview

LASER has operated flexible energy procurement frameworks on behalf of the public sector since 2008. LASER's flexible procurement model aggregates the energy volumes of 200 customers with an annual spend of **£450 million**. The aggregated energy volumes are then purchased in multiple blocks prior to the point of use. The current flexible frameworks for the supply of electricity and gas expire **30 September 2020**. LASER has awarded the renewed flexible frameworks for the supply period **1 October 2020 to 30 September 2024** to Npower (Electricity) and Total Gas and Power (Gas). We expect suppliers to start executing the framework contracts from November 2018. Further information on the procurement process and contract options can be found in **Appendix A**.

Why is Early Contract Renewal Important?

To maintain an effective risk-management approach, a minimum two-year window is recommended to complete future flexible energy purchases. LASER's frameworks permit us to buy energy beyond their termination date and transfer the volumes to any incoming supplier. This allows us to take advantage of favourable buying opportunities and mitigates against the risk of energy market price rises. Having the new frameworks in place ensures we have continuity of supply beyond October 2020. Further information on the importance of maintaining a forward purchase window can be found in **Appendix B**.

Gas and electricity market prices are highly volatile. Market price movements of more than 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. To spread market price risk, and to avoid buying during periods of peak market pricing, Government has advised that **"all public sector organisations adopt aggregated, flexible and risk-managed energy procurement"** as provided by LASER.

Of LASER's aggregated energy portfolio spend of **£450 million** per annum, the wholesale energy cost component represents approximately **£214 million** per annum. The difference is primarily made up of regulated network charges and environmental levies. The following table shows the annualised wholesale energy cost based on maximum market prices, average market prices and the LASER achieved prices for the period 2013-17.

Period	Annualised Wholesale Energy Costs		
	Maximum Market Prices	Average Market Prices	Achieved LASER Prices
Oct 2013 – Sep 2017	£256M	£214M	£204M

For Ashford BC's portfolio, LASER's achieved prices equate to avoided costs of **£107.5k** pa against maximum market prices and **£29.7k** pa against average market prices¹. The current flexible frameworks have therefore been very effective at managing the price risk associated with buying energy in highly volatile markets.

¹ All customer figures quoted in this Information Pack are based on approximate current usage volumes committed to flexible procurement under your contract, the current choice of Procurement Basket(s) you utilise and the framework performance for the past 4-years (irrespective of when your portfolio first joined the framework).

What are the benefits of the existing frameworks?

LASER's current flexible frameworks have achieved significant cost avoidance for Ashford BC:

Description	Avoided Cost £/pa for Ashford BC
Lower Supplier Management Fees - reduced fees from your gas and electricity suppliers compared to buying as a stand-alone customer. This has been shown to reduce delivered energy costs by ~4% pa.	£28,346
Shaping Benefits - Aggregating the volumes of multiple customers flattens the overall usage profile, allowing our traders to purchase more as baseload (24/7 energy) and less as peak-load (7am - 7pm energy, which is more expensive).	£3,946
Entire Market Pricing - When LASER submits a bid to buy a block of energy, our suppliers are compelled to put this bid into the open market. This means we receive the lowest price anyone in the entire market is prepared to offer, not just the price our own supplier will sell at.	£1,942
Flexibility of Trading - our large energy purchase volumes mean we can buy larger blocks of energy over the market, which come at a discount to buying smaller blocks of energy.	£748
Volume Tolerance - penalty clauses appear in most energy supply contracts when usage falls outside $\pm 10\%$ of a customer's contracted usage. LASER's volume tolerances apply at the aggregated customer level (rather than individual customer level). This minimises the risk of volume tolerance penalty charges being incurred. To date, no LASER customer has incurred a penalty charge for using more or less energy than predicted.	£329
LASER's track record in monitoring the market and buying at lower than average market prices. This calculation compares the prices achieved by LASER for the period Oct 13 - Sep 17 with the average market price (the average traded price of energy in the 2-years in advance of the supply start date). Savings are annualised.	£29,701
Transparency of pricing – LASER's flexible frameworks require the suppliers to give a full and transparent breakdown of all energy and non-energy cost components included in contract pricing prior to opening bills being issued. LASER then validates this breakdown, at customer account level, to ensure all cost components are correctly calculated. This typically reduces delivered energy prices by 0.75% per annum	£5,315

In total, LASER's flexible frameworks **have reduced Ashford BC's energy spend by £70.3k** per annum. Further information and additional benefits can be found in **Appendix C**. Benefits of LASER's service to support the frameworks can be found in **Appendix D**.

Tender outcomes and new framework benefits

An ‘Open Procedure’ procurement process, in accordance with public sector procurement regulations, has been utilised for the tender and award of Flexible Framework Agreements for the supply of Electricity and Gas for the period October 2020 – September 2024.

A total of nine suppliers submitted tenders. Npower (Electricity) and Total GP (Gas) received the highest assessed tender scores in Lot 1 (flexible supply of energy). Npower and Total GP are the incumbent framework providers for electricity and gas respectively. The full list of suppliers for Lot 2, Additional Services, is shown as follows:

Lot 2 – Additional Services	Electricity	Gas
Includes (but not limited to): <ul style="list-style-type: none"> Battery Storage Data Collection Demand Side Response Electric Vehicle Charging Energy Efficiency Metering Renewable Energy 	<ul style="list-style-type: none"> Connected Energy EDF Eon Npower Octopus Solar Advance Systems Stark Software Total GP 	<ul style="list-style-type: none"> Corona Eon Total GP Stark Software

A full list of Additional Services is included in Appendix E2. OJEU Notices have been published in respect of the Invitation to Tender and copies of these can be downloaded using the links provided Appendix E1. OJEU Award notices are being formalised as suppliers execute the contract framework documents.

The new frameworks retain all the features and benefits of the existing frameworks. There is also additional functionality and benefits introduced within the new frameworks, including:

Additional Framework Benefits

Lower Supplier Management Fees – Supplier management fees under the new frameworks are ~20% lower than the existing frameworks. Supplier management fees typically account for approximately 0.8% of delivered energy spend under LASER’s existing frameworks, but can be around 4% for a standalone customer contract.

Protection Against Supplier Failure – during 2018, ten 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. Also the 2020-24 frameworks contain a panel of suppliers which provides a ready OJEU 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).

Additional Framework Benefits

Cost Avoidance through Additional Services – LASER’s long-run energy price forecasts predict that electricity and gas prices will rise by 75% and 60% respectively over the next 10-years. Robust procurement strategies and contract management can protect against these price rises to a degree, but changing energy usage patterns (such as energy efficiency initiatives and investments in renewable electricity generation) are the only ways of materially reducing long-term costs. Figures from the Carbon Trust indicate that an ongoing effective energy management and efficiency programme can reduce energy usage by 10%, which would equate to cost avoidance of **£70.9k** per annum for your portfolio. LASER’s new frameworks contain a large range of energy efficiency hardware and support, renewable generation and Demand Side Response services. This will support your development and implementation of cost avoidance initiatives through reducing energy usage.

Power and Gas Purchase Agreements – the new frameworks contain enhanced provisions to purchase customer generated electricity (e.g. from a solar farm or waste-to-energy plant) or customer-produced gas (e.g. from a landfill waste site). As an indication, a 5MW solar farm would typically produce electricity worth between £220k-£260k per annum. This electricity can be sold through the frameworks to generate revenue or can be allocated to other sites within your portfolio (mitigating the need to buy electricity from the market).

Green Energy – renewable electricity and green gas can be purchased through the framework suppliers, with the premium for renewable electricity 30% lower than under the current framework. Renewable energy from a third party source, such as a separate supplier or generator, can also be purchased and supplied via the framework suppliers.

Additional Trading Strategies – the new frameworks permit LASER to vary or introduce new trading strategies during the term of the agreement without charge from the supplier. This flexibility is important as the needs of customers change and market conditions alter. Having this opportunity ensures that purchasing strategies remain fit for purpose for the duration of the agreement and can evolve with changing customer requirements.

Management Information – additional supplier reporting requirements have been included within the framework as a direct result of customer feedback on the Management Information that would support your organisation. In total, suppliers will need to report against 42 criteria across areas such as portfolio, queries, billing, readings, cost forecasting and debt.

Additional supplier Service Level Agreement requirements and enhanced KPIs – based on customer feedback, amendments have been made to the framework SLAs, KPIs and poor performance remedies (PPRs). This focuses on key areas such as billing accuracy and timeliness, resolution of queries, accuracy of portfolio maintenance and overall customer satisfaction. The new PPRs provide a route through which compensation can be sought against serious or consistent poor performance. LASER has recruited a new role of Contracts Manager with specific responsibility for maximising the benefits delivered to customers by our framework providers.

Additional Framework Benefits

More flexible Access to framework services – customers will sign an Access Agreement with LASER to utilise the framework and then Call Off contracts with suppliers for any services to be taken. This approach is more commonly understood by Procurement departments (compared to LASER’s current tripartite agreements) and provides flexibility to access services from multiple suppliers under the same framework.

Social Value Innovations – the frameworks require the suppliers to be more progressive in their approach to benefiting local communities through Social Value Innovations. Suppliers have provided information on a range of previous projects that have delivered value; socially, economically or environmentally. Examples include Apprenticeships, school programmes with access to environmental learning, promotion of electric vehicle schemes, skills and training opportunities, careers fair, free training material and self-development to support people with their employment moves or entry and community support.

Next Steps

We expect Kent County Council and each of the suppliers to sign the framework contracts from November 2018 onwards. LASER has prepared a framework User Guide providing key information to support you in joining the framework and how you can access the range of additional compliant energy services. In order to maximise the window for making future energy purchases, and best manage market price volatility, we recommend that we receive your commitment by **31 March 2019**. Should you be unable to commit to the framework by this date, commitment can be provided subsequently. However, please note that LASER cannot commence forward purchases on behalf of your portfolio of sites until commitment is received. **We would like to arrange a discussion with you regarding the process for ‘signing up’ to the new frameworks in order to understand your requirements and procurement process in order to understand your requirements and procurement process.**

Information Pack Executive Summary: Flexible Energy Frameworks 2020-24

LASER has now awarded the new flexible energy procurement frameworks, covering the period October 2020 to September 2024. These new and improved contracts will replace the current frameworks for the supply of gas and electricity when they end on 30 September 2020. Npower and Total Gas and Power have been successful in retaining the electricity and gas frameworks respectively. A further seven suppliers have also been added to the framework to provide access to a range of procurement-compliant energy services, such as battery storage, renewable energy and energy efficiency hardware. A summary of the main Additional Services and framework suppliers is shown below:

Lot 2 – Additional Services	Electricity	Gas
Includes (but not limited to): <ul style="list-style-type: none"> Battery Storage Data Collection Demand Side Response Electric Vehicle Charging Energy Efficiency Metering Renewable Energy 	<ul style="list-style-type: none"> Connected Energy EDF Eon Npower Octopus Solar Advance Systems Stark Software Total GP 	<ul style="list-style-type: none"> Corona Eon Total GP Stark Software

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Description	Avoided Cost £/pa
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Shaping Benefits - aggregating the volumes of multiple customers flattens the overall usage profile, allowing our traders to purchase at a lower price.	£3,946
Entire Market Pricing - when LASER submits a bid to buy a block of energy, our suppliers are compelled to put this bid into the open market. This means we receive the lowest price anyone in the entire market is prepared to offer.	£1,942
Flexibility of Trading - our large energy purchase volumes mean we can buy larger blocks of energy over the market, which come at a discount to buying smaller blocks of energy.	£748
Volume Tolerance - LASER's volume tolerances apply at the aggregated customer level (rather than individual customer level) minimising the risk of load variance penalties.	£329
LASER's purchasing performance - the prices achieved by LASER for the period Oct 13 - Sep 17 are lower than the average market prices over this period.	£29,701
Transparency of pricing – LASER validates supplier's flexible prices and corrects any errors prior to opening bills being issued for each pricing period.	£5,315

In total, LASER's flexible frameworks **have reduced Ashford BC's energy spend by £70.3k** per annum. The new frameworks retain all the features and benefits of the existing frameworks in addition to a number of key enhancements with the new framework:

- **Lower supplier management fees** – reduced supplier management fees compares to the current frameworks (~20% lower).
- **Additional protections against supplier failure** – the option to switch between suppliers on the framework in the event of a supplier going out of business or materially breaching the terms of the contract.
- **Power and Gas purchase agreements** – additional options to generate revenue or reduce costs through customer owned or third-party owned generators.
- **Additional green energy options** – reduced costs and more options around purchasing green energy from suppliers.
- **Additional trading strategies** – the ability for LASER to amend and introduce new trading strategies to meet bespoke customer requirements.
- **Additional management information requirements** – increased requirements on suppliers to provide meaningful management information to customers.
- **Additional supplier Service Level Agreement requirements and enhanced KPIs**
- **Enhanced social value requirements**

Next Steps

In order to maximise the window for making future energy purchases, and best manage market price volatility, we recommend that we receive your commitment to join the new frameworks by **31 March 2019**. Should you be unable to commit to the framework by this date, commitment can be provided subsequently. However, please note that LASER cannot commence forward purchases on behalf of your portfolio of sites until commitment is received. We would like to arrange a discussion with you regarding the process for 'signing up' to the new frameworks in order to understand your requirements and procurement process.