

WEST NORTHAMPTONSHIRE COUNCIL CABINET

11th July 2023

Cabinet Member for Finance: Councillor Malcom Longley

Report Title	Energy Procurement Risk Management Strategy 2024-28
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List of Approvers

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List of Appendices

None

1. Purpose of Report

- 1.1 To inform Cabinet of the success of the existing energy contracting approach across the Council and to seek approval for the approach outlined for securing new energy contracts covering the period October 2024 to September 2028 including undertaking a procurement and award of such contracts.

2. Executive Summary

- 1.2 The reports presents the current energy procurement risk management strategy for 2021-24 which was inherited by WNC from the predecessor councils, what has been achieved and proposes the next steps in renewing the strategy for 2024-28.

3. Recommendations

- 3.1 It is recommended that the Cabinet:
- 3.1.1 Approves the recommended energy procurement risk management strategy.
- 3.1.2 Agrees that a procurement process should be commenced.
- 3.1.3 Delegates the responsibility for the procurement of new energy contracts and delegates the responsibility for the award of contract to the Executive Director of Place in conjunction with the Portfolio holder for Assets.

4. Reason for Recommendations

- 4.1 To accord with the Council's procurement requirements.
- 4.2 The option proposed aligns most closely with Council's 2030 Net Zero target.
- 4.3 The recommended course of action is the most cost-effective.

5. Report Background

- 5.1 The Council is currently using the LASER framework for procuring electricity and gas for the period 2020-24. The existing arrangement i.e., LASER utilities contracts were inherited from the former predecessor councils. In June 2007, the former Northamptonshire County Council (NCC) adopted the fully managed Energy Procurement Service provided by Kent County Council through their LASER Energy Buying Group. The other predecessor councils were also contracting using LASER but had different contract arrangements. LASER was founded in 1989 with a vision to help the public sector achieve the energy cost reductions made possible by newly deregulated gas and electricity markets. LASER has been purchasing energy flexibly since 2008, acting on behalf of over 200 public sector bodies, with contracts worth over £500m of energy per annum.
- 5.2 In 2021, the Council made a decision to novate the LASER utilities contracts for the former NCC to West Northamptonshire Council and merge the remaining LASER utilities contracts for the former Daventry District Council, Northampton Borough Council and South Northamptonshire Council under the main West Northamptonshire Council contract.
- 5.3 In 2021, the Cabinet approved purchasing 100% renewable electricity and gas. This has been incorporated in the existing LASER utilities contract.

- 5.4 Purchasing through LASER is permitted under regulation 22 of the Public Contracts Regulations 2006 with LASER operating as a central purchasing body as defined in the regulations. This ensures that the process fully complies with the requirements of the law. LASER also provides an invoice validation and checking service to the Council alongside the procurement activity as part of its fully managed service. This service ensures that verified, correct, quality assured bills are paid. This saves the Council from having to employ staff to validate around 200 electricity and gas invoices per month.
- 5.5 LASER's flexible procurement model aggregates the energy volumes of all customers. LASER closely monitors energy market prices and drivers, purchasing the energy requirements in multiple blocks over a period of time, prior to the point of use.
- 5.6 To spread market price risk and to avoid buying during periods of peak market pricing, the Pan Government Energy Project, now part of Cabinet Office, recommended that "all Public Sector organisations adopt aggregated, flexible and risk managed energy procurement" as the best solution to cost reduction in a complex and volatile market. Gas and electricity market prices are highly volatile and price movements of more than 100% are not unprecedented. The recommendation is to use an approved body with the focus on managed aggregated contracts. LASER is one of those approved bodies. LASER has approximately 20% more customers than it did four years ago.
- 5.7 Flexible procurement contracts are aimed at smoothing future price fluctuations and spreading our risk by pooling our energy requirements. This has protected the Council during the last energy crisis as the secured prices were below the government's threshold for receiving their financial support. In addition, this approach can support the Council with securing further environmental benefits first by identifying opportunities to enhance sustainable energy supply and second to facilitate using energy produced from large solar electricity installations arranged by the Council.
- 5.8 LASER has concluded an 'Open Procedure' procurement process, in accordance with the Public Contracts Regulations of 2015 for the tender and award of flexible energy contracts for the period from October 2024 to September 2028. This permits a public body to access LASER's frameworks and services without the need to run a separate procurement process to do so. Cabinet approval is now being sought to continue that flexible approach and to enter into a new four year procurement contract with LASER.
- 5.9 The Energy Procurement Risk Management Strategy has a strong strategic fit with the Council's vision and the foundations for the transformation of services, so they are sustainable into the future.

6. Issues and Choices

- 6.1 For the contract period from October 2024, LASER will be offering a menu of options for their clients. These comprise procurement baskets, contract periods and service delivery options and are described below and the recommendations summarised in 7.1 with their financial implications.

6.2 Procurement baskets

6.2.1 Flexible Purchase in Advance (PIA)

In this option, LASER aggregates the energy volumes of all customers who utilise the PIA basket option. All volume is purchased in multiple trades in advance of each 12-month supply period. The sum of all trades is used to calculate the aggregate wholesale basket price, which is applied to all customers in the basket. All non-energy costs (such as network charges and environmental levies) are then added to arrive at the delivered price to apply on invoicing for the following 12-month supply period. This price is firm for the 12-month period.

Recommendation: This is the option used in our current frameworks and is the one being recommended.

6.2.2 Flexible Purchase within Period (PWP)

In this option LASER aggregates the energy volumes of all customers who utilise the PWP basket option. Ordinarily, a proportion of the required energy volume is progressively purchased prior to each six month supply period and the remainder is purchased within the supply period. LASER has the option, should market conditions be appropriate, to purchase all energy requirements in advance of the six month supply period.

A reference price will be set to apply on invoices for each six month supply period. The reference price is based on the cost of all energy purchased prior to the supply period (the 'closed volume') and LASER's forecast of costs to purchase the remaining energy within the supply period (the 'open volume'). At the end of each six month supply period, once all energy requirements have been purchased, reconciliation takes place between the reference price applied to invoices and the final (achieved) purchase price.

Recommendation: This option is not being recommended as it carries significant risk to the Council in the event of high fluctuations in energy prices. The former NBC and DDC had this arrangement in place and their prices were at least 50% higher than the prices for the former NCC and SNC which had the PIA arrangement. As presented under 5.2, the Council made a helpful decision by moving them under the PIA arrangement just before the most recent energy crisis, this has helped the Council with mitigating the energy budget pressures.

6.2.3 Flex Set and Reset (FSAR)

Flexible Set and Reset allows customers to purchase a proportion of the required volume prior to delivery for each 6 month supply period. The remainder is then purchased within this period. Budget limits are agreed in advance, with commodity purchases closed out if market prices move above the pre-set limits. This option facilitates the sell back of volume if the market falls by more than the pre-set triggers. A mechanism is then in place to buy back prior to the point of use.

Recommendation: This is the option not being recommended as it carries significant risk to the Council in the event of high fluctuations in energy prices.

6.3 Contract Period

6.3.1 Four-Year Commitment

A tripartite agreement is signed between WNC, Kent County Council and the utility supplier. This provides authority to LASER to purchase all our electricity and gas supplies for a four year period (to September 2028). This gives LASER the widest possible forward procurement window in which to secure advantageous prices.

Recommendation: This is the same arrangement currently operated with LASER and is being recommended for the new contract.

6.4 LASER Services

6.4.1 Procurement Only Service (POSO)

This option provides access to LASER's procurement professionals, robust UK compliant tendering and purchasing procedures, market and industry information and control of non-energy costs. However, this service does not include bill validation.

Recommendation: This is not recommended as the Council would have to invest in resources for bill validations.

6.4.2 Fully Managed Service (FM)

This service is provided at an additional charge and is the service option currently adopted by the Council across the portfolio. In addition to items in POSO (above) the FM option also provides:

- Invoice validation of all accounts received. This ensure that customers are not invoiced for any charges if a supplier invoice fails LASER's internal checking system. Also, LASER becomes the biller instead of the utility suppliers.
- Consolidated billing: a new consolidated billing process was delivered under the current contract and this arrangement should carry over to the new contract. This allows the Council to pay 132 invoices instead of 2,460 per year. Additionally, the billing data received from LASER incorporates Council's cost centres information which facilitates recharging utility costs to services. This allows, in addition to consolidated billing, to efficiently manage the billing payment process and recharges and free up resources time to focus on other activities.
- Query management and resolution with utility suppliers. LASER's Customer Relationship Management (CRM) team deal with all queries with the utility companies on behalf of the customer. This facilitates the management of the contract as there won't need to be a direct relationship with the two electricity and gas suppliers.
- Online account management – including access to billing history, consumption, meter readings upload and query progress

- Smart meters rollout programme: LASER's CRM team will work with the Council to deliver a smart meter rollout programme. This will provide actual consumption data for billing purposes and result in minimal use of estimated billing and will prevent allocating resources to manually read the electricity and gas meters.

Recommendation: This is the same arrangement currently operated with LASER and is being recommended for the new contract.

6.5 Other providers

6.5.1 There are other public sector buying organisations (e.g. ESPO, CCS, YPO, etc.) who would satisfy the procurement regulation compliance requirements. However, very few of them offer access to multiple utility suppliers or the same range of managed services that LASER provide, and which were presented under the FM service or at the same level. As all of the buying organisations are procuring in the same wholesale market, using very similar strategies, any potential savings in commodity costs are likely to be negligible. The direct and indirect costs of changing procurement body for over 260 different supply points cannot be underestimated with the possible risk to service quality, account management and billing reliability.

6.5.2 Additionally, WNC has inherited a contract with ESPO for two street lighting supplies. This has allowed to benchmark the delivered electricity unit price (i.e., excluding renewable energy premium, Climate Change Levy (CCL), standing charges and contractor fees). The delivered unit rates for the largest street lighting unmetered supply we have under LASER is on average 1.5% cheaper than ESPO. Additionally, we have another six street lighting unmetered supplies with LASER and their delivered unit rates are cheaper by 20% than ESPO.

6.5.3 Finally, LASER secured utility prices are below market average. In fact, and as explained under 5.7, during the most recent energy crisis the Council did not receive any Government support towards electricity as the LASER secured price was below Government's support threshold. This was not the case for the two supplies under the ESPO contract which further demonstrates that the secured prices are higher than LASER prices. For gas, the Council received minimal support as LASER's gas secured prices were close to the government's support threshold.

6.6 The Council procures its own energy supply

6.6.1 Due to the size and scale of the Council's portfolio, this approach is not a viable consideration. It would require significant investment in staffing and systems. The prices received would be likely to be materially higher than using LASER or any large buying group.

6.7 Do Nothing

6.7.1 This is not a viable option as this would not comply with the Council's requirements for Procurement. Additional costs would arise as any supplies not part of an agreed contract would be liable to 'out of contract' penalty rates. Moreover, there will be high uncertainty around utilities costs as their prices are directly affected by market volatility.

7. Implications (including financial implications)

7.1 Resources and Financial

7.1.1 The recommended approach is to enter into a new four-year contract on a purchase in advance model, with fully managed services. This reflects the current successful arrangement.

7.1.2 The current framework with LASER is currently delivering cost avoidance in procurement of energy worth £1.878m, as shown in Table 1.

Table 1: LASER cost avoidance

Description	Avoided cost £k pa
LASER’s purchasing performance – the prices achieved by LASER since the commencement of the framework are lower than the average market prices over the period.	1,666
Lower supplier management fees – reduced fees from your gas and electricity suppliers compared to buying as a standalone customer.	158
Shaping benefits – aggregating the volumes of multiple customers flattens the overall usage profile, allowing our traders to purchase at a lower price.	14
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.	7
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.	2
Volume tolerance – LASER’s volume tolerances apply at the aggregated customer level (rather than individual customer level) minimising the risk of load variance penalties. As an example, no penalties were incurred for reduced usage during Covid.	1
Transparency of pricing – LASER validates supplier’s flexible prices and corrects any errors prior to opening bills being issued for each pricing period	30
Total	1,878

7.1.3 Contract Value

Following the recent utilities inflation, the existing energy contract has an approximate average annual value of £6.5m throughout the contract period (October 2021 to September 2024). The proposed new four-year frameworks (October 2024 to September 2028) will have an average annual value of around £6.0m (this excludes inflation, changes to the portfolio of buildings, and additional local solar generation, and is based on forecasted prices for October 2023). This is shown in Table 2.

Table 2: Likely overall contract values

Sector	£m			
	Electricity pa	Gas pa	Annual value	Potential four-year value

Council's building portfolio	3.182	2.013	5.195	20.780
Street lighting & traffic signals	0.905	-	0.905	3.620
Totals	4.087	2.013	6.100	24.400

The potential contract value includes green energy premiums and LASER fees. The fees we currently pay are detailed in the Table 3. The LASER fees are not expected to change for the new contract covering October 2024 – September 2028.

Table 3: Expected LASER fees

Commodity	Meter Type	Basket	Service Level	No of Supplies	Recovery	Green or Conventional	Total LASER Fees, £
Gas		PIA	FM	81	187.26	Green	15,168
Electricity	HH	PIA	FM	34	965.84	Green	32,839
Electricity	NHH	PIA	FM	50	157.02	Green	7,851
Electricity	NHH Q	PIA	FM	94	198.4	Green	18,650
Electricity	UMS	PIA	FM	11	166.24	Green	1,829
Total annual fees							76,336

7.1.4 The Council's electricity and gas budget for 2023/24 is around £4.6m for properties and £2.5m for street lighting and traffic signals. The total energy spend is thus around £7.1m per annum. The energy consumption for street lighting and traffic signals is set to decrease following the phased implementation of the LED replacement programme which is due to be completed by 2026. The energy budget is set every year and is based on the LASER secured prices for the 12 months ahead. As an example, in October 2023, the Council will receive the energy secured prices (fixed) for October 2023 to September 2024, and a forecasted price for October 2024 to March 25 based on the volumes of energy procured for the period. These prices are used to set the energy budget for financial year 2024/25.

7.1.5 Forecasting Inflation

Energy prices are affected by two main external factors: government policy and market forces. However, LASER have moved from providing long range forecasting as due to market volatility this is proving very difficult to forecast with any accuracy beyond a one to two year buying window. Additionally, LASER has also only just started purchasing for customers who have committed to the 2024 to 2028 Framework within the last few months and are still building up the amount purchased and as such would not be able to forecast for this period with any accuracy as this will change as additional customers commit.

7.2 Legal

7.2.1 Once procurement is finalised, the Council will need to sign a framework access agreement and two call-off contracts; one for electricity and one for gas.

7.3 Risk

- 7.3.1 The main risk associated with the proposal is that there is a reduction in contracted volumes from changes to the portfolio, and renewable energy and energy efficiency schemes coming on line. This risk would be mitigated by the contract allowing flexibility on volumes. The Council would need to share their high level project plan with LASER so that it amends its procurement strategy and volumes accordingly.
- 7.3.2 The risks associated with not undertaking the proposal are set out in the 'do nothing' option. Essentially the Council would be exposed to higher and volatile pricing.

7.4 Consultation and Communications

- 7.4.1 No specific consultation has been undertaken or is required. The Council would be able to communicate that it has continued to buy energy at the best prices reasonably obtainable, whilst verifying bills, and supporting transition to green energy.

7.5 Consideration by Overview and Scrutiny

- 7.5.1 None.

7.6 Climate Impact

- 7.6.1 In light of the Cabinet's decision in 2021 for purchasing 100% green electricity and gas to decrease Council's accounted carbon emissions. This has been incorporated in this procurement strategy and would mean the Council would nominally have zero carbon emissions from its property, street lighting, and traffic signal assets under the LASER contract. Of course, in practice the electricity and gas received reflect the normal UK mix of supplies, but the arrangement provides support for delivering renewable energy and thus further 'greening' the UK grids.
- 7.6.2 Additionally, the flexible procurement strategy will allow the Council to increase reliance on energy produced by its own renewable energy infrastructure once it becomes live and decrease reliance on grid energy. LASER provides a procurement service known as sleeved PPA (Power Purchase Agreement) that will allow the transport of energy from the Council's or partner's renewable energy parks to Council's assets.

7.7 Community Impact

- 7.7.1 There are no direct community impacts.

8. Background Papers

- 8.1 None