

PLYMOUTH CITY COUNCIL

Subject: Energy Procurement
Committee: Cabinet
Date: 16 February 2016
Cabinet Member: Councillor Lowry
CMT Member: Andrew Hardingham (Assistant Director for Finance)
Author: Chris Trevitt (Head of Partnerships & Operations) and Howard Goffin (Strategic Category Manager)
Contact details Tel: 01752 305441. email: chris.trevitt@plymouth.gov.uk
Tel: 01752 307823. email: howard.goffin@plymouth.gov.uk
Ref: Your ref.
Key Decision: Yes
Part: I

Purpose of the report:

This report outlines the council's current energy procurement and the options for future provision.

The council has procured its energy for its corporate estate via a Public Buying Agreement (Laser Energy Buying Group - Kent County Council) since 2012. The current agreement expires in October 2016 and new arrangements need to be in place by then.

The paper reviews the performance of the current agreement and the options for its replacement.

The Brilliant Co-operative Council Corporate Plan 2013/14 -2016/17:

Pioneering Plymouth

Energy is one of the Council's larger spends and therefore its procurement must be as efficient and flexible as possible. The current arrangements have been made available to schools within the city thus benefiting both the Council and schools in greater purchasing power.

The recommended option seeks to increase the flexibility of the procurement to ensure the Council is well placed to take advantage of any opportunities that fluctuations in the energy market provide whilst still committing to levels of spend that protect from adverse market conditions.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

The proposed option seeks to contain future expenditure within existing energy budgets. The greater flexibility proposed gives the Council the opportunity to reduce spend below the budget allowance dependent upon market conditions and the Council's appetite for risk around energy procurement.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

- Risk Management; There can be elements of volatility within energy markets which if no long term agreements are in place could leave the council exposed to supply and price instability. However recent years have proved to be more stable and this has offered opportunities for a greater risk appetite to deliver significant savings provided a flexible approach to procurement within a long term agreement is taken.
-

Equality and Diversity

Has an Equality Impact Assessment been undertaken? Yes

Recommendations and Reasons for recommended action:

To endorse the recommendation to award a four year contract to Laser Buying Group (a wholly owned business of Kent County Council) to buy the Council's energy (Gas & Electricity) under the published frameworks for the Flexible Procurement and Supply of Electricity for Non-Half Hourly Metered, Half Hourly Metered and Unmetered Supplies and for Gas to Daily Metered and Non Daily Metered sites (OJEU ref: 2014/S 222-392271 and 2014/S 222-392187 respectively).

This option is recommended to generate the highest cost/benefit return by allowing hedging of the Authority's energy requirements to protect it from a strongly fluctuating market conditions throughout the duration of the contract, whilst ensuring the benefits of risk management at a lower cost than a Bureau managed service.

The proposed approach can be implemented through the corporate landlord initiative, using existing staff and systems capacity, with additional flexibility afforded by the Laser offer.

Alternative options considered and rejected:

Other Options considered included:

- Full OJEU procurement exercise – this was deemed very expensive and time consuming and has recently been undertaken by a neighbouring authority that awarded the contract to Laser.
 - Don't renew contract – This is not an option as would result in out of contract rates being applied to gas and electricity supplies which are much higher than in contract rates, this poses a risk to the council.
 - Plymouth Energy Community (PEC) – the option was explored to possibly join a community energy project or work in collaboration with PEC – no such projects are available and PEC are not energy buyers so are unable to offer the services that PCC require.
-

Published work / information:

N/A

Background papers:

Title	Part I	Part II	Exemption Paragraph Number							
			1	2	3	4	5	6	7	

Sign off:

Fin	djn15 16.64	Leg	2480 3/MS	Mon Off	DVS 2490 4	HR	N/A	Assets	JW0056 03/02/1 6	IT	N/A	Strat Proc	MC/CS/ 421/CP /0216
Originating SMT Member													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

I. Executive Summary

This paper outlines the council's current energy procurement and the options for future provision.

The council has procured its energy for its corporate estate via a Public Buying Agreement (Laser Energy Buying Group - Kent County Council) since 2012. Schools are given the opportunity to take advantage of the agreement and many do which helps with the council's overall requirement via greater economies of scale. The current agreement expires in October 2016 and new arrangements need to be in place by then. The proposal is that Plymouth City Council extends its current energy contract with Laser for another 4 year framework period.

Corporate Landlord

The proposals are integrated with the corporate landlord initiative that introduced a centralisation of all utility management into a single category under the control of a category manager reporting to the Facilities Manager (Hard Services). This approach maximises the Council's potential to mitigate energy cost increases, rationalises and verifies the corporate utility requirements and coordinates utility savings initiatives.

Current Utilities Spend

In 2014/15 the Council and its schools spent in excess of £ 4.7 million on utilities. Electricity and Gas markets are extremely volatile, sensitive to structural, economic and political influences. The European Commission predicts that European businesses and consumers face at least 20 years of electricity price rises as a result of the cost of infrastructure improvements and the impact of green taxes.

Water and sewage markets are quasi monopolies regulated by OFWAT. Water prices in the South West are the most expensive in the Country although water de-regulation in 2017 will offer scope and opportunity for savings on water and sewerage charges. Options around this are being reviewed and will be brought forward for consideration at a later date.

Current contracts

Current contracting arrangements include the Council's corporate hedging contract via the laser agreement for Gas and Electricity (including street lighting) since 2012. Water is dealt with on a site by site basis and currently only have one option of a single supplier (South West Water).

Electricity & Gas

This proposal recommends continuing to procure the Council's and Schools' energy requirements through a hedged Public Buying Organisation (PBO) portfolio. Comparisons of external benchmarking reveals current cost savings when comparing the unit cost per kwh paid through laser compared to the market average price.

Risk of not achieving savings

The utility markets are volatile and any savings / cost avoidance projections of this proposal carry a large degree of inherent uncertainty. Savings projected from historical bill and site verification are also based on estimates and are therefore uncertain.

However, the initial proposal in this business case forms part of a coordinated and best practice approach to the procurement and management of utilities. The proposals require no additional capital investment and have been costed using existing staff only.

2. Background

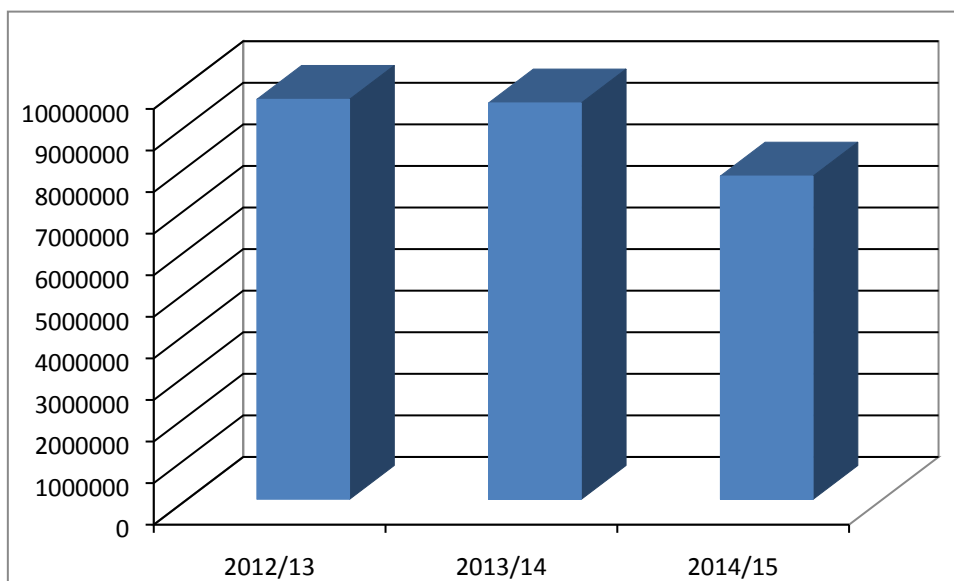
2.1. Current Utility Spend

In 2014/15, Plymouth City Council and its schools spent in excess of £4.7 Million on utilities.

Utility	Corporate Spend £ (metered)	Corporate Spend £ (unmetered streetlighting)	Total £
Electricity	2,325,674	1,638,662	3,964,336
Gas	771,907		771,907
TOTAL by Business	3,097,581	1,638,662	4,736,243

Table 1: Current Utility Spend

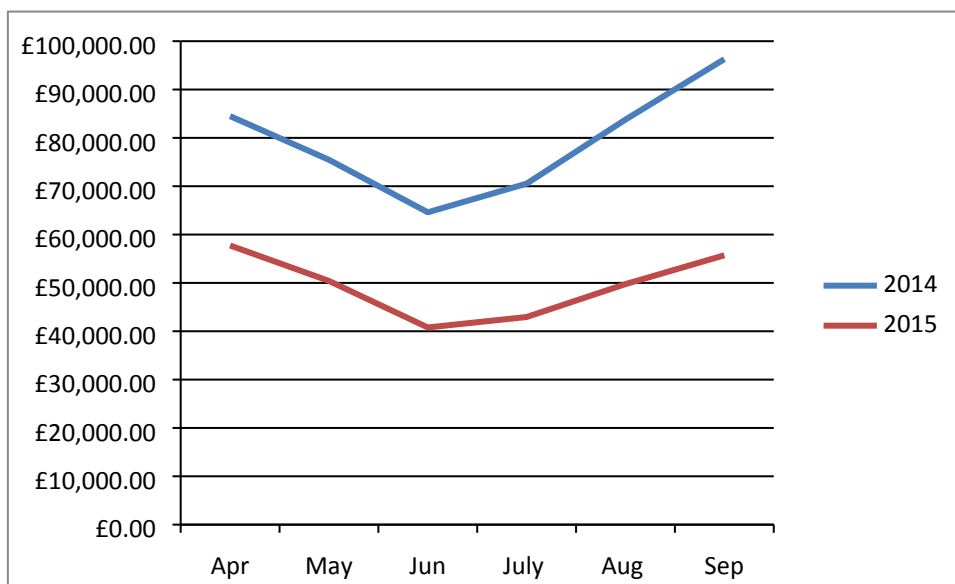
Graph 1: PCC Corporate electricity spend 2012/13 to 2014/15



The Graph above shows the electricity spend for the past three years whilst PCC have been procuring through the laser flexible contract. The data refers to only PCC corporate sites and

excludes schools, street lighting and the Life Centre. The anticipated spend for 2015/16 is expected to reduce further.

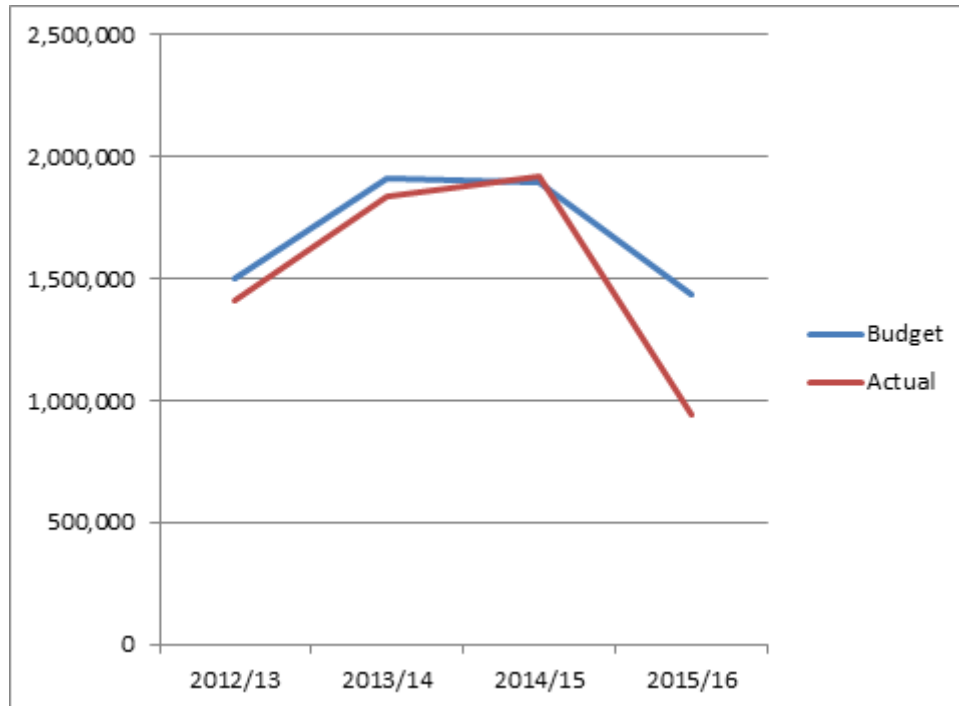
Graph 2: Streetlighting costs 2014 Vs 2015



The graph above shows the reduction in streetlighting between April and September of 2015 compared with the same period in 2014. There is a sizeable decrease due to the LED replacement programme taking place, as well as Laser buying the energy when prices have been favourable. This reduction will increase as the installation of LED streetlighting completes.

The energy purchased for metered supplies over the period of the Laser agreement since 2012 has consistently delivered savings against available budget for energy. The graph below shows the actual spend against budgeted spend, allowing the savings generated to be used to improve the council's overall budgetary position.

Graph 3: Total Gas and Electricity budget vs costs 2012- 2015



2.2. Current Utilities Supplier arrangements

Electricity: Plymouth uses a Hedge buying contract via a Public Buying Organisation (Laser Energy Buying Group - Kent County Council) this supplies all PCC corporate sites, street lighting and a large number of schools. The supplier is procured by Laser via an OJEU process.

Gas: Gas is purchased under the same hedge buying contract with the Laser group.

2.3. Current Utilities Management

Since the introduction of the Corporate Landlord approach in 2012 and the implementation of centralised utility management and procurement, savings have been identified across the organisation. Under this approach the Sustainability Energy Officer's post along with additional resources within the corporate property team absorb the additional utility management duties.

2.4. Energy Markets

The utility market which forms the primary focus of this business case is the Energy Market (Gas and Electricity).

Energy procurement is primarily concerned with the management of risk. Generators, Wholesalers and Buying Organisations aggregate demand for electricity and gas thus gaining access to the world's wholesale markets for energy. However unlike other markets, once wholesale access is obtained, the size of procurement has only a marginal influence on the final cost. Prices are affected by political, economic and structural components such as national and international generating and storage capacity, world energy demand, world political situations, availability of oil supplies, the price of crude oil etc. The market for energy is extremely volatile, responding not only to those factors but also providing opportunities for commodities traders.

2.5. Benchmarking Plymouth City Council Performance

Comparing the prices paid by Plymouth City Council for Electricity and Gas in Quarter 2 of 2015 through the laser hedge buying contract, it is apparent that the Council pays below the average non-domestic customer rates. Some of the price difference can be attributed to differing demand profiles and demand sizes, whilst a large proportion is down to Lasers' ability to analyse the market and buy when prices have been low. If PCC had bought the same volume of gas and electricity at average non domestic rates last year it would have cost the authority an additional £1.08m.

	PCC average price Q2 2015	Average Non Domestic customers UK Q2 2015	Cost saving (difference per kWh)	Cost avoidance per annum based on PCC total consumption
Gas	2.398 pence/kWh	4.511 pence/kWh	2.113 pence/kWh	£545,518
Electricity	8.661 pence/kWh	10.820 pence/kWh	2.159 pence/kWh	£534,497

Table 2: Q2 average non domestic vs PCC unit prices

3. Project Categorisation

Supporting the efficient procurement and management of utilities aligns with the Council's strategic priorities and other initiatives and policies such as:

Council Priorities: This business plan supports the Council's Value for Communities priority to reduce Plymouth per capita and public sector CO₂ emissions. It also addresses 'Customer satisfaction with the Council offering vfm' under the same outcome measure.

Corporate Landlord Initiative: As of the 1st April 2012 the Corporate Property service has been responsible for the management of budgets for utilities of all corporate properties. Effective procurement and management of these will directly benefit this initiative.

Carbon Management Plan (CMP): Planned actions in the CMP aimed to reduce the Council's carbon footprint by 20% by 2015 from 2010 levels. The majority of carbon emissions are made up from electricity and gas consumed as part of Council operations. These targets have been achieved in 2014 and moving forward additional projects will be implemented to further reduce emissions and achieve further cost savings on utility spend.

Carbon Commitment Energy Efficiency Scheme (CRC): PCC has now fallen out of scope for the CRC Scheme, but should the parameters change it would be a potential risk to the Council through the financial, legal and reputational risks it represents. Improved energy management and obtaining the most competitive energy prices, will better equip the council to deal with any financial obligation that would arise from CRC taxes.

4. Costs and Benefits

The table below shows the total costs of hedging through Laser, the current years cost is £29,619.37. If the council remains with its current basket options and with a similar level of usage then recovery costs are only subject to CPI, with the current level at 0%. there would be no price increase. Below is a table assuming worst case scenario of assuming 3% inflation on each year's prices.

£	2017 (Year 1)	2018 (Year 2)	2019 (Year 3)	2020 (Year 4)	Total
Hedging Cost*	£ 30,507	£ 31,423	£ 32,365	£ 33,336	£ 127,633

* assuming a 3% inflation year on year

Table 3: Costs and Benefits

Utility budgets for electricity and gas (both schools and corporate) will absorb these charges which are added to individual utility bills. Any actual improvement in purchase price per unit w It should be noted that these prices have reduced and are lower compared to what has been paid in previous years

5. Summary Appraisal of Options

5.1 Do not renew the existing contract

This do nothing option is not an option. There is no option to allow the current framework agreement to roll over. If an arrangement is not made we will continue to be supplied with both gas and electric on out of contract rates these are commonly 50% more than standard tariffs and attract higher standing charges.

5.2. OJEU Procurement

Completing a full OJEU procurement process is a very costly and time consuming process. Neighbouring authorities with a larger energy spend than PCC have just completed such an exercise within the past six months and identified Laser as the best provider for a flexible energy procurement contract. As such this option is not deemed to be the most suitable.

5.3. Plymouth Energy Community (PEC)

Plymouth Energy Community is an independent community benefit society which provides services to help people in fuel poverty and enables community ownership of local solar installations. Plymouth Energy Community does not buy energy, wholesale or otherwise, and does not provide energy buying services. Therefore this is not an alternative option for PCC.

5.4 Framework Providers

Utilising national frameworks that are available to PCC to use saves a lot of time and resource during the procurement stage and as can be seen from item 5.2 provide a competitive alternative. The frameworks themselves utilise a full OJEU procurement process to engage their energy suppliers, which as can be seen from item 2.5, result in lower energy costs than the open market due to the size of their procurement. This outweighs the cost of framework operator, as per item 4.

Therefore utilising a framework agreement is the recommended option for PCC.

6. Choice of framework provider

6.1 Evaluation of Framework Providers

A review of alternative framework providers including Crown Commercial Services (CCS), Yorkshire Buying Organisation (YBO), The Energy Consortium (TEC) and Eastern Shires Purchasing Organisation (ESPO) was undertaken (Appendix I). A series of questions were posed and responses weighted to produce a performance scorecard (please see below). CCS were the only other organisation which was deemed to be of sufficient size for PCC to benefit from large scale purchasing. They have been deemed an unsuitable alternative due to their existing framework expiring prior to PCCs current contract with Laser and any future framework with CCS has still not been officially advertised. On further inspection their website details that work is still on-going to prepare this, CCS has a larger customer base but has fewer local authority customers than Laser.

Supplier Rankings

Questions	CCS	Laser	TEC	YBO	ESPO
No of other local Authorities utilising the energy frameworks	4	5	1	2	3
Volume of Gas bought on behalf of total customer portfolio	5	4	2	3	1
Volume of Electricity bought on behalf of customer portfolio	5	4	3	2	1
Total Value of utilities (Gas and Electricity) bought during 2014/15	5	4	3	2	1
Basket options for buying gas for example purchase in advance (PIA) purchase within period (PWP)	4	5	3	3	3
Basket options for buying electricity for example (PIA) or (PWP)	4	5	3	3	3
WEIGHTED TOTALS	87%	93%	48%	51%	46%

For full weighted scoring as well as rankings please see Appendix I.

Therefore from the above Laser would be the recommended framework provider.

However there are a number of additional options that the revised Laser agreement offers the and these are summarised below.

6.2 Options under the new arrangement with Laser

Hedging applies the benefits of risk management to the procurement of energy. Purchases are made when market conditions appear favourable; options are sold when they are not.

Public Buying Organisations aggregate demand from participating local and central government organisations, which was initiated in 2007 by the Pan-Government Energy Project as part of the HM Treasury transforming Government Procurement (TGP) initiative. TGP introduced contracting strategies for electricity and gas that adopt best practice in energy purchasing.

Total cost of hedging based on our volume of supply and number of sites is £29,619.37 in 2015/2016. Costs of hedging in future years are outlined later on in this paper, section 4.

Under any new agreement with Laser there are a number of hedging strategies available: (a) Purchase In Advance (PIA) and (b) Purchase within Period (PWP) (c) Flex Set and Reset (d) Purchase Day ahead as follows:

(a) Purchase in Advance

This refers to purchasing all requirements prior to the start of the supply period. This approach ensures that PCC would have a fixed price at the beginning of the supply period with no reconciliations. The PIA approach is used already on the current PCC' street lighting contract and various schools as it allows for budget setting accuracy.

(b) Purchase Within Period

This refers to purchasing a percentage of the supply very close to the actual date of use, sometimes just a day ahead. PWP gives energy buyers more flexibility to monitor market developments. This can lead to lower prices and increased efficiency. However as the energy is not priced for the whole supply period, there will be fluctuations in energy cost throughout the financial year. Frequent reconciliations and re-pricing will make budget accuracy difficult to achieve and a fund for additional charges needs to be made available.

The Efficiency and Reform Group (ERG) within the Cabinet Office has verified the savings achieved by PBO's using PIA and PWP hedging strategies. PIA products outperformed the average market price by 7% and its PWP products by 20% The PWP strategies show a significant commercial advantage.

PWP is the current basket option adopted by all PCC corporate properties and due to the flexibility in buying close to the date of use, discounts have been made by the buying organisation which are then passed on to users who have opted for this option. Due to the late nature of the energy purchase this leads to reconciliations against initial billed cost, below is a table showing the reconciliation totals over the past two years, the council have received a total credit of £242,667.81 for electricity and £33,777.27 for gas in the 2 year period April 13- March 15. This is partly down to the general down turn in energy prices, but also Lasers ability to use their expertise to buy when the markets are most favourable.

Supply Period	Gas Reconciliation (Gross)	Electricity Reconciliation (Gross)
Oct 14 – Mar 15	-£18,701.13	-£87,549.51
Apr 14 – Sep 14	-£4,399.10	-£56,335.76
Oct 13 – Mar 14	-£5,749.65	-£39,794.69
Apr 13 – Sep 13	-£4,927.39	-£58,987.85

Lasers' latest analysis shows the markets are continuing to perform well and have an approximate forecast of 0.10p/kWh credit for gas and 0.34p/kWh credit for electricity. An additional reconciliation payment of £37,029.21 for electricity has been confirmed for electricity and is due at the beginning of January 2016.

(c) Flex set and Reset (FSAR)

Purchases are made in advance and within the supply period, with purchases being made based on price triggers predetermined by Laser.

The resale of a completed energy purchase is permitted if the market moves below pre-set triggers. Sold volumes will be bought back prior to delivery. For those organisations with more of a risk appetite as there is opportunity for bigger savings. An option PCC will investigate further.

(d) Purchase Day Ahead

Purchases are made in advance and within the supply period. Up to 100% of energy requirements can be made on the day ahead markets. Typically 70% bought PVP with the remaining 30% bought on the day ahead market. Best suited for customers and sites that can curtail their energy usage at short notice. So not deemed suitable for PCC.

It is recommended that the Council spread its risk across options (b) and (c) above with precise detail worked through by the PCC contract manager within the finance department with the Laser account manager during the contract to suit market conditions.

7. Recommended option

It is recommended that Cabinet endorse the recommendation to award a 4 year contract to Laser Buying Group (a wholly owned business of Kent County Council) to buy the Council's energy (Gas & Electricity).