

Date: 04 November 2019

Report Title: Review of Gas and Electricity Supply Contract and Future Contracting Options

Supporting Officer Contact Details: Lawrence Brown, Procurement Category Lead, Extn. 8977,

Email Lawrence.brown@torbay.gov.uk

1. Proposal and Introduction

1.1. Purpose

To review the current energy contract with Laser Energy Group which ends on the 30th September 2020. Investigate other procurement options and the procurement route going forward, to ensure VFM and continuity of supply from 01st October 2020.

1.2. Key Messages

To sign up to the further 4 year contract with Laser Energy Group for the supply of gas & electricity.

- Laser have carried out an OJEU compliant procurement process to establish a supplier to deliver the service. This allows for a direct award of contract;
- Laser will purchase gas and electricity direct from the energy markets avoiding additional supply chain costs;
- The Laser contract overall volume allows for a more flexible energy purchasing strategy compared to purchasing direct from the energy markets;
- The contract will be a collaboration of local Devon authorities so that aggregated volumes can be used to the maximum to achieve value for money (VFM);
- Laser have offered additional cost savings for each Council that joins the new framework and if all current bodies join the framework a further saving. This is detailed in Appendix 2.
- Flexibility of trading – Laser purchase large volumes blocks over the market and have a large dedicated team, to manage the purchase and supply of gas and electricity.

2. Reason for Proposal

2.1. Background

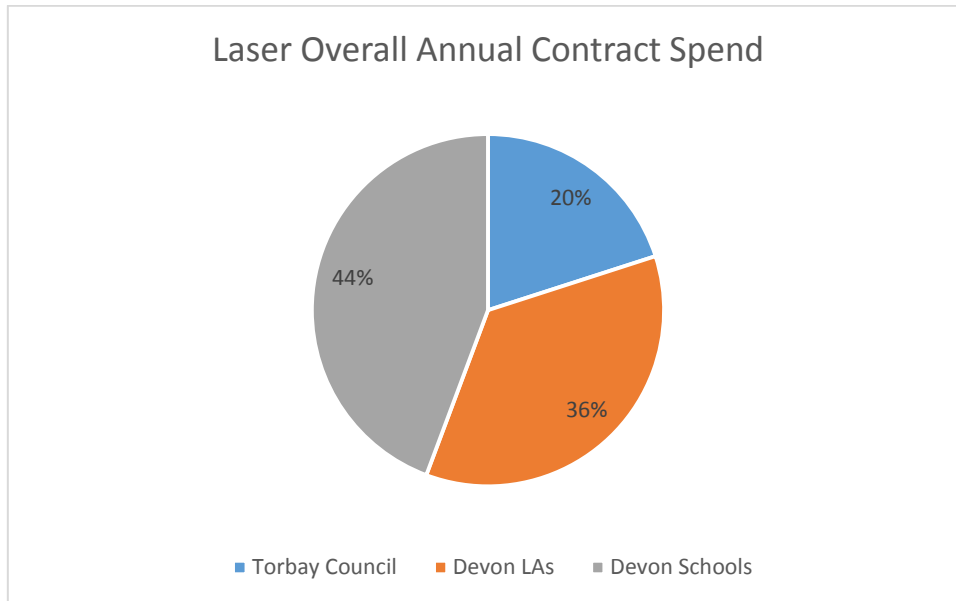
The current contract is for the supply of metered gas and HH & NHH electricity supplies for the Torbay Council corporate estate, single or multiple meter points. These are billed in their own right to service budget holders within the Authority.

HH (Half-Hourly) and NHH (Non-Half Hourly) electricity supplies. HH supplies will relate to the large premises within the Torbay Council corporate estate such as the Town Hall and will produce half hourly data for consumption. NHH being the lower consuming sites, usually under 100kVA using standard meters which are read manually or may feature Automated Meter Reading (AMR) technology. Gas is billed using consumption only, similar to the NHH electricity supplies.

Since April 2016, Torbay Council has procured its energy through Laser Energy Group Kent County Council - who are a specialist trading arm within the Council dedicated to delivering gas, electricity

and other utility services for the public sector. They are an established Public Buying Organisation (PBO), set up for this very purpose and recognised nationally. Since April 2018 the Council's street lighting and signs energy provision has been met through this contract.

Devon Group Spend broken down to Torbay Council, other Devon authorities (including districts) and Devon-wide schools.

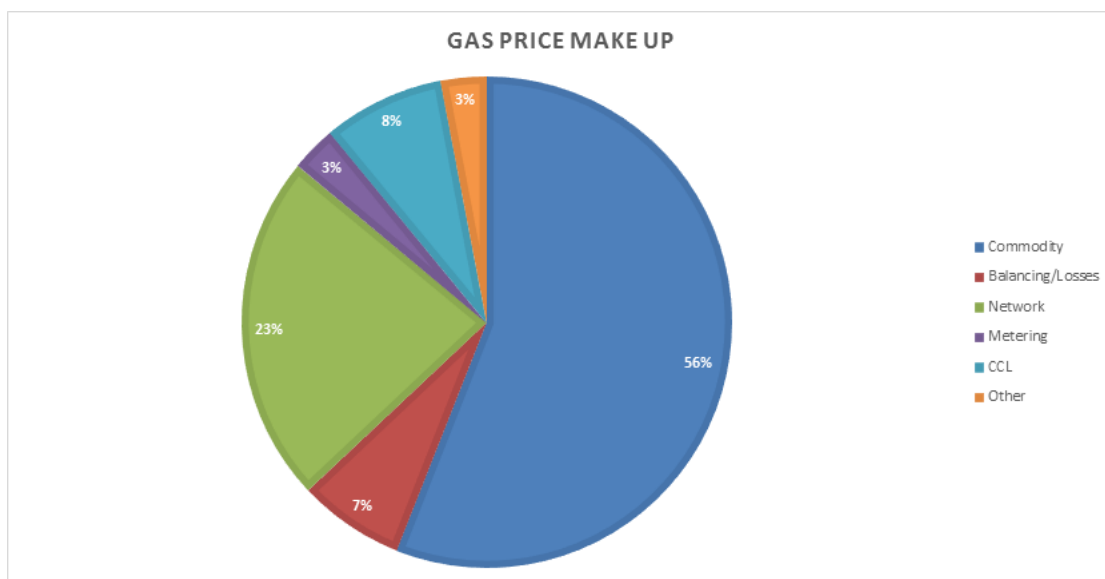
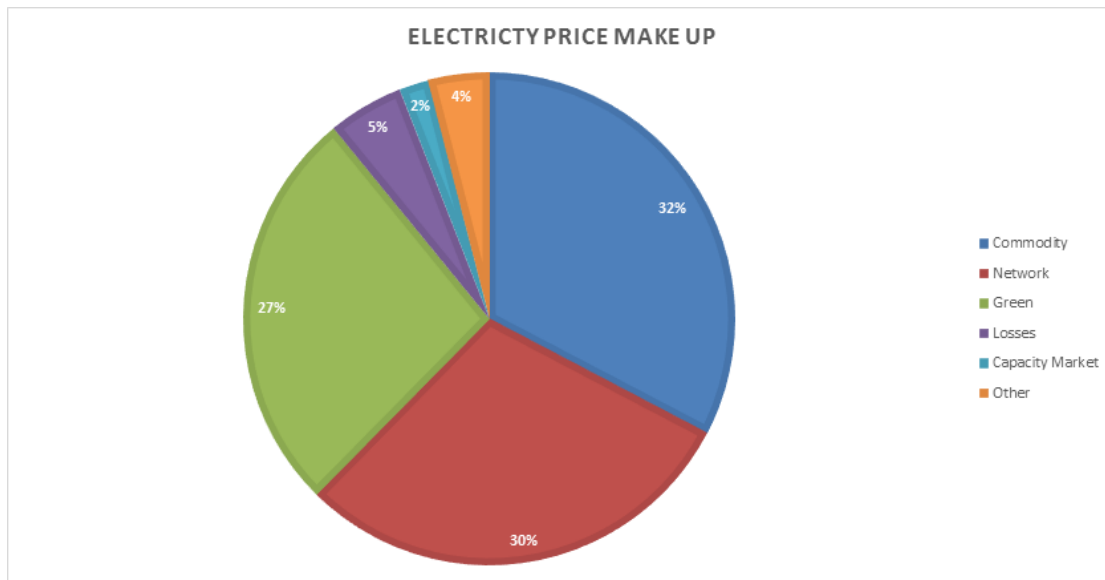


Torbay Council's spend for gas and electricity is approximately £1,582,681.00 per annum.

Torbay Council – Value of Contract				
	HH	NHH	Gas	Total
Oct 16 to Sept 17		£ 1,013,120	£ 259,564	£ 1,272,684
Oct 17 to Sept 18		£ 1,285,250	£ 297,038	£ 1,582,288
Oct 18 to Aug 19 (11ms)		£ 1,573,692	£ 319,381	£ 1,893,073
Overall Total		£ 3,872,062	£ 875,983	£ 4,748,045

Torbay Council – Volume of contract and number of supplies						
	HH volume k/wh	HH no of meters	NHH volume k/wh	NHH no of meters	Gas volume k/wh	Gas no of meters
Oct 16 to Sept 17			8,281,638		9,516,731	
Oct 17 to Sept 18			10,155,524		10,813,771	
Oct 18 to Aug 19 (11ms)			11,325,866		9,987,849	
Overall Total			29,763,028	220	30,318,351	110
OVERALL TOTAL VOLUME: 60,081,379						

There are a number of elements that make up the billable rates for both gas and electricity. Detailed below are the percentage splits as a guide. They will vary according to oil prices although in recent years pass through costs (government levies) have increased significantly. The green levy for electricity as an example has increase significantly and now forms around 27% of a billable rate.



Source Laser Energy

Laser purchase Torbay Council's electricity requirements in advance of a year, 1st October to 30th September, for the following energy supply year. This provides some budget certainty although weather can also have a big impact on the volume used in a year. Torbay Council's energy volume is aggregated with other authority's energy requirements and purchased a number of years in advance to give an average market price. Using this model, Laser delivers below average wholesale electricity prices, this is detailed in the table below for both gas & electricity.

Power – 250 day benchmark				
	Period	Achieved Price	Market Average	% Difference
Purchase In Period (PIA)	Oct 16 to Sept 17	39.65	39.23	1.07%
	Oct 17 to Sept 18	41.44	44.46	-6.79%
	Oct 18 to Sept 19	46.11	52.04	-11.39%
	Oct 19 to Sept 20*	48.62	57.05	-14.77%
Average %				-7.97%

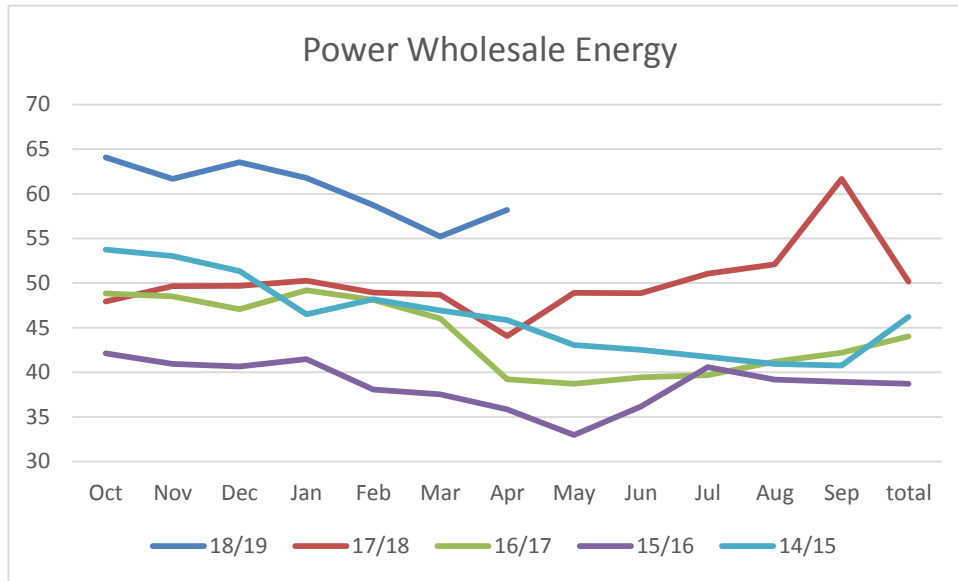
Gas – 250 day benchmark				
	Period	Achieved Price	Market Average	% Difference
Purchase In Period (PIA)	Oct 16 to Sept 17	37.77	37.08	1.86%
	Oct 17 to Sept 18	41.99	45.69	-8.09%
	Oct 18 to Sept 19	49.78	54.75	-9.08%
	Oct 19 to Sept 20*	59.17	59.17	-4.54%
Average %				-4.96%

* 2019/20 market average data based on trading days since 1st October 2018

2.2. Influenceable Spend

The above gas and electricity pie charts show there are a number of key elements that make up the billable rate. For gas a high percentage is still made up of wholesale energy cost, but electricity has seen other cost factors increase, such as network costs and green levy. This has reduced the impact that wholesale electricity changes may have in the billable rate. Over the coming years, gas non commodity costs will also see increases, whereas electricity non commodity costs will stabilise.

The graph below shows the wholesale energy market and that it has been relatively stable, whereas other pass through costs such as network and green levies have increased significantly leading to a cross the board gas and electricity price increases, especially in electricity. We are unable to influence these elements of the billable rate.



Option	Advantages	Disadvantages
1. Options – Procurement Approach		
Remain part of the Devon Energy Group and sign up to the Group's preferred solution	<ul style="list-style-type: none"> • Aggregated volumes will give more purchasing flexibility. • Aggregated volumes will achieve a better price than Torbay acting on its own. • Greater leverage in relation to provider performance. • Access to Devon County Council energy procurement expertise, knowledge and experience – currently at no cost to the Council. • Schools and Academies can continue to utilise the contract. 	<ul style="list-style-type: none"> • Tied into the option agreed by the majority of members.
Withdraw from the Devon Energy Group and procure a standalone solution	<ul style="list-style-type: none"> • Not tied to agreeing to the same provider / procurement approach as all of the other members. 	<ul style="list-style-type: none"> • Lack of in-house specialist expertise to support a procurement process. • Will not achieve the same buying power if based solely on Torbay Council usage. • If Schools and Academies wish to remain part of any Torbay Council contract, this will mean additional work in relation to obtaining their commitment and implementing new arrangements with them. • Schools and Academies may need to make their own arrangements.
2. Options – Procurement Process		
Continue the existing model of procuring energy (gas & electricity) requirements through a public buying organisation. The PBO purchases our energy through their Supplier Framework.	<ul style="list-style-type: none"> • Aggregated volumes across PBO spend (not just Devon Energy Group) will give more purchasing flexibility • Continued improved monitoring of markets will better inform purchasing decisions. • Governance board in place with third party specialist organisation auditing and challenging. 	<ul style="list-style-type: none"> • Loss of control with Public body buying our gas and electricity. • Issues in pricing transparency of PBO charges. • Delegated authority would need to be given to the PBO, to purchase energy on our behalf. • Cost of change unless incumbent.

forward thinking, people orientated, adaptable - always with integrity.

Option	Advantages	Disadvantages
	<ul style="list-style-type: none"> • Direct award can be made to a PBO subject to authorities being satisfied that it meets their own financial regulations and VFM • Central government are encouraging authorities to join PBO energy consortiums. • Provides access to the PBOs OJEU compliant energy supplier framework with regulated energy providers. • Using aggregated volumes to drive cost savings and innovation. • Profits reinvested into public services. 	<ul style="list-style-type: none"> • Last time Devon County Council (on behalf of Torbay and the other Authorities within the 'Devon Energy Group') went out to a full OJEU procurement Devon (and the Group) received five bids, two from 'the big six power companies' three from PBO's and one utility broker company. Only one of the bid responses was compliant to our tendered requirements. • Delegated authority may need to be given for the private company (if successful), to purchase energy on Torbay Council's behalf. The Council need to be comfortable with providing this. • Limited governance on utility brokers compared to PBO's & the regulated energy companies. • Brokers would apply a profit administration margin and would need to transact with one of the regulated energy companies who in turn would apply a management fee.
<p>Carrying out a full OJEU procurement including utility brokers</p>	<ul style="list-style-type: none"> • Allows all organisations both public and private to bid providing greater competition and opportunities in delivering savings and innovation. 	<ul style="list-style-type: none"> • Appointing a broker can involve extended times in resolution of account management queries. • Pricing transparency with multiple suppliers in the chain is often difficult to obtain and monitor. • Time and resource required to undertake the procurement and cost of change. • Public authorities tend to have few HH sites but a high number of NHH which are less attractive to the market being low usage but still requires maintenance and support. A HH site is high volume and value which is more appealing to the market. • Timescale for procurement process may mean we do not have a supplier in place in time for the end of the current contract, or sufficiently in advance of contract commencement for them to start purchasing energy in advance. • Previous contract put in place through an OJEU procurement resulted in 4 bidders, 2 of which were PBOs.
<p>Procure using a PBO framework</p>	<ul style="list-style-type: none"> • Using a PBO framework would be OJEU compliant without Torbay Council having to run a further procurement process. • Preferential to Torbay Council bespoke terms and conditions • To establish a framework, the PBO would have been through 	<ul style="list-style-type: none"> • The time and resource required to research, identify if the frameworks provide value for money. Potential cost of change with changing meters over to new suppliers/providers.

Option	Advantages	Disadvantages
	<p>an OJEU compliant competitive process, to demonstrate VFM.</p> <ul style="list-style-type: none"> • Mutual public sector interest in supporting public bodies. • Profits are reinvested within the Public Sector. • Energy volumes aggregated to give better purchasing volumes. 	
3. PBO Frameworks available		
<p>Crown Commercial Services (CCS)</p> <p>CCS have three frameworks in place with three suppliers: Gas – Corona, HH electricity - EDF NHH electricity - British Gas (BG)</p>	<ul style="list-style-type: none"> • EU procurement regulations compliant framework allowing for direct call off. 	<ul style="list-style-type: none"> • Torbay Council has historically had one electricity supplier for HH & NHH meters. Having different suppliers for these meters could be confusing, especially with meter upgrades and downgrades, which could potentially mean change of supplier. • The spend would be disaggregated across 3 suppliers, this has the potential of reducing your spending power when dealing with issues or pressing for a better deal. • There would be switching costs, time, resources and potential disruption to services.
<p>Yorkshire Purchasing Organisation (YPO).</p> <p>YPO framework consists of two frameworks: Electricity – Npower Gas – Corona.</p>	<ul style="list-style-type: none"> • EU procurement regulations compliant framework allowing for direct call off 	<ul style="list-style-type: none"> • Electricity is with Torbay Council's current provider but will need to change the contractual terms. • Change of supplier for gas means cost of change, plus additional administration and contract management. Taking away the advantages of a single point to call for any gas and electricity queries. • Disaggregation of spend. • There would be switching costs, time, resources and potential disruption to services.
<p>Eastern Shires Purchasing Organisation (ESPO).</p> <p>ESPO framework consists of two frameworks one for the supply of gas the other for electricity. The supplier for both is Total Gas & Power Ltd.</p>	<ul style="list-style-type: none"> • EU procurement regulations compliant framework allowing for direct call off 	<ul style="list-style-type: none"> • Gas is with Torbay Council's current provider but will need to change the contractual terms. • Change of supplier for electricity means cost of change, plus additional administration and contract management. Taking away the advantages of a single point to call for any gas and electricity queries. • Disaggregation of spend. • There would be switching costs, time, resources and potential

Option	Advantages	Disadvantages
<p>The Energy Consortium (TEC)</p> <p>Framework consists of two frameworks</p> <p>Electricity – EDF</p> <p>Gas – Corona</p> <p>TEC is currently used by Exeter University and set up to serve Universities.</p>		<p>disruption to services.</p> <ul style="list-style-type: none"> • Torbay Council would need to become a member to join the framework. • TEC require a ‘lead’ authority if we joined as part of a group to take responsibility and liabilities for the other partner Councils. • TEC offer bill validation, but this is done after the bill has been submitted by the supplier to the end user (currently Laser validate bills then issue the validated bills). This avoids retrospective bill validation. • The change of supplier would need to be managed internally, TEC do not provide a manage transition solution. • High costs per permit joining and on-going contract management fee, mean overall costs compared to Laser is more. • There would be switching costs, time, resources and potential disruption to services. • In summary Contract set up for HH high volume sites. Whereas Torbay Council has only a few HH sites and mainly NHH.
<p>Laser (Kent County Council)</p> <p>Laser framework consists of two frameworks</p> <p>Electricity - Npower</p> <p>Gas – Total Gas & Power</p>	<ul style="list-style-type: none"> • EU procurement regulations compliant framework allowing for direct call off. • Lot 1 of the framework offers various purchasing models to meet customers’ requirements. • Lot 2 offers various value-added opportunities for Torbay. For example, green initiatives. • No switching costs, time, resources or potential disruption to services. • Currently level of service is good, with Torbay Council and other Councils also content. 	

2.3. Benchmarking Energy Costs

It is very difficult to benchmark energy costs especially for electricity. There are many variable factors that make up a meter point bill. To achieve an accurate benchmark, an exact like for like comparison would need to be made at the same point in time against that same meter. Other PBOs will not release their costs, unless there is serious intent to purchase and even then it may be difficult to sufficiently breakdown costs or capture information in relation to a comparable point in time.

2.3.1. Estimated PBO comparison of average wholesale price purchased over previous 12 months.

Supplier	Savings Claim
CCS	Savings through significant aggregation, but no figures quoted
ESPO & TEC	No savings mentioned, but fixed supplier margin
YPO	10% cheaper average wholesale market cost, but no information to support this.
LASER	2019/20 Laser achieved below average wholesale energy cost with savings of 14.77% for electricity and 4.54% gas.

2.3.2. Renewable energy

Addressing climate change is a key priority for the new Administration and targets for reducing its carbon input will be included in the Corporate and Community Plan.

The PBO's offer-up various initiatives to assist Councils in meeting their aims. Laser offer a comprehensive set of initiatives that can be used by Public bodies to help them meet their targets. These are detailed in Appendix 1. The new Laser framework there is a second lot that has a significant focus on green initiative with suppliers available to engage with, to assist in our requirements.

Laser are working closely with the 'Devon Energy Group' in offering advice and guidance on power purchase agreements and how these could be used, so Torbay Council can purchase renewable energy in line with our policy target.

2.3.3. Local Public bodies

The 'Devon Energy Group' is led by Devon County Council, who along with Torbay Council a number of Districts, Dartmoor National Park Authority and Devon & Somerset Fire & Rescue Authority use the contract as a vehicle for their energy needs. Each of the participating authorities liaises and contracts directly with Laser.

Many Torbay Schools and Academies are included in the Torbay Council energy portfolio and contract directly with Laser.

This is a good example of local public bodies collaborating together for mutual gain. As this report shows further savings have been offered up by Laser through the group committing to the contract. It also provides strength in numbers if pressure needs to be applied to Laser for any reason.

2.3.4. Billing

Consolidated billing is provided by Laser in a monthly electronic file format. Billing for participating Schools and Academies is provided direct to them.

2.4. The Issue

The existing Torbay Council contract with Laser Energy Group for the supply of gas and electricity comes to an end in October 2020. The Council need to consider the procurement options and next steps. This varies from undertaking a full OJEU procurement process, to a direct award to one of the Public Buying Organisations. Over the next 2 – 3 months a decision needs to be made. This will allow time for the supplier to procure energy in advance of the new energy supply period. Laser have established a new framework running from 1st October 2020 to 30th September 2024.

If, as expected, Devon County Council and the majority of other participating public bodies sign up with Laser and we do not, this will leave us in the position of putting alternative arrangements in place. We do not have the technical expertise to run a procurement process and we will lose the benefit of the combined spend.

2.5. The Risks

If we are not in a position to undertake a tender process independently of the 'Devon Energy Group' and we are unable to put a new contract in place we, and the Schools and Academies within our portfolio, will move on to default rates which would see a significant increase in energy costs.

We now have an effective working relationship with Laser and there is a risk that a change in provider could result in difficulties with implementing a new contract and developing a relationship with the new provider.

2.6. Summary

This report has looked at the different procurement routes identifying the advantages and disadvantages to each. Central Government actively encourage the use of PBO's for public bodies, as the best way to aggregate spend and achieve best value, by using specialist energy management buying organisations such as Laser.

It has contrasted the different PBO frameworks and their costs.

It identifies no clear advantage in undertaking a full OJEU procurement exercise as before. Primary reason is the limited response last time and that there are 4 – 5 PBO's that are more aligned to public sector requirements and provide a competitive comparison. Torbay Council can also do a direct call-off from a PBO framework, once best value has been identified. This negates the need for a lengthy procurement process.

The outcome of the report is that we should continue our existing contractual arrangement with Laser Energy Group, who are part of Kent County Council.

The purchasing model is risk adverse by buying gas and electricity a year in advance (PIA – purchase in advance). This means the final billable rate will never be at the highest or lowest point in the market. Laser achieve below average wholesale prices and proven to deliver better value than the purchase within period model.

Torbay and other Councils that use the contract are satisfied with the service being received from Laser.

There is a governance board in Laser to ensure appropriate decisions are being made and use of public sector money.

Lasers cost to serve and management fee, is comparable if not less than the other PBO's. The same applies to wholesale average electricity purchase price, as detailed in this report.

The new Laser Framework also offers a Lot 2 that provides value added opportunities such as energy saving initiatives. This is something Torbay Council may want to utilise, to help facilitate our carbon reduction agenda.

There may be scope throughout the new contract arrangement with Laser Energy, for Torbay to generate some of its own energy provision, through the purchase and development of solar farm(s), which would reduce its overall electricity consumption via Laser's identified electricity provider, as well as developing 'green' energy provision. The contract will be flexible enough to facilitate this and Laser could assist the Council if required, with the development of this alternative provision.

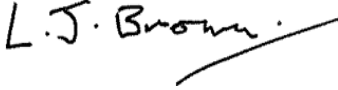
3. Recommendations

- 3.1. To remain within the 'Devon Energy Group' and purchase our energy requirements through the group.
- 3.2. To contract with Laser Energy Group (Kent County Council) to procure, manage and supply Torbay Council's gas and electricity needs from 01st October 2020, for four years.

4. Contract Award Approval

Procurement Service Recommendation:

Approve award of a 4 year contract with Laser Energy Group (Kent County Council) on the basis of best value.

Name:	Lawrence Brown	Signature:		Date:	04 November 2019
--------------	----------------	-------------------	--	--------------	------------------

Budget Holder Approval

Contract Award Approved / Not Approved, due to:

Name:		Signature:		Date:	
--------------	--	-------------------	--	--------------	--

Appendices

Appendix 1

LASER –Services Provided

The services in coloured boxes are what Torbay Council have as the fully managed service from Laser Energy. The other services are available at an additional cost should the Authority require them.

Frameworks	OJEU Compliant Frameworks				
Procurement Strategy	Purchase in Advance (PIA)				
Price Accuracy	Price Validation				
Management Services	Budget Setting	Portfolio Maintenance	Bill Validation	Central Payment & Processing	Query Resolution
	Online Portal Access	Utilities Reporting	Budget Tracking	Exception Alerts	Utilities Data Capture
Dedicated Contacts	Communication & Management Information				

Additional services available (Wider Energy Services)

Renewables Energy

GPA and PPA

DA/DC

DSR

Battery Storage

Electric Vehicles

Energy Services

- energy behavior
- Psychology schemes
- site surveys
- energy saving ideas
- education, training & forums
- sourcing energy saving hardware

Solar Panels

Wind Turbines

Fly-wheels

UPS systems

Batteries

Pumps

Generation units (e.g. diesel, CHP)

Ground Source Heat Pumps

Air Source Heat Pumps

Biomass Heating System

forward thinking, people orientated, adaptable - always with integrity.