



<b>Contains Confidential or Exempt Information</b>	No
<b>Title</b>	Energy Purchasing Corporate Contract
<b>Member Reporting</b>	Cllr Rajawat
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<b>For Consideration By</b>	Cabinet
<b>Date to be Considered</b>	21/01//2020
<b>Implementation Date if Not Called In</b>	1/10/2020
<b>Affected Wards</b>	All
<b>Keywords/Index</b>	Energy Purchasing

## 1. Details of Recommendations

To enter into a Pan-London Energy Project Framework Agreement for Flexible Procurement and supply with Kent County Council via LASER using Npower Ltd. for green electricity and Corona Energy for gas effective from 1st October 2020.
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<b>If the recommendations are adopted, how will residents' benefit?</b>	
They will continue to benefit from reduced pence per unit rates derived from purchasing of aggregated energy volumes	01/10/2020

## 2. Report Summary

**2.1** Setting out a strategy for purchasing energy for the period 2020 – 2025 based on utilisation of LASER as the Central Purchasing Body (CPB) for procurement of energy supplies. It sets out the contractual agreement, the procurement options and projected costs over the period.

**2.2** To re-procure the Council's operational portfolio half hourly, non-half hourly metered, unmetered electricity and gas requirements through a CPB – the LASER Energy Buying Group.

**2.3** The Council's operational portfolio consists of approximately 1148 metered supplies including most schools. Council Buildings - total annual cost of electricity £1,382,182.30 and gas £422,425.50. Schools - total annual cost of electricity £1,041,151.16 and gas £435,226.41 Hounslow Housing - total annual cost of electricity £1,294,184.76 and gas £1,544,675.88. Street lighting annual cost of electricity £630,252.48. \*Based on expected 2019/2020 consumption

**2.4.** The renewal of these gas and non-half hourly electricity contracts will directly

affect leasehold housing tenants (*n. b. it must be noted that in terms of volume, leaseholders' energy demand is very small*), the Energy Team will liaise with Asset Management & Leasehold Services, who will lead on the statutory consultation notifications and / or dispensations S20 required and allow sufficient time to complete this process before committing to these contracts.

**2.5.** In line with the stipulations contained within report CEX 440 (Climate Emergency Action Plan), it is proposed that 100% of the council's electricity usages is to be procured from renewable sources from the commencement of this contract. This is estimated to reduce our direct council carbon emissions by around 16%. It is also intended that we will work with our gas supplier to ensure that energy is generated and supplied in a sustainable way.

### **3. Reason for Decision and Options Considered**

**3.1** The current LASER flexible supply framework used for the Council's metered, and unmetered electricity and gas supplies' requirements is due to expire on 30<sup>th</sup> Sept 2020. LASER has renewed the flexible framework to start from 1 October 2020 and is seeking commitment in order to forward purchase the Council's energy requirements for the 2020 start date.

**3.2** To forward purchase energy ahead of the required supply period is a key part of a risk managed energy strategy. Purchasing in Advance (PIA) of delivery is vital to protecting the Council against adverse wholesale market price changes. The current wholesale market conditions are in a period of extreme political uncertainty, which is undoubtedly driving price volatility and confidence. Prices are looking to increase across most fundamentals. PIA presents the best opportunity for securing the value for money 2020+ energy requirements.

**3.3** Alternatively there is the option to 'Purchase within Period' (PWP) – which involves setting a reference price for a 6-month period and at the end of this period a reconciliation takes place between the reference price and the final (achieved) purchase price. This is not the preferred choice, as it does not provide budget certainty due to the increased risk of impact of global volatility to price fluctuation.

**3.4** The Council has four main utility contracts procured through LASER – one for gas and three for electricity – that cover the bulk of the Council's property portfolio. The electricity provision is currently split into three contract groups, the half hourly (over 100kW) contract relating to large sites, the non-half hourly (sub 100kW) contract relating to smaller sites and Street Lighting contract relating to unmetered electricity supplies.

**3.5** The unmetered street lighting supply has historically been procured through the Laser framework. Current spend on this contract is £630,252.00 The unmetered electricity contract has been evaluated and provides value for money so will remain with Laser under the POSO option. The prices under this contract will be reviewed annually.

**3.6** Academies sites and their consumptions are not included they as they are no longer underwritten by the Local Authority. They will be contacted directly by LASER to see if they would like to remain on the contract. By remaining, they will still benefit from the savings made by utilising the Flexible Purchasing strategy, invoice validation and query management services, but will be moved across to a LASER Independent

PIA fully managed contract once an agreement document has been signed by the site. If they would prefer to leave LASER, they are permitted to do so once their current contract expires 1<sup>st</sup> October 2020 and notice of termination has been provided.

#### **4. Key Implications**

**4.1** Under these frameworks LASER aggregates London Energy Project Customer volumes and flexibly purchases energy under a risk strategy in a complex, fast moving marketplace. The framework governs the supplier arrangement and the services delivered. These frameworks are bespoke to meet the business and technical service requirements of the LEP group, and its member organisations' wider environmental, social and value for money objectives.

**4.2** As part of the London Energy Project SoR and agreed in the new pan London Energy Purchasing Framework 2020-25, Npower utilise renewable generators for no additional management fee. This gives Hounslow a route to obtain renewable generation through our contract that can be directly linked back to a named generator. There is also the option to ask Npower to only facilitate local generators with specified technologies (e.g. solar) if preferred. If we elect not to use such a route, we can take a Renewable Energy Generation Option backed green tariff through Npower for up to 100% of Hounslow's requirements for a price premium of ~0.5% compared to conventional energy sources

**4.3** LASER's flexible procurement model aggregates the energy volumes of all its customers comprising 115 local authorities. LASER closely monitor energy market prices and drivers, purchasing energy requirements in multiple blocks over a period of time prior to the point of use. Gas and electricity market prices are highly volatile and price movements of more than 10 percent in a week are not unprecedented.

**4.4** By aggregating energy spend with other local authorities, delivered energy costs are significantly lower than any one customer can achieve independently. This reduces the risk to the Council of price fluctuations within the utility market through increased flexibility in purchasing as well as being part of a large bulk buying consortium offering economies of scale.

**4.5** Laser have proved to have the capability and capacity, along with competencies and experience in buying performance.

#### **5. Sustainability Impact Appraisal**

**5.1** The LASER frameworks have been purposely set up to assist customers to meet their Carbon reduction targets in as an effective way as possible. In terms of Renewable Energy, the frameworks allow LB Hounslow to:

- 1) Take 100% green electricity tariffs and (gas tariffs when available) from the suppliers. (The uplift on conventional electricity in terms of cost would be an extra £20k per annum over the (2y term +1+1+1 rolling) - 5-year contractual period. Currently, REGO backed green electricity can be purchased for ~£0.60/MWh, which equates to ~0.5% of delivered electricity spend).
- 2) Take a 'deeper green' electricity product through a Power Purchase Agreement established by Npower. This involves Npower sourcing renewable contracts on LB Hounslow's behalf directly with a renewable generator.

Subject to availability, LBH could also limit this to local generation (e.g. sourcing contracts through renewable generators in and around London).  
3) Import into the Npower framework electricity that LBH produces from our own generation sources, or from generation sources the customer nominates. As an example, if LBH were to construct or invest in, say, a solar farm, we could sell the exports through the framework or allocate the exports to offset some of our import requirements at other sites.

**5.2** In addition, LASER and the energy frameworks can compliantly assist with:

- 1) Consultancy support around projecting carbon emissions and identifying opportunities to reduce emissions in order to hit targets.
- 2) Implementation of energy efficiency and renewable energy opportunities to meet targets.
- 3) Ongoing monitoring and reporting of progress towards meeting carbon targets.

**5.3** Separately, LASER is also procuring a standalone framework of renewable energy generators to give customers further flexibility as to how we can contract with, say, a new build wind farm. It is expected that this framework will be operational from mid-2020.

**5.4** The requirement to forward purchase energy ahead of the required supply period is a key part of a risk managed energy strategy. Purchasing well in advance of delivery is vital in protecting the Council against adverse wholesale market price changes. Forward purchasing presents an excellent opportunity for securing the value for money 2020+ energy requirements.

## **6. Financial Details**

**6.1** The initial contract term expires 31<sup>st</sup> March 2022 but will roll over annually until 31 March 2025 unless terminated in accordance with contract provisions. This provides for the Council's large (over 100kW), small non-half hourly (sub 100kW), street lighting and other unmetered (UMS) electricity and gas supplies through a flexible framework agreement. The council seeks to procure £6,119,846.00 / 116,936,756.00 kWh of energy each year. Electricity cost £3,717,518.23pa with gas £2,402,327.79pa. Consumption is made up of 21% electricity and 79% gas.

### **6.2 Comments of the Executive Director Finance & Resources**

This report requests cabinet approve the re-procurement of the Council's electricity and gas through LASER from 1 October 2020 for the next 5 years.

The current contract has helped enable some considerable cost avoidance. It is hoped that the Council's energy costs are kept low through effective contract management coupled with ongoing energy reduction initiatives. The re-procurement with LASER also allows the Council to purchase energy sourced from renewable generation, which facilitates an appropriate Council response to the Climate Emergency declared at the Borough Council in June during the year.

### **6.3 Comments of the Head of Governance**

The purchase of electricity is subject to the Public Contracts (Utilities) Regulations. Purchasing through the LASER framework will comply with the Regulations, and the Council's Contract Procedure Rules.

## **7. Value for Money**

**7.1** LASER's frameworks were established through an open OJEU procurement process which gave all energy providers the opportunity to participate in the tender. Suppliers were awarded a place on the framework on a Most Economically Advantageous Tender basis to ensure that there was a sufficiently high combination of quality and price. In total 9 providers were awarded a place on the gas and electricity frameworks. The London Energy Project then set an enhanced specification for its member authorities (typically London Boroughs) and the LEP contracts were awarded under the LASER framework to Npower (electricity) and Corona (Gas). The supplier management fees equate to ~0.5% of delivered spend.

The London Energy Project conducted a review process on the most appropriate routes to market for its member authorities and, based on service specification, quality and price, recommended that LASER is the sole provider to deliver the London Energy Project contracts. LASER has a strong track record in delivering energy cost avoidance through effective flexible procurement and associated contract management.

**7.2** Contracting through a Central Purchasing Body (CPB) offers the Council the best value procurement route.

**7.3** Following an evaluation of the currently available CPB frameworks the LASER CPB is considered to offer the best route for purchasing the Council's flexible half-hourly (HH), non-half hourly (NHH), street lighting and other unmetered electricity supplies (UMS) and gas requirements from 2020 onwards.

**7.4** The supplier margin for Pan-LEP electricity for arranging Power Purchase Agreements with renewable generators is zero. Alternatively, we can request that Npower source REGO backed green energy for a price premium of ~0.5%

**7.5** The LASER Pan-LEP CAA, SLA and call-off contract has increased protection, commercial, social and environmental benefits for authorities than standard fare

**7.6** Simple transition from October 2020 through to March 2025, on a rolling contract basis until terminated by the Council.

**7.8** LASER's current flexible frameworks have performed extremely well against the Major Energy Users Council MEUC. For the contract year October 2018 to September 2019; our portfolio (*Corporate & Housing*) for electricity is -15% below MEUC market average with gas -12.5% below market average. This equates to avoided costs of £256k/pa for Corporate stock council building/schools/street lighting and & £245k/pa for Housing stock.

*\*The MEUC is the Major Energy Users Council who are an independent body, providing benchmarking reports for large energy buyers & consumers*

**7.9** Other CPBs offering energy supply procurement options which are available for the Council to access have been evaluated and none offer any

advantages over the LASER offer:

**7.10** Social Value – London Living wage, apprenticeships – Added Value - funded energy management training for authority staff

**7.11** The Energy Team has appraised the most appropriate purchasing option and has split the portfolio, in order to maximise opportunities within the market prices and to minimise risk in those areas that most need it. From 2020, the Council should remain within the ‘fully managed’ service for all (commercial, housing, schools) sites and revert to the ‘procurement only’ (POSO) option for Street Lighting and High consuming HH sites. The Energy Team are able to offer the full invoice validation and query management function in house.

## **8. Risk Management**

**8.1** Laser have proved to have the capability and capacity, along with competencies and experience in buying performance. Especially in the volumes required for effective risk management and help manage the benefits of aggregation that can deliver value for money in the future.

**8.2** Procurement ‘Basket’ Options; The Council, faced with the choice of their preferred forward purchasing method within the LASER flexible framework (dependent on appetite for price risk and requirement for budget certainty), has chosen the option of ‘Purchase in Advance’ (PIA) as opposed to ‘Purchase within Period’ (PWP) as this option provides the best value for money while minimising price risk and fortifying budget certainty.

- **Purchase in Advance (PIA)** – involves purchasing all energy requirements for that given year in advance of the contract start date.
- **Purchase within Period (PWP)** - involves setting a reference price for a 6-month period. At the end for this period a reconciliation takes place between the reference price and the final (achieved) purchase price

## **9. Links to Council Priorities**

**9.1** This project supports the objectives of Hounslow’s Corporate Property Strategy & Local Plan and its Climate Emergency Strategy which aims to be carbon zero by 2030.

## **10. Equalities, Human Rights and Community Cohesion**

**10.1** The Council has to give due regard to its Equalities Duties, in particular with respect to general duties arising from section 149 of the Equality Act 2010. Having due regard to the need to advance equality involves, in particular, the need to remove or minimize disadvantages suffered by equalities groups.

**10.2** The Council has considered the relevance of the proposal to the provisions of the Equality Act 2010, in particular for those with the following protected characteristics: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation and the Human Rights Act 1998 .The assessment concluded that Equalities Duties are not engaged by this proposal. The proposal is also compatible with Human Rights Articles and as the report does not

have any significant bearing on the substantive equality duty it is not considered necessary to undertake an Equality Analysis.

## **11. Staffing/Workforce and Accommodation implications:**

**11.1** The Energy Purchasing contract includes actions that relate to reducing emissions from the council's estate and interventions that target staff and workforce

## **12. Property and Assets**

**12.1** The Energy Purchasing contract includes actions that relate to reducing cost and emissions from the council's estate.

## **13. Any Other Implications**

None noted

## **14. Consultation**

**14.1** This contract will directly affect leasehold housing tenants; therefore, the Energy Team will liaise with Asset Management & Leasehold Services, who will lead on the statutory consultation notifications and / or dispensations S20 required for renewal of these contracts

**14.2 Procuring directly with a utility company:** the risk of market volatility is reduced by opting for procurement through a CPB which is also proven to represent best value for money due to economies of scale and the CPB's purchasing power.

### **14.3 Procurement through a Private Sector based provider**

The Council could tender for a private sector Third Party Intermediary (TPI) and subsequently use the broker to tender and 'trade' its energy supplies. This loses the benefits of a truly aggregated, flexible contract and often, the full price transparency of all costs, including TPI fees and any commission paid by suppliers to the TPI for all tradeable elements and sell-back, etc. The TPI could access the wholesale market on our behalf, but we may only receive prices based on the supplier's view of the market. A full OJEU tender process may also be required to appoint the TPI with all the associated resource and time implications. TPIs may have issues regarding business continuity in the present economic climate are unlikely to be able to aggregate the Council's volume with other customers in an OJEU compliant manner or to the same level or offer the same additional and social value as the Pan-LEP contracts. Due to this level of complexity and lack of in-house resources to deliver this, this option was discounted at this time. However, this option or 'energy as a service', a closer to the market approach, with Suppliers offering a full-service wrapper may be possible in the next 2 to 3-year horizon through a pan-LEP route, whereby true aggregation and full transparency and governance is achieved through the use of a public sector intelligent client function. CPB's do everything that independent energy brokers do, but with the added benefit of aggregating large Local Authority, London NHS portfolios.

**14.4 Collaborative procurement with other authorities:** The Council have led on an exercise to establish the added benefits of procuring its energy supplies jointly with other members of the LEP. London and peripheral authorities who expressed an interest in pursuing this all were already with the LASER CPB and conclusion was that the maximum benefit of joint procurement was already being realised

**15. Timetable for Implementation**

**15.1** The Energy Purchasing contract is to be considered at the January 2020 meeting of the council's Cabinet.

**15.2** The contract is effective from 1st October 2020

**16. Appendices**

None

**17. Background Information**

**REPORT ENDS**