

## Cabinet Member Finance and Resources

## Procurement of Electricity and Gas Supplies

## Report by Executive Director Customers and Change

<b>Ref No.</b> <b>FR07(11/12)</b>
<b>Key Decision</b> <b>Yes</b>
<b>Part I</b>
<b>Electoral</b> <b>Division</b> <b>N/A</b>

### Executive Summary

West Sussex County Council (WSCC) presently uses the services of LASER (Local Authorities South East Region Energy Buying Group), an organisation managed by Kent County Council to handle the energy requirements of the authority. LASER is currently in the final stages of completing the procurement process (subject to contract) to replace its existing framework arrangements for the supply of both gas and electricity that expire on the 31<sup>st</sup> October 2012. The new frameworks will be in place for a period of 4 years.

The estimated total contract value for WSCC energy requirements is approximately £7.8 million p.a.

The procurement process currently being undertaken by LASER is in compliance with the EU Procurement Directives and in conformity with best practice recommendations of the Office of Government Commerce (OGC) led pan Government Energy Project. LASER has requested that a decision is made by member authorities to commit to using the new contracts no later than 30 June 2011 to facilitate the transition from the existing contractual arrangements.

### Recommendations

The Cabinet Member is recommended to approve that:

1. WSCC continues as a member of the LASER Energy Group and utilise the benefits that the service and contracts bring to the Council.
2. WSCC adopts the new contract arrangements available through LASER from October 2012, and that Laser should manage the energy portfolio on behalf of WSCC and the WSCC schools.

## 1. Background

- 1.1 WSCC was a founder member of LASER (Local Authorities South East Region Energy Buying Group) at its inception in 1989. The organisation is part of Kent Commercial Services within Kent County Council and now handles the energy requirements for over 75 local authorities in the south-east. The majority of these organisations have very limited knowledge of the energy market, including WSCC.

- 1.2 The current contractual agreements for the supply of gas and electricity with LASER Energy Buying Group are due to expire on the 31<sup>st</sup> October 2012 and therefore, due to volatility of the market and the need to purchase energy in advance, WSCC (like the other local authority users of LASER) is required to make a decision in respect of its energy supply options no later than the end June 2011.
- 1.3 The value of the energy purchased by WSCC through the LASER contract is currently £7.8m per annum and includes all West Sussex corporate estate, the majority of schools and all street lighting. LASER has advised that due to market conditions prices are likely to remain at current levels and it is anticipated that this figure will remain throughout the foreseeable future.
- 1.4 LASER is currently completing the procurement process for new frameworks of supply for commencement from the 1<sup>st</sup> November 2012 for a period of 4 years. The successful bidders are Npower for electricity and Total Gas and Power for gas. This will allow LASER to transition from the current to the new framework agreements and purchase gas and power in advance to meet these requirements from 1<sup>st</sup> November 2012. Supply has already been purchased in accordance with the current framework arrangements up to the end of October 2012.
- 1.5 It is considered that there are 4 sourcing options available to WSCC, to meet its energy requirements:
  - Contracting through LASER;
  - Contracting through Eastern Shires Purchasing Organisation (ESPO);
  - Contracting through (OGC) Buying Solutions;
  - West Sussex Tender and Contract Management

## **2. Discussion**

Detailed below are the relative advantages and disadvantages of the 4 Sourcing Options that are considered available to WSCC.

### **2.1 LASER**

- 2.1.1 The introduction of the bespoke GEMS software package has played a pivotal role in LASER's expansion. This software enables site consumption and meter details to be recorded and bills to be checked for compliance, whilst the information generated by GEMS is used to compile accurate information allowing LASER to pay all the bills from the supplier following validation and recharging the client accordingly.
- 2.1.2 Contract management and service delivery advantages of continuing to engage LASER in the supply of WSCC energy include:
  - Favourable, legal and compliant contract terms;
  - Service Level Agreements negotiated by LASER with the energy providers on behalf of WSCC and specific to location and demand;
  - The benefits of an experienced and dedicated contract management team relatively local to West Sussex;

- Availability of and ability to utilise the knowledge of LASER's experienced personnel in respect of providing advice and guidance on all energy matters including the Carbon Reduction Commitment programme
- Experienced LASER personnel providing advice, guidance and contract management expertise;
- Ability to capture and provide accurate data and information via the GEMS system;
- No tendering costs;
- WSCC service level agreement with LASER that has delivered improvement in the contract management service provided by LASER.

Whilst the financial benefits can be identified as:

- WSCC continued ability to capture the financial benefits of the aggregated LASER contract portfolio and an average unit price between 1.5% and 2.5% lower than other known supply opportunities (although comparison is only of limited value due to price volatility in the market and the difference in contracting periods);
- Over a 2 year period LASER has outperformed the benchmark price for electricity by 7% for its Purchase in Advance (PIA) strategy and 20% for the Purchase Within Period (PWP) strategy and for Gas outperformed the benchmark price for PIA by 6% and 30% for PWP;
- Low consumption rebates paid back to the Council;
- Long term agreements allow for effective budget management;
- Zero tendering and transition costs to WSCC.

2.1.4 The disadvantages of remaining with LASER are minimal, the most important being lack of direct ownership of the contract and the lack of direct influence that we have over contract issues.

2.1.5 However the Procurement Strategy Manager is a member of the LASER governance panel (as a representative for County Councils who use LASER's services) and is therefore able to influence and challenge decisions as well as gain early insight into market issues and LASER decisions. This further helps mitigate these service issues.

2.1.6 There is a robust Service Level Agreement (SLA) between WSCC and LASER with regard to the service provided by LASER and there are regular discussions between WSCC and our LASER counterparts to identify and resolve service discrepancy issues and improve service delivery.

## **2.2 Eastern Shires Purchasing Organisation (ESPO)**

2.2.1 LASER are undertaking the current procurement process on behalf of ESPO for their supply post October 2012, whilst WSCC have the opportunity to utilise these agreements there is no obvious value in doing so. This is based on the advantages of being members of LASER as detailed above, and secondly utilising this arrangement would mean WSCC cutting ourselves out of LASER only to re-join a LASER procured service through a second level arrangement.

2.2.2 The disadvantages that need to be considered are:

- Transition costs, time and effort required by any new supplier;
- ESPO would not be familiar with the WSCC energy portfolio;
- Minimal aggregation benefits;
- Extra WSCC contract management resources required;
- WSCC has less influence with ESPO than with LASER (see 2.1.5 and 2.1.6);
- ESPO has a smaller market presence than LASER and would therefore not benefit from such large aggregated spend.

## **2.3 Office Government Commerce (OGC) Buying Solutions**

2.3.1 Buying Solutions the government owned procurement unit has been offering energy contracts for over 20 years. These have been sub-contracted to EDF Energy and British Gas Business for last few years, and previously also to, Scottish and Southern Electricity. These companies have traditionally tendered for the LASER business.

2.3.2 Recent benchmarking of OGC gas prices indicates that the LASER prices were between 1.5% and 2.5% cheaper than Buying Solutions prices based on similar consumption. In view of the volatility of energy prices this price comparison must be treated with caution.

2.3.3 There is little evidence to suggest that Buying Solutions employ a substantial number of experienced energy procurement staff. They seem to rely heavily on the expertise of their sub-contractors and departmental personnel, all of which is at an added cost.

2.3.4 Many of the major Government Departments with large property portfolios, for example the Ministry of Defence, have their own energy buying units and do not utilise the Buying Solutions contract, indicating that it is not a very attractive solution. This means it does not have sufficient aggregation benefits.

## **2.4 WSCC Tender and Contract Management**

2.4.1 A WSCC energy contract would give the County Council direct ownership of and control over the contract that we do not presently have. This is probably the only advantage of this option. Although the WSCC Procurement team is capable of organising and managing a procurement process of the complexity likely to be involved for a WSCC energy contract, there are a number of resource issues in undertaking such an exercise.

2.4.2 WSCC's Procurement team does not have the required knowledge of and expertise regarding the energy markets to successfully set the requirements or manage the contract.

2.4.3 Experienced energy procurement professionals would therefore need to be engaged specifically to procure and manage the contract. These professionals (if they can be readily found) would need time to acquire the information needed to manage the portfolio and understand the WSCC energy requirements prior to approaching the market and would, undoubtedly cost substantial sums to engage.

- 2.4.4 Having regard to the time frame for ensuring such new arrangements are in place (less than 17 months), the non-availability of financial resources to buy-in the required energy market expertise, and the requirement for such expertise on an on-going basis to manage the contract, it does not appear reasonable at this time to undertake such an exercise.
- 2.4.5 Finally the size of the WSCC energy portfolio would not be as attractive a proposition to suppliers in comparison to those larger portfolios detailed above. Consequently WSCC would almost certainly not achieve best value for money for its energy and overall would pay higher unit prices for the energy supply.

### **3. Proposals**

- 3.1 WSCC continues to be a member of LASER to ensure it continue to benefit from the service, expertise and buying power of LASER as a unique energy procurement and management solution for the public sector.
- 3.2 WSCC adopts the new flexible framework contracts that are being put in place as a result of the EU compliant procurement process undertaken by Kent County Council/ LASER with the successful bidders are Npower for electricity and Total Gas and Power, for gas.

### **4. Consultation**

- 4.1 An Energy User Group has been established that includes representatives from Capital and Asset Management, Infrastructure (the Street Lighting Team) Procurement Services, Financial Services, Children's Services.
- 4.2 A paper was presented to the Resources Consultative Group and the Schools Forum for their views in January and February 2011 respectively to be considered. They agreed with the recommendations contained within this report.
- 4.3 Procurement Services has represented WSCC at several meetings organised by LASER to inform and advise on the operation of the new framework contracts, that are being put in place as a result of the recent procurement process.
- 4.4 A sustainability appraisal has been completed and agreed with the Sustainability Group.

### **5. Resource Implications and Value for Money**

- 5.1 It is recognised that our corporate energy requirements will reduce in line with the implementation of the Accommodation Strategy and therefore reduce the County Council's energy bills. However it should be noted that on average two thirds of WSCC energy requirements are taken by schools with one third being used for non-school buildings. In these times of cash frozen budgets and potential changes to the national funding framework for schools this is likely to lead to a redistribution of resources amongst schools. Therefore membership of LASER should deliver best value for money for schools and economies of scale

for them compared to the benefits of a direct relationship between individual schools (particularly some of the smaller schools) with an energy provider.

- 5.2 The implementation of Automated Meter Reading (AMR) will provide more accurate information on our energy usage, ensuring that the billing is accurate and will remove the need for estimated billing, and for the service provider to conduct manual meter reads. Savings should be delivered as a result of AMR, however these will need to be quantified with the appointed service providers.
- 5.3.1 As a result of the establishment of the Energy User Group the administration of the billing arrangements with Laser for all WSCC energy requirements, including street lighting (that was previously managed by the Street Lighting team) are now managed by Capital and Asset Management using their Team Sigma software tool. This has delivered savings in the administration of the invoicing and billing arrangements for the Street Lighting team. However the Street Lighting team continue to administer the technical element of energy payment through their work with the meter administrator employed by the County Council to monitor the energy requirements for street lighting (i.e. level of consumption etc).
- 5.3.2 Smaller sites were previously not included in the arrangements with LASER, and with their agreement are now being gradually moved across to LASER. This will enable these sites to benefit from the electronic billing arrangements that we now have with LASER via the Team Sigma software tool.
- 5.4 In 2010/11 the Cabinet Office Efficiency and Reform Group developed metrics to help assess the performance of wholesale energy purchasing as part of its work on Centralising Category Procurement. The outcome of this work was that over a 2 year period LASER has outperformed the benchmark price for Electricity by 7% for its Purchase in Advance (PIA) strategy and 20% for the Purchase Within Period (PWP) strategy and for Gas outperformed the benchmark price for PIA by 6% and 30% for PWP. However, although past performance is not a guarantee of future performance it is an effective barometer in considering the future arrangements and what is in the best interests of the County Council.

## **6. Risk Management Implications**

- 6.1 Membership of LASER is a very low risk option, as WSCC does not have the expertise in house to manage energy contracts, compared to the expertise within LASER and the consultants who LASER already work with to manage the purchasing strategy.
- 6.2 The Procurement Strategy Manager is a member of the LASER Governance Panel and therefore has influence in the decisions LASER make with regard to the buying strategy.
- 6.3 There is the potential risk of the County Council not being in a position to agree on behalf of the schools that they will be part of this contract, and it is anticipated that an increasing number of schools will become academies who may have to contract separately. These risks of non-participation are mitigated

by being members of LASER who will be managing these issues on behalf of their members experiencing similar situations.

- 6.4 Management of the transition from the current service providers to new providers will need to be carefully managed to facilitate as smooth a transition as possible.

## **7. Customer Focus Appraisal**

It has been agreed that a Customer Focus Appraisal is not required for this procurement process, based on the consultation that has already taken place.

## **8. Crime and Disorder Act**

There are no foreseeable crime and disorder implications associated with this proposal.

## **9. Human Rights Act Implications**

There are no foreseeable human rights implications associated with this proposal.

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