

# Cabinet

## DOCUMENTS FOR THE MEMBERS ROOM

Tuesday, 21st April, 2015  
at 4.30 pm

MEMBERS ROOM DOCUMENTS ATTACHED TO THE  
LISTED REPORTS

### Contacts

Cabinet Administrator

Judy Cordell

Tel: 023 8083 2766

Email: [judy.cordell@southampton.gov.uk](mailto:judy.cordell@southampton.gov.uk)

# MEMBERS ROOM DOCUMENTS

14 **ENERGY PROCUREMENT CONTRACT RENEWAL** □ (Pages 1 - 34)

Monday, 13 April 2015

SERVICE DIRECTOR, LEGAL AND GOVERNANCE

# Flexible Energy Frameworks 2016 – 2020 Information Pack

Customer Name: Southampton City Council

Version: Post Tender Update (Release 2)



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## Introduction

LASER Energy Buying Group  
1 Abbey Wood Road  
Kings Hill  
Kent  
ME19 4YT

Tel: 01622 236764

Dear Jason and Colleagues,

As you are aware, LASER's current flexible procurement frameworks for the supply of gas and electricity expire 30 September 2016. LASER has now completed an OJEU compliant tender and award process for the supply of electricity and gas, and is pleased to confirm the appointment of Npower and Total Gas and Power respectively for the period October 2016 – September 2020.

We have updated the Information Pack, distributed earlier this year, to assist with your decision to join the new frameworks from 1 October 2016 onwards. The information pack contains an Executive Overview section, which can be provided to decision making colleagues such as Cabinet Members or department heads, along with Annexes containing supporting information and analysis. **Annex E** is new, and provides specific information relating to the tender outcomes and next steps.

LASER is meeting our flexible procurement customers between October and December 2014 to discuss the new flexible frameworks and commitment process.

We welcome any feedback from customers on this updated Information Pack and would be pleased to provide any further material and assistance you may need to support your decision to join the new frameworks. Should you have any queries, please do not hesitate to contact me on the number above.

Yours sincerely



Tom Harnett  
Customer Relationship Manager



Rob Morgan  
Director of Energy

## Definitions

The table below contains definitions of common terms and acronyms used in this Information Pack.

| Term                                | Definition  |
|-------------------------------------|---|
| <b>Aggregated Energy Volumes</b>    | The total energy usage of multiple customers.   |
| <b>Central Purchasing Body</b>      | A public sector contracting authority that acquires goods or services on behalf of other public sector bodies, as permitted in the Public Contract Regulations 2006.  |
| <b>Flexible Procurement</b>         | Purchasing energy requirements in multiple transactions prior to the point of use.  |
| <b>Procurement Baskets</b>          | The approach used to purchase aggregated energy volumes during the term of the flexible framework. Baskets vary with regards their budget certainty and market opportunity. LASER currently provides two different basket options; Purchase in Advance and Purchase within Period. Customers can choose to utilise one or both of the baskets for their portfolio of sites. |
| <b>Purchase in Advance (PIA)</b>    | A Procurement Basket where all of a customer's energy is purchased prior to the start of a contract year. This allows a fixed energy price to be used on invoices.  |
| <b>Purchase within Period (PWP)</b> | A Procurement Basket where part of the customer's energy is purchased prior to the start of each six month contract period, with the balance purchased within the contract period. Compared to PIA, PWP has greater market opportunity, but lower budget certainty.   |
| <b>Wholesale Energy Cost</b>        | The cost of the raw energy, excluding any costs such as delivery charges, service fees, taxes and levies.   |

## Executive Overview

LASER is a public sector energy buying group and part of Kent County Council's Commercial Services division. LASER was founded in 1989 to manage the procurement opportunities created by the deregulation of the gas and electricity markets. LASER purchases energy on behalf of 115 Local Authorities and 45 wider public sector bodies. Current contracted volumes for electricity and gas amount to 6.7 TWhs of energy, equating to an annual delivered spend of over £350m. This is approximately 1.7% of the UK's non-domestic energy demand.

### *Price Risk Management - Flexible Energy Supply Contracts*

LASER has operated flexible energy supply contracts on behalf of the public sector since 2008. The current framework contracts expire 30 September 2016. LASER is seeking customer commitment to join the replacement frameworks commencing 1 October 2016.

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. Gas and electricity market prices are highly volatile and price movements of more than 10% in a week are not unprecedented. To spread market price risk, and to avoid buying during periods of peak market pricing, the Pan Government Energy Project recommended that **"all public sector organisations adopt aggregated, flexible and risk-managed energy procurement"**, which LASER provides.

We are putting in place the new flexible supply frameworks now in order to maintain an effective risk-management approach to energy requirements beyond October 2016. Having a forward purchasing window allows LASER to continue buying energy on behalf of its customers in response to any potential market price changes. Further details on the importance of maintaining a forward purchasing window can be found in **Annex B**.

### *Regulatory Compliance - Framework Procurement Process*

Kent County Council (KCC) is the 'Contracting Authority' for the flexible energy supply contracts operated by LASER. The energy supply contracts are procured through OJEU compliant tender processes. KCC is a 'Central Purchasing Body' ('CPB'), as specified in the Public Contract Regulations 2006. As such, other public sector bodies are able to use the energy supply contracts without having to run separate OJEU tender processes for either the appointment of energy suppliers or LASER's contract management services.

An 'Open Procedure' procurement process, in accordance with European Combined Procurement Directive 2004/18/EC, has been utilised for the tender and award of flexible energy supply contracts for the period October 2016 – September 2020. Details on the procurement approach can be found in **Annex A**.

Following a robust and competitive procurement process, Kent County Council has awarded the frameworks to the winning bidders, Npower (electricity) and Total GP (Gas). Npower and Total GP are the incumbent framework providers for electricity and gas respectively. **The new frameworks deliver additional functionality compared to the current agreements.** Further information on the new framework benefits is contained in **Annex E**.

Customer commitment for frameworks will be sought by December 2014, with energy purchases commencing from 1 January 2015 onwards. Where a customer provides commitment to join the framework after **1 January 2015, energy purchases will commence for that customer's portfolio once their commitment is received.**

### *Commercial and Operational Benefits - LASER's Frameworks and Service*

LASER's team works in partnership with your organisation to manage energy spend, mitigate risk and offer continuity. We maintain comprehensive records of our customers' energy portfolios and all data is available to customers as required. As a public sector buying organisation, we understand the ethical, environmental and social issues that are important to our public sector customers and operate LASER accordingly. LASER:

- Discloses all LASER and supplier fees to customers.
- Regularly benchmarks our flexible purchasing performance and publishes the information to customers.
- Reports quarterly to a Governance Panel which includes LASER customers and an external expert. The Governance Panel helps set LASER's purchasing strategy and ensures we purchase in accordance to the most appropriate approach, which suits our customers' appetite for risk and budget control.

LASER has invested significant time and resources to develop internal expertise and ensure that we have access to the best market information available. This is vital to protect our customers' budgets and ensure that competitive energy prices are achieved. The current frameworks have performed extremely well. For the period October 2009 – September 2013, benchmarking of LASER's purchasing performance shows achieved wholesale energy prices around 4% below market average. On Southampton City Council's portfolio, this equates to avoided costs of £98.7k per annum.

Aggregating the energy spend of multiple customers has resulted in delivered energy costs that are significantly lower than any one customer can achieve independently. Some of the key aggregation benefits include:

- Lower energy supplier management fees
- Reduced balancing risk premiums (the difference between forecast and actual energy usage)
- Increased options to spread market purchases
- Ability to purchase wholesale energy from the entire market, not just the lowest price our supplier is willing to offer

In total, the benefits achieved through the current flexible frameworks, including through market purchases and aggregation, have reduced Southampton CC's energy spend by £355.8k per annum. Further details on the benefits of LASER's frameworks and service can be found in Annexes C and D respectively. Additionally, for those customers taking LASER's 'Fully Managed service', ongoing bill validation, query management and portfolio management typically reduces average delivered energy spends by 2-3%, with some customers seeing up to 10% cost avoidance.

Further detail on the risk management LASER provides in energy procurement and contract management can be found in **Appendix 1** to this Executive Overview.



## Executive Overview: Appendix 1

LASER provides our customers with comprehensive risk management for the procurement of energy. Some of the key areas of risk management are shown within this Appendix.

### Operational Risk

- Productive use of resources – LASER’s energy procurement and contract management enables our customers to focus on reducing energy usage and associated carbon emissions.
- Business continuity – LASER maintains comprehensive information on our customers’ energy portfolios. This information is available to customers in the event of a loss of systems etc.
- Industry changes – LASER monitors changes within the energy industry and advises customers of the potential impacts on their organisation.
- Unexpected events – LASER staff have the ability and agility to handle unexpected events, such as supply interruption or price spikes to markets.
- Management controls - There are appropriate management controls within LASER to oversee our energy procurement function and associated compliance reporting. This would be time-consuming for an individual customer to establish and maintain.
- Live time market information - IT systems provide real-time feeds on the status of energy markets and important information, which would represent a significant cost burden to an individual customer.
- Specialist advice – LASER’s team are on hand to support and supplement a customer’s in-house capability.
- Governance – LASER reports quarterly to a Governance Panel to ensure the flexible frameworks are being operated in an appropriate manner.

### Commercial Risk

Managing flexible procurement approaches:

- LASER’s specialists conduct appropriate energy buying and risk management strategies, in conjunction with our Governance Panel, to manage energy prices consistently over a period of time.
- LASER offers a choice of risk management options that are only possible through aggregating volumes and are unlikely to be achievable by a single customer.

Managing commercial contract terms:

- The size of the aggregated contract ensures suppliers are keen to win the business, submitting competitive tender responses.
- LASER incorporates framework conditions to minimise our customers’ commercial risk. Favourable terms include areas such as no payment of incorrect invoices and aggregated load variance provisions.

#### Informed decision making:

- Energy purchase decision-making within LASER is supported by specialist analytical tools and an effective information system infrastructure, which would be unaffordable to maintain within a single customer.

#### Optimising supplier performance:

- Energy suppliers benefit from working with LASER in terms of ease of access to appropriate staff, tools, policies and procedures, together with timeliness of payments. This helps to reduce supplier management fees.
- LASER manages a large aggregated energy volume, allowing us to incorporate stringent requirements on the supplier within the tender, supported by appropriate Key Performance Indicators.

#### Reputational Risk

- LASER establishes OJEU compliant supply frameworks that are commercial best practice.
- Public bodies are able to use LASER's framework without need for separate OJEU tenders. No risk of supplier challenge to prevent contract award.
- LASER's OJEU procurement processes mitigate the risk of any customer being penalised for non-compliance with regulatory requirements.
- Use of a compliant framework means the organisation is unlikely to become subject of public scrutiny and investigation.

## Annex A: Procurement Approach

### Contract Background

LASER is a public sector energy buying group and part of Kent County Council's Commercial Services division.

LASER was founded in 1989 to manage the procurement opportunities created by the deregulation of the gas and electricity markets. LASER has been purchasing energy flexibly since 2008 and successfully manages flexible gas and electricity procurement on behalf of 115 Local Authorities (London Boroughs, County Councils, Unitary Authorities and District/Borough and Parish Councils) and 45 wider public sector bodies. Current contracted volumes for both electricity and gas amount to **6.7 TWhs** of energy, equating to an annual delivered spend of approximately **£350m**. This equates to approximately 2.1% of the UK's non-domestic gas demand and 1.3% of non-domestic electricity demand.

LASER's current flexible electricity and gas supply frameworks expire **30 September 2016**. The current contracts have performed extremely well, with overall achieved energy prices lower than average market prices. To enable LASER to commence purchasing energy requirements from **1 October 2016** onwards and to take advantage of any potential favourable hedging opportunities, LASER has arranged for renewed frameworks to commence from **October 2014**. The replacement frameworks have been procured by Kent County Council (the Contracting Authority) in accordance with EU and UK Public Procurement Directives and Regulations and will run for the period 1 October 2016 – 30 September 2020.

### Procurement Process and Timelines

Our OJEU compliant frameworks are accessible to all Local Authority Councils, Regional Improvement and Efficiency Partnerships (RIEPs), the Police Service, the Fire and Rescue Service, the NHS & NHS Trusts (including the Ambulance Service), Third Sector Organisations, Registered Charities, Registered Social Landlords, Educational Establishments, Academic Centres, Coastguard Emergency Services and publicly funded organisations. The process for securing the replacement flexible supply frameworks from 1 October 2016 is summarised as follows:

| Action  | Target Date             | Completed |
|---|-------------------------|-----------|
| Scope Invitation to Tender and contract requirements            | February - March 2014   | ✓         |
| Seek supplier feedback on contract requirements and innovations | February 2014           | ✓         |
| Customer meetings to discuss new contracts                      | January – March 2014    | ✓         |
| Release Invitation to Tender                                    | April 2014              | ✓         |
| Tender Returns  | June 2014               | ✓         |
| Award framework   | September 2014          | ✓         |
| Supplier frameworks executed                                    | November 2014           | ✓         |
| Customer meetings to discuss contract commitment                | October - December 2014 |           |
| Confirmation of commitment by customers                         | October - December 2014 |           |
| Commence energy purchases beyond October 2016                   | January 2015            |           |
| Supply Start Date   | 1 October 2016          |           |

Copies of the OJEU tender and award notices can be downloaded using the links provided in **Annexe E**.

### ***Procurement Basket Options***

The main flexible frameworks being renewed from 1 October 2016 contain Purchase in Advance (PIA) and Purchase within Period (PWP) basket options. The baskets have different approaches to forward buying energy. Customers select their preferred choice dependent on appetite for price risk and requirement for budget certainty. Customers have the option of splitting their portfolio of energy supplies between PIA and PWP.

Outside of the main flexible framework, LASER also offers customers the option of Flex Light or Fixed Price Fixed Term contracts for procuring energy requirements. Both of these options are separate from this procurement process. It is envisaged that both options will be retained post October 2016.

The following sections give more information on the current flexible procurement basket options.

#### **Flexible Purchase in Advance (PIA)**

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 will be 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.

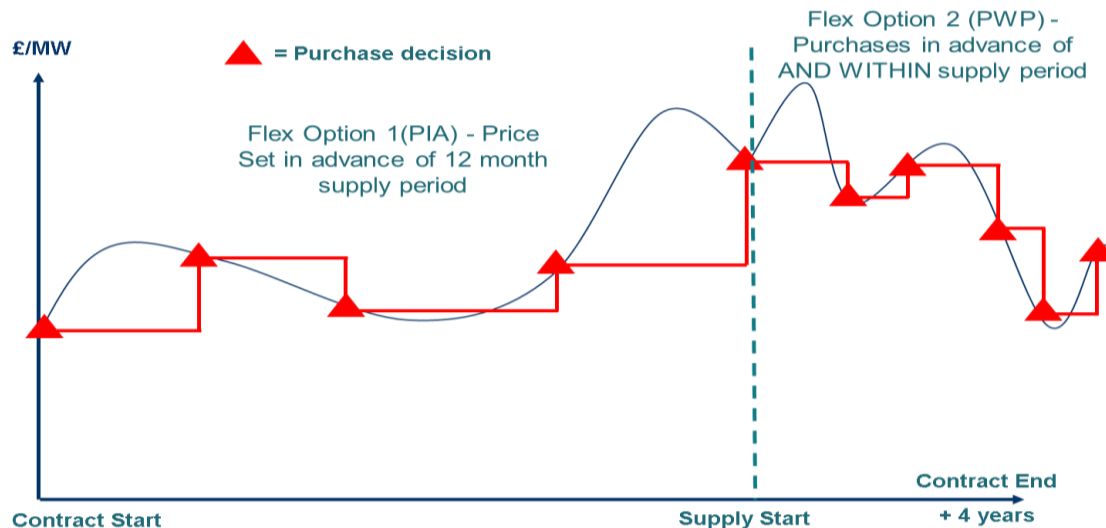
#### **Flexible Purchase within Period (PWP)**

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 6 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 6 month supply period.

A reference price will be set to apply on invoices for each 6 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 6 month supply period, once all energy requirements have been purchased, a reconciliation takes place between the reference price applied to invoices and the final (achieved) purchase price. With the exception of one 6-month period in the last 6 years, this reconciliation process has always resulted in a credit being returned to customers.

The following chart summarises how purchases are forward bought under the PIA and PWP options.

Figure 1 - Timing of Flexible Purchases (for illustrative purposes only)



Maintaining a purchase window in advance of the supply start date is essential to ensure that market price risk can be spread over multiple energy purchases. Further information on this, including the rationale for completing the framework renewal process during 2014, is shown in **Annex B**.

Customers may split their portfolio of sites between PIA and PWP. For example, some local authority customers utilise PWP for corporate buildings and street lighting supplies and PIA for small supplies that require additional budget certainty (such as schools). In addition, further basket options are proposed for the new framework. Outline details are provided in **Annex E**. A desktop trading exercise to compare the outturn wholesale energy prices of the alternative basket options has now commenced, and the results will be shared with the Governance Panel and customers. Customers will be required to confirm their final basket choices by April 2016. The default position where no choice is made will be the customer's current basket options.

## Contract Documents

Kent County Council (KCC) is the 'Contracting Authority' for the flexible supply contracts from 1 October 2016. The flexible supply contracts are procured by KCC through an OJEU compliant tender process and operated by LASER for the duration of the agreement. KCC is a 'Central Purchasing Body' ('CPB'). Other public sector bodies can participate in the framework and utilise the flexible supply contracts put in place by KCC without having to run separate OJEU tender processes for either the appointment of energy suppliers or LASER's contract management services.

LASER will provide two options for customers to commit to the new contract frameworks.

### **Option 1: Four-Year Commitment**

Option 1 is the same arrangement as operating under the current flexible supply frameworks.

- A four-year flexible supply agreement will be entered into between Kent County Council and the successful supplier(s).
- LASER customers then sign a tripartite agreement (side agreement) for the duration of the four-year framework. The tripartite is executed by the customer, the supplier(s) and Kent County Council.
- The tripartite provides authority to LASER to purchase the customer's energy requirements for the duration of the four-year agreement.

### **Option 2: Rolling Two-Year Commitment**

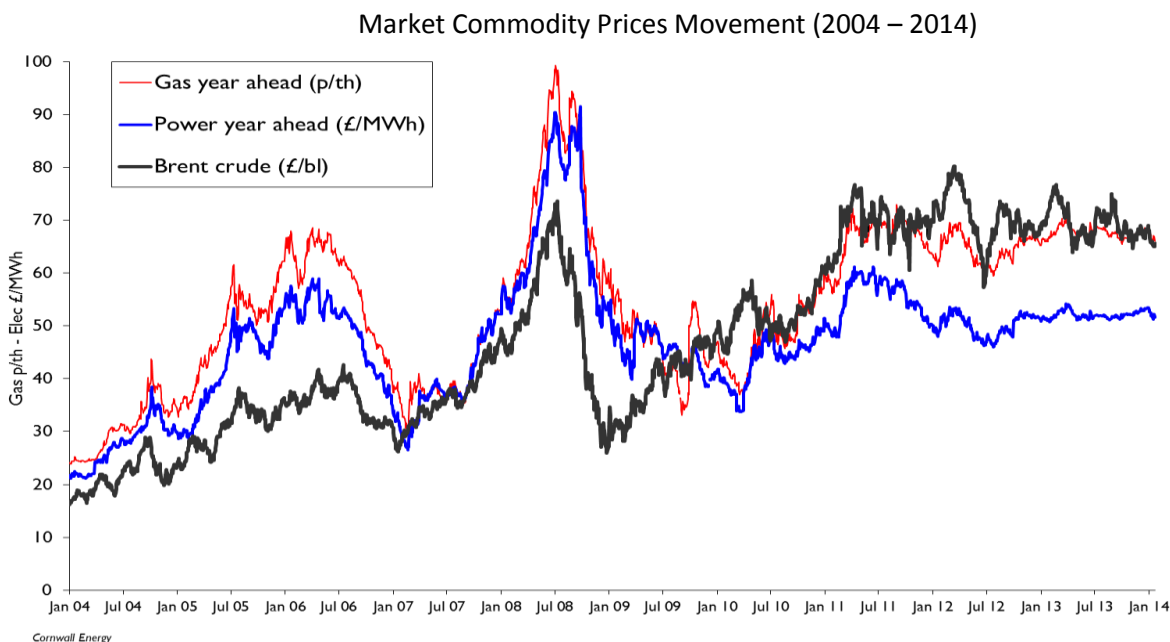
Option 2 provides an alternative approach for customers who may not be able to commit to the full four year framework duration. Customers utilising this agreement are delegating authority to LASER to purchase future energy requirements on a rolling two-year basis. The agreement continues indefinitely unless terminated by the customer. As such, the framework energy suppliers are subject to change every 4-years.

- A bilateral agreement will be entered into between the Kent County Council and the customer. This permits LASER to forward purchase energy requirements on behalf of the customer from the successful supplier(s). It also commits the customer to the prevailing framework conditions.
- The customer can issue a termination notice should they wish to exit the agreement. The effective termination date will be the first contract anniversary after 2-years has elapsed.
  - For example, if a customer issued a termination notice in June 2016, LASER would cease to purchase the customer's energy requirements for the contract period commencing 1 October 2018 onwards.
- LASER will periodically tender for new framework energy suppliers to ensure continuity of supply. If the customer does not provide a termination notice, LASER would continue to purchase the customer's energy requirements from any replacement framework providers.
  - If the customer did not want to commit to any future supplier frameworks, a termination notice must be issued prior to 30 September 2018 so as to cease purchases from the expiry date of the next 4-year framework (30 September 2020).
- LASER would only forward purchase the customer's energy requirements for the period that was committed to (i.e. the period covered by the rolling agreement). This effectively gives a smaller forward purchase window compared to Option 1.

## Annex B: Importance of Maintaining an Effective Purchasing Window

The requirement to forward purchase energy ahead of the supply period is a key part of any risk managed energy strategy. Having the option to secure electricity and gas volume for the period October 2016 to September 2020, well in advance of delivery, is vital in protecting LASER customers against potential wholesale market price changes. The following graph shows how volatile historic gas and electricity market prices have been.

Figure 2 - Historic Energy Market Price Volatility



The following table, based on prices for the period 2009-2013, shows what Southampton CC's annualised wholesale energy costs (typically forming 50-70% of delivered energy costs) would have been, based on maximum market prices and annual average market prices.

| Authority      | Annualised Wholesale Commodity Costs (2009-13) |                       |                |
|----------------|--|-----------------------|----------------|
|                | Maximum Market Prices                          | Average Market Prices | % Differential |
| Southampton CC | £3,675.9k                                      | £2,411.7k             | 52%            |

The above table demonstrates the importance of maintaining a forward purchasing window to spread market price risk and mitigate against market price peaks.

Markets will undoubtedly be subject to the continued price volatility as supply/demand fundamentals, geopolitical events and regulatory reform impact prices. Uncertainties surrounding the makeup of future UK electricity generation capacity, along with increasing intermittent renewable generation, will likely increase

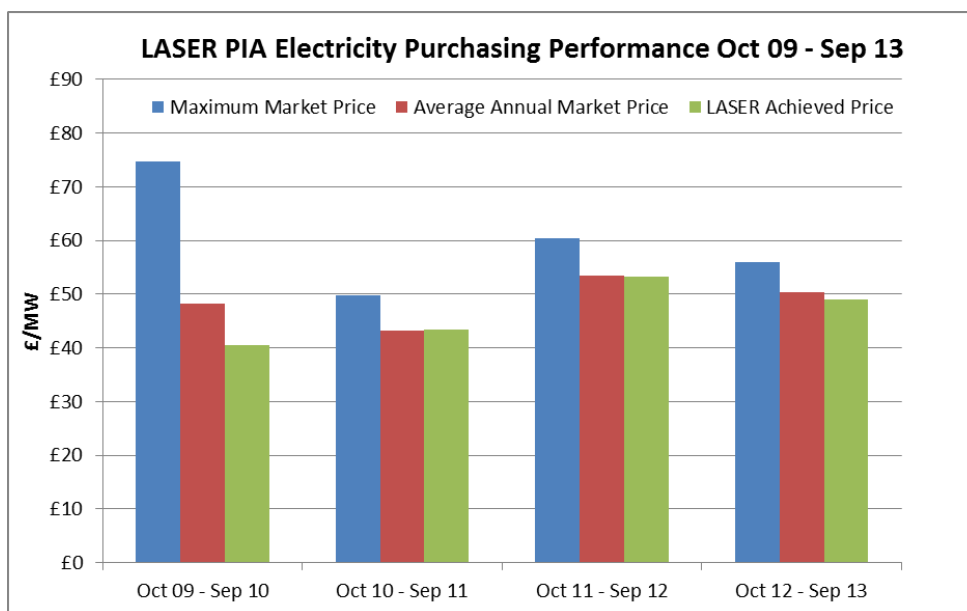
market price volatility. A flexible and strategic risk managed approach therefore becomes increasingly important to ensure future energy prices are delivered at or below market average prices. This emphasises the need to maintain a forward purchasing window to progressively forward buy energy requirements for the period October 2016 – September 2020.

LASER will continue to seek opportunities to maximise purchases during periods of low market prices. The greater aggregated volume commitment from Local Authorities at an early stage will prove very beneficial in protecting customers from price spikes and help maintain an achieved price which is below market average.

### LASER Purchasing Performance

LASER has invested significant time and resources to develop internal expertise and ensure that we have access to the best market information available when making flexible energy purchases on behalf of our customers. The current contracts have performed extremely well, with overall achieved energy prices lower than average market prices. As an example, the following chart compares maximum market prices, average market prices and LASER's achieved prices in the Purchase in Advance electricity basket.

Figure 3 - LASER Flexible Purchasing Performance 2009-13



The above chart shows that over the period **2009 – 2013**, LASER's average achieved price in the Purchase in Advance electricity basket was **£2.31/MWh (4.7%)** below the average market price. Equivalent charts for LASER's other baskets and fuels are shown in **Appendix B1**.

Based on Southampton CC's current basket options and annual consumptions, the following table shows wholesale energy costs at LASER's achieved purchase prices.

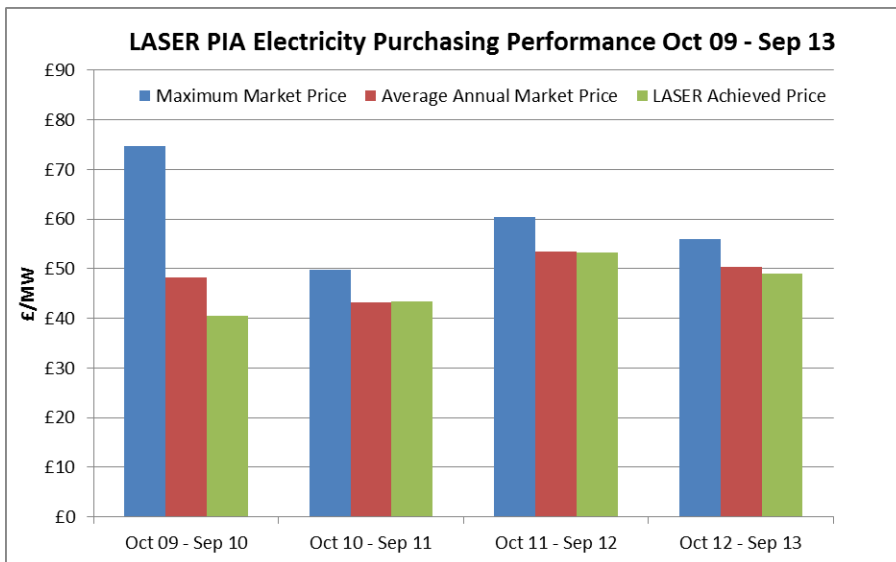


| Authority             | Annualised Wholesale Commodity Costs (2009-13) |                       |                          |
|-----------------------|--|-----------------------|--------------------------|
|                       | Maximum Market Prices                          | Average Market Prices | Achieved Purchase Prices |
| <b>Southampton CC</b> | £3,675.9k                                      | £2,411.7k             | £2,313.1k                |

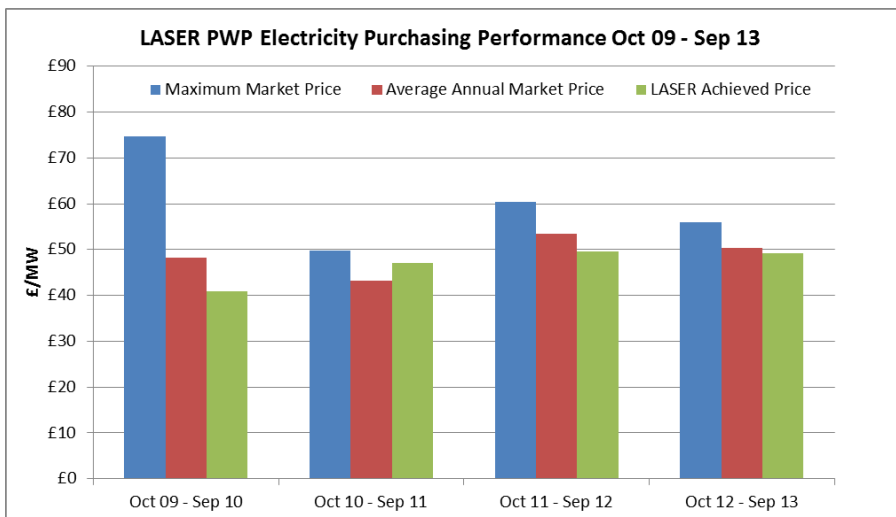
As shown in the table above, for Southampton CC's portfolio during the period 2009-13, LASER's achieved purchase prices have avoided annualised wholesale costs of £98.7k compared to average market prices and £1,362.8k compared to maximum market prices.

## Appendix B1: LASER Flexible Purchasing Performance

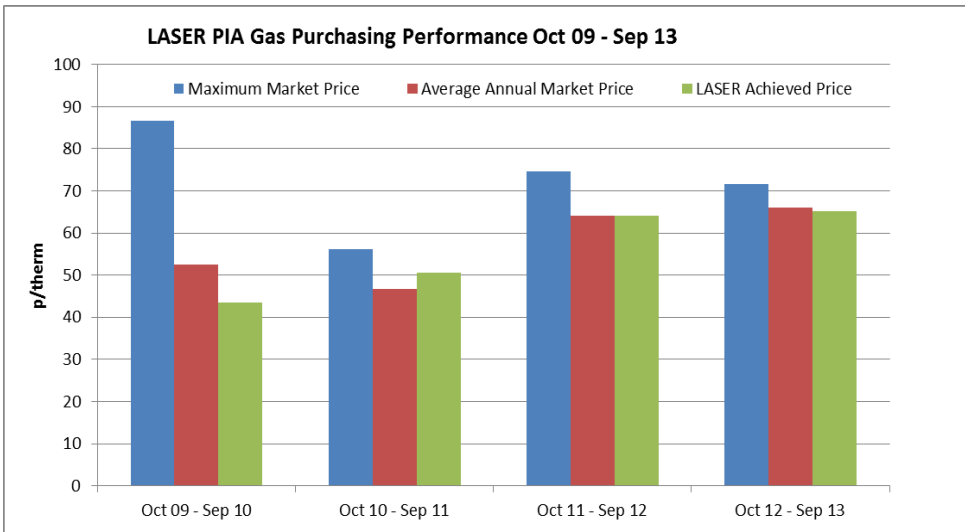
The following charts show maximum market prices, average market prices and LASER's achieved prices for electricity and gas in the Purchase in Advance and Purchase within Period baskets for the period 2009 to 2013.



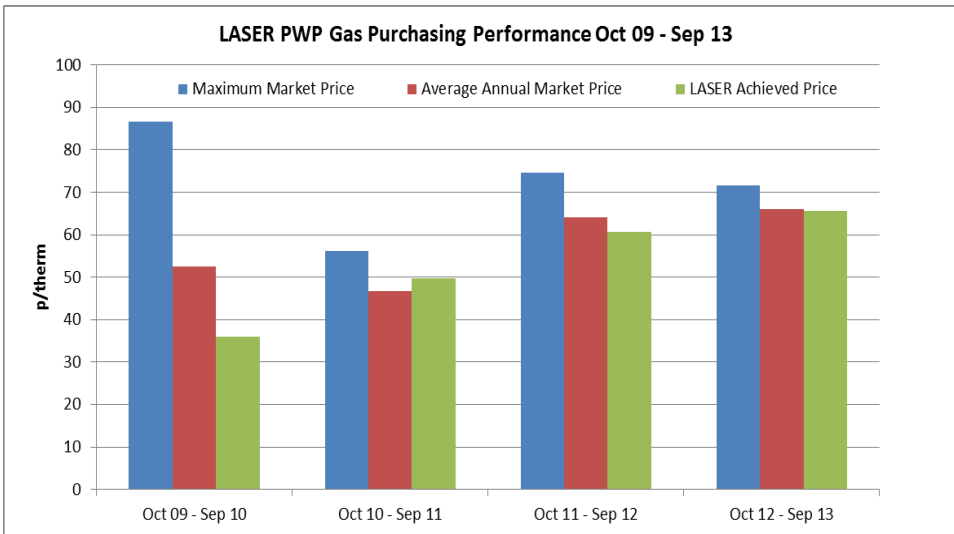
- Over the period **2009 – 2013**, LASER's average electricity purchase price was **£2.31/MWh (4.7%)** below the average market price



- Over the period **2009 – 2013**, LASER's average electricity purchase price was **£2.15/MWh (4.4%)** below the average market price.



- Over the period **2009 – 2013**, LASER's average gas purchase price was **1.55 p/therm (2.7%)** below the average market price



- Over the period **2009 – 2013**, LASER's average gas purchase price was **4.35p/th (7.6%)** below the average market price

## Annex C: Benefits of LASER's Framework

In addition to the LASER Purchasing Performance shown in **Annex B** the current LASER frameworks deliver a number of benefits to customers. Key benefits include:

- **Aggregation** - LASER aggregates the purchase volumes of all customers when procuring the total energy requirements. The aggregation has achieved the following key benefits:
  - Aggregation of multiple customers' energy requirements reduces the balancing risk (the difference between forecast energy usage and actual energy usage) as well as flattening the load shape of the whole portfolio. We estimate the reduced balancing risk saves 1.0% pa. Based on Southampton CC's portfolio, this equates to an avoided cost of £44.7k per annum.
  - Lower energy supplier management fees can be negotiated through LASER's aggregated procurement approach. A recent benchmarking exercise for a stand alone local authority showed supplier management fees were 6 times greater than those included in LASER's electricity contract. This equated to an additional 4% on delivered energy costs or, based on Southampton CC's portfolio and avoided cost of £178.9k per annum.
  - The transactional costs associated with establishing an OJEU compliant supply contract are shared amongst multiple customers. Customer feedback has indicated that outsourcing energy procurement to LASER results in tender and legal cost savings of £20k per tender, or £5k per annum for a 4-year framework.
- **Flexible Purchases** – Most suppliers' terms and conditions require flexible purchases to be made at the 'Offer' price (the lowest price that any counterparty in the market is willing to sell at). For both gas and electricity, LASER has negotiated a contract where the purchase bids we make are submitted by the supplier into the external market. This means we consistently buy at prices lower than the 'Offer' price. Across the LASER portfolio this is conservatively estimated to reduce overall energy purchase costs by over £0.6 million per annum.
- **Reviews of Usage Volumes** – LASER receives from our suppliers monthly updates on total energy volumes consumed by our customers. This enables LASER to monitor aggregated usage volumes, and amend future purchase volumes accordingly. This reduces associated balancing charges (the difference between forecast energy usage and actual consumption) paid by our customers.
- **Load variance provisions** – the flexible contracts aggregate loads across all customers in the basket, with permitted load variance tolerances calculated on the entire portfolio. This mitigates the risk of any one customer receiving load variance penalties for using significantly more or less energy than forecast. To date, no load variance penalties have been applied to any sites in the LASER flexible procurement contracts.

- **Transparency of pricing** – Prior to each pricing period, LASER’s contracts oblige the suppliers to provide a complete price breakdown for each site showing how all energy and non-energy cost components have been rolled-up into delivered contract pricing. This ensures that Supplier errors do not translate into higher delivered energy prices. More information on how LASER validates these charges is shown in **Annex D**.
- **No payment on incorrect bills** – Most energy suppliers’ contracts stipulate that customers must pay invoices regardless of their accuracy, with rectification of any errors occurring subsequently. LASER’s frameworks have a specific clause to state that payment will only be made on correct invoices. Our experience of invoicing shows that a robust validation service will reduce delivered energy spends by 2-3%, with some customers seeing up to 10% cost avoidance. By negotiating this clause in the framework, this overspend is avoidable, along with the additional administration of processing credits and recharges.
- **Variety of invoice and payment options** – the contract frameworks contain multiple permitted methods of receiving bills (including paper, PDF or EDI) along with multiple methods for paying bills (including direct debit, cheque and BACS). Customers are permitted to choose the option that is most convenient without any surcharge applying.
- **No limitations on flexible purchases** - LASER’s flexible contract frameworks place no restrictions on the size of individual flexible purchases we make, nor the market period (seasonal, quarterly, monthly or daily) we use to buy future requirements. This ensures that we can buy in a way that most closely reflects our customers’ usage requirements, maximises market opportunity and minimises Balancing costs.
- **Renewable electricity** – LASER’s flexible electricity contract contains a provision of cost-neutral renewable electricity for a portion of our total customer requirements. This is allocated out to customers at no price premium. In addition, the contract permits customers to buy additional renewable electricity should they require.

All the benefits and features of the existing frameworks will be core requirements for the replacement contracts.

## Annex D: Benefits of LASER's Service

LASER's service ensures that customers gain maximum value from our framework contracts, including the following areas of benefit:

### Procurement Expertise

- **Access to dedicated procurement professionals** - The purchase of gas and electricity within LASER is carried out by a team specialising in Procurement of Energy. The team have many years of procurement practice and have a vast knowledge of the energy industry in particular with access to on going industry regulations and charge details.
- **Robust purchasing procedures** – LASER has strong and established processes in place for managing ongoing flexible purchases on behalf of our customers. A recent external review of LASER's procurement function from an independent expert concluded that *"LASER provides highly appropriate and well considered procurement options which give customers good choice and flexibility. It has a good systems & controls framework for commercial, risk management and operational processes"*.
- **Market and Industry Information** – LASER has invested in systems and data sources to ensure we have comprehensive and timely information on any potential impacts on energy prices. We monitor this information closely to ensure we make well-informed decisions on behalf of our customers.
- **Control of non-energy costs** – Prior to each flexible pricing period, LASER conducts a price validation exercise to ensure that all energy and non-energy cost components have been accurately incorporated into delivered energy rates. This process of identifying and resolving pricing errors prior to opening invoices being issued typically reduces delivered energy spend across the whole LASER portfolio by 0.75%. Across Southampton CC's portfolio, this equates to an estimated avoided cost of £33.5k per annum. Further information on the breakdown of energy costs is provided in **Appendix D1**.

### Public Sector Expertise

LASER was established by Kent County Council in 1989 to manage the energy requirements of public sector customers. We understand the budget and price drivers that are important to Local Authorities and the wider public sector and incorporate these within our purchasing strategies accordingly. Kent County Council is a Central Purchasing Body, so customers do not need to run an OJEU process to utilise the LASER frameworks. Core areas to LASER of managing the public sector's energy requirements include:

- **Portfolio Management** – LASER has strong experience of managing large and diverse multi-site public sector portfolios. We understand the requirements of such portfolios and their stakeholders and use our experience to minimise customer cost and administration.
- **Transparency** – LASER operates a culture of transparency. This includes:
  - Disclosing all LASER and supplier fees to customers.
  - Regularly benchmarking our flexible purchasing performance and publishing the information to customers
- **Governance Panel** – LASER reports to a Governance Panel each quarter. The panel includes a representative group of LASER customers along with an external expert. The panel reviews LASER's purchases in the previous quarter, the current purchase positions, LASER's views on the forward market and LASER's proposed approach to purchases in the following quarter.

## Team Expertise

Every LASER customer is allocated a named Customer Relationship Manager (CRM) and associated team. The CRM team will act as the customer's primary point of contact within LASER and will meet with the customer regularly to ensure we are meeting their requirements. In addition, LASER provides regular newsletters to customers as well as bi-annual forums where customers can hear pertinent presentations from LASER colleagues and external industry experts. A recent customer survey has shown that overall satisfaction with LASER's service has increased by 7% in the past 12 months.

LASER recognises that the service received by our Customers can only be delivered if the chosen Supplier is capable of delivering a high quality service and willing to build on existing services with continuous improvement. Effort is invested in working with all existing Suppliers to constantly review and improve services. As well as working with current providers we also work with Suppliers not on current frameworks, by raising LASER's profile with all suppliers this ensures that we get a good response to Tenders from all potential suppliers therefore delivering better service to Customers.

LASER continues to review the various flexible procurement options and contract features that will provide best value to our customers. Some of the enhancements included within the new contract framework include:

- An additional four basket options to expand on the current options of Purchase in Advance and Purchase within Period. These additional options offer varying degrees of budget certainty and market price optimisation.
- The ability to sell onsite and distributed electricity exports back to the flexible supplier. Included is an option to allocate a customer's own electricity exports to another site in the portfolio ('netting').

- Demand management – the ability to reduce costs or receive cash payments in return for reducing energy usage during periods of peak demand.
- Additional supplier account management support. This includes additional invoicing options, payment term options and reporting. There will be Service Level Agreements included within the supplier contracts with associated penalties for poor performance.

In addition to the above, LASER offers customers the choice of a ‘Fully Managed’ service. Under this service LASER provides:

- **Invoice Validation** – LASER validates energy invoices using our bespoke GEMS software. All validation is carried out at account level to ensure that each site is paying the correct amount for their energy consumption. In total, LASER validates 200,000 energy invoices per annum on behalf of our Fully Managed customers, with no payment made to the supplier on erroneous invoices. Of the criteria we validate, GEMS can report up to 119 error messages, reflecting the complexity of energy invoices. On average, 20% of all supplier invoices are flagged due to failing one or more of the above validation criteria. Our team then manually checks the flagged invoice, after which 6% of all invoices are held and queried with the supplier. LASER’s customers do not receive an invoice until the query is resolved. Our invoice validation processes and resolution of associated queries reduces delivered energy spends by 2-3%, with some customers seeing up to 10% cost avoidance. This is equivalent to potential cost avoidance of between £89.4k and £447.2k per annum across Southampton CC’s portfolio.
- **Query Management** - LASER will manage and resolve any queries on behalf of our Fully Managed customers (for example, the correction of erroneous invoices, new or closed sites, meter reading queries). Any of the customer’s stakeholders (for example, end users) can contact our dedicated Customer Relationship Management team to raise or discuss a query. Our team will use our senior industry contacts to resolve queries, and will keep the stakeholder informed of the progress. In total, LASER raises and resolves approximately 2,200 complex billing queries across our portfolio each year.
- **Portfolio Optimisation** – LASER regularly reviews all accounts across the Fully Managed portfolio to identify opportunities to reduce delivered energy costs (for example, through reducing the amount paid in regulated network charges). An ongoing project is examining Available Capacity settings across the half hourly portfolio. Available Capacity is a nominated maximum electricity demand which is reserved for a site by the local electricity network operator. LASER has identified potential ongoing Available Capacity savings of ~£1.1 million per annum across ~600 sites and has started the process to implement these savings.

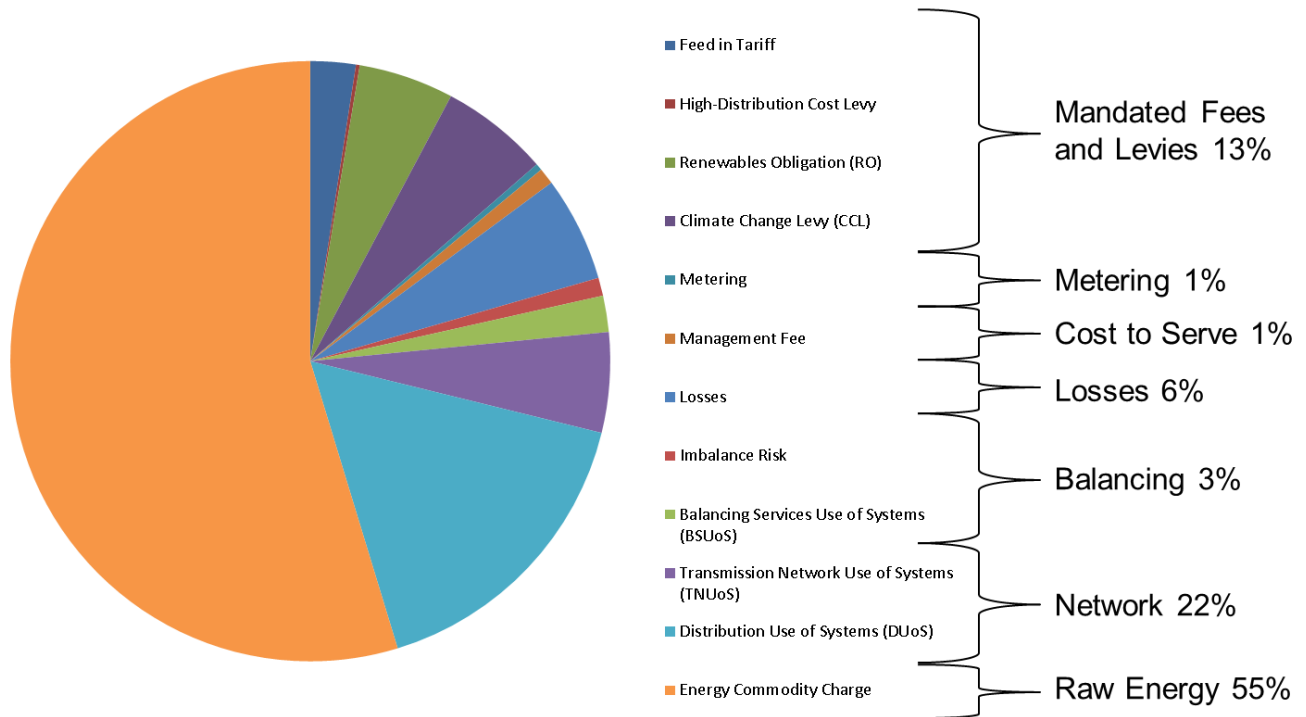
LASER is committed to providing continual improvement across our contract frameworks and customer services. We encourage feedback from customers which is used to continually tailor and modify our service options.



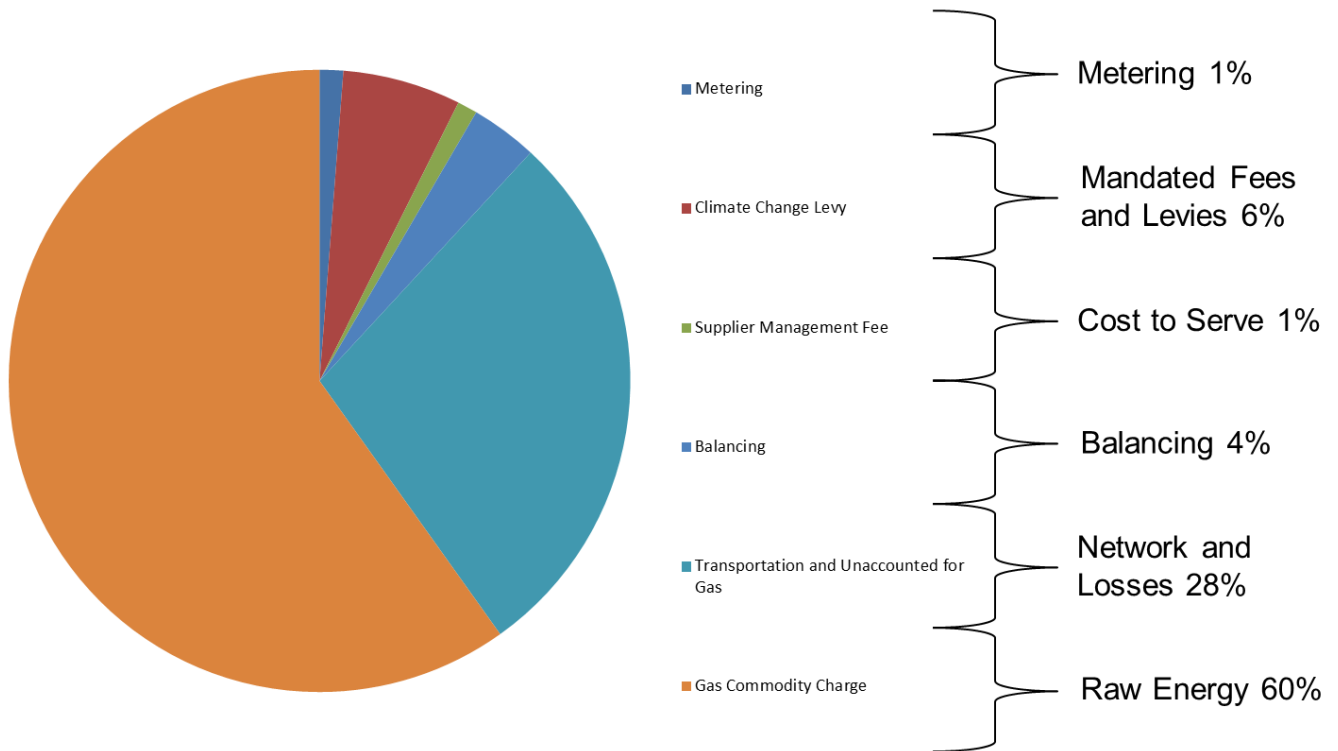
## Appendix D1: Breakdown of Energy Costs

The contribution of the various price components to delivered energy spends varies based on a site's volume of energy use, time of energy use and location. The following charts show typical breakdowns.

**Figure 4 - Typical Electricity Cost Breakdown**



**Figure 5 - Typical Gas Cost Breakdown**



Of the above components, only the supplier management fee, typically equivalent to less than 1% of delivered energy spend, is fixed in the contract through the tender process. The largest single component, the raw energy cost, is purchased progressively during the term of the contract to spread market price risk.

The remaining components are added into the delivered energy price by the supplier. LASER carries out a comprehensive validation exercise at the start of each pricing period to ensure that the supplier is not over-recovering these costs. **Annex D** provides more detail on this process.

## Annex E: Tender Outcomes and New Framework Benefits

An ‘Open Procedure’ procurement process, in accordance with European Combined Procurement Directive 2004/18/EC, has been utilised for the tender and award of Flexible Framework Agreements for the supply of Electricity and Gas for the period October 2016 – September 2020.

A total of six suppliers submitted tenders (four electricity offers and three gas offers). Npower (electricity) and Total GP (Gas) received the highest assessed tender scores. Npower and Total GP are the incumbent framework providers for electricity and gas respectively.

OJEU Notices have been published in respect of the Invitation to Tender and Contract Award and copies of these can be downloaded using the links provided **Appendix E1**.

Under the new frameworks there will additional functionality and benefits:

- **Multiple baskets** offering a wider range of risk management options reflective of a customer’s appetite for risk versus budget certainty (see **Appendix E2** for further details). Paper trading using the alternative basket options will be commencing shortly, with results to be shared with the Governance Panel and customers. Customers will be required to confirm their final basket choices by April 2016. The default position where no choice is made will be the customer’s current basket options.
- **Renewable Energy** available for the entire portfolio covering the duration of the new frameworks through to September 2020. For the first year of supply, October 2016 – September 2017, this will also be offered at a 5% discount to the prevailing rate of CCL and at cost neutral for the remaining years.
- **Levy Exemption Certificate (LEC)** ‘Traceability’ for electricity supply that is subject to CCL, enabling renewable sources to be identified including a full audit trail of LEC and REGO certificates. This may be beneficial for those requiring greater transparency for carbon and sustainability reporting.
- **Green Gas** can be sourced directly from a producer and sleeved directly into the appropriate baskets and allocated against customer portfolios. The price paid for gas would be the price agreed with the producer, any third party costs incurred in transporting the gas as well as any applicable taxes or levies and supplier management fees.
- **Demand Side Management** – the ability to receive a cost reduction or cash payment in return for being able to curtail energy usage at short notice. Services covered will be: Triad Avoidance, Short Term Operational Reserve (STOR), Frequency Control by Demand Management (FCDM), Dynamic Firm Frequency Response (DFFR) and Negative Reserve (NGC Footroom).

- **Power Purchase Agreements** can be facilitated or 3<sup>rd</sup> party sourced PPAs can be sleeved into a customer portfolio. Customers can also bring in multiple spill based sites and convert this volume into their required shape.
- **AMR meters** for electricity (where not already installed) to be fitted free from 1<sup>st</sup> October 2016 for all profile classes (01-08).
- **AMR Gas meters** - in advance of the roll-out of smart meters, customers will have the option of installing an advanced (AMR) metering solution at no additional cost.
- **Sleeving** - the Contracting Authority may forward purchase energy beyond the end of the new framework agreements (subject to customer firm commitment) and 'sleeve' the forward purchased volumes into any subsequent framework arrangement.
- **LASER Fees** for customers that remain on existing management and basket options will remain unchanged but will be subject to annual CPI increases.

## Next Steps

During October – December 2014 we will be arranging meetings with customers to discuss the process for 'signing up' to the new frameworks and give advice or additional information in respect of basket options. In order to maximise the window for making future energy purchases, and to confirm forthcoming volume and shape requirements, it is important that we receive commitment by **31<sup>st</sup> December 2014**. Should a customer be unable to commit to the framework by the end of 2014, commitment can be provided subsequently. **However, LASER will not commence forward purchases on behalf of the customer's portfolio until commitment is received.**

LASER is happy to provide any customer-specific information that may be required to assist your decision to join the new frameworks. Email confirmation of your intent should be sent to your Customer Relationship Manager. LASER will then produce contract documentation for your execution. Unless you express an alternative preference, a 4-year Tripartite contract will be provided, aligned to your existing procurement basket and service options.

## ***Appendix E1: OJEU Notices and Awards***

OJEU documentation can be obtained through the following links:

- **Electricity OJEU Notice:**  
<http://ted.europa.eu/udl?uri=TED:NOTICE:149494-2014:TEXT:EN:HTML>
- **Gas OJEU Notice:**  
<http://ted.europa.eu/udl?uri=TED:NOTICE:149479-2014:TEXT:EN:HTML>
- **Electricity OJEU Award:**  
<http://ted.europa.eu/udl?uri=TED:NOTICE:392271-2014:TEXT:EN:HTML>
- **Gas OJEU Award:**  
<http://ted.europa.eu/udl?uri=TED:NOTICE:392187-2014:TEXT:EN:HTML>

## ***Appendix E2: Proposed Flexible Procurement Basket Options***

### **Alternative Basket Options**

The Purchase in Advance and Purchase within Period baskets are core requirements of the new contract frameworks. Customers can remain on either basket option or switch between baskets as preferred.

LASER has received feedback from customers who would be interested in additional basket options that provide either greater budget certainty or greater market opportunity. On the basis of this feedback, LASER has incorporated additional basket options within the new frameworks.

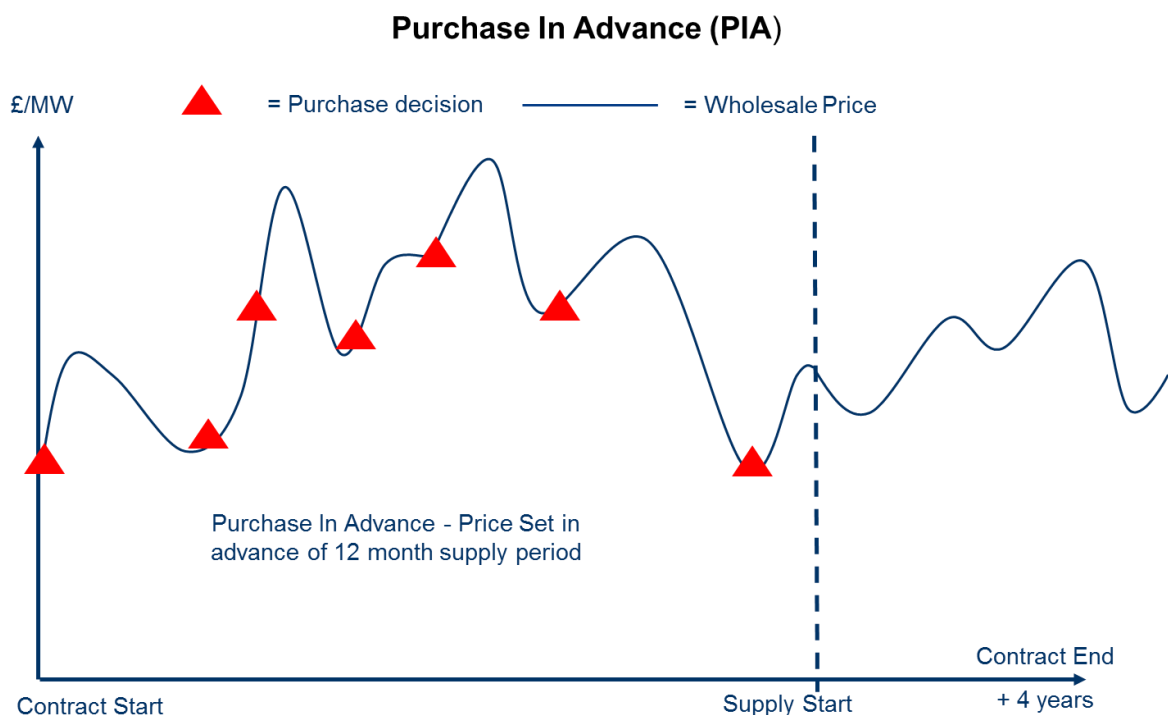
Paper trading using the alternative basket options has now commenced, with results to be shared with the Governance Panel and customers in April 2015. The format of the alternative options may be subject to change to ensure they represent an appropriate level of risk. Customers will be required to confirm their final basket choices by **1 April 2016**. The default position where no choice is made will be the customer's current basket options.

A description of the draft basket options is detailed below, along with a graphical representation. Customers will be able to switch all or part of their portfolios onto the alternative basket options during the term of the new contract by providing LASER with at least 6 months notice prior to each 1 October contract anniversary. The viability of these additional basket options will be subject to sufficient volume commitment from customers. The format of all basket options may change during the course of the framework where, in conjunction with the LASER Governance Panel, enhancements are feasible.

### Option 1: Flexible Purchase In Advance (PIA)

All volume will be purchased prior to delivery for each 12 month supply period. The sum of all trades will be used to calculate the aggregate energy price, to which pass through charges will be added to arrive at the delivered cost pence per therm/kilowatt hour of consumption over the full course of the 12-month supply period.

The delivered price for a site will be set annually and will be validated and approved by LASER prior to prices being distributed to customers.



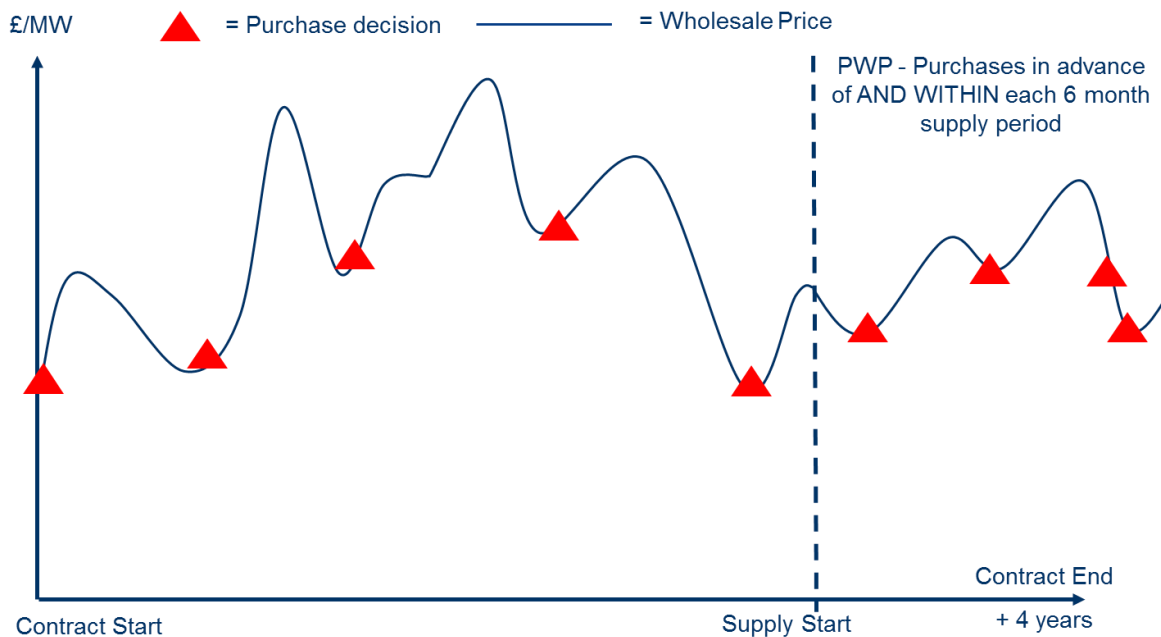
## Option 2: Flexible Purchase Within Period (PWP)

A proportion or all of the required volume will be purchased prior to delivery for each 6-month supply period and if applicable the remainder purchased within the supply period. A reference price will be set at the beginning of the supply period when open volume is still to be purchased and this reference price will be applied to billing during the supply period. A reconciliation between the reference price and final achieved price will be carried out at the end of the 6-month period.

Volume requirement will be based on forecast volumes agreed and amended according to portfolio changes on a six monthly basis, or as required.

The delivered price for a site will be set six monthly and will be validated and approved by LASER prior to prices being distributed to customers.

### Purchase Within Period (PWP)

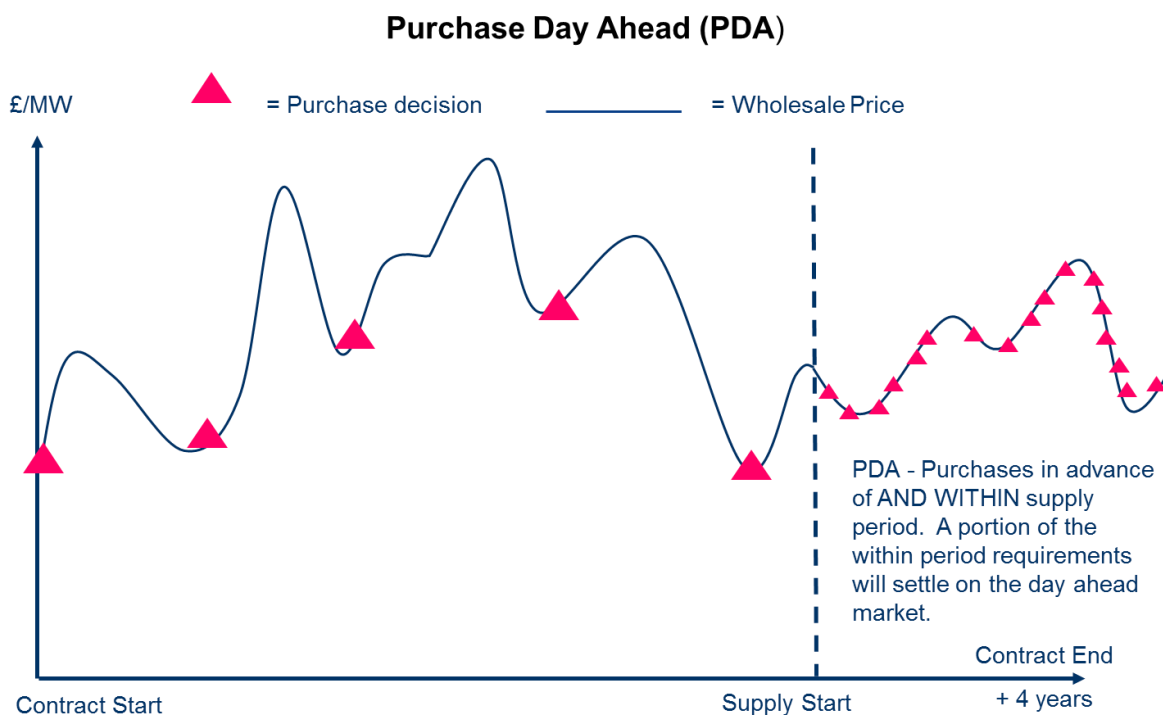




### Option 3: Flexible Purchase Day Ahead (PDA)

A fixed volume will be purchased prior to delivery for each 6-month supply period with the remaining volume being left open to 'float' on the day ahead index. A reference price will be set at the beginning of the supply period and this reference price will be applied to billing during the supply period. A reconciliation between the reference price and final achieved price will be carried out at the end of the 6 month period.

The delivered price for a site will be set six monthly and will be validated and approved by LASER prior to prices being distributed to customers.



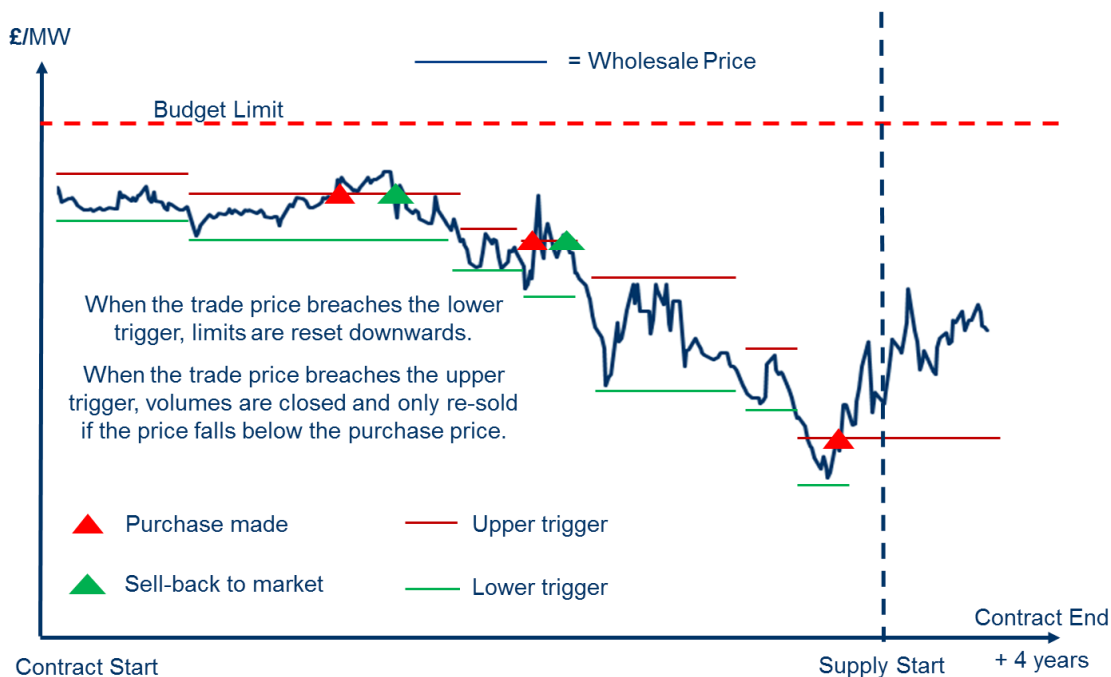
#### Option 4: Flexible Set and Reset

A proportion or all of the required volume will be purchased prior to delivery for each 12-month supply period and if applicable the remainder purchased within the supply period. Budget limits are agreed in advance, with commodity purchases closed out if market prices move above the pre-set limits. This product will also allow for the reset of fixed volume if the market moves below pre-set triggers with a mechanism in place to buy back at a lower rate. Volume purchased via this product will be to meet requirement only and will not exceed committed volume.

A reference price will be set at the beginning of the supply period. A reconciliation between the reference price and final achieved price will be carried out at the end of the 12-month period.

The delivered price for a site will be set 12-monthly and will be validated and approved by LASER prior to prices being distributed to customers.

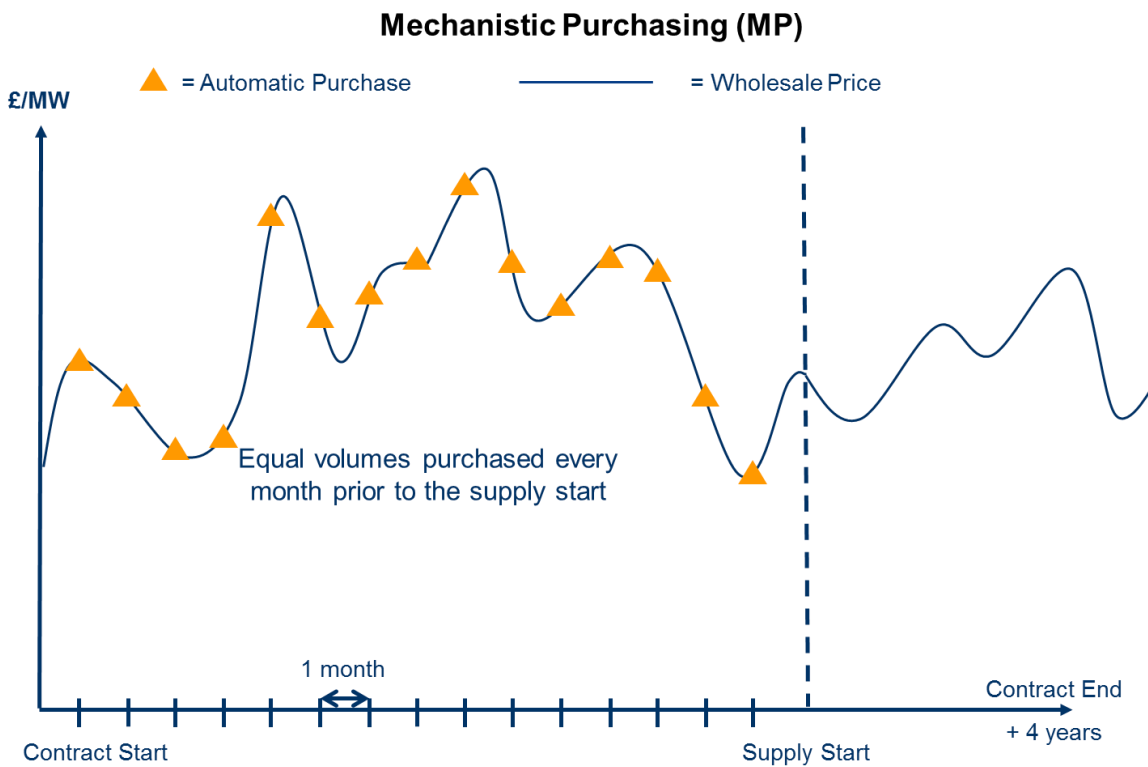
#### Flexible Set and Reset (FSAR)



### Option 5: Mechanistic Purchasing

Total energy volumes to be purchased in equally-sized blocks, once per month, in each of the 24 months, prior to the start of the supply year. This ensures the basket price will always be very close to average market price.

The delivered price for a site will be set annually and will be validated and approved by LASER prior to prices being distributed to customers.



### Option 6: Flexible Forward Lockout

All purchase volumes to be completed **6 months** in advance of each 12 month supply period. The sum of all trades will be used to calculate the aggregate energy price, to which will be added fixed pass-through-charges, some or all of which may be agreed in advance for a 12, 24 or 36 month period, to arrive at the delivered cost per therm/kilowatt hour of consumption over the full course of the 12-month supply period.

The delivered price for a site will be set annually and will be validated and approved by LASER prior to prices being distributed to customers. Prices will be distributed at least **3 months** in advance of the supply period, allowing earlier confirmation of delivered prices to apply in the following year.

### Flexible Forward Lockout (FFL)

