

DECISION-MAKER:	CABINET COUNCIL
SUBJECT:	ENERGY PROCUREMENT CONTRACT
DATE OF DECISION:	16 JANUARY 2024 21 FEBRUARY 2024
REPORT OF:	COUNCILLOR BOGLE CABINET MEMBER FOR ECONOMIC DEVELOPMENT

<u>CONTACT DETAILS</u>			
Executive Director	Title	PLACE	
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STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	
BRIEF SUMMARY	
Southampton City Council (Council) procured £14.8M of electricity and gas covering its corporate and housing assets, in 2022/23.	
The current council electricity and gas contracts are procured via the Laser Energy Procurement Framework and will expire on 30th September 2024.	
This paper proposes to continue the procurement of electricity and gas through Laser from October 2024, using their OJEU compliant framework.	
RECOMMENDATIONS:	
CABINET	
	(i) To approve the procurement of the council's energy needs via the Laser Energy Procurement Framework 2024 through to September 2028, and
	(ii) To give delegated approval to the Executive Director of Place following consultation with the Executive Director Corporate Services (S151) to undertake the following recommendations:
	(iii) To enter into appropriate Customer Access Agreements through the Laser Framework for the supply of electricity, gas, and ancillary services.
	(iv) To procure and award a call off contract under a Laser framework agreement for the Council's (including partners) gas and electricity supplies for a term of up to four years for the period 2024-2028.
	(v) To approve the in-contract purchasing options and additional ancillary services under the Laser Framework.
COUNCIL	

	(i)	To approve the procurement of the council's energy needs over 4 years, equating to a total of £60M, via the Laser Energy Procurement Framework - October 2024 through to September 2028.
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REASONS FOR REPORT RECOMMENDATIONS	
1.	To ensure all gas and electricity supplies are covered by a contracted price to guarantee the Council does not pay significantly higher 'out of contract' rates and manages ongoing cost risks.
2.	Ensure that the Council procures its gas and electricity needs in a compliant, best practice and cost-efficient manner.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	The option to undertake an open tender process was considered and rejected.
4.	A separate open tender process was ruled out as procuring this requirement alone would not result in the reduced cost risk achieved via the economies of scale associated with the Laser framework. There would also be an additional cost from procuring a broker to leverage the market on the Council's behalf. This option would not have resulted in a value for money solution over the term of the next contract and the associated procurement exercise would have been time-consuming and costly.
5.	In addition, it is proposed the Council portfolio and/or consumption profiles will change over the next 4-year contract period. Particularly when considering the council's aspirations to decarbonise its corporate assets. The Laser contracts will protect the Council from financial penalties associated with these changes, which a standard open tender would not, without a cost risk.
6.	The Council will gain a greater benefit from an established framework; this enables it to use the additional purchasing power of joining with a cohort of similar organisations. This approach will allow the Council to achieve the most favourable pricing available for its gas and electricity requirements, even through a period of change.
7.	There are a number of frameworks available which broadly meet the Council's requirements; these have been reviewed as part of the process. The Laser Framework has been assessed as it provides the best value available by utilising units bought at a competitive pricing point, greater flexibility, closest alignment to the Council's objectives, along with reduced administration that would come from using the same suppliers and support provided by Laser. It also provides a strong future option for the Council to explore "Green" baskets or flexibility contracts as part of the Green City and Cost Reduction Programmes. Therefore, it is proposed the Council should purchase gas and electricity for its housing and corporate assets under the Laser framework.

DETAIL (Including consultation carried out)	
8.	<p>Southampton City Council (SCC):</p> <ul style="list-style-type: none"> • Procures all the Council's gas and electricity via the Kent County Council's Energy Buying Group (Laser) as part of a 2020-2024 Flexible Energy Official Journal of the European Union (OJEU) compliant Framework. • Is supplied by Npower and TotalEnergies under the Framework, supplying the Councils electricity and gas needs, respectively.

9.	During the past 3 years there have been huge fluctuations in wholesale energy prices. With historical market lows during the main Covid 19 lockdown periods of the pandemic, to the highest ever prices recorded in subsequent months and years. Prices have recently levelled off, though at higher than previous baselines.																																			
10.	At times, the wholesale market gas prices have been over 500% higher than pre-pandemic levels. Due to the SCC procurement strategy, SCC have been protected from the worst of the increases. The Council has seen, and will continue to see, higher than pre-pandemic energy prices for the foreseeable future. Figures 1 and 2 below show the affect of the energy market volatility since winter 2020.																																			
11.	This paper provides the rationale for re-procuring all the Council’s gas and electricity contracts via the Laser Energy Procurement Framework.																																			
12.	There is also an overview of the Laser framework and associated benefits along with current Council’s management of the energy accounts within the appendix.																																			
13.	<p>Over the past framework period Laser has proven to perform better than average based on the market conditions for the Purchase in advance (PIA) basket. Both portfolios (housing and corporate) achieved costs were significantly lower than average market rates. See figures 1 & 2 below.</p> <p>Figure 1 – Laser Electricity Purchase in Advance (PIA) basket performcne.</p>  <table border="1" data-bbox="293 1043 1437 1514"> <caption>Estimated data for Figure 1: LASER Basket Performance Winter 2020 - Summer 2023</caption> <thead> <tr> <th>Period</th> <th>Maximum (€/MWh or p/therm)</th> <th>Average (€/MWh or p/therm)</th> <th>Min (€/MWh or p/therm)</th> <th>Basket Performance (€/MWh or p/therm)</th> </tr> </thead> <tbody> <tr> <td>Winter 2020</td> <td>~50</td> <td>~30</td> <td>~20</td> <td>~30</td> </tr> <tr> <td>Summer 2021</td> <td>~50</td> <td>~30</td> <td>~20</td> <td>~30</td> </tr> <tr> <td>Winter 2021</td> <td>~250</td> <td>~100</td> <td>~50</td> <td>~50</td> </tr> <tr> <td>Summer 2022</td> <td>~400</td> <td>~100</td> <td>~50</td> <td>~50</td> </tr> <tr> <td>Winter 2022</td> <td>~850</td> <td>~350</td> <td>~50</td> <td>~180</td> </tr> <tr> <td>Summer 2023</td> <td>~600</td> <td>~220</td> <td>~50</td> <td>~100</td> </tr> </tbody> </table> <p>Figure 2 – Laser Gas Purchase in Advance (PIA) basket performcne.</p>	Period	Maximum (€/MWh or p/therm)	Average (€/MWh or p/therm)	Min (€/MWh or p/therm)	Basket Performance (€/MWh or p/therm)	Winter 2020	~50	~30	~20	~30	Summer 2021	~50	~30	~20	~30	Winter 2021	~250	~100	~50	~50	Summer 2022	~400	~100	~50	~50	Winter 2022	~850	~350	~50	~180	Summer 2023	~600	~220	~50	~100
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14.	<p>Consultation has been undertaken with associated SCC staff (including legal, procurement, senior managers) and Councillors.</p>																																			
15.	<p>The contracts will be separated between Housing and Corporate.</p> <ul style="list-style-type: none"> • Housing will include all gas and electricity supplies for council owned landlord related supplies, for example tower block lighting and landlord heating. • Corporate will include all non-domestic buildings and assets such as the Civic Centre, schools, depots, and street lighting. 																																			
16.	<p>Energy related invoicing has been centralised and is managed electronically by the Energy Team. This has significantly reduced administration of the contract, which consists of over 2,300 energy meters. Most of which are billed monthly.</p>																																			
17.	<p>The Energy Team delivers the energy managed service, including all leisure centres under the Active Nation contract and schools. This service includes centralised payment, bill validation, contract management, management of billing and existing metering queries. It involves ensuring costs are managed and savings identified as part of the service. On the corporate energy contract alone, this service has identified and delivered £400K of savings to the corporate gas and electricity contract since 2021. These savings do not include those achieved from centralising the payment of invoices and validation process. On the corporate energy contract only, this will be offset by approximately 0.6% fees, which the council levies to energy costs to cover the added value energy managed services delivered as part of the contract management¹.</p>																																			
18.	<p>The proposed contracts will enable flexibility to reduce purchased energy volumes significantly. One of the most effective means of reducing carbon emissions is to reduce grid imported energy consumption significantly (through investment in energy efficiency projects and/or self-supply from on-site or local renewable energy installations). Many energy supply contracts contain punitive terms ('take or pay clauses') which penalise customers for significant reductions in purchased volumes (typically more than 10% volume variation). Due to the flexible procurement strategies employed by Laser, their large portfolio and longer-term supply periods, it can absorb variances in volumes and in doing so critically provide the flexibility for the customer to reduce its purchased</p>																																			

¹ This includes monitoring of energy consumption for reduction purposes, electronic invoice payment & management, price checking and validation, along with energy procurement, contract, and query management.

	consumption significantly. This is a major benefit of the Laser contract over alternative arrangements, paving the way for decisive action on energy and carbon reduction.
19.	Energy market price volatility has increased since January 2021. This has pushed gas and electricity prices to an all-time high and will continue to have a bearing on the prices secured from 1 st October 2024. Energy is sold in the market like any other commodity, which means the Council are at the mercy of the price at the time of entering the market. That is why the flexible procurement route has been advised by central government and always proved to be the least risky and most beneficial purchasing strategy for the Council.
20.	The Council will gain a greater benefit from an established Framework (like Laser) which it can call off from as part of a commitment cohort with similar organisations.
21.	Within the contracts there are several different purchasing options which balance cost against risk.
22.	It is proposed the 'Purchase in Advance' (PIA) option (basket) is retained. This means all energy is purchased at intervals prior to the fixed pricing start date, which is historically October 1 st each year. This gives a fixed price electricity and gas price certainty over a twelve-month period.
23.	It is also proposed to move the annual (12 monthly) fixed price period, charged on our electricity and gas unit rates from October to September, to April to March; however, the timing of this change needs to consider the best time based on market volatility and winter pricing. Now a fixed energy price is provided from October for twelve months (under PIA). But its proposed moving forward the fixed price will be set over a financial year (April to March) as requested by schools and finance during a consultation process. It is planned the fixed price periods are moved to April to March to align with the Councils financial year to ease reporting and budgeting. This will only be undertaken if cost risks are low, which they have not been to date due to market volatility. The recommended approach is to stay in October PIA and then the Council can assess with Laser /market over the course of the framework to pick the best time to make the move. Rather than having to battle the contractual and operational move at the same time and increase winter pricing costs significantly during the first 6 months of the change.
24.	There is also the option to procure competitively priced ancillary services under the framework, such as metering, data, and wider energy services. The Council will utilise these services if it is cost effective to do so. Historically metering and data has been procured via these arrangements. However, these will be procured separately if there are better value alternatives.
RESOURCE IMPLICATIONS	
<u>Revenue</u>	
25.	Electricity and gas costs have risen from £9M per annum in 2019-20 up to the current £14.79M in 2022/23, even though the Council's consumption has dropped over the same period.
26.	Total costs of energy in financial year 2022-23 is shown in Table 1 below. Table 1 – Total Council gas and electricity costs 2022-23

			Actuals- 2022/23	
			£M	
		Corporate (including streetlighting & schools)	7.27	
		Housing	7.52	
		Total	14.79	
27.	Energy is treated like other commodities, with all gas and electricity being procured via the wholesale energy market. The fixed and regulated costs are then added to the wholesale energy price achieved, which makes up the total energy cost.			
28.	Market assessment from Cornwall Insights, the most widely used energy analysts, and Laser estimate that energy costs are likely to stay at, or close to, current levels until 2030. Therefore, the Council needs to ensure that all efforts are made to reduce consumption and spread the risks with an effective flexible procurement strategy.			
29.	Based on market conditions and aggregated purchasing benefits on the Laser Framework over the current contract period, it is estimated Laser has enabled the Council to avoid costs of £2.1M per annum.			
<u>Property/Resources</u>				
30.	All Council assets and operations require energy to operate, and it is importance to ensure that sites, assets, and meters are covered under an energy supply contract. Out of contract rates can be over double the costs of in contract rates.			
31.	The daily operation of Council corporate and housing energy contracts is undertaken by resources based in the Asset Management Service Area, within the Energy Team. This daily management is spread across 4 FTEs, with 2 FTEs currently vacant, which has reduced the opportunity to deliver further savings on the contract.			
32.	Based on current consumption, under the new framework, LASER's procurement only management and purchasing fees would be approximately £120k (0.8% of total costs) per annum (subject to CPI increases).			
LEGAL IMPLICATIONS				
<u>Statutory power to undertake proposals in the report:</u>				
33.	S.1 Localism Act 2011. There is a requirement in both the Public Contracts Regulations 2015 regulations (PCR) and the Council's Contract Procedure Rules (CPR) for the Council to run a competitive tender when procuring the supply of energy.			
34.	This competitive tender has been undertaken by Laser (the Central Purchasing Body) in setting up their Energy Procurement and Supply framework and because in their OJEU advert, they indicated that Southampton City Council would be a buyer or within a class of buyers indicated, that satisfies both the requirements of the PCR and the CPR.			
35.	Therefore, the regulatory requirements on the Council to tender for the energy supply have been complied with. The conditions to the use of the Laser procured energy contracts are being met.			

Other Legal Implications:	
36.	N/A
RISK MANAGEMENT IMPLICATIONS	
37.	<p>Risk has been identified as high in relation to Financial and Green City Policy:</p> <ol style="list-style-type: none"> i. Failure to enter gas and electricity supply contracts runs the risk of facing out of contract pricing, which can attract premiums of more than 100%. ii. The energy market has seen significant rises in gas and electricity wholesale prices on both the spot and forward purchasing market. At the time of writing, market prices for gas and electricity continue to be high and this is going to affect the price of energy supplied to SCC from October 2024. A purchasing strategy is being assessed for the year ahead from October 2024, which will hopefully reduce the impact on the Council. Now it is impossible to quantify any increase or decrease, as these will be market driven and based on the buying window prices. iii. Locking into certain energy contracts can also penalise future energy reductions or shifting energy consumption, making them uneconomical and effectively blocking significant potential future cost and carbon reduction activities. Laser contracts have been chosen as they do not carry this cost risk. iv. Furthermore, failure to enter flexible supply contracts in advance, minimises the window for forward buying. This buying window needs to start by end of March 2024.
38.	Not building capacity in our contract to; adopt green tariffs; enter direct purchase of renewables or be penalised for reducing consumption would undermine our Green City Action Plan and efforts to be a net zero organisation by 2030. Laser Framework Contracts provide this certainty.
POLICY FRAMEWORK IMPLICATIONS	
39.	<p>The procurement strategy and buying option for energy outlined here will support and deliver council outcomes in the following policies:</p> <ul style="list-style-type: none"> • Corporate plan 2020 -2025: Green City and Wellbeing (improving the energy efficiency of school buildings) • Green City Plan 2030 - to ensure the council corporate assets and streetlighting become zero carbon by 2030. The corporate assets cover all non-domestic buildings including SCC schools and streetlighting.

KEY DECISION?	Yes
WARDS/COMMUNITIES AFFECTED:	ALL
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Background & Benefits of Kent Laser
Documents In Members' Rooms	
1.	None.
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and	No

Safety Impact Assessment (ESIA) to be carried out.		
Data Protection Impact Assessment		
Do the implications/subject of the report require a Data Protection Impa		No
Assessment (DPIA) to be carried out.		
Other Background Documents		
Other Background documents available for inspection at:		
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	
1.		
2.		