

**Agenda Item No:** 10.5 **Report No:** 21/15  
**Report Title:** LASER Energy Flexible Framework Renewal  
**Report To:** Cabinet **Date:** 12<sup>th</sup> February 2015  
**Cabinet Member:** Cllr Andy Smith  
**Ward(s) Affected:** All Wards  
**Report By:** Alan Osborne, Director of Corporate Services  
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**Purpose of Report:**

To extend the LASER Flexible Framework contract for the supply of electricity and gas to LDC premises.

**Officers Recommendation(s):**

- 1 To approve Option 1, being the recommendation to extend the LASER Flexible Framework for four years for the period 1<sup>st</sup> October 2016 to 30<sup>th</sup> September 2020 and to continue to purchase energy using the Purchase in Advance and Purchase Within Period procurement options.
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**1. Reasons for Recommendations**

**1.1** 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 has confirmed the appointment of Npower (electricity) and Total Gas and Power (gas) respectively for the period October 2016 – September 2020.

**1.2** LASER are seeking customer commitment for the new frameworks 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.

## **2. Background**

- 2.1** LASER is a public sector energy buying group and part of Kent County Council's Commercial Services division.
- 2.2** 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.
- 2.3** 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.
- 2.4** LASER 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.
- 2.5** 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.
- 2.6** Following a robust and competitive procurement process, Kent County Council has awarded the frameworks to the winning bidders, Npower and Total GP (Gas). Npower and Total GP are the incumbent framework providers for electricity and gas respectively.

## **3. Information**

- 3.1** LASER currently supplies the majority of all the Council's electricity and gas through the existing LASER flexible procurement frameworks via two procurement basket options:

- 1) Flexible Purchase in Advance (PIA) and
- 2) Flexible Purchase within Period (PWP).

A few accounts remain with other suppliers, but there are plans to transfer them to LASER once the contract period allows.

- 3.2** The LDC annual demand for its LASER portfolio is 16,479,549 kWh; derived from:-  
Gas PIA - 6,072,850 kWh

Gas PWP - 275,033 kWh  
Electricity Half Hourly PIA - 121,468 kWh  
Electricity Non Half Hourly Quarterly PIA - 9,358,023 kWh  
Electricity Unmetered Supplies PIA - 652,175 kWh

- 3.3** LASER state that by purchasing energy through them; LDC has been able to save an estimated £35.8k per annum of cost avoidance on energy buying.
- 3.4** There are broadly three options for the future purchase of energy:

**Option 1** is the same as the current arrangement operating under the current flexible supply framework with LASER.

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

**Option 2:** Rolling Two-Year Commitment under the flexible supply framework with LASER.

- Option 2 provides an alternative approach for Council's who may not be able to commit to the full four year framework duration. Council's 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. The framework energy suppliers are subject to change every 4 years.
- A bilateral agreement would be entered into between Kent County Council and LDC. This permits LASER to forward purchase energy requirements on behalf of LDC from the successful supplier(s). It also commits LDC to the prevailing framework conditions.
- LDC could issue a termination and the effective termination date would be the first contract anniversary after 2 years has elapsed.

For example, if LDC issued a termination notice in June 2016, LASER would cease to purchase the Council'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 LDC does not provide a termination notice, LASER would continue to purchase LDC's energy requirements from any replacement framework providers.
- LASER would only forward purchase LDC'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.

**Option 3:** LDC does not have to procure its energy via LASER but could procure it via one of a number of alternative solutions; these include but are not limited to the following.

a) Procure energy direct from energy supplier(s). This option has not been considered, as although LDC has a reasonable size energy portfolio, it is mainly derived from numerous small supplies i.e. TV amplifiers etc. and LDC on its own would be unlikely to attract competitive rates compared to LASER.

b) Procure energy from another recognised service i.e. the Crown Procurement Service. Similar to the above option, the make-up of the LDC portfolio is unlikely to attract competitive rates compared to LASER. Those supplied via the Crown Procurement Service are usually large offices, NHS Trusts and buildings etc. It is unlikely that LDC would be able to benefit from the savings that LASER currently delivers.

c) Procure energy through another energy broker. This option has been partially explored but not progressed. After initial promises of huge savings, later discussions once the make-up of the portfolio is known again reduce the potential savings and benefits that LASER delivers.

It is recommended that procurement of future energy supplies continue through a tri-partite agreement with LASER under option 1, the four year framework.

### **3.5 LASER Basket Procurement**

Within the framework contracts, LASER offer sub-options to Purchase In Advance (PIA) or Purchase Within Period (PWP). These sub-options are called baskets. For the forthcoming contract, LASER has introduced a further 4 baskets. The 6 baskets within each framework option available from 2016 are:-

1. Basket 1 - Flexible Purchase In Advance (PIA)  
All volume will be purchased prior to delivery for each 12 month supply period.
2. Basket 2 - Flexible Purchase Within Period (PWP)  
A proportion or all of the required volume will be purchased prior to delivery for each -month supply period and if applicable the remainder purchased within the supply period.
3. Basket 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.
4. Basket 4 - Flexible Set and Reset  
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.
5. Basket 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.

6. Basket 6 - Flexible Forward Lockout

All purchase volumes to be completed **6 months** in advance of each 12 month supply period.

It is recommended that the Council continues to purchase energy using baskets 1 and 2. Currently 100% of gas and 96% of electricity purchases are PIA.

## Financial Appraisal

4. The 2013/14 annual expenditure for electricity, gas & LASER management costs were:-

1.1 Electricity (Npower) - £249,000

1.2 Gas (Total GP) - £96,000

1.3 LASER's cost to manage the LDC portfolio - £13,000

## Legal Implications

5 The Legal Services Department has confirmed that the framework contracts competitively tendered via an OJEU notice by LASER were procured for and on behalf of the portfolio of local authorities, including LDC. Therefore LDC can access these frameworks on whichever option it deems most economically advantageous.

## Sustainability Implications

6 Both Npower and Total GP like all energy suppliers provide an increasing volume of energy derived from sustainable sources.

Under the new frameworks there will additional benefits:-

**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.

### **Risk Management Implications**

- 7** The energy markets are becoming ever increasingly more volatile and are subject to numerous external factors that can have huge negative impacts on energy costs.

These risks still exist within the LASER Framework contracts but are mitigated by the purchasing leverage a company of LASER's overall portfolio has, together with the 2 stage procurement approach of PIA & PWP.

### **Equality Screening**

- 8** The recommendation has zero impact on equalities.

### **Background Papers**

- 9** None