
REPORT FOR: CABINET

Date of Meeting:	19 March 2020
Subject:	Energy Procurement Strategy
Key Decision:	Yes – as the procurement of energy involves annual expenditure in excess of £500,000 revenue
Responsible Officer:	Paul Walker Corporate Director - Community
Portfolio Holder:	Councillor Varsha Parmar, Portfolio Holder for Environment and Councillor Adam Swersky, Portfolio Holder for Finance and Resources
Exempt:	No
Decision subject to Call-in:	Yes
Wards affected:	All
Enclosures:	Equalities Impact Assessment

Section 1 – Summary and Recommendations

This report sets out the energy procurement options and strategy for the period 2020 to 2024 and seeks approval from Cabinet to call-off from a new framework contract.

Recommendations:

Cabinet is requested to:

1. Approve Harrow Council entering into a Framework Agreement with LASER Energy Buying Group (LASER) headed by Kent County Council for the supply of energy to Harrow's corporate sites and schools for a period of four years starting on 1st October 2020.
2. Agree the proposed purchase of electricity on the basis of a green 100% renewable tariff.
3. Delegate authority to the Corporate Director, Community Directorate following consultation with the Portfolio Holder for Environment and Portfolio Holder for Finance and Resources, to enter into the LASER Energy Buying Group Framework for the provision of gas and electricity.

Reason: (For recommendations)

- To procure energy at competitive rates for the Council's 573 corporate sites and schools through an efficient and government approved process.
- The purpose of green electricity will contribute to decarbonisation of the grid and reductions in the carbon dioxide emissions attributable to the Council's energy usage, in response to the previously declared climate emergency.
- The Council's current energy supply contract is due to expire on the 30 September 2020 and a new contract is needed to ensure continuity of supply. In order to guarantee that the Council can participate in future procurements of energy beyond the current period of the contract a firm commitment to using Laser's framework agreement 2020 – 2024 must be made by 31st March 2020. This will enable the Council to take advantage of wholesale price fluctuations while the wholesale energy market is favourable.

Section 2 – Report

1. Introduction

- 1.1. The Council's existing energy contract covers energy provision until the end of September 2020. Currently a portion of the Council's energy is purchased in advance of the usage period. In order to ensure continuity of this advance purchase, the new contract needs to be in place from 1st October 2020.
- 1.2. Gas and electricity market prices are highly volatile and a long purchase window allows effective monitoring of the wholesale energy market prices and procurement at the best possible rates. Early contract agreement enables the energy supplier to commence purchasing energy on our behalf and respond to market price changes, taking advantage of potential favourable buying opportunities.

2. Background

- 2.1. Harrow Council's energy bills for corporate buildings, state schools, academies, street lighting and housing landlord's supplies are currently approximately £6m per annum.
- 2.2. The Council procures the vast majority of its energy requirements centrally under a framework agreement managed by LASER a public sector energy buying group (a Central Purchasing Organisation), which has considerable buying power, spending over £450 million a year.
- 2.3. Under the current framework agreement gas is supplied by Total Gas and Power (TGP) and electricity for metered and unmetered sites by Npower.
- 2.4. The Council has two gas and four electricity contracts powering 118 gas and 453 electricity sites as summarised in the table below.

The Council's current energy contracts include:

- a. Electricity (Half Hourly, Non-Half Hourly and Unmetered)
- b. Natural Gas
- c. Operation and Management of Meters over 100 KW (MOP) and P272
- d. Automatic meter reading (AMR)
- e. Data Collection services including AMR equipment and smart meters

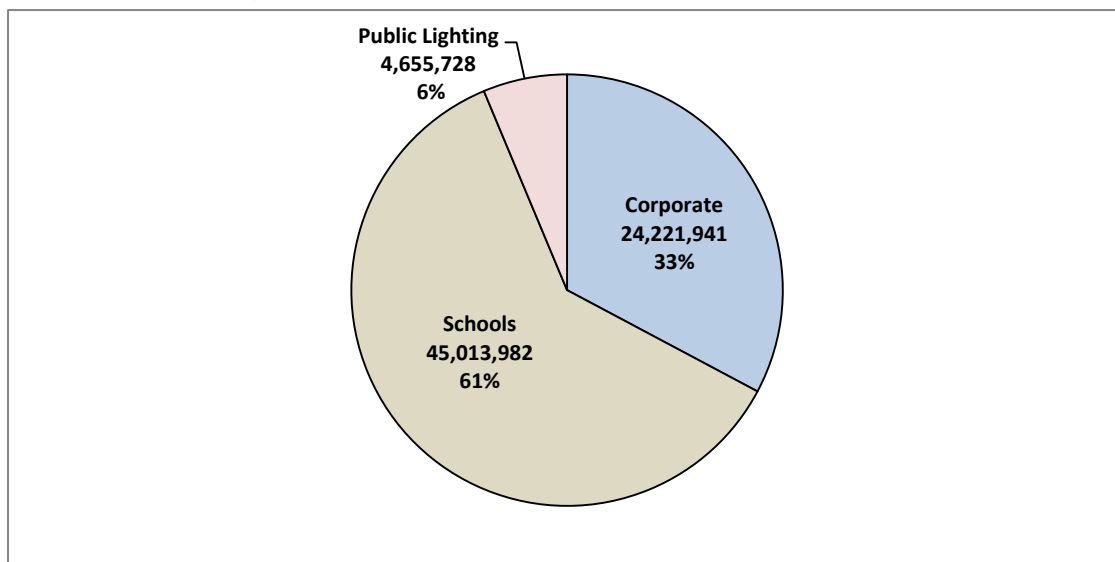
Summary of Harrow's energy cost, consumption and CO₂ emission (2018/19)

Key Information	Gas	Electricity	Street Lighting	Total : Gas + Electricity
Total number of sites	118	453	15,000 ¹	
Total annual cost (£)	£1,727,140	£3,451,348	£858,000	£6,036,488
Total annual consumption (kWh)	48,173,366	21,062,557	4,655,728	73,891,651
Total CO ₂ emissions (kg)	8,845,594	5,916,051	1,307802	16,069,447

Note 1: Of the above 320 sites including 286 housing landlord and 34 public realm (parks) do not consume gas.

¹ : Approximate number of existing street lighting in Harrow.

The following chart demonstrates distribution of Harrow's energy usage across the borough (KWh)



3. Procurement Framework Option Appraisal

3.1 There are 4 options considered for the future purchase of energy:

- Do nothing
- Procure our own energy by direct tender
- Procure through an Energy Buying Broker
- Procure via Central Purchasing Bodies (CPB)

Option 1 – Do nothing

The Council and participating schools would be exposed to 'out of contract' unit rates, which normally are higher than agreed prices.

The Council needs to ensure continuation of its energy supply and achieve the best value and most competitive prices. For the above reasons this is not a viable option.

Option 2 - Procure our own energy by direct tender

This option has not been considered as the Council's existing resources are insufficient to deal directly with the requirements of 579 corporate sites and schools requiring management of a large number of energy invoice queries, metering, invoice validation, addressing payment issues, monitoring market trends and new regulations and other relevant support.

This option is possible, but it would involve the Council issuing a standalone OJEU tender to secure its own energy independent of a Central Purchasing Body (CPB) or any other intermediary.

Option 3 - Procure energy from a selected energy broker

There is a regulatory requirement to tender for the energy supply contract. This can lead to a time consuming and costly procurement exercise with no guarantee of meeting the government procurement recommendations.

This option is not recommended by the government, has high price risk and requires a specialist energy tendering exercise. This option is not recommended.

Option 4 - Procure energy by use of Central Purchasing Bodies (CPBs)²

A CPB is operated by another public sector contracting authority or by an 'agent' that has been appointed to act on behalf of a public sector contracting authority. Due to a number of advantages of using a CPB, the vast majority of local authorities and central government departments purchase their energy supplies through CPBs.

3.2. Preferred option for the future purchase of energy

Option 4 is recommended for the following reasons:

- The Council can participate in the framework and utilise the flexible supply contracts put in place by the CPB without any requirement to tender.
- The Council can achieve better prices through bulk purchasing and economies of scale that could be achieved by purchasing energy together with other public bodies.
- More effective risk management at times of high price volatility.
- Further savings could be expected from lower transaction costs, improved capacity, lower energy supplier management fees, advanced monitoring tools, trading skills and expertise of CPBs.

3.3. Recommended Energy Buying Company (CPB)

The next stage is to select a CPB that can meet our energy procurement objectives in an efficient and productive way.

A number of CPB's energy purchasing frameworks have been investigated to assess their capacity, experience of central purchasing, expertise in delivering effective price risk management and value for money energy supply contracts consistently over a period of the contract term.

² - The Public Contracts Regulations 2015 define a Central Purchasing Body (CPB) as a contracting authority which provides centralised purchasing activities

The options considered were:

- a) To extend the Laser Flexible Framework.
- b) To use Crown Commercial Services (CCS) flexible framework.
- c) To join London Energy Project (LEP)³ energy services

Laser and CCS are recognised as the two best performing CPBs in relation to energy procurement. Both companies have a good energy purchasing record, supportive customer services and have extensive experience in powering public sector. Regarding their price comparison, there is no reliable evidence to indicate that one of CPBs has achieved a better energy buying performance than the other.

LEP, who set up energy procurement services for its members in 2018, has recently announced that they do not intend to extend their energy procurement services beyond 31st March 2020 for various internal reasons.

Our assessment of energy CPBs considered their ability to meet the Council's business requirements, priorities and expectations in the best possible way.

Laser's energy purchasing framework provides 'Fully Managed services' to their customers where CCS can only offer 'procurement only energy purchasing option' to the public sector.

Laser's 'Fully Managed Service' is an additional support service, which deals with complex energy billing and metering queries. In addition Laser 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; examining Available Capacity settings across the half hourly portfolio (save KVA charges).

These additional services for Harrow's large sites and Schools are key priorities for Harrow Council who are committed to providing a high standard energy service.

Based on the above analysis and for the following reasons, we recommend Laser as the Council's next CPB.

- Laser's current flexible framework (2016-20) and procurement activities have in total reduced the Council's energy spend by £452,400 per annum.⁴
- Laser's new framework offers some more benefits including 20% lower supplier management fees compared to the current framework. This will provide the Council with an approximate total financial saving of £12,000 per annum.
- Laser as a Local Authority Group has two decades of experience of working with a large number of local authorities and as such are well placed to understand our needs and limitations.

³ .LEP is a shared service between 36 (primarily London based) authorities, supported by a Delivery Team that acts as an intelligent client function to deliver a coordinated Work Programme. London Borough of Haringey is LEP's host authority

⁴ - Source: Laser's performance report

- Laser offers added value benefits including: energy efficiency, renewable, data collection, metering services, energy price forecasts, management information and enhanced KPIs.
- Harrow's Energy Team has benefited from Laser's support in resolving a number of complex queries in the areas of invoice management, metering, change of tenancy, renewals, transfers and consolidated billing in the required format for our accounts system.
- Laser purchases energy on behalf of 130 local authorities and 70 wider public sector bodies with a combined energy spends of over £450 million a year.

4. Determining the most suitable procurement Model

4.1. Each energy buyer has a range of options to consider on behalf of their customers. The most typical flexible purchasing approaches are:

- a) Fixed-Term Fixed-Price (FTFP)
- b) Flexible Procurement Basket Options

4.1.1 Option 1 - Fixed-Term Fixed-Price (FTFP) contract arrangement

Fixed energy tariffs provide a locked-in unit price for gas and electricity for a designated term of one year or more.

Benefits of FTFP:

- This model of purchasing offers straight forward pricing and provides budgetary certainty throughout the duration of contract.
- Helps to avoid potential market volatility during the contract period.

Disadvantages of FTFP:

- A fixed term contract is a short-term strategy and could be highly risky.
- The main risk is volatility beyond the purchasing point, when the prices could become relatively high and unfavourable just as the contract renewal date approaches.
- If wholesale energy market prices fall further the buyer could be locked out, thus missing the opportunity to benefit from falling prices.

A FTFP is a short-term strategy and is not recommended.

4.1.2. Option 2 - Flexible Procurement & Basket Options

A wholesale flexible procurement arrangement unlike FTFP, enable the buyer to purchase blocks of energy at varying times both before and within the contracted supply period.

Using Flexible procurement options means that energy purchases are hedged over a long period of time and over multiple purchases rather than on one specific day.

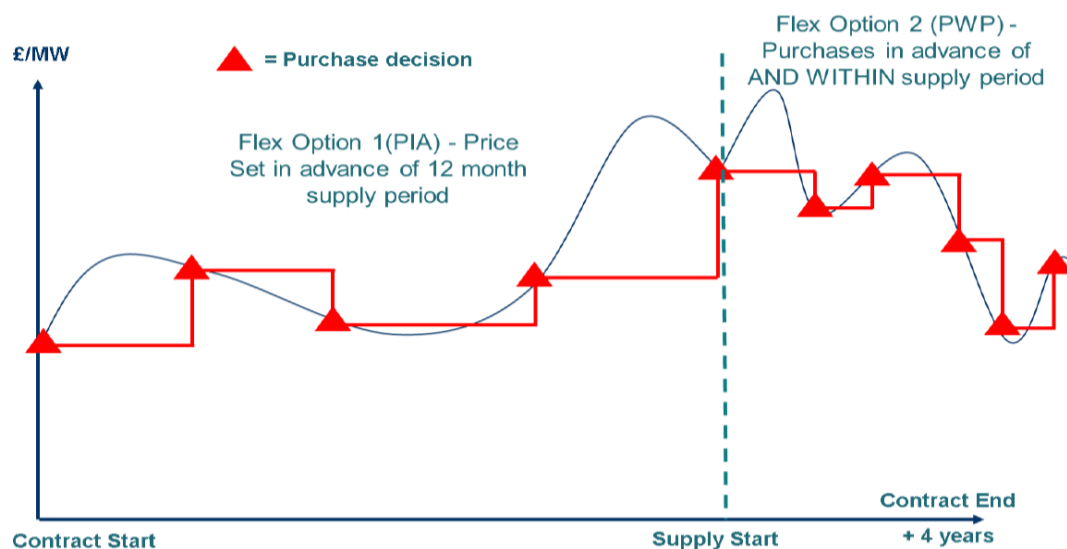
Benefits of Flexible Procurement:

- The main benefits of this purchasing model are the ability to minimise the risk in rising markets and assessing when markets will become stable or remain volatile.
- This arrangement helps buyers spread market price risk and avoid buying during periods of peak market pricing.
- If energy markets go down during the contract period then we can expect to be paying less for our energy in response to the market movement.
- It provides a potential to save and track the market movement.

Disadvantages of Flexible Procurement:

- Minimum market rate will never be achieved.
- Length of contract (normally minimum of 4 years)
- Less budgeting consistency as actual energy charges may not be known until after that energy has been used.

Timing of Flexible Purchases (for illustration purposes only)

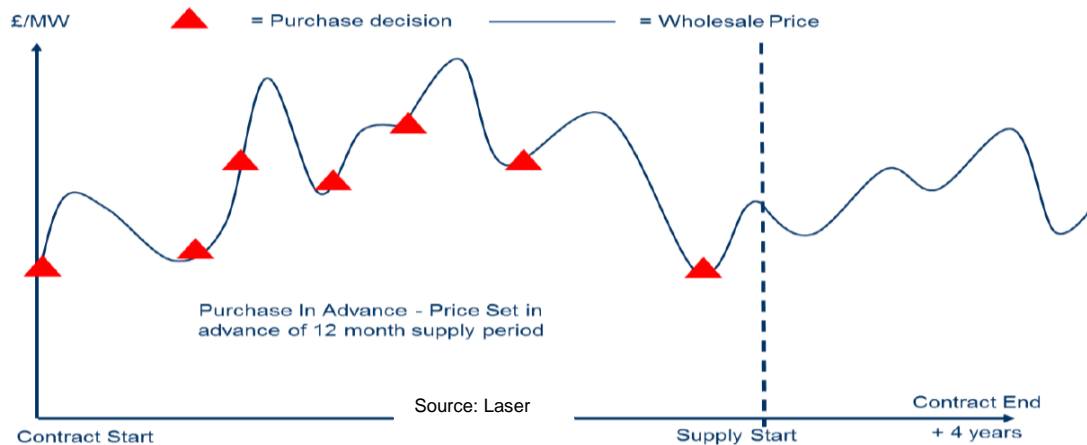


4.2 The following options represent typical Flexible Purchasing approaches, which need to be considered, based on our organisational priorities and in response to the changes in the energy supply market and its volatility.

a) Flexible purchase in advance (PIA)

All required volume purchased in multiple trades in advance for each 12 months supply period.

Purchase In Advance (PIA)



b) Flexible purchase within period (PWP)

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. A reference price will be set to apply on invoices for each 6 month supply period. At the end of each 6 months, once all energy requirements have been purchased, reconciliation takes place between the reference price applied to invoices and the final (achieved) purchase price, which typically returns a credit figure.

Purchase Within Period (PWP)



We will be able to switch all or part of our energy portfolio onto the alternative basket options during the term of the new contract by providing LASER with at least 6 months notice, prior to each 1st October contract anniversary.

4.3 Recommended procurement option:

Based on the above analysis, it is recommended to purchase energy using Flexible Procurement option for the corporate sites and Harrow Schools.

5. Renewable energy option

5.1. Purchasing green electricity as a counter measure to the climate emergency can be an attractive option but it has both advantages and disadvantages which need to be taken on board prior to making a decision.

Advantages: Purchase of electricity on a carbon neutral basis contributes to the decarbonisation of the grid and about 7,224 tonnes of CO2 emissions attributable to our total annual electricity consumption can be offset. This will help to meet part of the Council's targets for being carbon neutral by 2030.

Disadvantages: A strong rise in demand for green backed electricity from renewable sources by businesses, local councils and government departments to meet green targets, has caused their prices to rise. Anecdotally current estimates range from 0.050p/kWh to 0.100p/kWh for REGO's⁵

The above additional premium charges will increase our total annual electricity expenditure to approximately £12,859 - £25,718 for the corporate sites, street lighting and Schools. However the average additional premium charge will be less than 0.45% of the Council's total annual electricity expenditure.

5.2 Recommendation:

On the basis of the above analysis, our recommendation is to purchase green electricity for the Council's corporate sites, street lighting and Harrow schools for the contract term of 2020 – 2024.

The cost and benefits of purchasing green electricity for the Council's corporate sites will be assessed periodically as circumstances change with the government policy, legislation or incentives from year to year.

Delegated Authority

If Cabinet agree to delegate the award of the call-off to Community Directorate, then the authorising officer would have the scope to review the strategic approach, conduct contract evaluations and award contracts, with

⁵-The **Renewable** Energy Guarantees of Origin (**REGO**) scheme provides transparency to consumers about the proportion of electricity that suppliers source from **renewable** generation.

formal approvals from Senior Management and following consultation with the PH Finance & Resources and the Portfolio Holder for Environment.

Operating in this way would provide the authorising officer with flexibility for continuous review and operation of energy supply contracts and he can make a quick decision in response to the market opportunities without a lengthy approvals process.

Risk Management Implications

Unlike the Fixed Term Fixed Price (FTFP) option, the Flexible Procurement arrangement provides a layered risk approach to the purchase of utilities and protects the Council from market volatility.

Legal Implications

- Kent County Council is a Central Purchasing Body and the Contracting Authority for the LASER frameworks. As such, customers do not need to run an OJEU process to utilise the LASER frameworks.
- The Public Contract Regulations 2015 ('PCRs') allows the Council, as part of the local authority grouping, to call-off from this Framework Agreement. The current Laser Framework Agreement ends on 30 September 2020. They have completed a tendering exercise to enable LASER to implement a new purchased energy service from 1 October 2020 for four years.
- Due to the complexity of Framework Agreement, the Council's legal officers will review the documentation to ensure that it complies with all relevant legal requirements.

Leaseholders

The Council will need to serve Notice on all leaseholders:

"In accordance with Section 20 of the Landlord and Tenant Act 1985 as amended by the Commonhold and Leasehold Reform Act 2002 (the "Act"), landlords are required to give notice to leaseholders and recognised tenants associations of their intention to enter into agreements described in the Act as "qualifying long term agreements". These are agreements entered into by or on behalf of a landlord for a term of more than 12 months where any one leaseholder will be responsible for paying £100.00 or more in any one year."

There are 2 compulsory notices that must be served and a third if the Council does not accept the lowest tender. Each Notice must be served 30 days apart so it should be allowed ideally 6 months but a minimum of 5 months for this process to take place. If the Council does not serve this Notice it cannot legally recover the full cost of providing communal electricity to leaseholders on the Council's estates and this will mean a deficit to the Housing Revenue Account.

Financial Implications

The annual expenditure on electricity and gas procured via the contract is approximately £6m covering corporate buildings, street lighting, schools and academies. 2018/19 actual costs for corporate buildings and street lighting were £1.1m and £0.9m respectively. Consumptions for HRA properties are funded from the HRA budget (2018/19 costs: £570,000). The remainder of the expenditure relates to schools' consumptions which are funded from school budgets.

2019/20 energy costs for corporate buildings and street lighting are estimated at £2.2m. The cost of energy inflation is being met corporately. The volatility of energy prices presents a financial risk to the Council and schools. The proposal to purchase green electricity as detailed in Section 5 of the report will also result in a marginal increase in costs. In the medium term, the cost pressure will be managed as part of the annual budget setting process.

Due to volatility of the energy wholesale market and managing the risk of energy price rise, developing a periodic enhanced KPIs and energy price prediction plan would be essential. Laser covers these services for their customers.

Utilising flexible energy procurement model since its adoption by the Council in 2008 has allowed the Council to take advantage of price changes in the volatile wholesale energy market, and therefore minimises the cost impact of energy inflation.

Environment implications

Electricity and gas purchasing has a significant environmental impact globally and locally. The impact of electricity mainly generated by the power stations occurs during the generation stage. For gas, the main impact is at the usage (burning) stage, contributing directly to carbon emissions locally. The local air quality can be improved by reducing the gas demand.

Harrow's annual carbon reduction target until 18th July 2019 when the Council has declared a climate emergency was 4% a year. The new target will be reviewed and set by Harrow's new climate change steering group based on the Council's new carbon reduction commitment with the aim to make Harrow a carbon neutral borough by 2030. This will have an impact on the amount of energy we need to purchase and this will need to be reflected in the new contract.

Green electricity generated from renewable or low carbon sources will be available from the suppliers on Laser frameworks which has been addressed in section 5 of the report.

Equalities implications / Public Sector Equality Duty

- There are no equalities implications
- An Equality Impact Report is not required for this decision as it is a report which seeks to make an appointment to an outside body.

Social value:

- All publicly funded schools in Harrow including academies and voluntary aided schools are able to purchase energy through the Council's framework arrangements with Laser.
- The proposal will support and encourage closer engagement and collaboration opportunities from on-going and unavoidable energy utility costs incurred by the Council alongside the Council's priorities.

Council Priorities

Making a difference for communities: Harrow's central energy purchasing policy allows Harrow state schools and housing leaseholders to benefit from lower gas and electricity prices.

Section 3 - Statutory Officer Clearance

Name: Jessie Man	<input checked="" type="checkbox"/>	on behalf of the * Chief Financial Officer
Date: 11 February 2020		

Name: Nimesh Mehta	<input checked="" type="checkbox"/>	Head of Procurement
Date: 31 January 2020		

Name: Sarah Inverary	<input checked="" type="checkbox"/>	on behalf of the * The Legal Team
Date: 5 March 2020		

Name: Paul Walker	<input checked="" type="checkbox"/>	Corporate Director
Date: 10 March 2020		

Ward Councillors notified:	YES
EqIA carried out:	Yes
EqIA cleared by:	David Corby

Section 4 - Contact Details and Background Papers

Contact: Saeed Atlas (Corporate Energy Manager)
Telephone: Ext: 2030, Email: saeed.atlas@harrow.gov.uk

Background Papers: None

Call-In Waived by the Chair of Overview and Scrutiny Committee	NO
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