

Report of the Deputy Chief Executive

ENERGY PROCUREMENT STRATEGY 2021 - 20251. Purpose of report

To seek approval for an Energy Procurement Strategy 2021 - 2025.

2. Background and detail

The Council (including LLeisure and Bramcote Crematorium) currently spends approximately £400,000 per annum on electricity and £225,000 per annum on gas. These figures are from 2019/20 as the 2020/21 figures were significantly skewed by COVID-19.

The updated Energy Procurement Strategy, included at the appendix, aims to establish the parameters for the Council's energy (gas and electricity) procurement process for the next four years. This evaluation process is required to ensure the Council is achieving value for money in its procurement of gas and electricity supplies and also business continuity ensuring the continuation of the energy supply.

The Council is currently using an Eastern Shires Purchasing Organisation (ESPO) framework for both the supply of gas and electricity.

The Council's gas supply contract is due to end on 31 March 2023. Procurement of the new contract needs to start imminently in order to have a new contract in place for 2023 onwards by March 2022 (gas is purchased up to one year in advance).

The electricity supply contract is due to end on 30 September 2023 and needs to have a new contract in place for 2023 onwards by September 2022 (electricity is also purchased up to one year in advance).

A full Equalities Impact Assessment has not been undertaken for this strategy as initial screening has indicated that the strategy relates to the means of purchase of energy for use within the Council's own buildings, with no identifiable impact on the wider community or employees in terms of equalities.

3. Financial implications

There are no immediate financial implications arising from this report.

Recommendation

Committee is asked to RESOLVE that the Strategy and the four strategic principles set out within be adopted.

Background papers

Nil



BROXTOWE BOROUGH COUNCIL

ENERGY PROCUREMENT STRATEGY

2021 - 2025

December 2021

Contents

- 1.ENERGY PROCUREMENT RECOMMENDATIONS
- 2.INTRODUCTION AND BACKGROUND
 - 2.1 Purpose of the Energy Procurement Strategy
 - 2.2 Why is the Procurement of Energy Different?
 - 2.3 What is an Energy Framework?
- 3.PROCUREMENT CONSIDERATIONS
 - 3.1 Council Requirements
 - 3.2 Security of Supply
 - 3.3 Risk and Price Volatility (Purchasing Options)
 - 3.4 Sustainability
 - 3.5 Legislation
 - 3.6 Selection and Evaluation of Frameworks
- Appendix Analysis of Purchasing Options

Glossary

Central Purchasing Body (CPB)

An organisation set up to purchase goods, services and works on behalf of other contracting authorities.

Contracting Authority

Means the State, regional or local authorities, bodies governed by public law, associations formed by one or several of such authorities or one or several of such bodies governed by public law.

Framework

An agreement or other arrangement between one or more contracting authorities and one or more economic operators which establishes the terms (in particular the terms as to price and, where appropriate, quantity) under which the supplier will enter into one or more contracts with a contracting authority in the period during which the framework agreement applies.

Framework Provider

A contracting authority that has tendered out for energy suppliers on behalf of other contracting authorities (can be a CPB or an individual public sector organisation).

1. ENERGY PROCUREMENT RECOMMENDATIONS

The recommendations contained in this Strategy are:

- a) The Council is to use a 'compliant' and existing CPB framework to ensure security of supply and the use of energy market experts.
- b) Committee authorises the Deputy Chief Executive to purchase 'green' energy provided the premium is 5% or less than a non-'green' option. Relevant committee approval is required for a premium in excess of 5%.
- c) The Council is to make the required checks to ensure the use of any framework meets the required procurement regulations and the Council's standing orders.
- d) The Council will assess currently available energy frameworks for its supply requirements. Framework evaluation will be based on a quality/price ratio with a majority of the weighting based on quality, to ensure Value for Money.

2. INTRODUCTION AND BACKGROUND**2.1 Purpose of the Energy Procurement Strategy**

The Energy Procurement Strategy aims to establish the parameters, scope and authority of the Council's energy (gas and electricity) procurement for the next four years.

The Council operates a range of services using energy including leisure centres, the crematorium, retirement living schemes, homeless accommodation, social housing communal lighting, Council offices, all other Council-owned properties and estates.

This document should be read in conjunction with the Council's contract standing orders and procurement guidance that set out the rules and regulations that must be followed by Council employees when engaged in procurement activities on behalf of the Council.

2.3 Why is the Procurement of Energy Different?

The procurement of energy is different to the majority of the goods, services and works that the Council buys.

The energy market can be unpredictable and difficult to access competitive prices as a sole purchaser.

Energy, as a market and product, demonstrates the following characteristics:

Market

- Day to day price volatility due to external macro factors.
- Day to day price volatility due to supply and demand.
- Climate levies to encourage reduction in demand.
- Supply organisations tend to be generators and distributors.
- Supply organisations trade with each other.

- The market is regulated.
- Only about 50% of the cost of the energy is for the product itself. The remaining costs consist of network maintenance and investment, distribution, profit, taxes and other overheads.

Product

- Daily supply required.
- Product cannot be stored by the end user.
- Security of supply is crucial.
- Different tariffs can be applied to different volume usage.
- Sustainable options usually available.
- Significant cost to the Council.
- Specialist purchasing expertise is required.
- Different purchasing options available.
- Usage can be reduced by investment in energy efficiency measures.
- Purchases of electricity can be reduced by 'In House' generation, using solar panels or CHP.

2.4 What is an Energy Framework?

An energy framework is a framework that has been tendered out by a 'Contracting Authority' (framework provider) on behalf of other public sector organisations.

The framework provider will employ its own energy buyers to purchase the energy. It then uses the successful bidders (Eon, EDF, etc.) to use their network to deliver the energy, provide billing services, respond to queries, and pay the taxes.

The framework provider will charge the Council an annual management fee (based on number of sites or volume of energy consumed) for managing this framework. The Council pays the supplier for the energy purchased by the framework provider and for its delivery and any other costs.

The Council does not choose the energy supplier. By using the chosen energy framework, the Council is agreeing to use the supplier chosen by the framework provider. However, the Council can ensure that 'green' Energy purchase is possible by only considering Frameworks that offer this as an option.

3. PROCUREMENT CONSIDERATIONS

3.1 Council Requirements

The Council requires a fully managed energy contract provided by a third party. The Council needs to establish supply contracts to procure its energy requirements in compliance with its legal obligations and Standing Orders etc.

The Office of Government Commerce's Pan Government Energy Project recommends that it is best practice for public sector organisations to buy energy through Central Purchasing Body (CPB) frameworks that have aggregated volumes, can offer flexible purchasing and enable best practice risk management.

The Council is unlikely to achieve the best Value for Money on its own. The Council also lacks the specialist skills, expertise and resources to consider purchasing on its own in a complex energy market.

A managed contract through an existing framework will also provide the Council with access to energy experts, bill management services, customer service functions and associated services.

3.2 Security of Supply

The key issue of energy procurement for the Council is to ensure security of supply. This can be achieved through the use of a managed contract through an existing framework, which enables suppliers to aggregate volume and thus they are interested in supplying frameworks.

The Council is less likely to achieve security of supply by 'doing its own thing'. Suppliers are not interested in individual contracts because the administration time and costs drive down their profit margin.

Strategic principle 1

The Council will use a 'compliant' Central Purchasing Body framework to ensure security of supply and the use of energy market experts.

3.3 Risk and Price Volatility (Purchasing Options)

There are different purchasing options offered by framework providers that will potentially allow the Council to manage the risk of price volatility.

The two main options are:

- **Purchase in advance (PIA).** This is the purchase of energy in advance (over several months) of the period before the Council requires it. This means a fixed price for the year.
- **Purchase within period (PWP).** This is the purchase of energy within the period that the Council requires it. This means the price of energy to the Council can fluctuate through the year.

A more detailed analysis of these options can be found in the appendix, though in general PIA provides a fixed price for budget certainty at a premium, whereas PWP is more price-volatile and can provide for savings but also there is a risk of price increases.

Some frameworks may offer a mixture of the two purchasing options. The use of a Central Purchasing Body drawn from an approved framework in itself reduces the risk to the Council as purchasing in aggregate mitigates price volatility and day-to-day procurement decisions are made by experts within specialist organisations operating through the framework.

3.4 Sustainability

The Council wishes to purchase green electricity which is produced from renewable sources with no reliance on fossil fuels. However, there may be a premium to the purchase of green energy.

Strategic principle 2

Committee authorises the Deputy Chief Executive to purchase 'green' energy provided the premium is 5% or less than a non-'green' option. Relevant committee approval is required for a premium in excess of 5%.

3.5 Legislation

The Public Contracts Regulations 2015 define the Council as a 'Contracting Authority'. This means the Council is subject to various UK procurement regulations, as well as its own standing orders' in its procurement of goods, services and works.

Legally the Council must have a contract tendered under the rules of the Public Contracts Regulations for this level of expenditure. This includes compliant Framework Agreements produced by a number of purchasing bodies. Checks will take place to ensure the framework is compliant.

Strategic principle 3

The Council will make the required checks to ensure the use of any framework meets the required procurement regulations and the Council's standing orders.

3.6 Selection and Evaluation of Frameworks

The Council has no control of the trading price of energy, but it will try to achieve value for money by choosing the most appropriate framework.

3.6.1 Framework Selection

The Council will choose at least three frameworks to evaluate for each energy contract. However, if the Council is unable to obtain sufficient evaluations from CPB's, other energy framework providers will be considered on the condition that they are able to provide satisfactory and relevant case studies from several local authorities.

The selection of the frameworks will depend on:

- The framework is compliant and it can be used by the Council.
- Framework start and end dates.
- Pricing options
- Ability to access/contact the framework provider.
- The purchasing options available.
- Contract terms and conditions.

The Council shall ensure there is a consistent and transparent approach for the evaluation of the frameworks. The evaluation and review of CPB and frameworks will involve representatives from the following: legal, procurement or finance with

contributions from employees involved in the day to day energy management and a senior manager with an invested interest in energy procurement.

3.6.2 Contract Award

Of the frameworks selected the Council will use some of the following elements to assess each framework:

- Total of management fee over framework period.
- Past performance of price of energy.
- Aggregation levels (volumes of energy purchased).
- Customer service provision.
- Additional services (free/extra cost).
- How is performance during the framework measured?
- Demonstration of commitment to the Council.
- Framework flexibility – change purchasing option/leave before end of framework/change contract management type?
- A quality/price weighting ratio such as 70% quality/30% price will be used to assess frameworks. Emphasis will be on quality and past performance as the management fee is low in proportion to the cost of the energy.

3.6.3 Evaluation Process

We will devise a robust process to allow evaluation of the available Framework Agreements.

Once the assessment has been completed, a report for the relevant Committee to consider and approve will be produced.

Strategic principle 4

The Council will assess at least three energy frameworks. Evaluation will be based on a quality/price ratio with a majority of the weighting based on quality.

Appendix

Analysis of Purchasing Options

	Advantages	Disadvantages
Purchase in Advance		
	Fixed price for the year – provides for budget certainty	An element of premium is charged for this 'fixed price', as suppliers will inevitably try to cover their risks.
	Easy to manage	Miss out on price decreases within the year of purchase
	Low risk	
Purchase within Period		
	Can take advantage of price decreases	Exposed to price increases
	Can limit exposure with some products	Budgets harder to forecast
	High Risk	Harder to manage, increased administration
Flexible variable Option (mixture of PIA and PWP)		
Advantages and disadvantages of PIA/PWP but reduced		