

REPORT OF Section 151 Officer  
To: Full Council  
Subject: Joint purchasing of utilities  
Date: 19th June 2023

Reference:

<b>PURPOSE OF REPORT:</b> For members to approve Torridge membership of the Devon Energy Purchasing Consortium.
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## 1. Introduction and background

- 1.1. Since 2016, the Council contracts with Laser Energy Group (Kent County Council) to procure, manage and supply its gas and electricity (both metered and unmetered). Torridge is a member of a purchasing “consortium” called the Devon Energy Group with Devon County Council acting as lead authority. Other members include Devon District Councils, Devon County Council, Torbay Council, Dartmoor National Park and Devon & Somerset Fire and Rescue.
- 1.2. Laser are a specialist trading arm of Kent County Council dedicated to delivering gas, electricity and other utility value added services for the public sector. They are an established **PBO** (Public Buying Organisation) set up for this very purpose.
- 1.3. There are a number of elements which make up the billable rates for both gas and electricity. In general, commodity costs account for around 50% of electric charges and 60% of gas charges. With recent market volatility the percentage of billable charges arising from commodity costs has fluctuated between 45 and 80%. Laser’s purchasing strategy helps manage such volatility.
- 1.4. There are a number of key elements that make up the billable rate. For gas a high percentage is still made up of the wholesale price, but electricity has seen other cost factors increase, such as network costs (distribution and transmission) and green levy. This has reduced the impact of wholesale electricity changes on the billable rate. Electricity transmission distribution charges within the South West are higher than the national average, this is due to electricity being transported over longer distances, using more of the transmission system.
- 1.5. Laser purchase the energy requirements for members of the Devon Energy Group a year in advance, from 1<sup>st</sup> October to 30<sup>th</sup> September, for the following supply year. This is known as PIA (Purchase in Advance model). This provides budget certainty, although weather can have a significant impact on consumption within a year. Other models such as PWP (Purchases Within a Period) allow for in year purchase of energy, at the cost of budget certainty. The past years volatility in energy prices has shown how the cautious but more predictable model has been better suited to Torridge’s budgetary environment,
- 1.6. Torridge Council’s expenditure in 2022/23 on gas and electricity was £664k.

## 2. Next Steps

2.1 The current arrangement with Laser expires on the 30<sup>th</sup> September 2023, the options available to the Devon Energy Group are:

- Continue with existing procurement model via a PBO
- Carry out a full procurement including utility brokers
- Procure using a PBO framework

The advantages and disadvantages of each approach are detailed below:

	<b>Advantages</b>	<b>Disadvantages</b>
<b>Continue the existing model of procuring energy (gas &amp; electricity) requirements through a Public Buying Organisation (PBO)</b>	Aggregated volumes will give more purchasing flexibility	Loss of control with public body buying our gas and electricity.
	Continued improved monitoring of markets will better inform purchasing decisions.	Issues in pricing transparency of PBO charges.
	Governance board in place with third party specialist organisation auditing and challenging.	Delegated authority would need to be given to the PBO to purchase energy on our behalf (although a still within Public Sector). This is already taking place with TDC energy contracts.
	Direct award can be made to a PBO, subject to authorities being satisfied it meets their own financial regulations and value for money	Cost of change unless incumbent.
	Central Government are encouraging authorities to join PBO energy consortiums.	
	PBO's undertake UK compliant competitive procurement exercises with regulated energy providers.	
	PBO competitive procurement exercise to open market tests the market and demonstrates value for money.	
	Using aggregated volumes to drive cost savings and innovation.	
	Any profits reinvested into public services.	

	<b>Advantages</b>	<b>Disadvantages</b>
<b>Carrying out a full OJEU procurement including utility brokers</b>	Allows all organisations both public and private to bid providing greater competition and opportunities in delivering savings and innovation.	Last time DCC (Energy Group Lead) and others went out to a full OJEU procurement five bids were received, two from 'the big six power companies' three from PBOs and one utility broker company. Only one of the bid responses was compliant to our tendered requirements.
		Delegated authority may need to be given for the private company (if successful) to purchase energy on TDC's behalf. TDC needs to be comfortable with providing this.
		Limited governance on utility brokers compared to PBOs & the regulated energy companies.
		Brokers would apply a profit administration margin and would need to transact with one of the regulated energy companies who in turn would apply a management fee.
		Appointing a broker can involve extended times in resolution of account management queries.
		Pricing transparency with multiple suppliers in the chain is often difficult to obtain and monitor.
		Time and resource required to undertake the procurement and cost of change.
		Public authorities tend to have few HH sites but a high number of NHH which are less attractive to the market being low usage but still requires maintenance and support. Whereas a HH site is high volume and value which is more appealing to the market.

	<b>Advantages</b>	<b>Disadvantages</b>
<b>Procure using a PBO framework</b>	Using a PBO framework would be OJEU compliant without TDC having to run a further procurement process.	The time and resource required to research, identify if the frameworks provide value for money. Potential cost of change with changing meters over to new suppliers/providers.
	Preferential to TDC bespoke terms and conditions	
	To establish a framework, the PBO would have been through an OJEU compliant competitive process to demonstrate value for money.	
	Mutual public sector interest in supporting public bodies.	
	Profits are reinvested within the Public Sector.	
	Energy volumes aggregated to give better purchasing volumes.	

The preferred procurement model of the Devon Energy Group is the procurement using a Public Buying Organisation (PBO).

There are four PBO frameworks available for the procurement of Electricity and Gas

- Crown Commercial Services
- Eastern Shire Purchasing Organisation
- Yorkshire Purchasing Organisation
- Laser

All of the above are UK procurement regulations compliant framework allowing for direct call off; **however all except Laser** would require the following.

- Change of Gas supplier requiring changes to contractual terms
- Changes of supplier for electricity means costs of change plus additional administration and contract management. Removing the advantage of having a single point of contact for gas and electricity queries
- There would be switching costs, time and resources and there is a potential for disruption to service.

## Benchmarking Energy Costs

It is very difficult to benchmark energy costs especially for electricity. There are many variable factors that make up a meter point bill. To do an accurate benchmark an exact like for like comparison would need to be made at the same point in time against that same meter.

However, there are elements of the billable rate we are able to compare and contrast as detailed below:

Organisation	Call off method	Outcome of investigation	Recommendations
<b>Crown Commercial Services (CCS)</b>	Framework	<p>Costs not made available. Must go with price offered.</p> <p>Deal direct with energy supplier no direct account management support from CCS. Different approach to energy baskets.</p>	<p>Not able to benchmark price. CCS do charge a flat supplier spend rebate fee assumed to be their standard 1% . In addition, there will also be a cost to serve fee applied by CCS or the contracted supplier. Laser charge around £9055 management fee in the standing charge. This is based on current volumes.</p>
<b>The Yorkshire Purchasing Organisation (YPO)</b>	Framework	<p>Costs not made available. Must go with price offered.</p> <p>Deal direct with energy supplier no direct account management support from YPO. Different approach to energy baskets.</p>	<p>Not able to benchmark price. YPO do charge a flat supplier spend rebate fee assumed to be their standard 1% . In addition, there will also be a cost to serve fee applied by YPO or the contracted supplier. Laser charge around £9055 management fee in the standing charge. This is based on current volumes.</p>
<b>Eastern Shires Purchasing Organisation (ESPO)</b>	Framework	<p>Costs not made available. Must go with price offered.</p> <p>Deal direct with energy supplier no direct account management</p>	<p>Not able to benchmark price. ESPO do charge a flat supplier rebate fee but not clear what this is. In addition, there will be a cost to serve fee for managing the</p>

		support from YPO. Different approach to energy baskets.	contract. Laser charge around £9055 management fee in the standing charge. This is based on current volumes.
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Laser Energy – cost to serve breakdown charges per annum, (this information is based on 2022/2023 estimated volumes)

### Cost of Change

If TDC moved suppliers, there would be switching costs which would require time and resources to manage. This would mainly be in procurement but could impact other areas such as Finance, Estates dealing with the changes and administration that would arise from such a switch.

Supply transfers for gas and electricity from one provider to another require approximately 28-days notice providing there are no objections.

The problems that often occur and make transfer of sites very administratively intensive are:

- Supplies not being transferred due to outstanding debts on the accounts;
- Supplies leaving Laser but not transferred to new provider, thus leaving the supply 'shipperless';
- Issues relating closing reads (from current provider) and opening reads (from new provider);
- Setting up the correct billing details.

If an issue does arise relating to a supply, it can often take months and in extreme cases years to resolve.

As a rough estimate for procurement alone we would anticipate a Procurement Officer time being 0.5 FTE for 6 months, then 0.25 FTE for 6 months.

### Renewable Energy

TDC have declared a climate emergency and have a number of targets to reduce its carbon output.

Purchase of renewable electricity can play a part in reducing our carbon output but only if our funds are used to generate additional renewable electricity, rather than coming from the existing UK national fuel mix. There is considerable evidence to show purchase of renewable electricity, even when backed by REGOs (Renewable Energy Guarantees of Origin) are simply 'greenwashing'.

The PBOs offer up various initiatives to assist Councils in meeting their aims. Laser offers a comprehensive set of initiatives that can be used by Public bodies to help them meet their targets. In the new Laser framework, there is a second Lot with a significant focus on green initiatives, with suppliers available assist TDC in their requirements.

Laser is working closely with TDC in offering advice and guidance on power purchase agreements and how these could enable TDC to purchase renewable energy in line with our policy target.

### 3. Summary

Central Government actively encourage the use of PBOs by public bodies as the best way to aggregate spend and achieve best value by using specialist energy management buying organisations such as Laser Energy Group (part of Kent County Council).

Torridge Council has compared the different PBO frameworks and their costs.

This report identifies no clear advantage in undertaking a full UK above threshold procurement exercise. The primary reason is the limited response when we last procured from the open market. There are 3 – 4 PBOs that are more closely aligned to public sector requirements and provide a competitive comparison. TDC can also choose directly from a PBO framework once best value has been identified. This negates the need for a lengthy procurement process.

It is recommended that Torridge should continue its existing contractual arrangement with Laser Energy Group who are part of Kent County Council for the reasons listed below:

- TDC have been part of the Laser energy contract since 1<sup>st</sup> April 2016. During this time TDC experienced some initial start-up issues but the contract is now stable with very few issues.
- The purchasing model is risk adverse by buying the gas and electricity a year in advance. This means the final billable rate will never be at the highest or lowest point in the market. Laser achieves near to or below average wholesale prices.
- Laser provides additional value-added services such as bill validation, full account management and billing support, various green energy initiatives and ongoing market updates with price predictions.
- TDC and other the Devon Energy Group Councils that use the contract are satisfied with the service from Laser.
- There is a governance board in Laser to ensure appropriate decisions are being made and use of public sector money.
- Laser's cost to serve and management fee is around £9,055 per year which when compared with the overall contract value is a very low percentage. Therefore, the focus is on the added value they provide.

In total, Laser's flexible frameworks have reduced the TDC energy spend by £113.3k per annum (see appendix 1 for breakdown) The new frameworks retain all the features and benefits of the existing frameworks in addition to several key enhancements:

- Enhanced social value requirements with a pot of up to £130k per annum to spend across initiatives nominated by Laser customers.
- A suite of options to help organisations achieve your net zero ambitions including:
  - Purchasing energy from Power Purchase Agreements
  - Sleeving in electricity from a customer's own Power Purchase Agreement
  - Selling electricity and gas from customer owned generation
  - Implementation of Demand Side Response and Energy Efficiency projects
  - Supply and install of on-site renewables or heat decarbonisation projects
- There is further support Laser can offer to assist organisations to reach net zero, which can be found out [Zero Carbon \(laserenergy.org.uk\)](https://www.laserenergy.org.uk)
- Additional protections against supplier failure – the option to switch between suppliers on the framework in the event of a supplier failing to deliver their contract commitments or going out of business.
- Enhanced trading strategies – the ability for Laser to amend and introduce new trading strategies to meet bespoke customer requirements and changing market conditions.
- Additional management information requirements – increased requirements on suppliers to provide meaningful management information to customers.
- Additional supplier Service Level Agreement requirements including enhanced KPIs and Poor Performance Remedies

#### **4. Implications**

##### Legal Implications

Procurement regulations allow contract awards from purchasing framework.

##### Financial Implications

These are contained in the report.

##### Human Resources Implications

Torrige's membership of the Devon Council's Energy Group and proposed renewal of the procurement of electricity and gas via Laser procurement framework relieves us of Torrige staff resources. The Council has one full time procurement officer.

##### Sustainability Implications

Are detailed within the report.

##### Equality/Diversity

None directly applicable to this report.

##### Risk Management

The proposed policy does not add an additional financial burden on to the Council.

##### Compliance with Policies and Strategies

In compliant with the Council's procurement policies.

#### **5. Recommendations:**

That Members

- Approve the Torrige Council joining with other members of the Devon Council Energy Group in contracting with Laser Energy Group (part of Kent County Council) to procure gas and electricity for the period 1<sup>st</sup> October 2024 – 30<sup>th</sup> September 2028.

# Appendix A

Description	Avoided Cost contract life
<b>LASER's purchasing performance</b> - the prices achieved by Laser since the commencement of the framework are lower than the average market prices over this period.	<b>£101.3k</b>
<b>Lower Supplier Management Fees</b> - reduced fees from your gas and electricity suppliers compared to buying as a stand-alone customer.	<b>£9.1k</b>
<b>Shaping Benefits</b> - aggregating the volumes of multiple customers flattens the overall usage profile, allowing our traders to purchase at a lower price.	<b>£0.8k</b>
<b>Entire Market Pricing</b> - when Laser submits a bid to buy a block of energy, our suppliers are compelled to put this bid into the open market. This means we receive the lowest price anyone in the entire market is prepared to offer.	<b>£0.4k</b>
<b>Flexibility of Trading</b> - our large energy purchase volumes mean we can buy larger blocks of energy over the market, which come at a discount to buying smaller blocks of energy.	<b>£0.1k</b>
<b>Volume Tolerance</b> - Laser's volume tolerances apply at the aggregated customer level (rather than individual customer level) minimising the risk of load variance penalties. As an example, no penalties were incurred for reduced usage during Covid.	<b>£0.1k</b>
<b>Transparency of pricing</b> – Laser validates supplier's flexible prices and corrects any errors prior to opening bills being issued for each pricing period.	<b>£1.7k</b>

In total, Laser's flexible frameworks have reduced the TDC energy spend by £113.3k per annum. The new frameworks retain all the features and benefits of the existing frameworks in addition to a number of key enhancements with the new framework: