Agenda item:

HAMPSHIRE COUNTY COUNCIL

Report

Committee:	Buildings, Land and Procurement Panel
Date:	30 June 2015
Title:	Energy Contracts from September 2016
Reference:	6650
Report From:	Director of Culture, Communities and Business Services

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1. Executive Summary

1.1. The purpose of this paper is to gain approval to procure and spend for energy supply contracts from September 2016, when the current contracts expire and for which one year's notification of requirements must be provided. The current annual spend on energy commodities is £24m including schools and partner spend, of which £16m is electricity and £8m gas.

1.2. The recommendations regarding the future procurement arrangements were developed at a workshop of the Energy Category Procurement Steering Group on 3 June 2015, informed by stakeholder engagement.

1.3. This paper seeks to:

- Outline the relevant timelines for the proposed contracting arrangements via LASER (Kent County Council).
- Summarise performance of the current contracting arrangements.
- Outline available purchase options for electricity and gas supplies under the October 2016 LASER energy frameworks.
- Introduce the option of long term fixed price contracting direct with a generator, brokered by a Buying Partner such as LASER.
- Provide recommendations on the buying and risk management approach for the energy portfolio procured by the County Council.

The recommendations are to:-

1.4. Commit to a 10 year Power Purchase Agreement (PPA) fixed price (+CPI) agreement direct with a Generator for a minimum of 15GWh and maximum of 20GWh depending on the level of partner opt in for the 10 year duration.

This represents 10-15% of the total portfolio. This method will be allocated across the portfolio as follows:-

- Corporate (including Fire)
- Constabulary
- Street Lighting and Traffic Signals
- Schools
- Partners/Colleges – as they specifically nominate

The PPA arrangement will be brokered by LASER, but there will be no constraints over moving the rest of the portfolio to a Buying Partner other than LASER within the 10 year duration.

1.5. Enter a 2 year contract for remainder of electricity and gas via LASER and, within that timescale, conduct a more detailed review of alternative Buying Partners such as Crown Commercial Services (CCS).

1.6. To integrate Constabulary spend into the County Council Corporate portfolio.

1.7. Arrange to meet the requirements of schools through a mix of PPA (which would represent 10-20%) and Purchase In Advance (PIA) to provide budget certainty.

1.8. All Corporate spend including Fire Service, Constabulary, Street Lighting and Traffic Signals to be met as a mix of PPA (10-20%) with the balance as Purchase within Period (PWP). PWP is a managed portfolio with methodical purchases made at a variety of different times. PWP can be expected to achieve a result that is closer to the market rate than PIA but is not fully exposed to market fluctuations. While energy prices are low, PWP is recommended.

1.9. Partners such as Districts and Colleges will be given the choice to commit part of their portfolio to the 10 year PPA and advise their preferred allocation of remaining spend across PIA and PWP.

1.10. Annual review: The Category Steering Group will hold an annual review of Energy Procurement arrangements including the performance of the contracts, adjustment of demand for example to accommodate new partners and, as far the Group consider necessary, to move spend across the PWP and PIA purchase options for the next year of delivery within the flexibility of the LASER framework. Approval from the Director of CCBS will be obtained for any annual adjustments within the contract lifetime.

2. Contextual information

Energy Category Procurement Plan

2.1. Proposals for the Energy Category are developed by a Steering Group comprising service managers with responsibility for Energy Management from Property Services and Economy, Transport and Environment, and category experts from the Corporate Transformation Team and the

Infrastructure Procurement Team. This is intended to ensure that procurement solutions are service led, involve relevant experts and key stakeholders and balance opportunity and risk.

Commodities contracts via LASER

2.2. Following previous reports to the Buildings, Land and Procurement Panel, the existing energy contracts are procured via LASER Energy Buying Group (LASER), a public sector buying organisation managed and led by Kent County Council.

2.3. The current LASER framework runs for 4 years from October 2012 to September 2016.

2.4. LASER was founded in 1989 to manage the procurement opportunities created by the deregulation of the gas and electricity markets. LASER has been purchasing energy on a ‘flexible’ basis since 2008 and manages gas and electricity procurement on behalf of 115 Local Authorities (London Boroughs, County Councils, Unitary Authorities and District/Borough and Parish Councils) and 45 wider public sector bodies. Current contracted volumes for electricity are 2.5 TWh (£250 million per annum) and gas 4.2 TWh of consumption volume (£100 million per annum) of energy. This equates to approximately 2.1% of the UK’s non-domestic gas demand and 1.3% of non-domestic electricity.

2.5. The suppliers on the current framework are:

Gas - Total Gas & Power

Electricity - Npower

2.6. LASER are now seeking public sector commitment to the replacement framework in order to facilitate a longer term hedging strategy and provide a large window of opportunity for buying. Decisions are required by the end of August 2015, one year ahead for a minimum commitment of 2 years’.

2.7. While an overall commitment of spend is required, the mix of methodologies e.g. balance of Purchase In Advance (PIA) and Purchase Within Period (PWP) can be shifted from year to year, with notice of one year.

Buying methods

2.8. The main approaches are Purchase In Advance (PIA) and Purchase Within Period (PWP). A long term agreement direct with generator - Power Purchase Agreement (PPA) is also being explored.

2.9. Purchase In Advance (PIA): All energy requirements are purchased in tranches in advance of the contract supply period, providing budget certainty for the following 12 months.

2.10. Purchase Within Period (PWP): A portion of the energy requirements are purchased in advance of a contract year (1st October) period, but a certain volume may be left open giving the option to purchase closer to or within the supply period. Bi-annual reconciliation against a ‘strike’ price takes place. Financial controls are in place to keep the risk of higher energy prices to a minimum.

2.11. PWP has less budget certainty than PIA, but provides greater market opportunities.

2.12. Power Purchase Agreement (PPA) is typically for 10 years and for a minimum of 15GW which equates to around 10% of the County Council's portfolio. The main benefits are: price protection - contract prices are fixed for the contract duration which means budget certainty - budgets can be predicted and therefore managed and security - provides protection from volatility in the energy market.

2.13. There are other methodologies, such as Day Ahead, and further work to explore and evaluate alternative Buying Partners and methodologies will be undertaken during the next contract lifecycle for consideration from Autumn 2018.

Preserved Electricity Contracts

2.14. There is also a contract for Preserved Electricity with Scottish and Southern for £1million of which around 75% is spend by external bodies. These meter points remain on the historical tariffs of the regional companies. The contract expires 31.10.15 and will be renewed via Single Tender. There is no alternative provision for these requirements.

3. Current Position

3.1. The current annual spend analysis and portfolio mix along with a projected scenario under the recommendations is shown in Appendix 1.

3.2. The County Council achieves income to support the activities of the corporate procurement team of some £200,000 annually through rebate arrangements on these contracts.

3.3. The financial impact of bringing Constabulary spend into integrated 'Purchase Only' contractual arrangements for Electricity and Gas is that the County Council will provide an equivalent managed service with a rebate of £18,000. The current premium to LASER that the Constabulary incurs is £32,000.

4. Performance

Performance of current contract PIA and PWP

4.1. Since the commencement of the 2012-2016 contract the energy only element of the electricity price shows that the switch to PWP from PIA reduced costs by a total of £91,000 over first three years. Early indications are that the 2015/16 contract year will continue to show PWP outperforming PIA by a small degree.

	2012/13	2013/14	2014/15	2015/16
PIA Baseline Price	£49.08 per MWh	£52.49 per MWh	£53.05 per MWh	£51.62 per MWh
PWP Baseline Price	£49.19 per MWh	£50.19 per MWh	£48.57 per MWh	£48.28 per MWh
Difference	-£0.11 per MWh	£2.30 per MWh	£4.48 per MWh	£3.34 per MWh
PIA Spend	£6,478,543	£7,350,654	£6,761,080	n/a
PWP Spend	£663,203	£631,178	£692,790	n/a
Saving from switch to PWP	-£1,486	£27,657	£58,505	n/a

Benchmark of PPA pricing

4.2. Following a fairly volatile market position, the last two years have been relatively calm for the market price of electricity. The Department of Energy and Climate Change has published their expectations for market prices for the next twenty years. Base case, worst case and best case pricing have been compared with indicative prices provided by LASER for a 10 year PPA deal over 10 years for 15 GWh some 10% of the portfolio

4.3. In the event of the market rising to the higher estimates of forecast prices, the potential saving would be in the region of £1,840,000 cumulative over ten years. However, as the market might continue to be flat, there is the potential for paying more than necessary. This would be around £2,444,000 cumulative under the 'worse case' scenario. The 'base case' scenario is break even.

4.4. Thus the benefit of a PPA deal for some 10% of the portfolio would be to mitigate against a risk of price increases totalling £2 million over 10 years.

5. Other Key Issues

5.1. The option to bring Energy Procurement in-house is discounted as the Authority does not at present have the capacity, skills or critical mass. Government best practice recommends that Authorities procure via specialist Buying Partners.

6. Future direction

6.1. Within the lifecycle of the next 2 year contract with LASER, a more detailed review will be conducted of Buying Partner options and alternative buying methodologies such as Day Ahead.

6.2. Crown Commercial Services' contracts have an April start and would require interim arrangements to be made, but LASER and the County Council will maintain a dialogue with CCS on key developments.

7. Recommendations

That the Buildings, Land and Procurement Panel make recommendations to the Executive Member for Policy and Resources for Approval to Procure and Spend are as follows: -

7.1. Conclude a 10 year Power Purchase Agreement fixed price (+inflation index tbc) deal direct with a Generator for a minimum of 15GWh and maximum of 20GWh. This represents some10-15% of the total portfolio. This method will be allocated across the portfolio as follows:-

- Corporate (including Fire)
- Constabulary
- Street Lighting and Traffic Signals
- Schools
- Partners/Colleges – as nominated by them

7.2. The PPA arrangement will be brokered by LASER, but there will be no constraints over moving the rest of the portfolio to a Buying Partner other than LASER within the 10 year duration.

7.3. Enter a 2 year contract for the remainder of electricity and gas via LASER and, within that timescale, conduct a more detailed review of alternative Buying Partners such as Crown Commercial Services (CCS);

7.4. Arrange to meet the requirements of schools through a mix of PPA (which would represent 10-20% of their spend) and Purchase In Advance (PIA) to provide budget certainty.

7.5. All Corporate spend including Fire Service, Constabulary, Street Lighting and Traffic Signals to be met as a mix of PPA (10-20%) with the balance PWP.

7.6. Partners such as Districts and Colleges to be given the choice to commit part of their portfolio to the 10 year PPA and advise the preferred allocation of remaining spend across PIA and PWP.

7.7. That the Buildings, Land and Procurement Panel receive a further report on the implementation of these arrangements in June/July 2016 and thereafter an annual report on the performance of the contracts, demand, partners and any changes in the balance of the PWP and PIA purchase options for the next year of delivery.

7.8. That the Director of Culture, Communities and Business Services has delegated authority to determine operational matters within the duration of the contracts.

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

Hampshire safer and more secure for all:	yes
Maximising well-being:	yes
Enhancing our quality of place:	yes
OR	
This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:	

Other Significant Links

Links to previous Member decisions:		
Title	Reference	Date
Procurement Approval Report for current generation of Energy Commodity Contracts		25.8.2011

Direct links to specific legislation or Government Directives	
Title	Date

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;

Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;

Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;

Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;

Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionally low.

1.2. **Equalities Impact Assessment:**

This report seeks approval to procure energy commodities and thus will have no impact on groups with protected characteristics.

2. Impact on Crime and Disorder:

2.1. Street Lighting contributes to reducing crime.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

The change in the mix of methodologies may include a 'Power Purchase Agreement' which is long term deal direct with a generator will apply funding to renewable sources of energy.

The overall package for the electricity portfolio can apply the contract revenue to renewable generation.

The Council has a programme of demand management of energy such as the Energy Champions. The flexible contracts being put in place accommodate reductions in demand.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

This proposal seeks to manage the inherent risks in energy procurement on behalf of the Council, schools and partners through

a mix of buying methodologies across the portfolio to spread exposure to risk to market price fluctuations;

greatest price stability for portfolio holders such as schools, street lighting, traffic signals and partners e.g. District Authorities who have indicated that this is their preferred risk profile

The Power Purchase Agreement mitigates against exposure to future price increases by securing long term price stability.

Spend Analysis

Current portfolio

	Electricity Spend (£k per annum)	**%**	**Gas** Spend (£k per annum)	**%**
Corporate	2,423	15%	1,221	16%
Street Lighting/Traffic Signals	3,883	24%	-	0%
Fire	261	2%	191	2%
Police (managed Service)	1,254	8%	387	5%
Schools	5,544	34%	4,810	61%
Colleges	1,422	9%	472	6%
Districts	1,375	8%	664	8%
Other Partners	233	1%	125	2%
Total	**16,396**	100%	**7,871**	100%
HCC rebate	134		68	
PIA	14,791	90%	7,458	95%
PWP	1,605	10%	412	5%

PIA volume (kWh)	139,713,505	90%	226,651,525	95%
PWP volume (kWh)	14,263,746	10%	12,452,863	5%
Total volume (kWh)	153,977,251	100%	239,104,388	100%

Scenario from 2016 if minimum PPA commitment of 15GWh

	Electricity	**%**	**Gas**	**%**
	Spend (£k per annum)		Spend (£k per annum)	
Corporate	2,423	15%	1,221	16%
Street Lighting/Traffic Signals	3,883	24%	-	
Fire	261	2%	191	2%
Police (Managed Service)	1,254	8%	387	5%
Schools	5,544	34%	4,810	61%
Colleges	1,422	9%	472	6%
Districts	1,375	8%	664	8%
Other Partners	233	1%	125	2%
Total	**16,396**	100%	**7,871**	100%
HCC rebate	148		72	
PPA 15GWh*	1,640	10%		0%
PIA (88% Schools' electricity spend not via PPA, all Schools' gas)	4,879	30%	4,810	61%
PWP (non PPA Corporate, Street Lighting, Police, assume partners PWP)	9,877	60%	3,060	39%

* PPA will be 15-20GWh depending on partner commitment to 10 year deal. 15GWh represents c. 10% total current electricity spend and 12% of portfolio to which it is allocated comprising Corporate, Street Lighting/Traffic Signals, Fire, Police which totals £13,141k. 20Gwh represents 13% of the total portfolio or 15% of the portfolio to which it is allocated, before partner opt in.

PPA volume (kWh)	15,000,000	10%		0%
PIA volume (kWh)	45,974,078	30%	144,723,784	61%
PWP volume (kWh)	93,003,173	60%	94,380,604	39%
Total volume (kWh)	153,977,251	100%	239,104,388	100%