

From: **Bryan Sweetland, Cabinet Member for Commercial and Traded Services**

Mike Austerberry, Interim Corporate Director of Growth, Environment and Transport

To: **Policy and Resources Cabinet Committee, 19 September 2014**

Decision No: **14/00096**

Subject: **LASER flexible framework contracts for the supply of gas and electricity October 2016 – September 2020**

Key decision : **Expenditure – Over £1m**
a) Flexible framework contract for the supply of gas, with a value of £625m over four years
b) Flexible contract for the supply of electricity, with a value of £975m over four years

Classification: **Unrestricted**

Past Pathway of Paper: None

Future Pathway of Paper: For Cabinet Member Decision

Electoral Division: All

Summary: LASER Energy Buying Group operates Kent County Council's flexible energy procurement frameworks to purchase the gas and electricity requirements of KCC and other LASER customers. This report provides an overview of the procurement process undertaken by LASER to renew the flexible frameworks for the period October 2016 – September 2020. The new flexible frameworks are to be executed during September 2014 to allow a two-year window for LASER to commence purchasing future energy requirements.

Recommendation(s):

The Cabinet Committee is asked to recommend to the Cabinet Member that delegated authority is given to the Corporate Director of Strategic & Corporate Services to execute the flexible energy procurement frameworks on behalf of KCC for the period October 2016 to September 2020, in consultation with the Cabinet Member for Commercial and Traded Services.

1. Introduction

- 1.1 LASER is a successful division of Commercial Services Kent, using advanced energy procurement methods to minimise the gas and electricity spends of Kent County Council and its other public sector customers.
- 1.2 Kent County Council's current flexible energy procurement frameworks, operated by LASER, expire 30 September 2016.
- 1.3 An open OJEU compliant tender process has been utilised in order to appoint new framework suppliers for the period October 2016 to September 2020.
- 1.4 A total of six suppliers submitted tenders (four electricity offers and three gas offers). Npower (electricity) and Total GP (Gas) received the highest assessed tender scores. Npower and Total are the incumbent framework providers for electricity and gas respectively.
- 1.5 Contract documentation is being finalised with Npower and Total to allow Kent County Council to execute the frameworks prior to 30 September 2014.

2. Financial Implications

- 2.1 KCC's energy spend under these frameworks will be approximately £65m over four years.
- 2.2 The remaining value is energy purchases made by LASER on behalf of other public sector customers who utilise the frameworks. There is negligible financial risk to KCC as customers remain responsible for paying suppliers for the energy purchased by LASER; either directly to the suppliers, or via LASER in the case of customers taking a managed service. This has been the case since LASER's inception in 1989.
- 2.3 To maintain a sufficient window for purchasing energy requirements from 1 October 2016 onwards, the new flexible frameworks will be established by 30 September 2014. This allows LASER to spread the purchases of future energy requirements, and mitigates the risk of purchasing at times of peak market pricing.

3. Bold Steps for Kent and Policy Framework

- 3.1 LASER consistently purchases energy for KCC and other public sector customers at below average market prices, offering cost relief at a time of constrained public sector budgets. Across KCC's portfolio (including Kent Highways), LASER's flexible procurement frameworks have achieved an average cost avoidance of £1.1M per annum over the past four years. Across LASER's portfolio of public sector customers as a whole, the annual cost avoidance is £26.8M per annum.

- 3.2 In addition to the above, LASER offers further services that provide value to customers, including energy invoice validation, query management, reporting and energy management.
- 3.3 Consistent with KCC's Strategic and Corporate Services Directorate Strategic Policy Statement, LASER's surplus from servicing public sector customers is returned to KCC.
- 3.4 LASER employs over 65 people, providing local employment, training and development.

4. The Report

- 4.1 LASER has been purchasing gas and electricity since 1989 on behalf of Kent County Council and other public sector customers.
- 4.2 From 2008 onwards, LASER has been operating Kent County Council's flexible energy procurement frameworks. The frameworks permit LASER to purchase aggregated customer gas and electricity requirements in multiple blocks prior to the point of delivery. This helps to mitigate and spread market price risk. This method of purchasing energy was recommended by the Pan Government Energy Project in 2011 and has delivered financial benefits to LASER customers, including KCC.
- 4.3 Alternative options would include using fixed term fixed price contracts for all of KCC's portfolio. This provides price certainty, but carries significant budget risk from purchasing energy requirements at times of high market prices. Other approved Public Sector Buying Organisations could carry out the Procurement operation but this would not deliver returns to KCC and would not take advantage of the well developed procurement strategy and procurement knowledge available in LASER.
- 4.4 Due to the success of the 2008 – 2012 and 2012 – 2016 flexible frameworks, LASER has undertaken an open OJEU compliant procurement process to appoint new flexible framework suppliers for the period October 2016 to September 2020.
- 4.5 A total of six suppliers submitted tenders (four electricity offers and three gas offers). Npower (electricity) and Total GP (Gas) received the highest assessed tender scores. Npower and Total are the incumbent framework providers for electricity and gas respectively.
- 4.6 Nabarro, a law firm, have been engaged to finalise the flexible framework contract documentation with the successful suppliers. Nabarro will provide a document confirming the contracts are fit for purpose prior to being executed.
- 4.7 The flexible framework Contract is to be signed by the Corporate Director of Strategic & Corporate Services.

4.8 Council properties will benefit from LASER's flexible procurement and invoice validation services. There will be a return made to KCC through LASER servicing other public sector customers.

4.9 The frameworks comply with all relevant equality legislation.

4.10 The frameworks comply with all relevant Public Health legislation.

5. Conclusions

LASER Energy Buying Group operates Kent County Council's flexible energy procurement frameworks to purchase the gas and electricity requirements of KCC and other LASER customers. The frameworks are operated by LASER to minimise KCC's energy spend, and generate a return to KCC by servicing other public sector customers. Renewing the flexible procurement frameworks for the period October 2016 to September 2020 will permit LASER to continue the provision of these services.

6. Recommendation(s):

The Cabinet Committee is asked to recommend to the Cabinet Member that delegated authority is given to the Corporate Director of Strategic & Corporate Services to execute the flexible energy procurement frameworks on behalf of KCC for the period October 2016 to September 2020, in consultation with the Cabinet Member for Commercial and Traded Services.

7. Background Documents

7.1. Draft record of decision.

8. Contact details

Report Author: Nigel Hartnup
Name and title: Assistant Director of Energy
Telephone number: 01622 236770
Email address: nigel.hartnup@laserenergy.org.uk

Relevant Commercial Services Director: Robert Morgan
Name and title: Director of Energy
Telephone number: 01622 236871
Email address: rob.morgan@commercialservices.org.uk