



London Borough of Hammersmith & Fulham

CABINET

3 MARCH 2014

PROCUREMENT OF NON HALF HOURLY QUARTERLY ELECTRICITY SUPPLIES

Report of the Leader - Councillor Nicholas Botterill

Open Report

Classification: For Decision

Key Decision: Yes

Wards Affected: All

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1. EXECUTIVE SUMMARY

- 1.1. The Council's current contractual arrangements for Non Half Hourly Quarterly Electricity supplies (NHHQ) are due to expire on 31 March 2014. The contracts have been procured through the Council's approved Energy Buying Group, LASER and have been directly signed with the current supplier EDF on a fixed term fixed price (FTFP) 3 year contract. The current FTFP contract includes over 1,500 small supplies, the main bulk of which are landlord supply and staircase lighting supplies for the Council's housing stock. The total current value of these small supplies is estimated at £1,148,522 per annum.
- 1.2. LASER are expected to set up a new fixed term fixed price framework, to replace the one due to expire, to start from 1 April 2014. It is proposed to access this new framework once awarded and retain the use of a fixed term fixed price contract for small consuming sites (including some housing, corporate stock and school supplies) under 10,000kwh for a period of 30 month up to 30 September 2016.
- 1.3. On 21 May 2012, Cabinet approved the Council use of LASER's fully flexible framework (for gas and electricity) for the Council's large supplies. This

framework is for a four year period from 1 October 2012 to 30 September 2016.

- 1.4. Since the procurement of the current contracts new Flexible Purchasing products have come onto the market. These products have been designed to reduce energy costs, improve management of risk and allow increased financial transparency for smaller electricity supplies such as the non-half hourly quarterly supplies.
- 1.5. LASER has recently awarded the framework for delivery of their new "Flexible Light" product to EDF. This will launch in April 2014. The Council will enter into tri-partite agreement with LASER and the supplier, and delegated authority to the Director of Building and Property Management is required in order to enter into this agreement

2. RECOMMENDATIONS

- 2.1. That approval be given to the Council accessing the fully flexible framework awarded by LASER to EDF in October 2012 for the renewal of the NHHQ contracts for large size quarterly supplies over 50,000kwh hours for a period of 1 April 2014 to 30 September 2016.
- 2.2. That approval be given to the Council accessing the new Flexible light framework to be awarded by LASER to EDF from 1 April 2014 for the renewal of NHHQ contracts for all staircase and landlord lighting housing supplies for a period of 30 months from 1 April 2014 to 30 September 2016, initially for mid-size electricity supplies with annual consumption between 10,000-50,000 kwh.
- 2.3. That authority be delegated to the Director of Building and Property Management to enter into contracts with utility companies with supplies on the new fixed term fixed price framework to be awarded by LASER to commence on 1 April 2014 for a period of 30 months to 30 September 2016 for small consuming sites (including some housing, corporate stock and school supplies) under 10,000kwh at a current estimated contract value of £800.000 per annum .

3. REASONS FOR DECISION

- 3.1. As the current NHHQ contracts (which were procured at Fixed term fixed price contract) are due to expire in 31 March 2014, the opportunity has arisen to make sure that the best option(s) is chosen. This is a combination of utilising existing fully flexible agreement, Flexible light (new product by Laser) and Fixed Term Fixed Price contracts depending on annual consumption of the meters.
- 3.2. Delegated authority to officers is necessary as it is expected that LASER will award contracts under this framework around February 2014 which would not give time to seek Cabinet approval before 1 April 2013 when the current contracts expire.

4. INTRODUCTION AND BACKGROUND

- 4.1. H&F have been using flexible energy procurement through LASER for a number of years. Flexible procurement has two main advantages; the risk of fluctuating energy prices is managed and there is greater transparency in the additional costs set by suppliers.
- 4.2. H&F have been procuring energy for the corporate, housing and schools through LASER through different types of contracts mainly flexible Purchase In Advance (PIA) basket and Fixed Term Fixed Price. The details of the current contracts are shown below:
 - **GAS** –Flexible PIA, Fully Managed, Supplier Total Gas and Power.
 - **ELECTRICITY** – Flexible PIA, Fully Managed, for Half Hourly (HH) and non-Half hourly (NHH) monthly billed supplies, Supplier Npower.
 - **ELECTRICITY** –Fixed Term Fixed Price (FTFP) for Non Half Hourly Quarterly supplies (NHHQ), Supplier EDF.
- 4.3. LASER's current flexible framework (for gas and electricity) started on 31 October 2012 and it is a 4 year flexible framework for the council's large supplies. For further details are set out in the report *Flexible Energy Contracts 2012-14* approved by Cabinet on 21 May 2012.
- 4.4. LASER's Fixed term fixed price contracts framework expires on 31 March 2014 and this reports outlines the options for the contract renewal.
- 4.5. At this point, it should be noted that a bulk addition of the EDF staircase contract (value of £106,000) was agreed in March 2013. This was decided so that both NHHQ contracts can be moved under one contract and expire at the same time in order to be able to make a more informed decision on housing related contracts upon expire. More details on this can be found in report *Re-Procurement of Fixed Term Small Landlords Electricity Supplies for Council Housing* decided on 14 March 2013 by the Leader of the Council.

5. PROPOSAL AND ISSUES

- 5.1. Laser Energy Buying Group, which is currently used by the Council for energy procurement, have advised that there are benefits in changing from fixed term fixed price contracts to flexible contract for larger supplies of over 10,000kwh per annum.
- 5.2. LASER have also created a new product called Flexible light which they are currently offering for mid-size electricity supplies with annual consumption between 10,000-50,000 kwh (average annual energy spent per meter between £1,144 - £5,105.) This is the consumption range which the majority of landlord and staircase lighting supplies currently fall under.
- 5.3. Both LASER and London Energy Project (LEP) have carried out comprehensive analysis of options for quarterly supply renewals in order to help authorities and staff structure their energy contracts in a manner that will minimise risk and deliver value for money. On a pan-London basis there are approximately 45,000 small electricity supply points (profile 01-04 meters) with a value of circa £40m p.a. that require a supply contract(s) .
- 5.4. The VFM report main recommendations include:

- For the majority of energy supplies authorities should commence and/or continue the use of aggregated, flexible, risk managed energy contracts as provided by both LASER and the Government Procurement Service.
- Authorities should consider moving small electricity supplies that consume more than 10,000kWh throughout their property portfolio in a structured way and at appropriate times, e.g. contract renewal and site acquisition, to a Flex contract in order that the authority is best able to influence controllable costs applicable to the size of supply.

6. OPTIONS AND ANALYSIS OF OPTIONS

- 6.1. Following comprehensive analysis of options and recommendations from LASER and LEP, the Carbon Reduction Team has been working closely with Housing in order to assess the best options for the renewal of the NHHQ supplies expiring in March 2014. The proposed options are the following:
- Re-organise NHHQ contract so that meters for schools, housing (landlord supply and staircase lighting) are clearly separated. This will achieve better management of meters and energy consumption and it will also flag up any sites which are currently on out of contract rates to ensure that these are brought into the corporate contracts to achieve a better price.
 - All NHHQ electric meters with annual consumption over 50,000kwh to be added on to the current flexible electricity framework contract. Following analysis and verification of NHHQ contract there are currently 34 supplies to be moved on to Flexible PIA contracts. The fully managed flexible PIA contract will offer transparency as well as price validation by LASER to ensure that supplies are billed correctly.
 - For schools which currently buy into the Council's energy contracts the same analysis has been carried out. It is recommended that for schools who currently have meters on flexible contract that any electric meters whose contract are due to expire are added on to the flexible contract. This again will prove a much better and easier way for schools to manage their energy consumption and meters providing better transparency of costs, avoid multiple suppliers and therefore multiple billing. The carbon reduction team has already written to affected schools proposing the recommended arrangements. No schools have objected to this proposal.
 - Any small quarterly supplies with annual consumption below 10,000 Kwh (estimated annual spend of £1,400) to be procured on a fixed term fixed price contract for a 30 month period using LASER's re-tendered fixed term fixed price framework. This contract will only include small school meters and small corporate estate ones (approx. 1,300 supplies).
 - Housing /domestic related supplies for staircase/ landlord lighting to utilise the new Laser Flexible Light product where suitable. The key driver to this recommendation is accountability to residents through increased cost transparency and the management of purchasing risk in order to, as far as possible, minimise costs.

- 6.2. The proposed options for the renewal of the NHHQ contracts are in line with the main recommendations from the VFM report from London Energy Project published in June 2013
- 6.3. Following renewal of the NHHQ supplies contract at the proposed arrangements the H&F energy portfolio will be managed more effectively. The following arrangement is the proposed one, which will include all energy contracts for H&F.
- 6.4. LASER is aiming to provide flexible purchasing arrangements across all supply sizes by October 2016.

	Gas Flexible PIA	Electricity Flexible PIA	Electricity Flex Light	Electricity FTFP
Corporate buildings	√	√		√
Schools	√	√		√
Housing (landlord/staircase)	√		√	√
Out of contract sites to be identified and added into any of the above contracts based on the annual consumption				

7. CONSULTATION

- 7.1. The majority of the H&F schools are currently part of the Flexible PIA contract agreement the Council has with LASER. This way schools are able to get better price for the energy as energy is bought on the whole sale market. Schools have already been consulted on the matter. The carbon reduction team wrote to all schools affected and currently have not received any objections to the proposal.
- 7.2. The main stakeholders who will engage with residents are leaseholders services. An application was successfully made to the Leasehold Valuation Tribunal (now called the First Tier Tribunal) to dispense with all the consultation regulations for the procurement of flexible gas and electricity contracts for the leasehold portfolio. The decision was obtained in September 2012.
- 7.3. The current advice is to procure the small supplies via a FTFP long term contract lasting over 12 months. If the Council will be charging any leaseholder more than £100 in any financial year it needs to consult in accordance with the Commonhold & Leasehold Reform Act. Due to the nature of the tendering process we will not be able to serve the second notice and will need to apply for another dispensation.
- 7.4. Due to the relatively small risk associated with the small supplies it may be preferable not to apply for the dispensation.

- 7.5. We agreed to carry out alternative consultation by notifying all leaseholders and interested parties via the LBH&F Website and the Central Leasehold Panel (CLP) of any contract changes that may affect them.
- 7.6. The next CLP meeting will be held on 17 March 2014 and the energy contracts will be placed on the agenda. The website will be updated with any changes to the contracts as soon as the decision is made.

8. EQUALITY IMPLICATIONS

- 8.1. There are no equality issues relating to this report.

9. LEGAL IMPLICATIONS

- 9.1. It is noted that it is proposed to purchase electricity through a framework set up by LASER, a central purchasing body. This procurement approach is in accordance with EU procurement rules and the Council's contract standing orders.
- 9.2. Implications verified/completed by: Cath Irvine – Senior Solicitor (Contracts): ext: 2774

10. FINANCIAL AND RESOURCES IMPLICATIONS

- 10.1 The total electricity budget for General Fund and HRA services is £2.7m. The budget for non-half hour quarterly bills (£1.148m) represents 42% of this budget. The proposed procurement options for these services should lead to more effective management of these budget through simpler administration processes. Bringing these contract expiry dates into line with other electricity supply contracts will increase the potential for delivering Value for Money savings when the contracts are renewed.
- 10.2 Implications verified/completed by: Gary Ironmonger, Finance Manager: 0208 753 2109

11. PROCUREMENT AND IT STRATEGY IMPLICATIONS

- 11.1 LASER (trading arm of Kent County Council) has been in the forefront of energy procurement for local councils for many years. They have the expertise and track record that allows them to obtain the best deals for their clients. The use of LASER as a procurement vehicle for H&F energy supplies is entirely acceptable and they will ensure that the Public Contract Regulations 2006 (as amended) have been complied with.
- 11.2 Given the volatility of the energy market and the need to conclude agreements as quickly as possible, the Director agrees with the recommendation (2.3) above to delegate the decision for the award of energy contracts for small consuming sites to the Director of Building & Property Management.
- 11.3 Implications verified/completed by: Alan Parry, Procurement & IT Strategy Division : 0208 753 2581

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	London Energy Project report (LEP): Energy Contracts Value for money assessment 2013 for small electricity supplies (published)	Vassia Paloumbi ext 3912	TTS/BPM