

Full **Business Case**

**Energy Contract Review and Authorisation
to Procure Energy from LASER
Full Business Case
(Presentation to Policy & Resources
Committee, 9 July 2015)**

Approvals

By signing this document, the signatories below are confirming that they have fully reviewed the LASER

Full Business Case for the Energy Contract and confirm their acceptance of the completed document.

Name	Role	Signature	Date	Version

DOCUMENT CONTROL

Version History

Version	Date	Author(s)	Summary of Changes
V.01	27/04/2014	Amanda Allen	Draft
V.02	11/05/2015	Nigel Bell	Amendments Introduction
V.03	11/05/2015	Steven Barber	Expected Benefits/non benefits
V.04	4/06/2015	Nigel Bell	Review and update
V.05	5/06/2015	Susan Lowe	Review and final draft for confirmation

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Distribution List

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DRAFT for CONFIRMATION

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1. Introduction

The Council has participated since 1993 in a Framework Agreement to purchase mains Electricity & Gas supplies managed by LASER, a public sector buying Group – (a division of Kent County Council). LASER undertakes the procurement processes including tendering and appointing energy suppliers and managing the portfolio risk strategy on behalf of more than 150 public bodies including c26 London boroughs and NHS Trusts.

In line with the Pan Government Energy project 2007 and supported through the London Energy Project review, the Council since 2008 has moved from Fixed-term fixed price procurement to adopt aggregated flexible and risk managed energy procurement as the best solution to cost reduction in a complex and volatile market.

Flexible Procurement enables purchases to be made numerous times during the life of the contract to exploit the market. The current four year contract ends 1st October 2016 but the Council is required to make a commitment in 2015 to permit time for forward purchases. The **rational** is to review the current procurement arrangements for Energy Contract (Electricity and Gas), for the London Borough of Barnet, and provide alternative options and value of money.

The Council procures in excess of £6 million of electricity and gas per annum for supplies under its Corporate Energy supply Contract for its Civic / Operational Estate, street lighting and some larger Barnet Homes supplies together with providing the option for Barnet maintained School's to utilise the supply contract.

Contract Consumption and Value Current Usage	Annual Consumption kWhs	Annual Contract Value	Two Year Contract Value	Four Year Contract Value
Electricity	24,280,557	£2,571,797	£ 5,143,594	£10,287,188.0
Street Lighting	12,884,695	£1,617,215	£ 3,234,430	£ 6,468,864.0
Gas	67,366,331	£1,904,319	£ 3,808,638	£ 7,617,276.0
Total	104,531,583	£6,093,331	£12,186,662	£24,373,328.0

It is acknowledged with the rationalisation of the Council's Estate that the Council's energy requirement will be reduced over time.

2. Energy Buying Options

Options Energy	Advantages	Dis-Advantages
<p>1. Buy Direct i.e. Procure from market and manage our own partner brokerage</p>	<ul style="list-style-type: none"> • Savings (Not determined as outside recommended practice) • Control of own strategy • Flexible in market • Concurrent to market • Flexible in demand 	<ul style="list-style-type: none"> • Does not conform to the Pan Government Energy Project recommendation that all Public Sector organisations adopt aggregated, flexible and risk managed energy procurement. • Procure supply may require full OJEU (timing) • Staff Resources • In-House technical broker expertise becomes a single point of failure and high risk factor • Best price Limited to current market • We have to provide all service management • Volume tolerance • Would not represent best practice as not forming part of an aggregated flexible and risk managed energy procurement strategy • Low procurement volume would not drive best price model.
<p>2. Public Framework e.g. current LASER or similar</p>	<ul style="list-style-type: none"> • LEP aggregated risk managed flex contracts continues to be 	<ul style="list-style-type: none"> • Control limited subject to the framework Governance & Risk

	<p>the most appropriate price risk managed strategy</p> <ul style="list-style-type: none"> • No lengthy procurement • Budget Stability (PIA) • Bigger basket £350m T/o(EoS) • Supports public sector • Tried & Tested • Auditable • Current contract with LBBarnet • Option to opt out of Bureau Service • Visibility in Bureau • Optional cost to Bureau services • 	<p>Management Strategy</p> <ul style="list-style-type: none"> • Pricing strategy doesn't allow all line items to be fully negotiated and maximise saving opportunities • Suppliers are pre-selected and set for 4year term • Flexible – timing for baskets to access markets • Limited options to those provided under the framework • Long term agreement met • Responsibility and authority remains with LB Barnet
<p>3. Full out-source i.e. 3rd party procurement; private broker & bureau; Capita /Buy Energy Online; or alternative E-Auction /Broker</p>	<ul style="list-style-type: none"> • We retain strategic control • Flexibility • Access to wholesale market (aggregated) • Variety of procurement tools available • Operational control • Contract reverse engineering • We can deliver Bureau services • Cost & Fees 	<ul style="list-style-type: none"> • Need clarity over procurement requirements • Needs local client sign off as new options are agreed • Missing opportunities i.e. market lows due to local sign off /availability of relevant in line with scheme of delegation • Cost & Fees transparency • Supply tolerance

3. Expected Benefits

Performance Benchmark

LEP on behalf of its members undertook a value for money (VFM) assessment for the supply period 2011 – 2014. The VFM assessment focused on the largest competitive elements of the total energy contract price – the cost of the commodity, (tradable raw) gas and electricity with the process comprising:-

- Benchmarking the prices achieved by energy buying organisation to determine whether their performance has been effective in terms of controlling energy cost and managing commodity price risk against market conditions.
- Technical assessment of current and past market conditions to quantify the financial risk authorities may be exposed to within a volatile market.
- Analysis of the relative risks, benefits and opportunities offered by differing approaches to energy procurement, in particular flexible and spot purchased energy contracts.

LEP Achieved Price Benchmark Results Summary – LASER, a division of Kent County Council Commercial Services

Commodity	Basket	Performance	Price Saving over market average price
Electricity (Oct 2011 – Sept 2014)	Purchase in advance	Good	1.2% saving
Electricity (Oct 2011 – Sept 2014)	Purchase within period	Good	4.9% saving
Gas (Oct 2011 – Sept 2014)	Purchase in advance	Good	0.4% saving
Gas (Oct 2011 – Sept 2014)	Purchase within period	Good	3.1% saving

Key LEP Findings

- That aggregated, flexible, risk managed procurement was effective in controlling commodity costs and continue to be the most appropriate price risk management strategy currently available.
- The principle alternative to Flexible contracts, spot purchased or fixed term price energy contracts, was not effective in controlling commodity costs, presenting a medium financial risk with the recommendation that this form of procurement should be restricted to small/low consuming supplies only.
- LASER delivered good performance against the benchmark in respect to the commodity price achieved.

The expected benefits of the LASER Energy Contract have been identified in the following table:

Benefit Description	Benefit Type
Supplier Relations: Strong supplier relationships and query resolution processes, built through continuous improvement exercises and robust supplier management.	SRM
Expertise: A dedicated team with vast experience in managing complex industry processes & Public Sector Procurement and Governance requirements	SRM
Time & Resource : Substantial time & resources saved by LASER managing the portfolio, validating invoices, liaising with suppliers and resolving queries, freeing up management time for higher priority tasks	Financial
All Query Types : Management of a wide range of queries – such as faulty meters, estimated readings, new meters, removed meters, meter read agent queries and site visits.	Operational
Budgeting: Support with budget accruals to avoid unexpected charges	Financial
Cost Savings: Expertise in negotiating compensation and identifying cost saving opportunities for our customers.	Financial
Visibility: Regular updating and reporting on query progress for corporate contacts and site-level contacts.	Operational

LASER Predicted Savings

The benchmarked savings performance achieved by LASER against average market performance has been applied to the projected forecasted consumption for 2016/17 resulting from the anticipated changes in the Council's Civic estate, It is estimated that the benefits achieved through the LASER flexible frameworks, including those through market purchases, supply aggregation and the savings identified by LASER as part of the Fully Managed Service, if maintained going forward, could represent an annual cost saving of circa £330K as noted in the following tables.

Projected saving compared with the average annual price

Projected Annual Contract Value	Annual Consumption kWh	Annual Contract Value	Saving over market average price	Projected Annual Cost Saving	Two Year Contract Value	Four Year Contract Value
Electricity	19,047,905	£2,017,554	1.20%	£24,211	£4,035,108	£8,070,216
Street Lighting	12,884,695	£1,617,215	4.90%	£79,244	£3,234,430	£6,468,860
Gas	67,366,331	£1,904,319	0.40%	£7,617	£3,808,638	£7,617,276
Total	99,298,931	£5,539,088		£111,071	£11,078,176	£22,156,352

Fully Managed Service has provided a further avoided cost savings

Fully Managed Portfolio	Annual Cost Avoidance
Overcharges Corrected	£202,420
Consolidated Billing Saving	£2,900
Available Capacity Savings	£14,589
Total	£219,909

Risk Profile Matrix

Risk Ref	Current Risk Profile	Current Risk Rating	Risk Description	Nature of Risk	Risk Status
0.1	Low/Med		Non commitment from school(s) for buy into LASER will reduce annual usage volumes and may impact on final price	Financial	Treat
0.2	Low/Med		Supplier market position could change within Framework period and impact on Framework customers	Financial	Treat
0.3	Low/Med		Failure to commit to a compliant framework will limit the scope to forward purchase at the optimum market position	Financial	Treat
0.4	Med		Significant changes in consumption can impact on contract pricing	Financial	Treat

4. Financial Appraisal

Energy Buying Options	Gas	Electricity
Public Framework (LASER)	<p>LEP VFM Benchmark Review 2014 concluded that aggregated, flexible, risk managed procurement was effective in controlling commodity costs and continue to be the most appropriate price risk management strategy currently available.</p> <p>LASER delivered "Good performance against the benchmark</p>	
Buy Direct	<p>Not undertaken as the approach does not conform to the Pan Government Energy Project recommendation that all Public Sector organisations adopt aggregated, flexible and risk managed energy procurement or LEP</p>	

	VFM findings that aggregated risk managed flex contracts continues to be the most appropriate price risk managed strategy
Full out- source	This would require an independent review ensuring that that the provider has the capability & capacity to deliver VFM over time.
Bureau services	The Council can opt out of the Fully Managed Service on the rolling two year contract which provides the opportunity to review this area of delivery and subject to VFM if necessary put a robust alternative system in place.

5. Project/ Procurement Approach

Phase 1: March 2015- June 2015

The following approaches were used to investigate options:

- Discussions with LASER
- Exploration of best practice and alternative approaches of buying options (Capita Procurement Solutions)
- Consultation with Senior LBB Managers

Phase 2: Preparation of Energy Review and Recommendation Presentation

- Preparation of energy review business case following exploration of best practice, discussions with LASER and detailed review of LEP VfM Benchmark Review 2014
- Presentation of energy review business case to Policy & Resources Committee to support authorisation of future energy procurement
- Authorisation by Policy & Resources Committee to proceed with procurement of future energy requirements through LASER

Phase 3: Entering Energy Contract

- Discussions with LASER
- Consultation with Senior LBB Managers

6. Dependencies and Relationships

Project

- Commitment to the new contract needs to be in place in the Summer period of 2015 to permit sufficient time to risk manage the forward energy purchases.
- Energy is a traded commodity and the price fluctuates depending upon the prevailing technical, political and environmental factors that can affect the certainty of supply.
- Budget responsibility is held within Service Areas
- The approach to Risk Management may need to be reviewed as the purchasing options available within frameworks develop over the lifetime of the contract.
- The changing size of the Council's estate can impact significantly on volumes which are more readily managed in a larger aggregated framework.

Other Issues

- Managing communications with Schools as their buy in is not guaranteed

7. Recommendations/Options

- A) Re-affirm access to the LASER framework under a two year rolling Fully Managed Contract and review options for alternative procurement approaches and bureau service within period.
- B) Authorise access of LASER framework under four year fully managed contract
- C) Review the approach to Risk Management as necessary in response to changes in the purchasing options available within frameworks over the lifetime of the contract.

8. Non Benefits

Non Benefits have been identified in the following table:

Ref	Description	Nature	Status
0.1	Pre-selecting suppliers for a 4-year framework reduces choice and the suppliers' drivers to offer best price within the 4 year period		
0.2	Basket options to be decided by LBB and require managing throughout contract term.		
0.3	Laser Benchmark Data limited and will require greater detail before proceeding.		
0.4	London Energy / LASER Relationship. LBB should consider independent validation of forward savings		

Based on the LEP percentage savings analysis the net benefit for LBB would be a saving of approximately £110K annually over compared with the average annual price as noted in the table below. The exact apportionment of the savings would be dependent on the method of choosing various energy baskets

In addition the Laser Fully Managed Service has provided a further avoided cost savings of £219k based identifying and correcting overcharges, management queries and consolidated billing service.