

**Report to:** Cabinet

**Date of meeting:** 13<sup>th</sup> March 2023

**Report author:** Corporate Procurement Manager

**Title:** Procurement of Energy Contracts

## **1.0 Summary**

- 1.1 Watford Borough Council procures electricity and gas through a managed framework provided by Laser Buying Group. The current contract arrangement with the Laser Buying Group ends in September 2024 but there is a need to agree entry into a new contract now to allow the successful contractor to procure energy on behalf of the council in advance of the 2024 commencement date.
- 1.2 The contract will operate for 4 years up until 31<sup>st</sup> August 2028.
- 1.3 The report seeks approval to award the new contract to Laser Buying Group.

## **2.0 Recommendations**

- 2.1 To award the energy contract to Laser Buying Group from 1 September 2024 to 31 August 2028.

### **Further information:**

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**Report approved by:** Carol Chen – Group Head of Democracy and Governance.

## **3.0 Detailed Report**

- 3.1 Watford Borough Council (WBC) procures electricity and gas through a managed framework provided by Laser Buying Group. The current contract arrangement with the Laser Buying Group ends in September 2024 but there is a need to agree entry into a new contract now to allow the successful contractor to procure energy on behalf of the council in advance of the 2024 commencement date. This is a joint procurement between WBC and Three Rivers District Council. The new agreement will be for 4 years from 1 September 2024 until 31 August 2028.
- 3.2 WBC currently procures electricity and gas through a managed framework provided by Laser Buying Group together with Three Rivers District Council. Both Councils' entered into this arrangement in 2015 following the disbandment of their own South West Herts Consortia. The utilities are required to provide energy to the councils' property portfolios including the Town Hall estate. Whilst this is a joint procurement each Council will enter

into its own supply agreement and choose its own options regarding how to procure (see 3.9).

WBC's current spend on energy over the past two years is £1.1m with 80% of that on electricity. These costs factor in the increased prices for 2022 and 2023. The consumption is not typical as the Town Hall and Colosseum have been shut over this period. It is expected that the long term forecast will see costs begin to reduce from 2024 onwards in line with the Town Hall reopening.

- 3.3 WBC procures its energy from the wholesale market. Over the past year, the price for both wholesale electricity and gas has become extremely volatile. WBC's energy bills are mainly made up of the cost of providing the energy (network) and the wholesale cost of gas or electricity. The wholesale cost is subject to market forces whereas network costs can be controlled through regulation. The costs of wholesale gas or electricity are largely driven by global trends.
- 3.4 The predominant cause of the price increases is the Russian invasion of Ukraine. Russia is the world's biggest exporter of gas with the EU sourcing around 40% of its gas from Russia. Whilst the UK is much less dependent, with previously around 4% of UK gas originating in Russia (now zero - there are no direct gas pipelines between Russia and the UK). Political reaction to events in Ukraine has resulted in Europe attempting to reduce its dependency on Russian gas which has had an effect on the market price. In addition to the above, the extreme market price movements are causing suppliers operational issues in terms of how they buy energy, and many are restricting price offers for new sites and customers. Electricity prices have also increased. Around 30-40% of the UK's electricity is produced from gas fired power stations and this has had an effect on electricity pricing.
- 3.5 To come to the recommendations of this paper, the Procurement Manager has undertaken a full market review of frameworks and purchasing options available for WBC to procure gas and electricity. These included; stay- with Laser, run our own tender or adopt a new framework. The review concluded that there would be no discernible benefit in changing to a different framework provider and the risk of WBC and Three Rivers operating their own tender could significantly impact pricing to the councils as the market rate risk would not be managed (see Risks – 4.1)
- 3.6 Therefore, the recommendation is to award the new contract to Laser Buying Group Buying Group. Laser was formed in 1989 by Kent County Council (KCC) with the aim of assisting local authorities and other public bodies to benefit from lower energy prices through deregulated gas and electricity markets and to offer management services that focus on reducing energy spend and manage market risk in an increasingly volatile market. The Laser Group has a strong track record in achieving savings for its customers with the table below showing average savings for its products.

	Electricity		Gas	
	PIA	PWP	PIA	PWP
<b>2019-20</b>	<b>-4.01%</b>	<b>-12.23%</b>	<b>2.67%</b>	<b>-14.93%</b>
<b>2020-21</b>	<b>-8.90%</b>	<b>-7.57%</b>	<b>-19.88%</b>	<b>-19.59%</b>
<b>2021-22</b>	<b>-13.90%</b>	<b>-4.20%</b>	<b>-27.90%</b>	<b>-11.70%</b>
<b>Average</b>	<b>-8.94%</b>	<b>-8.00%</b>	<b>-15.04%</b>	<b>-15.41%</b>

- 3.7 Laser Buying Group has advised that it has avoided cost increases of approximately 33% combined across both gas and electricity property portfolios for both councils' during the most volatile period. The true benefit has not been seen as the Government provided a cap for the winter months of 2022-23 (the councils' cost would have been around the same as the Government's capped figure).
- 3.8 By entering into the contract, WBC has the option to enter into initiatives to deliver its target of Carbon Net Zero by 2030. These opportunities will be re-published by Laser later this year for inclusion in the framework but they have currently been removed because of the significant take up by the public sector. These include Renewable Energy Guarantees Origin (REGO) and Power Purchase Agreements (PPA) to validate that green energy is procured. Officers will review and evaluate options at that time. It will also be necessary to ascertain the impact of its decarbonisation programme through its capital investment. These measures will be used to offset any carbon the WBC produces once the programme is complete. WBC could seek to use these in advance of the programme being completed but officers will bring a further paper to cabinet on any options available when they are reintroduced by Laser.
- 3.9 Under the Laser framework there are two key flexible procurement options provided to WBC to purchase energy with a different levels of risk and opportunity. Both WBC and Three Rivers are currently procuring the Purchase within Period (PWP) method. The PWP option facilitates the purchase of a portion of site volume prior to delivery for a six-month period, whilst the remaining volume may be purchased a month ahead or even a day ahead. The alternate model is to purchase in advance allowing volume to be purchased in advance of the 12 month term period and then those prices are fixed for a single year. The councils' are able to change the energy buying method at 6 monthly periods during the contract.

The recommendation is to stay with this method as the current long term forecast is that energy prices will drop and this option will provide the best opportunity to realise savings as currently forecast from 2024 - 2026. The method of procurement can be reviewed over the life of the contract and amended accordingly.

## Risk

4.1 The following table provides a summary of the perceived risks.

Nature of risk	Consequence	Suggested Control Measures	Response	Risk Rating
Energy Wholesale Market Risk	Procurement of energy through the wholesale markets and costs can increase	Procurement of energy is mitigated over a procurement window providing opportunities to buy across a time period from the wholesale market. The provider uses energy experts to decide when to buy at the right time. The mitigation is to spread the risk over time to ensure that the opportunities of lower pricing is realised and the risks of high pricing are mitigated. This provides a balanced price.	Tolerate	6
Budgeting Risk	Risk that budgets can increase midyear through our current Purchase Within Period Model	The model provides the opportunity to reduce costs if markets fall but does not provide budget certainty. WBC can switch to Purchase in Advance option to maintain accuracy of budgeting and only usage then affects the budget.	Treat	8
Cost of Living Crisis	Capped rate does not apply to WBC and costs increase in accordance with wholesale market  Or  Rates increase in 2024 to pay for the current cap	Still need to procure in accordance with UK Procurement regulations Consider additional fees and budget accordingly. Forecast to decrease in 2024 but unknown world conditions (e.g. pandemic reduced costs – war increased)	Tolerate	6

## 5.0 Implications

### 5.1 Financial

5.1.1 There has been a significant increase in energy costs since February 2022 following the invasion of Ukraine by Russia.

## **5.2 Legal Issues (Monitoring Officer)**

- 5.2.1 The Group Head of Democracy and Governance comments that by entering in the contract with Laser the council is complying with the Public Procurement Regulations as this is secured under an already compliant framework.

## **5.3 Equalities, Human Rights and Data Protection**

- 5.3.1 There is no impact to Equalities, Human Rights and Data Protection from this report.

## **5.4 Data Processing Impact Assessment**

Having had regard to the council's obligations under the General Data Protection Regulation (GDPR) 2018, it is considered that officers are not required to undertake a Data Processing Impact Assessment (DPIA) for this report.

## **5.5 Staffing**

- 5.5.1 There is no impact on staffing arising from this report.

## **5.6 Accommodation**

- 5.6.1 There is no impact on accommodation arising from this report.

## **5.7 Community Safety/Crime and Disorder**

- 5.7.1 Section 17 of the Crime and Disorder Act 1998 requires the council to give due regard to the likely effect of the exercise of its functions on crime and disorder in its area and to do all it reasonably can to prevent these. Consequently, the implications of these proposals on crime and disorder have been considered and no impact either positive or negative has been identified.

## **5.8 Sustainability**

- 5.8.1 Currently the options to procure sustainable energy in the Laser contract are limited but it is intended these will be reintroduced later in 2023 when options will be evaluated and brought back to cabinet. The Council is currently undertaking works to the Town Hall and Colosseum to decarbonise and has applied for funding for other operational buildings with a view to increasing their energy efficiency.

## **Appendices and Background Papers**

- None