

Subject:	COUNCIL ENERGY CONTRACT
Date:	26 June 2020
Decision to be taken by:	Councillor Oliver Richardson, Portfolio Holder for Environment and Commercial Services
Report of:	Martin Leggatt, Head of Assets and Building Control
Portfolio Holder:	Councillor Oliver Richardson, Portfolio Holder for Environment and Commercial Services
Decision Type:	Key Decision
Classification:	Unrestricted
Purpose of the report:	To consider and approve the method of procuring Dover District Council's gas and electricity supplies.
Recommendation:	To award a 4-year contract to LASER to manage the procurement of 'green' gas and electricity supplies for Dover District Council's corporate assets and the communal areas of its housing assets.

1. Summary

- 1.1 Since 2019 LASER Energy (part of the Commercial Services Energy Division - company wholly owned by Kent County Council) has been contracted to provide a service to procure and manage energy supply contracts on behalf of Dover District Council in relation to its corporate assets and the communal areas of its housing assets. LASER has provided a good service during that time, with initiatives such as rolling out Automatic Meter Reading devices. The current contract is due to expire at the end of September 2020, along with the current contracts for the energy supplies themselves.
- 1.2 LASER Energy are about to undertake their latest collaborative purchasing scheme and have been in discussion with Dover District Council regarding a four-year contract to provide procurement and management services for its energy supplies. The management fees will be fixed to match those of the current contract. The service is flexible allowing Dover District Council to purchase energy supplies from renewable sources and the possibility, in future, of purchasing directly from 'green energy' producers.
- 1.3 A swift decision to procure the services of LASER Energy affords Dover District the opportunity to benefit from the collective purchasing scheme managed by LASER on behalf of a number of end users, which produces the benefits of enhanced buying power for the participants. The latest scheme offer is about to launch and is likely to produce very favourable prices because of the temporary suppression of demand emanating from the Covid 19 lockdown.
- 1.4 The Councils Contract Standing Orders makes provision for the use of Purchasing Schemes (such as frameworks, collaborative purchasing arrangements etc.) where the establishment and operation of the respective Scheme is in compliance with the EU Regulations and meets the Councils own requirements. The use of this framework satisfies those criteria.

2. Introduction and Background

- 2.1 Previously electricity and gas had been supplied by different energy companies through direct contracts. The management of the contracts, in particular the tasks associated with ensuring timely and accurate meter readings together with reconciliation of anomalous invoices proved to be resource intensive and inefficient.
- 2.2 The Council has limited 'in-house' expertise with respect to negotiating in a complex and dynamic energy market. Hence a decision was taken in 2019 to move the procurement and management of energy contracts to LASER to obtain competitive tariffs and provide a fully managed service.
- 2.3 Established in 1989, to manage Kent County Council's energy purchasing, LASER Energy has grown to become one of the leading energy procurement and energy management service providers in the UK, serving more than 65,000 end users. LASER Energy has the required experience, capacity and collective buying power to help reduce energy costs, manage market risk and provides an OJEU compliant procurement route in an increasingly volatile market.
- 2.4 Dover District Council's experience of LASER Energy over the past year has been very positive. For instance LASER recognised the inherent unreliability of energy consumption information in the previous management system. In conjunction with the appointed electricity supplier and Dover District Council they were instrumental in instigating the present roll out of Automatic Meter Reading devices (AMRS) across the Council's assets. It is important to know the precise amount of energy being used not only to control costs but also to understand energy usage and, in particular, to monitor the efficacy of measures introduced to reduce consumption. Such information is crucial to measuring the Council's progress towards its carbon emission targets.
- 2.5 The current contract with LASER Energy is due to expire at the end of September 2020 as are the separate contracts with current energy suppliers, negotiated by LASER. The consequence of not sourcing further energy contracts is that the current energy contracts would automatically default to standard rates, which are more expensive current. For the reasons expounded above it is beneficial to appoint an agent to conduct the procurement negotiations and then manage the energy supply contracts on behalf of Dover District Council.
- 2.6 The engagement of LASER Energy would give the Council access to LASER's Flexible Basket. The basket is a collective purchasing scheme managed by LASER on behalf of a number of end users, which produces the benefits of enhanced buying power for the participants. The current iteration of the basket is about to launch at a particularly auspicious time because the Covid lockdown has temporarily reduced energy demand considerably, which will be reflected in the prices offered by the energy companies competing for the basket.
- 2.7 Given that procuring and managing energy supplies and consumption, are essential for DDC to operate, that the performance of LASER has been very good and that there is limited time if DDC are to take advantage of the energy current market, it is logical to procure the services of LASER Energy through the four year contract that is available to DDC through LASER.

Sustainable Energy and Climate Change

- 2.8 The purchase of energy from sustainable sources would be consistent with the Council's Climate Change commitment since it would provide an immediate reduction of the Council's reliance on fossil fuels as well as indicating to the energy market that it's future lies in the production of energy from sustainable sources.
- 2.9 LASER have the ability to procure access to energy from renewable sources. Given the nature of the electricity grid and gas distribution network, the Council needs to be assured that the energy received is actually from a sustainable source. The

mechanisms that provides reassurance are the Renewable Energy Guarantee of Origin (REGO) and the Renewable Gas Guarantee of Origin schemes, both of which produce certificates for the end user. Part of the service provided by LASER will be to ensure that such certificates are provided in timely manner to Dover District Council, for use in compiling various statutory reports.

- 2.10 There is a premium presently for sustainable electrical energy. At the present time it is estimated that there would be a 1% increase on total energy spend for electricity obtained through the REGO certified route.
- 2.11 The 'green gas' sector, which produces biomethane made from various biodegradable materials such as grass, is immature compared to the renewable electricity sector. This means that the reduction in production costs that emanate from economies of scale, for instance the cost of components, are yet to be fully realised. At the same time the recent demand for 'green gas' has exceeded both the capacity and the ability of the producers to increase output, resulting in higher margins and higher prices. The margins will reduce as the sector grows in response to the market. It is estimated based on 2019/20 figures we are anticipating an uplift in the region of £5-7k as a result). Depending on the outcome of the marketing exercise and given the current financial constraints it may be necessary to purchase gas from both renewable and non-renewable sources, however the Council is committed to purchasing gas from a renewable source as soon as financially practical to do so.
- 2.12 There will be a 30% increase on total energy spend for gas, through the RGGO route.
- 2.13 The purchase of energy supplies, through the current LASER Flexible Basket, taking advantage of the present low energy prices, is expected to produce real savings for electricity prices and to mitigate the cost of gas price increases. The extent of the gas price increase will focus minds on other measures needed to reduce the consumption of gas across the Dover District Council estate.
- 2.14 Laser are in the process of setting up a Power Purchase Agreement (PPA) framework, whereby 'green' energy is purchased direct from renewable energy producers rather than through the energy suppliers that currently dominate the energy market. This is likely to produce future savings, since the supply chain is more direct as well as providing a secure market that could encourage small renewable producers to invest in expansion. The contract with LASER has the ability to be varied to incorporate a future PPA subject to renegotiation of fees to fairly reflect the changes in the associated workloads.

3. **Identification of Options**

- 3.1 Option 1: To renew the commitment to the procurement and management of energy supplies through a third party and award a 4-year contract to LASER Energy.
- 3.2 Option 2: To decide to procure and manage energy supplies via a different route.

4. **Evaluation of Options**

- 4.1 Option 1 will not only provide continuity of an efficient service that has proved beneficial to Dover District Council but will also allow for future flexibility to minimise energy costs and support green energy producers through emerging Power Purchase Agreements. **This is the recommended option.**
- 4.2 Option 2 effectively reverses last year's decision to use external expertise to procure and manage the most cost-effective energy supplies. That decision recognised that in-house expertise was limited and that the buying power of a single organisation is less than that of a collective. Those factors still remain, undermining the argument to manage the service in-house. The only other option is to undertake a procurement exercise to engage another energy supply broker and management company. The

time involved in such an exercise would mean that Dover District Council would lose the opportunity to benefit from the temporary advantageous energy prices. The cost of the procurement exercise can be avoided, especially as there is a risk, given LASER Energy are freezing the management fees to those currently levied.

5. Resource Implications

- 5.1 LASER Energy have confirmed that the current management fee will not increase if the Council commits to the four-year contract (costs for 2019/20 including the fully managed service costs/VAT was circa £523K). Current fees detailed in the table below will only increase annually in line with RPI/CPI. Fees are calculated taking into account various aspects, including the number of supplies, annual contract spend, invoice validation difficulty.

Supply	No. of Supplies	Annual Consumption kWh	Fee	Unit	Total
Gas - Purchased in Advance (PIA)	14	2382477	0.00082	p/kWh	£1,954
Electricity - Half Hourly (HH) Purchased in Advance (PIA)	6	907231	0.00255	p/kWh	£2,313
Electricity - Non Half Hourly (NHH) Purchased in Advance (PIA)	230	587075	59.16	per supply	£13,607
Electricity - UMS Purchased in Advance (PIA)	5	902146	59.16	per supply	£296
Total Fees					£18,170

Breakdown of predicted percentage differences for Purchase in Advance (PIA) between October 2019 and October 2020. Figures below are estimates, and dependent on when contracts are executed.

Electricity: -3.3%

Gas: -14.15%

There could be an increase in non-commodity in the coming years due to the lack of demand as a result of COVID-19 resulting in costs being spread over lower consumption.

6. Climate Change and Environmental Implications

A contract with Laser offers the immediate ability to purchase 'green' electricity through REGO, and the possibility of 'green' gas through RGGO. Laser are currently developing a framework to obtain 'green' energy direct from the renewable energy suppliers, thus ensuring the energy is 100% green. Therefore, a contract with Laser offers flexibility with regard to the purchase of green energy.

7. Corporate Implications

- 7.1 Comment from the Director of Finance (linked to the MTFP): Accountancy has been consulted and has no further comment. (DL)
- 7.2 Comment from the Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make.
- 7.3 Comment from the Equalities Officer: This report does not specifically highlight any equality implications, however in discharging their duties members are required to comply with the public sector equality duty as set out in Section 149 of the Equality Act 2010 <http://www.legislation.gov.uk/ukpga/2010/15/section/149>
- 7.4 Other Officers (as appropriate): None.
- 8. **Appendices**
None.
- 9. **Background Papers**
None.

Martin Leggatt, Head of Assets and Building Control