

<b>REPORT TO:</b>	<b>CABINET 25 NOVEMBER 2020</b>
<b>SUBJECT:</b>	<b>Award of Call Off Contracts for Gas &amp; Electricity Supplies</b>
<b>LEAD OFFICER:</b>	<b>Shifa Mustafa, Executive Director of Place Ozay Ali, Interim Director of Homes &amp; Social Investment</b>
<b>CABINET MEMBER:</b>	<b>Cllr Callton Young Cabinet Member for Resources and Financial Governance</b>
<b>WARDS:</b>	<b>ALL</b>

#### **CORPORATE PRIORITY/POLICY CONTEXT / AMBITIOUS FOR CROYDON**

The recommendations are to award a call off contracts for the supply of gas and electricity that will ensure the Council secures the best value supplies to operational buildings and communal areas of housing estates and street lighting.

The recommendations mentioned above align with the Corporate Plan theme of Organisational Design through ensuring that the most cost effective supply of gas and electricity are secured for the Council's service.

#### **FINANCIAL IMPACT**

Approval of the recommendations to award contracts for the provision of gas and electricity supply will be funded from existing budgets.

#### **FORWARD PLAN KEY DECISION REFERENCE NO. 3120CAB**

This is a Key Decision as defined in the Council's Constitution. The decision may be implemented from 1300 hours on the expiry of 5 working days after it is made, unless the decision is referred to the Scrutiny & Overview Committee by the requisite number of Councillors.

The Leader of the Council has delegated to the Cabinet, the power to make the decisions set out in the recommendations below.

#### **1. RECOMMENDATIONS**

- 1.1 The Cabinet is recommended by the Contracts & Commissioning Board to approve the award of call off contract under LASER Framework Agreements for gas supply to the supplier, and for the estimated contract values, set out in attached Part B report, for a contract term of 3 years and 4 months with the option to extend for a further 1 year.
- 1.2 The Cabinet is recommended by the Contracts & Commissioning Board to approve the award of a call off contracts under the LASER Framework Agreements for electricity supply to the supplier, and for the estimated total contract value, set out in the attached Part B report, for a contract term of 3 years and 4 months with the option to extend for a further 1 year.

## **2. EXECUTIVE SUMMARY**

- 2.1 This report recommends the award of call off contracts, one for gas supply and the other for electricity supply via framework agreements established by LASER. LASER is a business unit of Kent County Council and the trading name used by Kent County Council for its central purchasing body activities relating to energy.
- 2.2 LASER frameworks were established on behalf of the London Energy Project (LEP) which is a shared service established by London boroughs to develop best practice in energy procurement and management. Croydon Council was a member of the LEP until the project closed in April 2020.
- 2.3 Whilst the report recommendations are to award contracts for gas and electricity supply, the report also sets out the overall strategy to secure gas and electricity supplies via best practice 'flexible wholesale' contracts. Such contract's harness the combined energy demand of multiple customers to enable direct purchasing from the wholesale energy markets. This allows future energy demand to be purchased in different amounts and at different times throughout the contract term. This approach avoids the risk of fixing the price for the whole portfolio at a single point in time, which may retrospectively be a high point in market prices.
- 2.4 The cost of the recommended call off contracts will be met by existing centralised budgets for energy supplies.
- 2.5 **Reason for urgency**  
The preparation of this combined procurement strategy and award report was delayed due to the need to redeploy staff from the energy team on resolving and recovering historic utility debt with schools and academies.
- 2.6 The content of this award report has been endorsed by the Contracts and Commissioning Board.

<b>CCB Approval Date</b>	<b>CCB ref. number</b>
29 <sup>TH</sup> October 2020	CCB 1626/20-21 Electricity CCB 1627/20-21 Gas

## **3. DETAIL**

- 3.1 The end cost of gas energy to customers comprises three main elements, these are as set out in Table 1 below.

Table 1 Gas

<b>Charge Element</b>		<b>Gas</b>
<b>Commodity</b>	Cost of gas from the wholesale markets	60%
<b>Regulated</b>	Fixed, pass-through charges for use of energy networks, metering	39%

	and government set fees and levies. These costs cannot be varied via competition.	
<b>Supplier</b>	Costs of billing, administration and profit	1%

- 3.2 The end cost of electric energy to customers comprises three main elements, these are as set out in Table 2 below.

Table 2 Electric

<b>Charge Element</b>		<b>Electricity</b>
<b>Commodity</b>	Cost of electricity from the wholesale markets	55%
<b>Regulated</b>	Fixed, pass-through charges for use of energy networks, metering and government set fees and levies. These costs cannot be varied via competition.	44%
<b>Supplier</b>	Costs of billing, administration and profit	1%

- 3.3 Wholesale gas and electricity markets are highly volatile, (prices may change by over 100% within a year), and subject to global weather, economic and geopolitical events. Covid-19 has also introduced an additional cause of volatility in the market. Following the introduction of the March lockdown, UK market prices fell, however by August the market had adjusted and recovered to pre-March levels. Because of this volatility, the timing of when to purchase energy from the markets has a far more dominant impact on the end price than competition among suppliers which can only influence the 1% supplier cost to serve share.
- 3.4 Traditional fixed price, fixed term energy contracts risk fixing the price at a time which, in retrospect, is a peak in the market price. The best practice approach to managing this risk is to purchase energy through managed 'flexible wholesale' contracts. Such contracts manage the risk by purchasing different amounts of energy demand at different times throughout the contract period according to prevailing market conditions.
- 3.5 Flexible wholesale purchasing requires large energy demand portfolios due to the size of the smallest 'clip' of energy that can be purchased from the market. Public sector buying organisations therefore developed contracts which use the aggregated energy demand of multiple public sector bodies to provide flexible wholesale purchasing. Rather than requesting fixed energy prices from the suppliers, the buying organisation instructs the suppliers to purchase different amounts of energy from the wholesale markets at different times according to risk strategy. The council has secured its energy supplies from such contracts from 2009.
- 3.6 In 2016 the council had sufficient energy volumes to be able to let its own 'bespoke' flexible wholesale contract. This option is no longer available as

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many schools and academies opted to leave the council's contracts to make their own arrangements for energy purchasing.

- 3.7 Through the LEP, Croydon collaborated with other London boroughs and other London public sector partners to develop requirements for a Pan-London, flexible wholesale agreement. The objective was to use the combined purchasing volume of LEP members to secure flexible wholesale contracts with enhanced tailored service levels.
- 3.8 During 2017-18 the LEP undertook extensive pre-market engagement with 4 public sector buying organisations, 4 private sector energy brokers and 7 energy suppliers. Following this exercise, LEP members agreed to establish the pan-London contracts via LASER and Crown Commercial Services (CCS). This option was selected for the following reasons
- The majority of LEP members currently purchased energy through the national frameworks let by LASER and CCS
  - Since 2010, LEP has analysed the price performance achieved by LASER and CCS flexible wholesale contracts. Both have delivered consistently good performance in achieving prices below the market average
  - LASER and CCS would be able to tender the LEP pan-London requirement as additional lots when establishing their national frameworks
- 3.9 The LEP subsequently decided not to pursue a framework contract through CCS as they were unable to meet the requirement for the new frameworks to be available from April 2020 and the earliest start date via the CCS route would have been April 2021.
- 3.10 The LEP therefore decided to purchase its requirements through accessing LASER's Framework Agreement for
- Natural Gas, Daily Metered and Non Daily Metered Supplies, Lot 1, Ref Y18002 and undertook a further procurement exercise
  - Electricity Supply Electricity for Half Hourly, Non-Half Hourly and Unmetered Supplies, Lot 1, Ref Y18003

## Tender Evaluation for Gas Supply

- 3.11 LASER's assessment criteria to establish their gas framework is set out in Table 3 below.

Table 3

Assessment Criteria	% Weighting
Service Options	11
Shape and Imbalance	6
Product Strategies	12
Trading Support	8
Product Pricing	12

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Billing	12
Reconciliation Rebates and Recoveries	8
Account Management	12
Innovations	5
Robust Supply Chain	2
Supplier Management Fees	12
<b>Total</b>	<b>100</b>

3.12 Both Total GP and Corona Energy were awarded a place on the Framework.

3.13 On 7<sup>th</sup> August, LASER, on behalf of LEP Contracting Authorities, undertook a further competition on the above mentioned framework to secure an enhanced specification and service requirements inviting both framework providers to tender. The further competition exercise used the evaluation criteria set out in Table 4 below.

Table 4

<b>Quality Evaluation</b>	<b>% Weighting</b>
Account management	20
Automatic meter reading requirement	10
Billing	15
Access to management information	20
Innovations	10
Robust supply chain	10
<b>Quality score (moderated to 90% of 100% score)</b>	<b>85</b>
<b>Price evaluation</b>	<b>% Weighting</b>
Margin volume	90
Meter operations and data provision	5
Direct to site premium	5
<b>Price Score (moderated to 10% of 100% score)</b>	<b>100</b>

3.14 Following the evaluation of tenders, LEP awarded the contract for gas supply to the supplier set out in Part B of this report and the recommendation is to award to them.

## Tender Evaluation for Electricity Supply

3.15 LASER's assessment criteria to establish their framework is set out in Table 5 below.

Table 5

<b>Assessment Criteria</b>	<b>% Weighting</b>
Meter Operations	5
Service Options	11
Load Shape and Imbalance	6
Product Strategies	11
Trading Support	8
Product Pricing	11
Billing	11
Reconciliation Rebates and Recoveries	8
Account Management	11
Innovations	5
Robust Supply Chain	2
Supplier Management Fees	11
<b>Total</b>	<b>100</b>

- 3.16 The recommendation is to award to the highest scoring supplier on the LASER national electricity framework as set out in Part B of this report.

## **Social Value**

- 3.17 Energy supply is a regulated and licensed activity. It is also a 'remote' service largely comprising the management of data flows and charging information across all providers within the supply system i.e
- The cost of commodity (power and gas) purchased from generators, shippers and traders
  - The costs of balancing the system (ensuring that energy supplied is equal to energy purchased)
  - Fixed regulated costs – i.e. use of the network charges, government levies and taxes
  - The costs of metering and collection of consumption data
  - Generation of final invoicing to the customer
- 3.18 As there is very limited scope to drive social value outcomes through utility contracts a waiver is required for the requirement of 10% social value as this wasn't an evaluation criteria. However, the government does mandate energy suppliers to deliver a specific element of social value through the "Energy Company Obligation" (ECO). This mechanism requires suppliers to fund a set level of support to fuel poor households. This takes the form of grant funding to install energy savings measures (e.g. new boilers, insulation etc.). This funding stream is completely separate from energy supply contracts. Households are eligible to receive ECO funding if they are in receipt of specific qualifying benefits.
- 3.19 Some suppliers deliver their ECO funded works themselves (e.g. where they have home energy services businesses) while others meet their obligations through agents. London receives less ECO funding per capita than the rest of the country as it costs more to deliver energy efficiency works in the region.

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The Mayor of London recently established the 'Warmer Homes' scheme to help secure more supplier ECO funds for the capital. The council has established its own free home energy visit scheme "Croydon Healthy Homes" to tackle fuel poverty. This scheme will refer eligible households to the Mayor's Warmer Homes Scheme and to other sources of ECO funding identified by the council.

### **GDPR compliance**

- 3.20 No personal data will be processed by the supplier of the gas contract. The only personal data that will be held by the supplier will be that required for contractual or regulatory purposes i.e
- Contract manager and energy team contact details
  - Site emergency contacts for gas safety purposes (for largest consuming sites only)
- 3.21 No personal data will be processed by the supplier of the electric contract. The only personal data that will be held by the supplier will be that required for contractual or regulatory purposes i.e.
- Contract manager and energy team contact details

### **Contact Terms and Conditions**

- 3.22 A pre-award legal review of the Framework terms and conditions was not deemed necessary as there are no significant issues or risks to the council. Energy supply in the UK is a highly regulated activity where providers must be licensed by the market regulator (Ofgem) to supply customers. As the license conditions set out how suppliers must provide their services, suppliers offer standard terms and conditions to the market which they will not vary.

### **Decommissioning Strategy**

- 3.23 There isn't a requirement for a gas decommissioning strategy as the transfer of energy supplies is a comparatively simple process. Transfer of energy supplies is a comparatively simple process. If there is a change in supplier the existing suppliers may object to the transfer of any accounts that are in debt. Where an account does not transfer on the start date of the new contract, the existing supplier will continue to invoice, but at much higher 'out of contract' rate. However, this is a very low risk as 95% of the electricity accounts are paid via Direct Debit.

## **4. CONSULTATION**

- 4.1 Schools participating in the council's corporate energy agreements were consulted in November 2018 regarding the council's proposed strategy for re-procuring energy supplies. Twenty five schools opted to join the council's current fixed term agreement and expressed future interest in the LEP/LASER arrangements.
- 4.2 Schools that wish to participate in the LEP/LASER agreements will sign

individual agreements with LASER and the framework suppliers. **They will not be included within the council's supply portfolio.** However, schools will still benefit from having their energy demand aggregated with all the other supplies in the LEP portfolio. This will enable them to secure the price benefits of flexible wholesale purchasing.

## **5 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

### **5.1 Revenue and Capital consequences of report recommendations**

Set out in Part B of this report.

### **5.2 The effect of the decision**

Securing energy supplies via the recommended framework agreements will enable the council to use best practice flexible wholesale energy purchasing. This method consistently achieves lowest prices through being able to manage the risk of the highly volatile energy markets.

**Note** - the total gas and electricity expenditure set out in Part B is the annual total costs based on current market conditions. The recommended contracts involve multiple purchases of wholesale gas and electricity being made throughout the contract term. So the actual achieved prices will vary according to market conditions.

### **5.3 Risks**

The dominant risks associated with these agreements are the volatility of the wholesale energy markets. The strategy adopted seeks to mitigate these risks by adopting a flexible, risk managed approach to purchasing energy from the wholesale markets. LASER have set in place a Governance Panel comprising customer representatives, an independent market expert and LASER procurement managers. LASER reports to the Governance Panel each quarter to review its purchasing position and agree future buying strategies and tactics.

#### **Demand risk**

In addition to the unit price, the level of consumption will drive the total cost. Weather conditions are the primary driver of gas consumption as this is the dominant fuel used for heating. The recommended contracts aggregate the energy demand of a large number of public sector customers (in order to access the wholesale markets). This form of contract can better accommodate any significant changes there might be in the council's assets (whether addition or removal of buildings and other energy consuming assets).

#### **Options**

The LEP was established to review, monitor and recommend best practice energy procurement strategies on behalf of its participating boroughs. LEP



selected LASER to establish its flexible wholesale contracts after extensive engagement with a wide range of other public and private sector buying organisation's.

#### **5.4 Future savings/efficiencies**

It is not possible to target specific savings for energy agreements as price is driven by the wholesale markets (along with fixed pass through charges regulated by Ofgem).

UK energy markets are set to experience major changes due to the implementation of climate change policies. For gas - this shift will almost certainly result in increased regulated pass through charges for gas

- To increase carbon taxation on gas to encourage customers to switch away from gas heating to lower carbon alternatives

For electricity - these will increase both the demand for electricity and the proportion generated by renewable sources (with transport and heating sectors needing to move from using oil and gas respectively). This shift will almost certainly result in increased regulated pass through charges

- To invest in new electricity capacity and provide price support for new renewable and nuclear generation

The Council will benefit from LASER's market intelligence in order to respond to these changes.

Approved by: Felicia Wright Head of Finance - Resources on behalf of Lisa Taylor, Director of Finance, Investment and Risk and Section 151 Officer.

### **6. LEGAL CONSIDERATIONS**

- 6.1 The Director of Law and Governance comments that the legal considerations are as set out in this report.

Approved by: Sonia Likhari, Solicitor, on behalf of the Director of Law and Governance and Deputy Monitoring Officer

### **7. HUMAN RESOURCES IMPACT**

- 7.1 There is no change to the delivery of energy supply services to the council which must be undertaken by licensed suppliers. There are no employment considerations arising from this procurement project.

### **8. EQUALITIES IMPACT**

- 8.1 This procurement is for energy supplies to council operational sites and services, communal services for social housing and street lighting.

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- 8.2 This procurement will therefore not have a significant impact on groups that share a protected characteristic compared to non-protected groups.

## 9. ENVIRONMENTAL IMPACT

- 9.1 Council Cabinet (08/07/19) agreed to 'Declare a Climate Emergency' and establish a target for Croydon Council to become carbon neutral by 2030.

Gas is used to provide heating and hot water to the council's buildings and communally heated social housing blocks. The consumption of gas is associated with carbon emissions and only a very small proportion of gas injected into the public network comes from renewable sources (primarily 'anaerobic digestion' of agricultural wastes). The current carbon content of UK gas supply takes into account this small contribution.

- 9.2 As 'renewable gas' supplies will always be limited, the government's policy on decarbonising the heat sector is to encourage consumers to switch from gas central heating to using electric heat pumps. This heating solution will then become fully zero carbon when the electricity supply has zero carbon content. The current UK government policy trajectory is for the electricity grid to be zero carbon by 2050 (not 2030).
- 9.3 The consumption of electricity is associated with carbon emissions, however these have been falling rapidly due to the development of offshore wind and large scale solar photovoltaics. The current UK government policy trajectory is for the electricity grid to be zero carbon by 2050 (not 2030). The growth in grid connected renewables is driven by market incentives and subsidies which are passed on to all electricity consumers.
- 9.4 In the UK electricity market, the regulator (Ofgem) issues "Renewable Energy Guarantee of Origin" (REGO) certificates for each MWh generated by a renewable energy source connected to the grid. The recommended framework electricity supplier is able to offer 100% REGO certificated energy supply at a premium of around 0.3% to 0.5% to the total cost of electricity. However, the published carbon content of UK grid electricity already accounts for the contribution from REGO certified generation. The council would not be able to claim any additional carbon savings through securing REGO certificated supplies. This option is therefore not recommended as it would incur additional costs without contributing to the council's carbon reduction target.
- 9.5 Good management and installing energy efficiency measures are the most cost effective ways of cutting carbon emissions by reducing electricity use. But if the council is to achieve carbon neutrality by 2030 it will need to secure zero carbon electricity supplies in advance of the UK-wide deadline. This can be achieved by:-
- Installing onsite generation directly connected to the council's assets (e.g. solar photovoltaic panels on buildings).

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- Securing grid connected (off site) new renewable generation that is additional to that delivered by the existing market support mechanisms.

9.6 Power Purchase Agreements (PPA) are emerging in the market that can enable customers to enter into long term contracts with remote new renewable generators. These contracts can deliver additional generation (and therefore carbon savings) beyond those that would be secured via the regulated market mechanisms. However, PPAs typically require long term contracts of around 10 years. The benefit of this supply option will be evaluated alongside other carbon reduction proposals that emerge from the council's plan to meet the 2030 target.

9.7 There are no other environmental implications arising from this report.

## **10. CRIME AND DISORDER REDUCTION IMPACT**

10.1 There are no crime and disorder impacts arising from this report

## **11. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION**

11.1 Awarding the call off contracts to the recommended framework providers will secure the cost effective supply of gas and electricity.

## **12. OPTIONS CONSIDERED AND REJECTED**

12.1 Other options to secure gas and electricity supplies were considered and rejected as the recommendations set out in this report offers best value.

## **13. DATA PROTECTION IMPLICATIONS**

13.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

**NO**

Approved by: Ozay Ali, Interim Director of Homes & Social Investment

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**CONTACT OFFICER:** Bob Fiddik, Sustainable Development & Energy Team Leader

**BACKGROUND DOUMENTS:** None