

HERTSMERE BOROUGH COUNCIL

Meeting name & Date	EXECUTIVE 22nd May 2019
Agenda item	6.1
Report title	Utility Purchasing arrangements
Report reference no.	EX/19/29
Wards affected	All Wards
Report author, job title & email	Andrew Harper, Procurement Manager Andrew.harper@hertsmere.gov.uk
List of Appendices	None
Reason for urgency	Not applicable
Is it a Key Decision?	No.
Call-in expires on	3 June 2019.
Exempt from Call-in	Not applicable
Portfolio Holder	Cllr John Graham, Finance and Property

PUBLIC REPORT - this report is available to the public.

1 RECOMMENDATION

- 1.1 That the Executive agrees to extend the agreement with LASER Energy to continue to purchase utilities (primarily gas and electricity and potentially water) on behalf of the Council for the period 1st April 2020 until 31st March 2024.

2 PURPOSE OF THIS REPORT

- 2.1 To explain the options for utility procurement.

3 REASONS FOR RECOMMENDATION

- 3.1 It is considered that LASER Energy offer the best value and least risk option for the procurement of utilities

4 ALTERNATIVE OPTIONS

- 4.1 We could Purchase the utilities ourselves – this is not recommended because we do not have the systems, the experience nor the demand to operate a system such as LASER have. Traditionally councils who have procured their own utilities have been beholden to the market. The majority

of the price is the wholesale price. The table below shows how the daily price of wholesale electricity (Euros per megawatt hour) fluctuates:

Day (Mar 19)	Electricity Price Euros/megawatt hour
8	54,50
9	47,81
10	54,67
11	51,66
12	50,67

Source – Nord Pool

- 4.2 If, for example, we were to tender on the 10th March rather than 9th March, then the price would differ by 14%. As the Council spend approximately £150,000 per annum on utilities this example would mean that we would be £21,000 per annum worse off.

5 BACKGROUND

- 5.1 The Council spends about £150,000 on utilities (gas and electricity) per year. For the last 8 years we have used LASER Energy (part of Kent County Council) to purchase on our behalf.
- 5.2 LASER energy are one of the largest procurement and energy management organisations in the country, buying energy purely for the public sector, currently purchasing on behalf of 150 public bodies.
- 5.3 They have professional dedicated buyers who buy off of a forward purchasing system. This means that they would aggregate the demand of all customers and purchase a percentage of this demand up to the supply period.

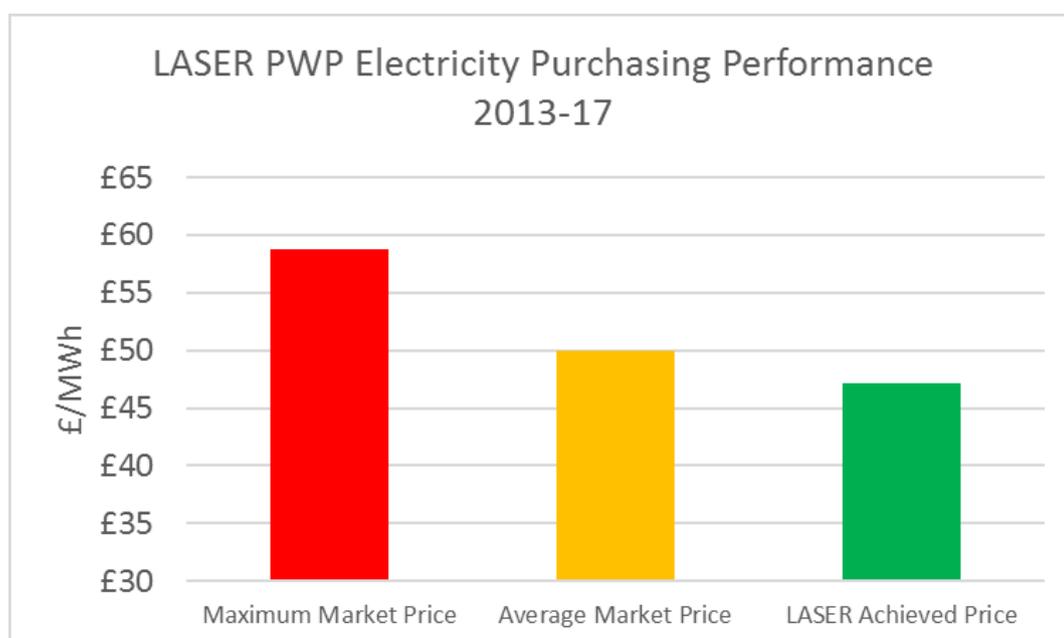
The table below shows an example of how LASER may purchase our requirements:

- The price column shows an example cost of electricity (£ per megawatt hour) in the relevant month
- The number of units purchased is the amount of our requirements that LASER may purchase in that particular month
- If our expected usage was 100 megawatt hours per year then in the example below they purchase 2% of our requirements (2 megawatt hours) in May 19
- In May 19 the cost is £57.44 so for this 2% we would pay a total of £114.88.
- In the example we would purchase all the units by the end of April 20 at a total cost of £5,272.45 (£52.72 per unit). For the supply period (the next 12 months) we would pay £52.72 per unit
- This compares with an average price of £53.58 for the period
- In reality the price changes and purchases are made on a daily basis.

Date	Price	Number of units purchased	Price x units
May-19	57.44	2	114.88
Jun-19	55.39	5	276.95
Jul-19	52.4	15	786
Aug-19	54.73	10	547.3
Sep-19	56.6	12	679.2
Oct-19	55.11	10	551.1
Nov-19	53.81	5	269.05
Dec-19	51.88	10	518.8
Jan-20	47.71	20	954.2
Feb-20	53.68	2	107.36
Mar-20	52.53	3	157.59
Apr-20	51.67	6	310.02
average price	53.58		
Total units purchased		100	
Total price (100 units)			5272.45
Price per unit			52.7245

Note – this is shown as an example only and not based on actual data. In reality LASER are likely to purchase on a daily basis and in smaller quantities.

- 5.4 This method of purchasing reduces the risk and has proven to be better than the market rate. The following chart shows that LASER have performed better than the average electricity market price by 5.5%:



- 5.5 LASER also utilises the Major Energy Users Council (MEUC) benchmarking service. The MEUC is a consumer organisation representing large energy

users in the public sector, industry and commerce. Their benchmarking service collects energy trading information from their members and ranks all purchases made for each season in ascending price order. Using the most recent year as an example, LASER's average purchase prices for gas and electricity were in the lowest 25% and 30% respectively of all energy purchased (i.e. 75% of all gas purchases made by MEUC members were at a price above LASER's average).

- 5.6 The reason a decision needs to be made 12 months in advance of the supply period is to enable LASER to start procuring our requirements in advance. If we leave it to later in the year then they will have a smaller window to purchase the utility meaning less opportunity to spread out and diversify the purchases.
- 5.7 Now that the water industry is deregulated, there is now the opportunity to also purchase water through LASER as well. This would be considered in a future report.

6 FINANCIAL AND BUDGET FRAMEWORK IMPLICATIONS

- 6.1 The Council spends approximately £150,000 per annum on utilities. No certainty on further budgets can be given as the majority of the cost associated with the purchase of utilities relates to a number of unknown factors. The budget does however include a year on year inflationary provision for potential utility price increases.

7 LEGAL POWERS RELIED ON AND ANY LEGAL IMPLICATIONS

- 7.1 LASER undertake all procurements in accordance with the Public Contracts Regulations 2015 and EU Procurement Directives.

8 EFFICIENCY GAINS AND VALUE FOR MONEY

- 8.1 LASER have proven to procure efficiently in the past and the systems they have in place give them the ability to do so in the future.

9 RISK MANAGEMENT IMPLICATIONS

- 9.1 There is a lot of risk in procuring utilities due to the constant changes in the market. LASER use a procurement strategy of spreading the risk over a long procurement window,

10 PERSONNEL IMPLICATIONS

- 10.1 None for the purposes of this report.

11 EQUALITIES IMPLICATIONS

11.1 None for the purposes of this report.

12 CORPORATE PLAN and POLICY FRAMEWORK IMPLICATIONS

12.1 None for the purposes of this report.

13 ASSET MANAGEMENT IMPLICATIONS

13.1 None for the purposes of this report.

14 HEALTH AND SAFETY IMPLICATIONS

14.1 None for the purposes of this report.

15 BACKGROUND DOCUMENTS USED TO PREPARE THIS REPORT

Document Title:	Filed at:
<p>In this table, list the documents you relied upon to a material extent to write your report. You do not need to include already published documents eg Acts of Parliament or previous reports.</p> <p>By law, Background Papers are required to be archived BY YOU for public inspection for a period of four years. These documents can be looked at by the public, so ensure that they do not contain confidential or exempt information.</p>	

16 CONSULTATION ON DRAFT REPORT

16.1 A draft of this report was sent to the following on the following dates:

Consultee	Report sent	Comments rcvd
Chief Executive & Corporate Director (COB)	[insert date]	[insert date]
Head of Finance	[insert date]	[insert date]
Head of Legal & Democratic Services	[insert date]	[insert date]
Head of HR & Customer Services	[insert date]	[insert date]
Portfolioholder [insert post title]	[insert date]	[insert date]
Insert details of any other persons you consulted whose work area may be impacted by your report. Remember to give consultees sufficient time to respond ie at least two days.	[insert date]	[insert date]