

Flexible Energy Purchasing – Comparison of Procurement Options

Contents

1. **Procurement Strategy and options considered**
2. **Options Identification**
 - **Option 1 – Do nothing**
 - **Option 2 – Procure our own energy by direct tender**
 - **Option 3 – Procure through a Private Sector based provider**
 - **Option 4 – Procure from generators**
 - **Option 5 - Generate own energy**
 - **Option 6 – Procure via Central Purchasing Bodies (CPB)**

1 Procurement Strategy and options considered

- Do nothing
- Procure our own energy by direct tender
- Procure through a Private Sector based provider
- Procure from generators
- Generate own energy
- Procure via Central Purchasing Bodies (CPB)

2. Options identification

Several options were considered when completing the Strategic Sourcing Plan (SSP) prior to commencing the procurement activity. These were:

Option 1 – Do nothing

- 2.1. The consequence of this action would be unwise in the extreme as once out of its current agreement with LASER the council is likely to find itself paying higher off-contract prices for the energy for its buildings and street-lighting after October 2016 until an appropriate contract is in place.

Option 2 – Procure our own energy by direct tender

- 2.2. This option is possible, but it would involve the council undertaking a standalone OJEU tender to secure its own energy independent of a Central Purchasing Body¹ (CPB) or any other intermediary. In this case the council would be contracting directly with the selected energy provider(s). This approach is unlikely to produce the best results due to the small scale of our portfolio compared to a large purchasing organisation. In contrast, a CPB is able to obtain good wholesale prices through aggregating the demand of large number of public sector organisations. In addition direct tender would require the council to engage additional resources (skilled energy traders and additional staff for contract management) and provides greater risk of exposure to energy price fluctuations.
- 2.3. This approach is not recommended by the London Energy Project² (LEP) as it is a high risk strategy that is unlikely to be effective in controlling commodity costs.

¹ An organisation within the public sector whose primary purpose is to buy goods and services, or put in place commercial arrangements, on behalf of or for use by other organisations.

² London Energy Project (LEP) is a public sector shared service, designed and managed by the public sector for the public sector on a not-for-profit basis in total 39 members, including 30 London Authorities and 4 Regional Authorities. Its primary aim is to enable Participating Authorities to achieve value for money and efficiencies through smarter energy buying, improved administration process and carbon reduction.

Option 3 – Procure through a Private Sector based provider

- 2.4 The council could use a private sector third party intermediary (TPI) to procure energy supply, but it would need to be sure that it is getting best value through a truly aggregated, flexible contract. Full price transparency of all costs, including TPI fees and any commission paid by suppliers to the TPI would be needed.

By aggregating our volumes, the TPI can access the wholesale market on our behalf but we will only receive prices based on the supplier's view of the market. The TPI are profit driven organisations and business continuity may be uncertain in present economic climate. A full OJEU tender process would be required to engage with such a provider together with the associated resource and time implications.

Based on the research carried out on the market there will be a number of drawbacks to using a TPI:

- TPIs are not subject to statutory regulation,
- TPIs cannot aggregate the council's volume with other customers in an OJEU compliant manner,
- TPIs may not have a full access to the energy market,
- TPIs may not have the same level of buying power and influence to the energy supplier as the large CPB's,
- There may be a lack of independent benchmarking data to assess the performance of individual TPIs,
- TPIs cannot provide the same level of additional services as CPB's.

Option 4 – Procure from generators

- 2.5. The council could purchase electricity via an OJEU procedure from nominated generators. Power Purchase Agreements (PPAs) typically facilitate the sale of energy from the operators of small scale off site renewable generation assets including Good Quality Combined Heat and Power (GQCHP) plant, wind turbines, solar PVs and anaerobic digestion. The council could 'sleeve in' such energy to a supply contract with a conventional supplier. As a customer, this could help increase the council's environmental credentials through being seen to invest in generation from renewable sources. Depending on the type of PPA, it could also reduce the impact of power/price volatility on the organisation as it is possible to fix prices on a long term basis (typically up to 5 years ahead).
- 2.6. As an example, a private developer could build, design, finance and operate a large scale solar PV farm on land owned by the council. The output from this could be sleeved into a supply contract that the council has with their incumbent supplier, Npower who would continue to invoice the council for energy used but the bills would reflect the fact that a proportion of the total was being sourced from the PV farm. Such arrangements tend to be more commercially attractive if the electricity can be supplied from the generator directly to the user without involving the national grid (i.e. over 'private wires') as this reduces the amount of transmission and distribution charges payable. This is unlikely to be applicable to the SCC portfolio of buildings spread across the county, particularly if the generation is from a PV farm at a non central site.

- 2.7. An alternative option called ‘Licence Lite’³ is theoretically available in which a licensed supplier partners with a third party (the ‘junior supplier’) and together they can make use of electricity generating assets. As yet there is no working example of this in practice in the UK, although the Greater London Authority are known to have been pursuing this idea for several years.
- 2.8. All of the above options – PPAs, sleeving and Licence Lite – require the involvement of a conventional licensed supplier to ensure that the council receives an adequate supply of electricity. It would of course also remain necessary to make suitable arrangements for the purchase of gas and oil.
- 2.9. LASER has indicated willingness to assist with the setting up of arrangements between customers and generators involving Npower as the framework supplier. Similar options could be explored with other CPBs in the future. This option is available even if the council decided to procure energy via a CPB.

Option 5 – Generate own energy

- 2.10. The council could invest in its own electricity generating assets and use the output to contribute towards the supply of electricity to council owned buildings. The mechanisms available for achieving this are in principle the same as those described in option 4 – PPAs, sleeving and Licence Lite – with the difference that the council is both the generator and the end customer.
- 2.11. Using the example in option 4 above, the PV farm would be owned and operated by Surrey County Council and the output “sleeved” into the supply contract between SCC and Npower. The council would still be billed by Npower for all electricity used but would also receive an income in respect of the output generated from the PV farm. As with option 4, unless the electricity can be supplied via a private wire network then there will still be a need to involve a conventional licensed supplier. This will be the case for the SCC portfolio of buildings spread across the county, particularly if the PV farm is on a non central site.
- 2.12. It is therefore that a licensed supplier would need to be involved to ensure that the council still received an adequate supply of electricity. It would of course also remain necessary to make suitable arrangements for the purchase of gas and oil.
- 2.13. A full OJEU tender process would be required to engage with such a provider for installation contract, together with the associated resource and time implications.
- 2.14. As with option 4 above, the opportunity to generate its own energy could remain available even if the council decided to procure energy via a CPB and this possibility will be explored in the future. For example, LASER has indicated willingness to assist with the setting up of arrangements for customers who wish to generate their own energy, potentially involving npower as the framework supplier. Similar options could be explored with other CPBs in the future.

Option 6 – Procure via Central Purchasing Bodies (CPB)

- 2.15. A number of alternative energy purchasing frameworks have been investigated. There are number of CPB’s who offer flexible and risk managed approach to energy

³ Licence Lite is a means by which small generators/suppliers can gain direct access to the retail market, rather than relying on the sale of their output wholesale to licensed suppliers.

procurement and employ staff who possess the relevant category expertise and energy trading skills. These are, in particular:

- Yorkshire Purchasing Organisation (YPO)
- West Mercia Energy (WME)
- Eastern Shires Purchasing Organisation (ESPO)
- Crown Commercial Services (CCS)
- Local Authorities South East Region (LASER)

Two largest and most capable CPB's are LASER and CCS.

- 2.16. To ensure that energy procurement service providers are able to deliver effective price risk management and value for money energy supply contracts consistently over a period of time, London Energy Project developed a Statement of Requirements (SoR) to assess the capability, capacity and experience of Central Purchasing Bodies. The SoR is a comprehensive list of best practice standards and customer requirements covering energy supplier selection, contract management, buying and risk management and customer services options.
- 2.17. A number of buying organisations were originally invited to demonstrate ability to deliver services that conform with the SoR in 2008. CPB's participated in an evaluation process, which involved a written submission, technical information and corresponding evidence and a presentation to a panel of representatives drawn from London Authorities who scored the CPB services against the SoR. The two incumbent CPB's, CCS and LASER were re-evaluated against the highest standards at the end of 2011 with similar comparative results.