Detailed Background Procurement Information

Housing Electricity Contract Renewal – Approval of Procurement and Award of Contract using LASER Framework

Enfield Council is a member of LASER Energy, a Public Sector Energy Buying Group, which is a division of Kent County Council Commercial Services, representing many public sector bodies including NHS Trusts, Universities & Colleges, Local Authorities and Housing Associations. LASER has been assessed and approved as a best practice energy procurement provider by the London Energy Project (LEP). LEP is a shared Energy Category Management resource, funded through direct authority contributions. Under this arrangement LEP has, on behalf of all participating authorities, undertaken a series of independent and impartial technical assessments of market risk and of energy contracts as provided by LASER.

LASER has an OJEU compliant FTFP contract (multiple providers) framework in place. The OJEU Reference is Y16021. The contract framework allows LASER to run a mini competition seeking price offers for conventional or renewable energy (subject to supplier availability), to secure a contract on the Council's behalf, following the Council providing instruction and the relevant signed contract with the winning supplier. Mini-tenders can request pricing for any contract duration. Leaseholder Dispensation (First-Tier Tribunal) will be required for contracts greater one year (not available for 2019-2020).

Market Information

Wholesale energy prices are influenced by a range of factors including supply security, weather trends, European prices, geopolitical issues, etc. This can result in price volatility of 5-10% over the course of a few days. These are external factors outside the Council's and LASER's control.

Since October 2018, wholesale power prices have fallen considerably. The main drivers behind this recent price movement include:

- **LNG Arrivals:** Liquefied Natural Gas (LNG) vessel arrivals into the UK and North-West Europe have gone from strength to strength in 2019. Imports to the UK were 3.7x higher this winter (Oct-Mar) than the same period last year.
- **Gas Storage**: The 'Beast from the East' heavily drained the UK's gas storage facilities in March 2018. In stark contrast, 2019 has been characterised by mild temperatures, leading to lower gas demand in the UK. Gas stocks are currently well above seasonal normal levels as a result.
- **Coal Prices**: The commodity has fallen 16% in 2019, with further drops looking likely.

Pricing Components

Delivered energy prices are built up from costs that can be controlled, such as commodity (tradeable raw energy) costs and supplier administration fees and profit margin, and uncontrollable or difficult to control costs that are regulated by government such as pass through costs levied for use/maintenance of the distribution network and renewable energy generation (non-commodity costs).

Procurement Background

The estimated annual value of the new contract for Housing electricity landlords' supplies is £1,989,808. LASER has advised that Current wholesale commodity market prices are marginally lower than when the contract was last fixed in June 2018.

In June 2018, the commodity (energy) prices was 59.90 £/MWh (winter-2018 prices) and 49.03 £/MWh (summer-2019 price) respectively. The winter-2019 price is currently 56.45 £/MWh (-5.76% lower Year on Year) and the summer-20 price is currently 48.30 £/MWh (+0.56% higher Year on Year).

Based on a UK standard winter/summer consumption split of 60/40, fixing at current market prices would represent a 3.56% decrease in the total commodity cost for the 2019/20 period when compared to the fixed price achieved by the 2018/19 contract.

Despite this, wholesale commodity costs make up less than half of the delivered cost. Uncontrollable non-commodity costs have increased considerably in recent years. LASER anticipates a 10% increase in non-commodity costs ahead of the 2019/2020 contract period, having already increased by 16% last year. As such, there is an estimated increase in the delivered contract price of 5% for the 2019/20 period, assuming the contract is fixed at current market prices. This is lower than the budget figures projected at the start of 2019 (19%), however it should be noted that 59 (Restricted hours) supplies achieved exceptionally low prices October 2018 to September 2019 this may not carry forward for the 2019/2020 prices.

Procurement Options

There are two procurement options for contract renewal:

(i) Fixed Term Fixed Price (FTFP), where the business is settled on a pre-determined date and prices known in advance of the supply period (budget certainty)

(ii) (ii) Flexible procurement where energy is purchased at strategic points ahead of the supply period and the price set at the start of each contract year. Flexible procurement can mitigate the impact of significant price swings, but is generally more suitable for larger consuming supplies, as a greater percentage (greater than 20%) of the delivered price represents the tradable commodity. For very low value/consumption supplies (less than 10,000 kWh per annum), the tradable commodity may only be 20% of the total delivered price (the remaining 80% is made up of network and government charges which are fixed and uncontrollable). Therefore, the cost of a fully risk managed, flexible procurement approach may not be justified. FTFP contracts can vary in length from one to three years. Flexible contracts are for over one year. Any contract over one year will require Leaseholder Dispensation (First-Tier Tribunal).

FTFP for landlords' electricity supplies has been a successful procurement strategy historically, particulalry in relation to the unit prices achieved for 'Restricted Hours Tariffs' (currently 8.93p/unit). Only 59 supplies in the Housing portfolio are eligible for this tariff, but they represent 31% of the total contract value. Part of the reason for the low unit rate is because the demand for electricity for these specific supplies is outside peak times. Overall, we have secured extremely competitive rates historically; however, FTFP contracts also carry far greater risk in terms of exposure to dramatic price swings year on year, as demonstrated in this year's estimated 19% increase. However, it is important to note that some of the total increase is represented by non-controllable, non-commodity charges which would be imposed regardless of the procurement strategy. Non-commodity charges are predicted to rise considerably over the next few years.

Future

Given the volatility in the electricity market a thorough options appraisal will be undertaken to determine the most appropriate, risk managed procurement strategy for Housing supplies in conjunction with Corporate and Schools' utility supplies contracts.