

Teignbridge District Council

Committee name

Meeting date

Part i

Energy Supply Contract Renewal

Purpose of Report

To secure the supply of gas and electricity for the Authority between October 2024 and September 2028.

Recommendation(s)

The Committee RESOLVES to:

- (1) Provide the Environmental Protection Manager the authority to renew the LASER energy contracts covering the supply of gas (Framework: Y22008) and electricity (Framework: Y22009) between 01/10/2024 and 30/09/2028.
- (2) Instruct the Climate Change Officer, in consultation with the Executive Member for Climate Change, to write to Laser urging the early introduction of the Green Basket product identified in the report to provide the option to source up to 100% of our electricity demand from renewable energy generators, in accordance with Target 3 of the Part 1 Carbon Action Plan.

Financial Implications

Financial implications are set out in Section 5.1 of the report.

Claire Moors

Principal Technical Accountant (deputy Chief Finance Officer)

Email: Claire.Moors@teignbridge.gov.uk

Legal Implications

Legal implications are set out in Section 5.2 of the report.

Paul Woodhead

Head of Legal Services and Monitoring Officer

Email: Paul.Woodhead@teignbridge.gov.uk

Risk Assessment

Budgetary risks associated with energy price escalation are set out in Section 5.3 of the

report.

William Elliott
Climate Change Officer
Email: william.elliott@teignbridge.gov.uk

Environmental/ Climate Change Implications

Climate and environmental implications are set out in Section 5.4 of the report.

William Elliott
Climate Change Officer
William.elliott@teignbridge.gov.uk

Report Author

William Elliott
Climate Change Officer
Email: william.elliott@teignbridge.gov.uk

Executive Member

Councillor Richard Keeling
Deputy Leader and Executive Member for Corporate Resources

Appendices/Background Papers

Appendix A – Purchase in Advance procurement model
Appendix B – Influenceable Spend
Appendix C – Wholesale Cost Comparison (Part II Document)
Appendix D – Gas and Electricity Market Wholesale Prices
Appendix E – Energy Supplier Tender Process
Appendix F – Energy Supply Contract Renewal Committee Report (2020)
Appendix G – Purchase in Period procurement model
Appendix H – Purchase in Period Wholesale Energy Cost Comparison (Part II Document)

1. Background

The Authority currently procures gas and electricity to heat and power its estate including offices, leisure centres, car parks, tenanted properties, and various small and unmetered supplies, through LASER Energy Ltd (Laser).

Laser is a Public Buying Organisation owned by Kent County Council. It provides energy supply services to Teignbridge through an OJEU compliant procurement framework including:

- Competitive tendering of energy supplier services
- Energy purchasing
- Meter data collection
- Bill consolidation
- Query management

Laser can be described as an energy management company. They work with licenced energy suppliers to procure our gas and electricity on our behalf, and they carry out the necessary administration to provide the authority with consolidated energy billing covering our asset portfolio.

Our 2018/19 baseline carbon footprint included 2,600,000 kWh of natural gas consumption across 18 energy meters, and 2,500,000 kWh of electricity consumption across 108 energy meters.

Over the latest supply period between October 1st 2022 and September 30th 2023, we spent approximately £1.1 million on energy through the Laser Contract.

The existing four-year contract with Laser is due to expire on 30th September 2024, and as such, the following committee report sets out a proposal to renew our energy supply contracts with Laser covering the period from October 1st 2024 until September 30th 2028.

2. Existing Service Performance

The following section provides a summary of Laser's performance in terms of value for money, climate and carbon considerations, and query resolution.

2.1. Purchasing Model

Under the existing energy supply contracts, Laser provides fixed energy prices covering each of the four twelve-month supply periods.

Laser achieves the fixed energy prices by purchasing our energy in bundles ahead of each supply period, as represented in Appendix A. The benefits of this approach are:

- That Laser can purchase our energy in multiple bundles at times of low market prices; this provides a level of protection against volatile energy prices and provides a fixed price for energy ahead of each twelve-month consumption period, which increases budget certainty.
- That our energy consumption is aggregated with multiple Local Authorities including Devon County Council, various Devon districts, and Devon public sector bodies; this increases our buying power despite our relatively small energy footprint to increase value for money.

2.2. Value for Money

When assessing value for money in energy supply, our utility supply costs may be considered in two components:

- **Influenceable spend:** This component includes the raw wholesale energy cost (the cost of energy generation), energy supplier costs, and portfolio management costs. These are the costs that we can influence to a degree through our choice of who we purchase our energy with, and where we source it from.
- **Non-influenceable spend:** This component includes Government energy policy costs, energy distribution costs, and taxes; these costs are fixed and determined by the energy

regulator and Government policies and therefore, we have limited ability to influence these costs.

This means that any given approach to energy procurement has a limited ability to influence overall energy supply costs, with wholesale energy prices typically accounting for about 60% and 55% of electricity and gas bills respectively, as shown in Appendix B.

The wholesale energy prices gained by Laser over the past six supply years are shown in Appendix C for electricity and gas, which show that Laser has secured our energy at prices below wholesale market rates; this indicates that value for money has been achieved. This is despite unprecedented volatility and price escalation over the past 18 months, as shown in Appendix D. Laser’s service charges amount to less than 2% of our annual spend on electricity and gas.

2.3. Energy Supply Mix

There are two recognised approaches to assessing electricity supply carbon emissions; these are the:

- **Market Based Approach:** Where emissions are calculated based on the source of electricity procured by an organisation’s energy supplier.
- **Location Based Approach:** Where emissions are calculated based on national energy supply averages, and as published annually by Government.

In alignment with common approaches adopted by Devon district councils, Teignbridge reports its electricity emissions using the location-based approach, however, the Part 1 Carbon Action Plan contains targets for renewable energy supply, which recognises the importance of decarbonising our up-stream supply chain through the Market Based Approach as a secondary reporting metric.

The supply of renewable energy through the Laser contract has increased from 26% in 2018/19 to 40% in 2022/23; this figure increases to 45% if we consider that nuclear power produces zero emissions at the point of generation.

The remaining fuel mix in 2022/23 is derived from fossil fuels including coal and natural gas; such levels are above the national average, as shown in Table 1, and means that we have a high carbon footprint when considering the market-based approach to carbon accounting.

Table 1: Npower Fuel Mix Disclosure (1st April 2022 to 31st March 2023)

Energy Source	Npower	UK National Average
Coal	5.5%	3.8%
Natural Gas	45.2%	38.5%
Nuclear	4.2%	16.1%
Renewables*	40.4%	38.7%
Other	4.7%	2.9%
Carbon Dioxide Emissions	261 g/kWh	204 g/kWh

*(Biomass, Wind, Hydro, and Solar Power)

A steppingstone approach to decarbonise the supply of energy to our estate is set out in Section 3.2, which identifies the progress, commitments, and aspirations to phase out fossil fuel heating in our buildings, increase energy efficiency, increase on-site generation, and options to decarbonise our energy supply chains.

2.4. Query Resolution

As a “Fully Managed” customer, the Authority has an allocated team at Laser. Their primary responsibilities include to manage meter data collection, produce consolidated energy billing, and to rectify billing issues in liaison with the Authority’s Technical Support Officer. For commercial energy services, we receive a good quality and responsive query resolution service from Laser.

3. The Proposed Contracts Renewal

Section 2 has demonstrated that Laser has proven to provide value for money through their delivery of energy supply and energy management services; this together with the competitive tendering process as described in Section 3.1, and alignment with our Part 1 Carbon Action Plan as described in Section 3.2, provides the basis for recommending to full council to renew our contract with Laser covering the supply of gas and electricity between October 2024 and September 2028.

3.1. Tendering

Laser has completed a competitive tender process, as described in Appendix E, to appoint a preferred supplier for gas and electricity in accordance with the Public Contracts Regulations of 2015. The milestones relating to this tender are shown in Table 2 below:

Table 2: Laser's competitive procurement of gas and electricity energy suppliers

Milestone	Date
Tender issued	11th February 2022
Tender closing date	22nd April 2022
Extended closing date	26th April 2022
Gas award letter sent	3rd August 2022
End of Gas standstill	15th August 2022
Electricity award letter sent	14th September 2022
End of Electricity standstill	26th September 2022
Anticipated Contract Start Date Gas	1st October 2022
Anticipated Contract Start Date Electricity	1st November 2022
Physical supply of energy	1st October 2024

Total Energies and npower were ranked in first place overall for the supply of gas and electricity respectively based on their tender return. The two companies were also scored in first place for supplier management fees, as well as scoring well for procurement and trading criteria.

Corona Energy came second place for the supply of gas, whilst Total Energies, EDF and SSE came second for the supply of electricity.

Whilst the Authority can still access energy supply services from second-place companies, it is recommended that such services are procured from the Authority's incumbent energy suppliers, Total Energies, and npower, which came first place in the tender for gas and electricity respectively.

This approach will prevent the need to apply in-house administrative time to assist with migrating energy meters to a new supplier, thereby saving in house capacity and budget.

3.2. Part 1 Carbon Action Plan

Our consumption of gas and electricity respectively accounts for 19% and 28% of our direct Scope 1 and 2 2018/19 baseline carbon footprint, and as such, our Part 1 Carbon Action Plan contains a series of targets, actions, and policies working to address these carbon hotspots.

The priorities set out in the Part 1 Carbon Action Plan are depicted in Figure 1 below showing a steppingstone approach to decarbonising our consumption of energy. The approach starts with a first tier of actions covering "direct control measures" including those to phase out the use of fossil fuels in our staffed buildings, increase energy efficiency, and increase the supply of on-site renewable energy.

A second tier of actions sets out our intent to decarbonise our energy supply chains, starting with a first step to increase the supply of renewable energy in our electricity supply mix through our energy supply contract. It also sets out the ultimate aim and best practice approach of supporting new renewable energy capacity development in Devon through Power Purchase Agreements.

The following section sets out how these prioritise will work in parallel with renewing our energy supply contracts.

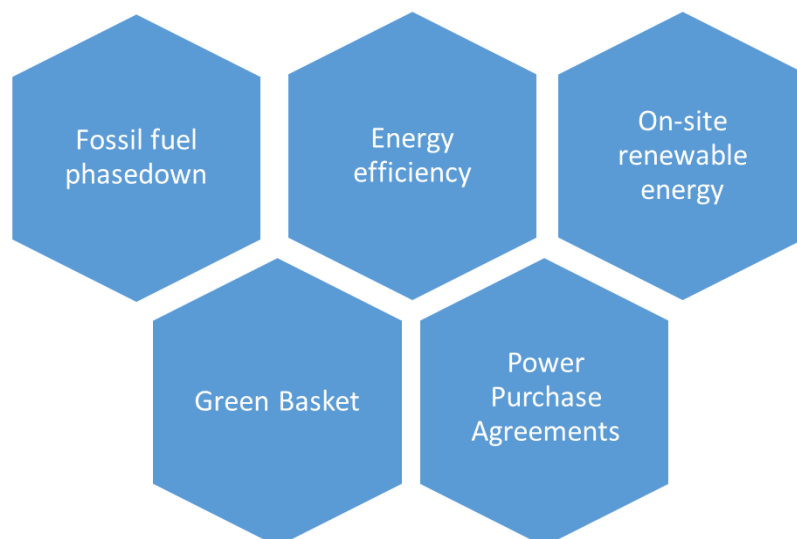


Figure 1: Part 1 Carbon Action Plan priorities for decarbonising energy supply

3.2.1. Fossil Fuel Phasedown

POLICY 1: We will operate a fossil fuel phase down policy. This means that for the top 14 buildings, when gas-fired heating systems reach end-of-life, they will be replaced with low carbon alternatives.

The completed heat decarbonisation projects at Forde House and the Teignmouth Lido (representing a circa 800,000 kWh reduction in gas consumption) and our commitment to deliver heat decarbonisation projects at Newton Abbot Leisure Centre and Broadmeadow Sports Centre (representing a circa 1,500,000 kWh reduction in natural gas consumption) amount to a 68% reduction in natural gas consumption over our 2018/19 baseline; staying on track with this target will also require us ensure that gas consumption levels do not increase across our remaining estate.

Providing Laser with an energy demand forecast in alignment with our fossil fuel phase-down plans will enable Laser to procure our diminishing demand for natural gas without additional cost to the Authority.

The contract also allows for new electricity connections, such as those required at Newton Abbot Leisure Centre and the Depot as part of heat and fleet decarbonisation projects at those sites.

3.2.2. Energy Supply Chains

TARGET 3: Procure a minimum of 80% of our residual electricity demand from renewable energy via our utility supplier by 2025.

Target 3 follows suit with Science Based Targets Initiative Corporate Standard, which recommends thresholds for the supply of renewable energy.

Section 2.3 highlighted that circa 40% of our electricity generation mix is supplied from renewable energy. To comply with the Part 1 Action Plan, we will need to increase our renewable energy to a minimum of 80% by 2025.

Laser offered a "Green Basket" product in 2021; this initiative provided Laser customers including Teignbridge with the option to source up to 100% of their energy from a specific renewable energy generator of a known location and technology type, which would have provided the opportunity to displace fossil fuels from the Authority's electricity supply mix.

The Green Basket scheme was abandoned owing to unprecedented market changes and price volatility in 2021, however, Laser has signalled its intent to run the product again under the new contract period. This option will be thoroughly explored when the product becomes available, with due consideration given to carbon benefits and budgetary pressures.

3.2.3. Power Purchase Agreements

TARGET 4: Offset up to 100% of our residual electricity demand by 2030 through financing new off-site renewable energy in Devon by 2030.

The committee paper covering the energy supply contract renewal in 2020, and as presented in Appendix F, advocated our intent to support the Devon Energy Collective. At that time, the Devon Energy Collective, a community interest company, was pursuing the

development of large-scale renewable energy generation in Devon with financial backing provided by Devon Local Authorities through Power Purchase Agreements, as described in Appendix B of the 2020 committee paper.

Participation in such a scheme would represent a best-practice approach to decarbonising electricity supply chains, given that such projects can demonstrate “additionality” in renewable energy supply, as well as offering the possibility of community co-benefits, which could be administered through a not-for-profit community interest energy generation company.

As demonstrated by the Power Allotments Scheme in 2022, the development of large-scale renewable energy schemes has proven to be difficult to achieve owing to generation grid constraints affecting the South West electricity network. However, should such a project progress, the energy supply contract renewal with Laser will not prevent us from participating in power purchase agreement schemes and pursuing target 4 of the Part 1 Carbon Action Plan.

3.3. Purchasing Model

Based on Laser’s track record of proven value for money, as described in Section 2.2, members are recommended to support the continuation of procuring energy with Laser using the Purchase in Advance Model, described in section 2.1; this will reduce risk in energy cost escalation, and provide increased budgetary confidence for each twelve-month supply period up until September 2028.

4. Alternative Options

The following section provides an assessment of potential alternative options, including alternative public buying organisations, carrying out an open market tender, as well as additional options with Laser.

4.1. Alternative Public Buying Organisations

Three alternative Public Buying Organisations have been identified as potential alternatives to Laser; these include: Crown Commercial Services, Eastern Shires Purchasing Organisation, and the Yorkshire Purchasing Organisation.

On the basis of:

- the value for money demonstrated by Laser as discussed in Section 2.2,
- Laser’s fees making up narrow margins of less than 2% for gas and electricity costs,
- good query management and customer support provided by Laser,

there does not appear to be a significant margin of opportunity for considering alternative Public Buying Organisations, and as such, this alternative option has been discounted.

4.2. Open Tender

Running an open tender to procure our energy management and supply needs would risk losing our aggregate buying power gained through the Devon Purchasing Group and the wider Laser customer base. This will likely result in increased wholesale energy costs gained through the appointed supplier; on this basis, the option of carrying out a tender in-house has been discounted.

4.3. Alternative Options with Laser

As an alternative to the Purchase in Advance procurement model described in Section 2.1, Laser also offer a Purchase in Period procurement model, as illustrated in Appendix G; this approach enables the energy supplier to purchase energy on the wholesale market within the consumption period, and therefore, if market prices become more favourable within the consumption period, the energy recipient can benefit from reduced energy bills.

On the basis of the less favourable cost-benefit analysis presented in Appendix H, which represents how the Purchase in Period model has performed relative to average market prices, this option has been discounted in favour of the Purchase in Advance model which provides fixed pricing and increased budget confidence.

5. Implications, Risk Management and Climate Change Impact

5.1. Financial

If energy markets continue to stabilise following the peak energy prices in 2021/22, and if we continue to maintain existing budgets going forwards annually, we anticipate energy costs associated with this committee report recommendation will fall within existing budgets. Laser will assist the Authority with ongoing energy budgeting through their monthly energy market reviews.

Renewing the energy supply contracts ten months in advance of their expiry will increase the window of opportunity for Laser to procure our energy and achieve the best market prices.

Renewing the energy supply contracts will maintain the economies of scale achieved through aggregating energy purchasing with the Devon Energy Group; this will increase value for money and reduce the cost of heating and powering our buildings.

Other than the risks relating to forecasting energy pricing ahead of time, as set out in Section 5.3 there are no further financial implications to note.

5.2. Legal

The new LASER framework covering the supply of energy between 01/10/2024 to 30/09/2028 is an OJEU compliant framework.

Other than ensuring continuity in the supply and management of energy and energy billing, there are no further identified legal implications associated with the recommendations contained within this report.

5.3. Risks

Although gas and electricity prices have fallen since the unprecedented peaks in 2021/22, they remain at elevated levels and are subject to high levels of volatility. At the time of writing, it is not possible to forecast the cost of energy for delivery during the first 2024/25 contract supply period, however, this risk will be mitigated through the Purchase in Advance approach to energy procurement, and with monthly market and purchasing updates provided by Laser.

5.4. Environmental/Climate Change Impact

Section 2.3 highlights that, whilst the share of renewable energy within our electricity supply mix has increased from 26% to 40% over the past four years, around 50% of our energy supply is derived from fossil fuel power generation.

There is a target within our Part 1 carbon Action Plan to increase the share of renewable energy to at least 80% of our electricity supply mix by 2025 through our energy supply contract, and as such, the Authority is committed to assessing the merits of future renewable energy products offered by Laser, such as the Green Basket, to achieve this target.

The above approach will provide a steppingstone towards best practice approaches to energy decarbonisation, which are covered within the Part 1 carbon Action Plan, and summarised in Section 3 above, including targets, actions, and policies covering fossil fuel phasedown, renewable energy, and energy efficiency.

6. Conclusion

Two recommendations have been put forward for members' consideration to enable the renewal of our energy supply contracts, and to encourage Laser to provide an early offer of the Green Basket renewable energy product to decarbonise our electricity supply chain. We have reached this conclusion on the basis of value for money demonstrated in the report and on the basis of compliance with targets set out in our Part 1 Carbon Action Plan.