

Item No	Classification: Open	Date: 12 September 2011
To	Councillor Barrie Hargrove, Cabinet Member for Transport, Environment and Recycling	
Report title	Gateway 2 – Contract Award Approval Supply of electricity to unmetered street lighting	
Ward(s) or groups affected	All wards	
From	Head of Sustainable Services	

RECOMMENDATIONS

1. That the Cabinet Member for Transport, Environment and Recycling approves the award of the contract for the supply of electricity to street lighting and highways assets to LASER in the form of a tripartite agreement with NPower using the Procurement Only Service Option (POSO), for four years starting on the 1 October 2012. The estimated annual cost of £735,000, including LASER's management costs, makes the total contract value of £2,940,000.
2. That the Cabinet Member for Transport, Environment and Recycling takes the decision (as recommended) on the purchasing solution (Purchase in Advance or Purchase within Period) as detailed in paragraphs 9 and 10 by the 31 March 2012.
3. Furthermore, that the Cabinet Member takes the decision throughout the duration of the contract (as detailed in the procurement project plan) to change the purchasing and management option as recommended (detailed in paragraphs 9 and 10, and 30-32).

BACKGROUND INFORMATION

4. The recommendation of this report is that the electricity requirements of this existing contract are secured via a four year framework contract which expires 30 September 2016. As gas and electricity is a volatile traded commodity, the 'wholesale' cost of the electric has been excluded from the tender (electricity will be purchased from the wholesale market at different times both before and during the contract term). This contract has therefore not been awarded on the basis of electricity price. The contract costs set out above are therefore estimates, and actual costs will depend upon market conditions and purchasing decisions taken during the contract.
5. This contract has no extension duration built into the contract.

Procurement project plan

Activity	Date completed
Forward Plan (if Strategic Procurement)	01/06/2011

Activity	Date completed
DCRB/CCRB/CMT Review Gateway 1: Procurement Strategy Approval	DCRB 07/06/2011 CCRB 09/06/2011
Publication of Gateway 1 decision	13/06/2011
Gateway 1: Procurement strategy for approval report	20/06/2011
Scrutiny Call-in period and notification of implementation of Gateway 1 decision	30/06/2011
Completion of tender documentation	These tasks completed by consortia
Advertise the contract	
Closing date for expressions of interest	
Invitation to tenders	
Closing date for return of tenders	
Completion of evaluation of tenders	
Completion of any post-tender clarification meetings	
Council evaluation of consortia	26/08/2011
Council evaluation of purchasing solution	26/08/2011
Review Gateway 2: Consortia and Contract award report	DCRB 01/09/2011 CCRB 08/09/2011
Publication of Gateway 2 decision	12/09/2011
Gateway 2: Consortia and contract award approval.	20/09/2011
Call-in period and notification of implementation of Gateway 2 decision	28/09/2011
Place award notice in Official Journal of European Union (OJEU)	Completed by consortia
Standstill period observed between award notice and contract award	
Add to Contract Register	30/09/2011
Cabinet Member for Transport, Environment and Recycling decision for purchasing option and option to change management solution	31/03/2012
Start date of Southwark buy-in to the contract	01/10/2012
6 monthly contract performance reviews	January & June
Contract completion	31/09/2016

Description of procurement outcomes

- The selection process undertaken by Southwark Council which included seeking interest from LASER and Government Procurement Services (GPS, formerly Buying Solutions), was based on the criteria detailed in the Gateway 1 report. It resulted in a framework contract presented by the LASER Energy Buying being recommended for the supply of electricity through a tripartite agreement with NPower to supply electricity to street lighting and highways assets. The Council has over 25,000 separate supplies including lamp columns, bollards, pedestrian

and controlled crossings and road signs that are served through this contract. These individual supplies are unmetered.

7. Using LASER allows the Council to access wholesale rather than the retail market price for electricity supplies. In addition, the authority does not need to go through the OJEU tendering process, thus saving time and money.
8. Like any other market a 'trading' function is required, deploys tested and continuously improved buying and risk management strategies, and needs to have appropriate governance arrangements in place. LASER'S approach has been evaluated by the authority to ensure any financial risk to the authority is managed in accordance with Southwark's guiding principles. When considered in conjunction with the volatility of prices in the energy market, it has highlighted the need for the decision, whether to take a Purchase in Advance or Purchase Within Period solution (as detailed in the Gateway 1 report), to be taken closer to the contract start date.
9. It is proposed that the decision (whether to take Purchase in Advance or Purchase within Period), is to be taken by the Cabinet Member for Transport, Environment and Recycling by the 31 March 2012 on the basis of the criteria listed in paragraph 10. This is the latest point we can notify LASER of our preferred purchasing option and will decrease the financial risk to the authority.
10. Furthermore, if market conditions change presenting an increased financial risk to the authority the Cabinet Member for Transport, Environment and Recycling has delegated authority to change the purchasing option throughout the duration of the contract. This will be based on criteria evaluated as part of the 6 monthly performance reviews, including;
 - Previous PIA and PWP performance, and by further analysing the performance to date of the contract.
 - Market conditions, gas supply to the UK and the impact on electricity prices
 - Market forecast and risk to the authority

KEY ISSUES FOR CONSIDERATION

Policy implications

11. There are no policy implications.

Comparison process

12. As outlined in the Gateway 1 procurement strategy, Southwark Council, approached LASER and Government Procurement Services (GPS) to provide detail on the solutions available to Southwark for the supply of electricity to street lighting.
13. At the start of this process the intention was to follow a 'traditional' tender process that would allow the authority to evaluate against set criteria listed in the

Gateway 1 report, and detailed in paragraph 20. These criteria were prioritised depending on their importance as defined by the Energy Management Team.

14. However, whilst both LASER and GPS responded, GPS indicated, that as a Public Sector Organisation they could not be seen to be competing with other organisations, and would not provide information for tenders, and in the format requested by Southwark.
15. Promotional literature and web links were sent to the Energy Management Team from GPS, and clarifications sought over email prior to the evaluation.
16. The information received from GPS, whilst not a formal tender response, enabled officers to make comparisons of the gas supply contracts and associated services provided by the two framework agreements.

Evaluation

17. The evaluation panel was comprised of staff from the Council's Energy Management Team and the Sustainable Services Management Accountant.
18. Following individual evaluation, staff then met to agree consolidated scores and findings for each of the responses.
19. Further guidance and advice was taken from Environment and Leisure's Procurement Manager, and the Contracts Principal Legal Officer prior to and after evaluation.
20. Responses were evaluated according to quality criteria as outlined in the Gateway 1 report. These were considered in conjunction with the benchmark set by the LASER return, as referenced in paragraph 16. The information supplied was evaluated according to the criteria and weightings detailed below:
 - a. Options available (10%) for the supply of electricity to street lighting, managed and unmanaged solutions;
 - b. Purchasing options available (10%) e.g. PIA or PWP;
 - c. How energy purchasing decisions are made (10%), including risk management strategies adopted;
 - d. Transition from the old to the new contract (9%);
 - e. Tender Process (8%) including OJEU notice, evaluation criteria and weightings;
 - f. Services offered (8%) including bill validation, contract reporting etc;
 - g. Terms & Conditions (7%), SLAs and termination periods;
 - h. Requirements for adding/deleting sites (6%);
 - i. Contract Management Structure (6%);
 - j. Recovery fees breakdown (5%);
 - k. Contract Management arrangements with the supplier (5%);
 - l. Additional relevant services available (5%);
 - m. Invoicing arrangements and time periods (4%);
 - n. Support available for Carbon Reduction Commitment, and reducing energy across the council estate (4%);
 - o. Reconciliation arrangements (3%), and;

- p. Details of quality assurance systems, internal policies and procedures (e.g. equal opportunities policies) and health and safety at work record (pass/fail)

21. A score was allocated for each of the criteria detailed above, ranging from 1 to 5 as follows:

Score	Criterion
0	Failed to submit examples or a method statement or address the requirements in full.
1	Limited information with poor supporting evidence and lacks clarity.
2	Answer meets some, but not all, of the requirement or provides some examples which have similar aspects. Lacks convincing evidence and understanding of the requirement.
3	Acceptable information or relevant examples. Answer is comprehensible.
4	Above acceptable – answer demonstrates real understanding and gives much more detail or provides good examples of similar experience.
5	Excellent answer – gives real confidence that the information provides much more added value, is realistic and achievable and gives greater understanding than that of an acceptable answer.

22. Following consolidation of the scores, each score was then averaged, resulting in the following average scores and weighted scores:

Table 1: Average and weighted scores from information supplied

Criteria (*ref para 14)	Government Procurement Services	Weighted Score	LASER Energy Buying Group	Weighted Score
a	3	30	4	40
b	3	30	3	30
c	2	20	4	40
d	5	45	5	45
e	4	32	2	16
f	1	8	5	40
g	3	21	3	21
h	4	24	4	24
i	2	12	2	12

j	3	15	5	25
k	1	5	3	15
l	2	10	3	15
m	0	0	3	12
n	0	0	3	12
o	2	6	3	9
p	pass	-	pass	-
Total		228		356

23. In accordance with the selection criteria outlined, the most advantageous solution was presented by LASER, and this report therefore recommends their use.
24. The Cabinet Member will note that there are 2 instances where criteria scored below acceptable (i.e. below 3) for LASER. This score was given as the information and supporting evidence that was provided was limited i.e. it did not suggest that processes and structures were not in place, and further information was not available/could not be provided.
25. Prior to the agreement with LASER being signed, the Energy Management Team will ensure that an acceptable amount of information and supporting evidence is provided. This includes details on the evaluation scores applied for NPower, and direct contract management. It is important to note that whilst not a factor used during evaluation, the experience of the current contract management with LASER from the Energy Management Team is that they provide an extremely proficient service.
26. LASER provide two options for the management of the contract. Their fully managed service is charged, and fixed as an addition on the unit energy cost. This is added to the invoice sent to each individual site e.g. a percentage of the p/kwh price. The services provided for a fully managed service include;
- Arrangements for the suppliers send bills to LASER who check for accuracy, and act to resolve supply queries
 - Validation of pass through cost e.g. those from network operators
 - Bill payment administration charges
 - Electronic billing information
 - Site contact, central point of contact and support
27. The service charge is calculated from the total anticipated levels of electricity consumption for this contract. based on the use in 2009/10. The estimated annual charge for the LASER managed service would amount to £6687.
28. LASER's unmanaged service is known as the Procurement Only Service Option (POSO) and as the Cabinet Member will note is the recommended option for the authority. LASER secure electricity prices from the wholesale market on behalf of the consortium. NPower would directly invoice sites for the amount of electricity used. Sites are responsible for monitoring the accuracy of invoices. Electronic copies of the bills can also be sent direct to the authority on the framework and/or the site contact.

29. For the unmanaged service LASER charge an annual fee of £99 and will invoice Southwark directly for this.
30. Southwark has the option to change between a managed and unmanaged service throughout the duration of the contract.
31. Management options will be evaluated considering the purchasing solutions proposed/and or adopted, whilst having due regard for the financial benefit to the Council.
32. The Energy Management Team, in conjunction with the Asset Management Team will undertake the evaluation prior to the 31 March 2012, and throughout the duration of the contract, presented as part of the 6 monthly performance reviews.
33. The council will continue purchasing electricity for unmetered street lighting using a passive supply. The current inventory sent to the supplier sets out the numbers of each type of lighting equipment and the type of control (e.g photocells, time switches). The "estimated annual consumption" (EAC) is calculated using a mathematical relationship of annual burning hours to published sunrise and sunset times. Passive billing such as this is generally considered to be less accurate because it does not account for the actual times the lights are switched on and off.
34. An alternative to the unmetered approach is to base the total electricity consumption on a representative sample of the various lamp controls used across the council's inventory. This billing approach was adopted during the last contract before switching to passive. Known as "pseudo half-hourly" dynamic metering it is an approved method for the purposes of billing and tendering for electricity supplies. Adopting this method involves the following steps:-
35. An array of 30 photocells representative of the age and type found in the council's inventory is installed at a suitable site (at the average height of lamp columns).
36. This array is monitored remotely on a daily basis to establish the actual operational hours of the sample photocells. This data is then extrapolated to calculate the electricity consumption of the whole street lighting inventory.
37. The meter administrator manages collection of the data and provides this to the network operator and appointed energy supplier.
38. Emissions from dynamic billing do count for the Carbon Reduction Commitment qualification as detailed in the Gateway 1 report, and based on current contract costs and market rates for electricity it does present an increased cost to the council.
39. It is not known if regulations will change in the future to encourage authorities out of passive billing contracts, or ensure that all data for street lighting is included in the CRC. The Asset Management and Energy Management Teams will monitor

the regulations closely and update accordingly through Annual Performance Reviews and briefing to the Executive Member on any changes throughout the duration of the contract.

40. The Energy Management Team, in conjunction with the Asset Management Team will monitor the financial benefit to the authority throughout the duration of the contract and present as part of the 6 monthly performance reviews.
41. The billing option, will be changed by officers delegated within the Asset Management Team of Public Realm following analysis, and if financially beneficial to the authority.

Plans for the transition from the old to the new contract

42. NPower are the current electricity suppliers under the existing framework contract. The Energy Management Team will liaise individually with the Asset Management Team and arrange for new agreements to be signed with NPower prior to the supply date in October 2012.

Plans for monitoring and management of the contract

43. The overall performance of the contract with LASER will be monitored by the Energy Management Team. The following indicators will be used to measure the performance;
 - Electricity purchasing price against market benchmarks
 - Market and LASER price forecast
44. Performance will be measured via;
 - Quarterly newsletters issued after governance panel meetings (detailed in paragraph 45)
 - Bespoke reporting to the Energy Management Team upon request
 - Bi annual members meeting
45. LASER undertakes market analysis on an ongoing basis, and a strategy is agreed with the Governance Panel on a quarterly basis. Purchases are reviewed for compliance with the agreed strategy which defines roles, responsibilities and purchasing authority. The purchasing and risk strategy is monitored and agreed by the Panel made up of representatives from:-
 - Kent County Council, Commercial Services – Director and Head of Finance
 - LASER executive – Director and three purchasing managers
 - Chair of London Boroughs Energy Group (currently LB Sutton)
 - County council
 - District council
 - Independent industry consultant (currently Cornwall Consulting)

46. Within LASER a weekly meeting of Purchasing Managers is convened to consider purchases within the strategy and to set caps and collars as applicable. Ad hoc meetings take place on a daily basis.
47. LASER monitor performance of the agreement with NPower through a Service Level Agreement and series of Key Performance Indicators. Conference calls are held weekly, with face to face meetings on a quarterly basis.
48. Additionally, it is important to note that the contract is performance managed by way of the meter administrators Power Data Associates (PDA) analysing data and providing information on daily demands and carbon emissions. Asset Management operate and performance manages the contract with PDA.
49. A dedicated customer services representative will be established with NPower to respond to queries and act as the central point of contact for the Asset Management Team.

Performance bond/Parent company guarantee

50. A performance bond is not needed for the framework contract. LASER is a local government purchasing consortium and is part of Kent County Council who is a public body.
51. Industry regulators OFGEM are responsible for appointing a supplier if NPower were to cease trading, thus the sites supplied would be protected ensuring a smooth provision of service.

Community impact statement

52. Not applicable

Sustainability considerations (Including Economic, Social and Environmental considerations)

53. Suppliers will offer prices for electricity generated via renewable energy sources ('green' electricity). However, it is not recommended that the Council opt for such green supplies if these cost more than the lowest standard electricity offers. The Council cannot claim to achieve further CO₂ reductions through such contracts. Moreover, it must be highlighted that the council will not be able to claim zero CO₂ emissions for such "green tariff" supplies under the Carbon Reduction Commitment scheme.
54. Asset Management have replaced over 8000 street lights during the past ten years, these replacements were based on the structural integrity of the existing items but all took advantage of the latest available street lighting technologies giving total energy savings of over 10% on increasing stock levels of 1% per annum. The latest program of structural testing identified a further 800 street lights that require replacing due to their structural condition, these items will be replaced with modern equipment giving energy savings of over 40% per unit. On completion of the program to replace all structurally dilapidated streets lights it is Asset Managements intentions to focus the replacement of street lights with

inefficient energy controls. This will be combined with the upgrading of associated illuminated street furniture converting traditional Bollards, Signs and Pedestrian Crossings with low energy LED's and Solar Power. As an example during 2011/2012 all 400 Pedestrian Crossing will be changed from 100w GLS lamps which require replacing every 2 months to 8w LED's with a 15 year performance life. All of these measures will further reduce energy consumption.

55. Council lighting engineers have also been fitting new photocell equipment cells (PEC) which reduces the number of hours that lighting is on. Energy suppliers do recognise the codes that this technology uses and can be used for more accurate monitoring and to manage energy use.
56. Whilst these measures are reducing actual electricity consumption and associated CO₂ emissions, the council does not benefit from this by paying for this reduced level of consumption. This is because the actual reduced consumption of the new photocell equipment will not be reflected in the network operator's calculation for passive billing.

Market considerations

57. LASER are a public / not for profit organisation.
58. LASER is part of Kent County Council and has responsibility for the energy procurement for the Central Buying Consortium customers as well as for its own customers from London and the South East of England. It represents in excess of 100 authorities.
59. LASER employees between 50 and 250 employees.
60. LASER have a national area of activity.
61. Due to the nature of the energy supply market requirements for suppliers to support local employment would be inappropriate.

Staffing implications

62. Asset Management are responsible for payment and monitoring of their own invoices. The Energy Team and Asset Management Teams within Environment will act as the main point of contact with the supplier to resolve any outstanding queries and manage the transition of the contract as detailed in paragraph 42.

Financial implications

63. The estimated contract costs have been based on current wholesale costs. The actual use of electricity and resultant cost is unknown which is why an estimated use based on previous figures has been supplied.
64. It must be emphasised that this report is recommending a buying method, not a set of fixed electricity prices resulting from a competitive tender. All predicted costs are therefore based on current market conditions. The actual billed costs

will depend on purchasing option taken and prices of electricity secured from the wholesale market.

65. The estimated annual cost (based on the existing contract costs) is circa £735,000 for a period of four years making a contract value in the region of £2,940,000.

Legal implications

66. Please see paragraph numbers 69 to 71.

Consultation

67. Officers in The Asset Management Team in Public Realm were consulted on the status of assets.

Other implications or issues

68. There are no other implications or issues.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Communities, Law & Governance

69. This report seeks the Cabinet Member for Transport, Environment and Recycling's approval to the award of contract for the supply of electricity to unmetered street lighting. This is to be by way of a tri-partite agreement with LASER, and their supplier NPower, as noted in paragraph 1.
70. At an estimated value of between £2-4 million the award of this contract is reserved to the relevant Cabinet Member. The nature and value of this contract are such that the contract is also subject to the full application of the EU procurement regulations. The report at paragraph 7 confirms the procurement process undertaken by LASER to appoint NPower, which was undertaken in accordance with the EU procurement regulations. The council may therefore use this framework without a further process of tendering.
71. In accordance with Contract Standing Order 2.3 this report confirms the financial implications of this award and how the contract is to be funded.

Finance Director

72. This report recommends the use of LASER for the procurement of the supply of electricity to unmetered street lighting, commencing on 1 October 2012 for a period of four years.
73. The estimated value is for the four year term £2.940m, although the report notes that the energy market is extremely volatile, and that prices can vary significantly on a daily basis. Details are given in the Financial Implications section.

74. The initial recommendation is that the contract is let using the procurement only service option (POSO).
75. The report also recommends that the the Cabinet Member for Transport, Environment and Recycling takes the decision on the optimum purchasing solution for the contract before 31 March 2012, and throughout the duration of the contract period.
76. Market prices should be monitored and reported through the 2012/13 - 2014/15 budget setting mechanism if significant inflationary increases are forecast.

Head of Procurement

77. This report is seeking approval to award a contract for the supply of electricity to street lighting and highways assets to NPower via Laser. This is a tripartite contract with Laser providing additional management services.
78. Paragraphs 12 -16 describe the procurement process that was followed and explain how the two electricity supply frameworks were assessed and compared. Paragraph 16 confirms that whilst GPS could not formally tender, the information provided enabled officers to carry out a comparison of the two contracts available.
79. Paragraphs 17 - 22 describe the evaluation that was undertaken and confirm that Laser scored higher than GPS. Laser are able to offer two levels of management services as well as two approaches to purchasing. The decision relating to the purchasing approach can be taken nearer the time of the contract start and can be changed if necessary during the life of the contract. Paragraph 28 confirms that at the start of the contract the unmanaged service level will be adopted however, there will be ongoing review of this arrangement and if necessary the council could switch to the higher level of management available from Laser.
80. Paragraphs 43 - 49 describe how this contract will be managed and monitored. The Energy Management Team will be tracking the performance of this contract and carrying out regular reviews to ensure the most appropriate purchasing approaches are taken.
81. This contract appears to offer the council a good level of flexibility which will provide a mechanism for the council to respond to the market and achieve the best value possible.

BACKGROUND DOCUMENTS

Background documents	Held At	Contact
Gateway 1 Procurement Strategy Approval	160 Tooley Street	Andrew Chandler, Sustainable Services Manager

Supply of electricity to unmetered street lighting		
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APPENDICES

Appendix number	Title of appendix
None	

AUDIT TRAIL

Cabinet Member	Transport, Environment & Recycling		
Lead Officer	Ian Smith, Head of Sustainable Services		
Report Author	Andrew Chandler, Sustainable Services Manager		
Version	Final		
Dated	12 September 2011		
Key Decision?	Yes	If yes, date appeared on forward plan	September 2011
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title	Comments Sought	Comments included	
Strategic Director of Communities, Law & Governance	yes	yes	
Finance Director	yes	yes	
Cabinet Member	no	no	
Date final report sent to Constitutional Officer			12 September 2011