

IN THE PIPELINE

Government Energy Project Newsletter



5th Edition | Spring 2010

Buy Smarter - Use Less

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Success for Public Sector Organisations

What are the figures and which sectors are really working together to deliver increased savings to their organisation?

Government stated in 2009 that collaboration was the key to achieving the required £35bn savings by 2013, and tasked the public sector through the Operational Efficiency Programme with collaboration targets of over 80% for central government and over 50% for the wider public sector.

The work of the Pan Government Energy Project (PGE) was recognised as a collaboration success through its development of procurement strategies to help manage costs in an extremely volatile energy market. PGE members comprising specialists in energy and procurement established that flexible, risk managed, aggregated procurement was the formula to successfully meeting these targets and, after assessment against thorough compliance criteria, has recommended solutions via Central Purchasing Bodies (CPB's) to deliver this.

In the last few editions of In The Pipeline we have updated on the overall figures of collaboration throughout the public sector for energy, and currently over 66% (over £2.5bn) of public sector spend is now going through a recommended solution. This includes over 90% of central government and over 50% of wider public sector. So for the energy category the OEP targets for collaboration have been successfully met!

But the work doesn't end there and the continued focus is on how this helps the individual organisation.

PGE was given a target to reduce costs by £100m in 08/09 and actually delivered £139m, and is on target to deliver £200m for 09/10. These figures are an accumulation of the benefits to organisations using a recommended solution, calculated against an approved methodology which takes account of the volatile and unpredictable energy market. The customer organisations can use this money in other areas to improve front line services for example. Although these savings have been great PGE are working hard on new initiatives such as Power Purchase Agreements (PPA) and Demand Management to help deliver increased savings over the years to come as things potentially get even tighter.....

However:

These successes are only realised through public sector organisations working together and adopting the flexible approach. The table below shows by % of sector some of those organisations whom use a recommended solution:

Sector	% working together
Central Government	Over 90%
Health (NHS Trusts)	Over 85%
Police Authorities	Over 80%
Local Authorities	Over 75%



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Additional Benefits

What other benefits are there of using a recommended solution that meets government Policy?

Through accessing a recommended solution some additional benefits to an organisation are:

- **financial savings through aggregation:**
 - larger portfolios are more attractive to suppliers which can therefore attract lower supplier margins by up to 5%
 - access to a fully open energy framework thus no need to OJEU or mini tender exercise as this has already been done.
- **mitigating risks through flexible purchasing:**
 - able to take advantage of market prices throughout the duration of the contract
 - greater transparency of costs that make up the delivered energy price
 - purchasing is done in real time thus no additional risk premium for keeping a price 'open'
- **experienced team manage all portfolio needs:**
 - purchasing is carried out by experts in energy procurement
 - supplier contract management team
 - customer contract management team
- **Access to new products and initiatives:**
 - Managing demand/sustainability tools such as Automated Meter Reading (AMR)
 - Advice, Guidance and tool kits for Carbon Reduction Commitment (CRC)
 - Opportunity to access new and innovative products such as Power Purchase Agreement (longer term purchase of power direct from generators) which are currently under development by the PGEP





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Largest Local Authority in the UK joins a Government Recommended Solution

Birmingham City Council have calculated savings of £4.7m by switching to a flexible, risk managed, aggregated procurement.

Birmingham City Council's total energy spend equates to around £30 million per annum! They have 2,500 electricity and 1,200 gas sites! Budget certainty is important for all local authorities, and adopting a flexible arrangement that meets your bespoke requirements is vitally important. In October 2009 Birmingham City Council's Corporate Procurement Services secured savings on their various Gas and Electricity contracts of £4.7m by joining a recommended solution on a "fixed/flexed pricing arrangement", using a Buying Solutions framework.

Paul Dransfield, Corporate Director of Resources at Birmingham City Council says "Although it is early days yet, I am encouraged that significant savings and benefits are already being realised from this project"



Pictured: Bob Carmichael (Category Manager), Christine Harris (Category Assistant), Steve Jones (Assistant Category Manager)





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Department for Children Schools and Families (DCSF) promote recommended solutions for Energy

Schools urged to access the benefits of using the government recommended solution for energy via their Local Authority.

Energy procurement is complex and the energy market is extremely volatile, if done incorrectly energy procurement can cost an organisation hundreds of thousands of pounds that could have been avoided. For small organisations such as schools, the cost of employing an energy specialist is not feasible, and this can leave schools open to higher supplier margins and increased costs.

In order to help mitigate against this Melinda Johnson, the Deputy Director leading energy procurement for the Department of Children, Schools and Families, has been working closely with OGC and the Pan government Energy Project (PgEP) to help improve energy procurement in Schools, colleges and higher education establishments. This has opened a two way communication to help OGC better understand a school's requirements, and allow schools the opportunity to access increased benefits through using a trusted and recommended solution.

Melinda said:

'We urge all schools to purchase energy through their local authority; most local authorities are already accessing one of the accredited sources and the PGEP is working with all local authorities.'

Solutions accredited by PGEP include Buying Solutions, The Energy Consortium, and the local authority public sector buying organisations collectively known as Pro 5*. These accredited sources procure energy using methodology that is consistent with government policy by aggregating volumes, and buying flexibly through the whole sale market whilst managing risk. Purchasing in this way has seen organisations mitigate against price rises and deliver savings'.

Any school requiring further information should contact their local authority or energy@ogc.gsi.gov.uk for more information.

* Pro5 are: ESPO, NEPO, YPO, WMS and LASER





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Universities follow Government Best Practice for **Energy Procurement**

Loughborough University leading the way for Universities in the Transition from a Fixed Price, Fixed Term procurement to Flexible, Risk Managed Procurement.

Universities and Higher Education establishments have been one of the last sectors to actively move from a fixed price, fixed term contract to a flexible, risk managed contract as recommended by government, and, due to such, The Energy Consortium (TEC), whom contract for over 70% of the higher education sector, are actively working with OGC, HEFCE, DCSF and PGEP, to help universities understand the benefits of moving from a fixed price contract to a government recommended flexible solution.

Some universities are already benefiting from a flexible procurement option and Loughborough are one of those leading the way.

Loughborough University traditionally purchased energy on a fixed price, fixed term basis, however, last year moved it's gas and electricity requirement to a flexible solution with TEC and has already started to see benefits of £750K for their gas procurement alone.

Andrew Burgess, Director for Facilities management at Loughborough said "we were clearly informed by TEC that flexible contracts had to be considered and measured on a long term basis, however, the results to date do indicate that the move to flexible contracts has had significantly beneficial results"

HEFCE, OGC and DCSF, therefore strongly recommend all higher education organisations access a recommended solution that meets government best practice criteria. Any Universities requiring further information should contact energy@ogc.gsi.gov.uk in the first instance, or TEC if they are an existing customer.





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Want to switch to Flexible Energy Purchasing?

The following Central Purchasing Bodies are offering recommended collaborative frameworks for you to join straight away:

Eastern Shires Purchasing Organisation	energy@espo.org
Laser	Laser.enquiries@kent.gov.uk
Buying Solutions	energy@buyingsolutions.gov.uk
North Eastern Purchasing Organisation	timjennett@gateshead.gov.uk
West Mercia Supplies	utilities@wms.enta.net
Yorkshire Purchasing Organisation	tomj@ypo.co.uk
Procurement Scotland	Robert.Leask@scotland.gsi.gov.uk

Provisionally Recommended:

The Energy Consortium	a.brookes@bham.ac.uk
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Or if you would like more information you can find the Energy Buyers Guides:

- Energy Buying: The effective way to manage risk
- Energy Buying: Working together for better results

using the following address: http://www.ogc.gov.uk/energy_gas_and_electricity.asp



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Liquid Fuels

Best Practice Liquid Fuels Procurement Criteria

The Pan Government Energy Project has identified the best way to purchase your liquid fuel requirements involving category expertise and representation from central government and the wider public sector through the Energy Strategy Team (EST) and the Energy Collaborative Category Board (CCB).

Since one of the aims of the Project is to establish, promote and report on examples of collaboration across and within category areas, it is key to identify which contracts are using best practice and are appropriately recorded and recognised within the Pan Government Energy Project.

The basic principle behind those procurement criteria is to reduce multiple approaches to the market, duplication of time and effort and to ensure that value for money is delivered; in most circumstances aggregated liquid fuel volumes will deliver benefits to end users.

The purpose of setting best practice criteria for Public Sector liquid fuels procurement is to identify the public sector departments and organisations using enabled contracts which meet best practice. One way to achieve this is through accessing a Central Purchasing Body (sometimes referred to as a public sector buying organisation) with the right knowledge, skills and experience who can buy liquid fuels on your behalf.

The Pan Government Energy Project has jointly developed best practice liquid fuels procurement criteria against which CPB frameworks are being evaluated.

These criteria include:

- Ensure that the contract/framework is enabled for other public sector users.
- Transparent pricing mechanisms
- Minimum number of customers/volume for framework

The following organisations have been assessed against best practice criteria for liquid fuel: ESPO, NEPO, LASER, BS and Pasa all are now providing accredited solutions. MOD, CBC and YPO are currently going through the compliance process.

The full criteria and list of contracts can be found on the OGC Energy website at the following link http://www.ogc.gov.uk/commodities_procurement_energy_7111.asp



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Sustainability Update GCOF II

As part of the UK Sustainable Development Strategy, the Prime Minister has made a commitment to offset all emissions arising from official and ministerial air travel. To meet this commitment, the Government developed a Government Carbon Offsetting Facility (GCOF) in November 2007, to help central Government Departments offset their travel emissions in a simple, cost effective way.

Or

DECC press notice: http://www.decc.gov.uk/en/content/cms/news/PN_GCOF/PN_GCOF.aspx

DECC's GCOF webpages are available at: http://www.decc.gov.uk/en/content/cms/what_we_do/lc_uk/co2_offsetting/gov_offsetting/gov_offsetting.aspx

DECC launched the second phase of the Government's Carbon Offsetting Facility (GCOF II) in partnership with, Buying Solutions in January 2010. The GCOF II framework is a multiple supplier agreement and is designed to cover not only Government air travel emissions from 1 April 2009 to 31 March 2012, but is also available for all of the public sector to offset emissions from a variety of sources.

To reflect recent market developments, the GCOF II framework will enable the Public Sector to buy Gold Standard (or equivalent) Certified Emissions Reduction (CER) credits. The offsets provided are also approved under the Government's quality assurance scheme for carbon offsetting.

To access further guidance on carbon offsetting and details of how to use the GCOF II framework please contact Buying Solutions on 0345 410 2222 or email gcof@buyingsolutions.gsi.gov.uk



DEPARTMENT OF
**ENERGY
& CLIMATE CHANGE**



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Ask the Team

If you have a question about any aspect of the project, please send them to the Energy Strategy Team, energy@ogc.gsi.gov.uk. All questions will be answered and the most topical will be printed, anonymously if preferred.

Q: One supplier says they can beat any price that I get from anyone else, why shouldn't I go with them?

A: If something looks or sounds too good to be true, then it usually is! This would only be possible for a fixed term fixed price contract which actually has a greater level of risk attached to it and is therefore **not** recommended by Government as best practice.

In flexible energy contracts it is impossible for a supplier to guarantee this. During the procurement process the supplier costs and margins are competed and a mechanism is put in place to access the wholesale markets for the raw energy element. As such the final price will be a combination of the supplier costs and the wholesale purchases made under the risk management strategy; however this will only be known when all the energy purchasing is completed.

Q: My gas contract is just about to end and as the markets are at an all time low, why shouldn't I just lock out for as long as possible now?

A: The gas markets are not at an all time low. In fact, gas prices are still historically high - it's just that due to the price hikes of the last couple of years we have become conditioned to these higher price levels. Whilst it is unlikely that prices will collapse to the levels we were once accustomed to (I can remember year ahead gas priced at 8p/therm!) there is still downside in current prices - gas is currently reasonably plentiful despite the cold weather, the latest economic news suggests that the recovery may take longer than anticipated - thus delaying recovery of industrial demand for gas - and the spring and summer are just around the corner.

Even if you were to lock out now for, say, 2 years, you would still have the problem of contracting for the gas for the subsequent period. Whilst you may occasionally gain an advantage by locking out, it is similar to winning on roulette - you pick up some winnings once in a while, but you won't beat the bank and could lose your shirt! A more considered, risk managed approach will mean that you don't break the bank but that you don't lose your shirt either, and you will have much greater control and visibility over your future costs - it is also likely to mean that the extremes in year on year market price fluctuations are smoothed out.

Q: OGC are recommending that I buy from certain Public Sector Buying Organisations (PBOs). As they are not being bench-marked how do I know the recommendations are correct?

A: The PGEP of which OGC is a member, recommend that public sector organisations aggregate their volumes onto flexible risk-managed contracts. All of the recommended PBOs have been through a stringent assessment to ensure that they can offer this type of contract. The assessments are conducted by PGEP representatives against criteria approved by the whole PGEP.

The assessments are not comparative; it is a misconception that energy prices can be benchmarked to provide a league table based on which PBO is delivering the best price. Each PBO works to a risk strategy and looking at this, along with services provided, will lead you to the answer as to which PBO you should use.

Further details on these issues and all aspects of energy buying can be found in the Energy Buyer's Guide, available via the OGC service desk on 0845 000 4999 or at servicedesk@ogc.gsi.gov.uk

For further information please see OGC website: www.ogc.gov.uk