

<b>Subject:</b>	<b>Corporate Procurement of Energy – half hourly (plus 100KW) electricity and gas contracts starting October 2010</b>		
<b>Date of Meeting:</b>	<b>17 June 2010</b>		
<b>Report of:</b>	<b>Director Of Finance &amp; Resources</b>		
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<b>Key Decision:</b>	<b>Yes</b>	<b>Forward Plan No: CAB16095</b>	
<b>Wards Affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE****1. SUMMARY AND POLICY CONTEXT:**

- 1.1 To seek approval for the new re-tender approach of the council's half hourly (plus 100kw) and gas contracts that expire on 30 September 2010. The half hourly (plus 100Kw) contract will be awarded to the most competitive offer supplied from 100% renewable sources in line with the council's sustainability and use of resources commitments. The energy market remains volatile and to mitigate this position a more flexible method is proposed for the forthcoming utility procurement that is outlined in the report including the choice of framework providers, a dual fuel approach and framework.

**2. RECOMMENDATIONS:**

- 2.1 That Cabinet procures both its half hourly (plus 100Kw) electricity contract (from 100 % renewable sources) and its gas contract through the European Union complaint flexible framework contracts offered by the LASER Energy Buying Group, part of the central purchasing bodies (CPBs).
- 2.2 That Cabinet grants delegated power to the Director, Finance & Resources to award the contract to LASER Energy Buying Group following consultation with the Cabinet Member for Central Services and to take all other steps necessary for the implementation of the proposals

**3. RELEVANT BACKGROUND INFORMATION:**

- 3.1 Brighton & Hove City Council currently procures 100% renewable electricity and gas directly from the utility companies. This process of buying directly from a utility company has been the preferred option for several years and has enabled some savings to be achieved but does not offer sufficient flexibility.
- 3.2 The council has three main utility contracts: one for Gas supplies and two for electricity that cover the council portfolio. The electricity provision is split into two

contract groups, Half Hourly (+100kW) contract relating to large sites and Sub 100kW contract relating to smaller sites. The table below shows the utility and identifies the contract duration and value.

Utility	Contract Period	Value	Supplier	Example sites
Gas	1 <sup>st</sup> October 2008 – 30 <sup>th</sup> September 2010	£2.6m per annum	Eon	All sites requiring Gas including schools and housing
Electricity 100kw	1 <sup>st</sup> October 2009 - 30 <sup>th</sup> September 2010	£0.9m per annum	Eon	22 Large sites- Kings House, Hove and Brighton Town Halls ,Brighton Centre King Alfred, and 7 secondary schools,
Electricity Sub 100kW	1 <sup>st</sup> April 20010 - 31 <sup>st</sup> March 2013	£2m per annum	Eon	1330 sites - The smaller sites, majority of schools, admin buildings, libraries, sports pavilions and some housing sites

- 3.3 This report relates to the Half Hourly (100kw) electricity and gas supply contracts that end on the 30th September 2010. The electricity contract comprises of 22 large sites, whereas the gas contract relates to all sites. In total the current contract value is approximately £3.5m per annum. The electricity contract will be supplied from 100% renewable sources.
- 3.4 It is proposed that the Council opts for purchasing its energy from a central purchasing body (CPB) acting as a supplier agent, such as Laser. By employing a CPB the Council will be able to acquire further savings, due to the economies of scale applied by these types of companies. The numbers of clients CPBs have and the scale of utilities purchased enables CPBs to have a flexible approach and negotiate more favourable rates, therefore making additional savings through the flexible framework.
- 3.5 The additional benefits of procuring through a CPB is that due to the scale of utilities they purchase on behalf of a range of clients, it is possible to slot in to an existing purchasing basket. If the transition into an existing basket is available, the ability to take advantage of other savings mechanisms also becomes available. These further savings mechanisms come in the form of purchasing utilities on a flexible or variable rate, rather than the standard fixed approach directly with a supplier, which is the current process used by the Council.
- 3.6 The current council contracts (directly with a supplier) use traditional 'fixed' procurement methods whereby the market is approached for a price on a specific day. The price achieved is then fixed for the remainder of the contract. As the market price may vary if the price rises then the council may be protected from increases but conversely the council cannot take advantage of any price decreases with associated savings.
- 3.7 To mitigate the risk it is therefore proposed that the Council moves away from this 'fixed' approach to one that allows utilities to be bought over a period of time, the benefits of which are that any drops in market prices can be taken advantage of, therefore making further savings and keeping costs lower. A flexible

approach achieved through flexible and variable contracts will give the council the following advantages set out in the table below. For a full breakdown of the type of contracts available, please see Table 2 below.

Table 2

	Take advantage of market	Year price throughout	Set unit price	Variable price	Bought in advance of contract start date	Real time purchasing	Reconciliati on required at end of year	Able to purchase all supplies if	Ability to sell back to supply	Financial resources required
Fixed		✓			✓					
Flexible (PIA)*	✓	✓			✓			✓		
Variable (POD)*	✓			✓		✓	✓		✓	✓

\* PIA = purchase in advance

\* POD = purchase on demand

- 3.8 As can be seen from the Table 2, a 'flexible' contract provides the benefits of a fully variable contract as it allows for a range of purchasing dates leading up to the start of the contract, therefore taking advantage of the market fluctuations, without the uncertainties over changes of price per unit and end of year reconciliations. As a result a 'flexible' contract does not require additional resources to handle the monthly changes in unit price.
- 3.9 Market information normally indicates that by opting for a flexible contract over a 'fixed' one, a saving can be made, whereas a 'variable' type of contract can achieve further savings. Despite the greater savings that can be achieved through a 'variable' contract, the additional costs from the extra resources required to handle this type of account would outweigh any savings made.
- 3.10 As this contract renewal will directly affect council leasehold housing tenants the Energy & Water Team have been liaising with Housing who are leading on the full notification that will be required. Due to the nature of this procurement approach and how it differs from previous arrangements, sufficient notice can be issued to leaseholders resulting in the process not needing to utilise any Leasehold Valuation Tribunal to seek dispensation to forgo the 30 day notification period.

### Benchmarking exercise

- 3.11 The Council undertook a benchmarking exercise with three EU Compliant Central Purchasing Bodies (CPB) in order to evaluate the current market and to identify the most suitable purchasing framework, the prospect of obtaining 100% Renewables supply and identify savings on the existing contract. The three companies that were selected for the benchmarking exercise were Buying Solutions, The Energy Consortium (TEC) and LASER Energy Buying Group.
- 3.12 The first company that failed to meet the Council's key criteria was Buying Solutions, as they were unable to provide 100% renewables. The remaining two CPBs were asked to respond formally to a series of questions set out in a Request for Information (RFI) document. The responses were then evaluated and scored. Following evaluation the scores were as follows

LASER Energy Buying Group 71 points  
The Energy Consortium 59 points

- 3.13 With a preferred bidder the Council will fine tune the framework and the timescales of the contract. The term 'framework' bears no relation to a framework agreement, instead it relates to a term used in the utility industry which means the process in which the utility is bought. This form of 'framework' purely refers to a form of fixed, flexible or variable purchasing.

### **Savings**

- 3.14 From reviewing the cost per kWh it becomes apparent of the level of savings that can be made by taking a different approach to utility procurement and employing a Central Purchasing Body arrangement. If the Council was due to tender in May the average price we currently pay from our existing utility supplier at 3.983 pence per kWh for gas and 11.45 pence per kWh for electricity. We would be expecting under current market conditions a reduction of approximately 15 - 25% for the cost of gas and a 10 - 20% reduction in the cost for electricity. It should be noted that the prices, between now and the time of contract change, can and will change, especially with problems affecting supply such as the oil spill in the Atlantic. Despite this and due to the benefits of procuring through a Central Purchasing Body, the price the Council will be able to obtain should still be lower than going direct to the utility companies.

## **4. CONSULTATION**

- 4.1 When carrying out the benchmarking exercise and for the purposes of the report, consultation was carried out with the three Central Purchasing Bodies (CPBs). This entailed an interview of key members of their staff and a presentation demonstrating the services they could provide. In addition to this several key Council departments were also consulted and these ranged from the Legal, Sustainability, Procurement and Financial departments.

## **5. FINANCIAL AND OTHER IMPLICATIONS**

### Financial Implications:

- 5.1 Procuring through framework contract arrangements is expected to generate saving from a Purchase In Advance contract compared to a fixed term contract. Applying the expected percentage savings outlined in paragraph 3.14 gives an estimate of part year savings of £350,000 in 2010/11 compared to costs in 2009/10. In a full year estimated savings of £660,000 are expected to be generated compared to costs incurred in 2009/10. Budget assumptions have been changed in-anticipation of the new contract, so any budget savings will be significantly lower than those detailed above.
- 5.2 Although this procurement will generate savings against other types of contract there is a risk that as a result of the volatility of energy prices that cash savings of this level may not be achieved, although the risk is reduced by procuring through a central purchasing body. Energy costs will be monitored and reported back through to cabinet as part of the Targeted Budget Monitoring process. The budget strategy for 2011/12 will reflect any changes of unit price.

*Finance officer consulted: Alasdair Ridley*

*Date: 07/05/10*

Legal Implications:

- 5.3 The preferred CPB identified operates frameworks which the council would be able to use in order to maximise value for money. These frameworks have been procured in accordance with the EU and UK rules relating to procurement and thus the council's use of them is lawful. The Council must take the Human Rights Act into account in respect of its actions but it is not considered that any individual's Human Rights Act rights would be adversely affected by the recommendations in this report.

*Lawyer consulted:*

*Alison Leitch*

*Date: 07/05/10*

Equalities Implications:

- 5.4 None

Sustainability Implications:

- 5.5 Benefits of being a major purchaser of electricity from renewable sources has demonstrated a total investment into this field over several years.

*Sustainability officer consulted: Thurstan Crocket*

*Date: 15/03/10*

Crime & Disorder Implications:

- 5.6 None

Risk and Opportunity Management Implications:

- 5.7 If the council does not pursue the recommended procurement route there is a risk that efficiencies will not be maximised

Corporate / Citywide Implications:

- 5.8 The council will seek the best possible price to ensure the contracts represent value for money.

**6. EVALUATION OF ALTERNATIVE OPTIONS**

- 6.1 The first stage contains the option of either continuing to procure our utilities through the existing arrangement or opt for a broker/central purchasing body to procure on our behalf. It should be noted that the risk of market volatility is reduced by opting for procurement through Central Purchasing Body.
- 6.2 The second stage contains the options of either utilising a framework that relies on a fixed purchase process or a flexible/variable arrangement. All options have their advantages and disadvantages, however in light of the need to make savings and to better manage the volatility of the energy markets to the council's benefit the report summarises the most advantageous options that the Council should consider.

## **7. REASONS FOR REPORT RECOMMENDATIONS**

- 7.1 This report seeks approval to undertake a tendering exercise of OGC compliant 'Central Purchasing Bodies', for the Council's Half Hourly (plus100kW) electricity and gas contracts that end on 31 September 2010. The report outlines alternative procurement and framework options and seeks delegated powers to enable expedient contract placement in order to obtain value for money within the volatile energy market.

### **SUPPORTING DOCUMENTATION**

#### **Appendices:**

None

#### **Documents In Members' Rooms**

None

#### **Background Documents**

None