

Subject:	Corporate Procurement of Renewable Electricity Energy Supplies		
Date of Meeting:	3 December 2015		
Report of:	Interim Executive Director for Finance & Resources		
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Ward(s) affected:	All		

FOR GENERAL RELEASE**1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 This report complies with the requirements of the Scheme of Delegation to Officers Part 6.2 Part A Section 7, to report to Committee actions taken in cases of urgency, following consultation with the Committee Chair, where it was not reasonably practicable to obtain prior Committee approval.
- 1.2 For a period in excess of ten years the council has specified that its main electricity supplies must be produced from 100% renewable sources although this requirement alone does not guarantee “additionality” in the market as suppliers simply sell a proportion of the renewable energy they are legally obliged to produce in any event. However, until this year the additional cost of purchasing renewable energy was 100% offset by the fact that such supplies were not subject to the government’s Climate Change Levy (CCL) charge.
- 1.3 The Chancellor announced in his July 2015 budget that with immediate effect all electricity supplies, including those from 100% renewable energy sources, will be subject to the CCL charge. This would have resulted in additional costs to the council estimated at £60,000 per annum or £240,000 over the 4 year contract. A decision needed to be made urgently and the Assistant Director (Property & Design), in consultation with the Chair of the Policy & Resources Committee, used officer delegations under the constitution to amend the terms of our main corporate electricity supply contracts to switch from a 100% renewable energy tariff to a standard tariff to ensure value for money. This report confirms the reason for this decision and the need for urgency.

2. RECOMMENDATIONS:

- 2.1 That Policy & Resources Committee notes the decision made by the Assistant Director (Property and Design) in conjunction with the Chair of the Policy & Resources Committee taken under urgency powers to transfer our corporate electricity supplies within our existing and future supply contracts from a 100% renewable energy tariff to a standard tariff for value for money reasons.

3. CONTEXT/ BACKGROUND INFORMATION

Overview of our current electricity supply contracts

- 3.1 The council has two main electricity supply contracts – one for our large sites (termed ‘half-hourly supplies’) currently with NPower and one for our smaller sites (termed ‘non-half-hourly’ supplies) currently with SSE. Both contracts were procured through a national framework managed by LASER (a Central Purchasing Body and trading arm of Kent County Council) at a total annual cost of £4.0m. In February 2015 Policy & Resources Committee gave approval to award new contracts effective from October 2016 for our half-hourly supplies and from April 2016 for our non-half-hourly supplies for a maximum period of four years.
- 3.2 For many years the council has specified a requirement for 100% renewable electricity when procuring its energy supply contracts. However this sort of tariff does not provide any ‘additionality’ to the renewable electricity market; it just means that we are allocated a proportion of the supplier’s renewable sourced electricity which they are obliged to meet by law in any event.
- 3.3 100% renewable tariffs usually attract a premium to a supplier’s standard tariff unit cost although up to now this has been fully offset by a reduction in the Climate Change Levy (CCL) which was imposed by central government on energy bills but which was not applied to 100% renewable tariffs. This has meant that choosing the 100% renewable tariff has until now effectively been cost-neutral.

The impact of recent government legislation on our supply contracts

- 3.4 In July 2015 the Chancellor announced in his budget statement that with immediate effect the CCL charge would be applied to all electricity supplies including those certified from 100% renewable tariffs.
- 3.5 Advice received from our energy suppliers was that this would result in an estimated additional cost to the council of £60,000 per annum or approximately £240,000 over the life of the four year contract. The exact cost would be dependent on the council’s on-going electricity consumption and the availability of existing 100% renewable supplies which suppliers are allowed to use up before imposing the CCL charge.

Reason for a decision made under urgency powers

- 3.6 Our energy supply contracts rely on the forward purchase of energy to obtain the best possible price and are subject to market forces and market volatility. For this reason the energy industry tends to move quickly. LASER advised us in late August 2015 that we needed to confirm our requirements urgently. Although we were aware of the budget announcement on 8th July 2015, the actual impact on our energy supplies was not notified to us until late August at which point the council was given less than a week to confirm our future requirement to ensure continuity of supply. Our choices were to retain the 100% renewable tariff at an additional annual cost estimated at £60,000 (£240,000 over the 4 year contract period) or to revert to a standard tariff at no additional cost.

- 3.7 For the reason stated above (that our purchase of a 100% renewable tariff does not result in any additionality of renewable energy into the grid), officers do not consider that such a tariff now offers the council value for money and in consultation with the Chair of the Policy & Resources Committee have transferred our main electricity supplies to a standard tariff which will keep our electricity unit costs down to the same level they were prior to the July announcement.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 100% Renewable Energy Tariff - Continuing with the 100% renewable energy tariff would have resulted in additional annual costs of £60,000 (£240,000 over the four year life of the contract) without resulting in any additional renewable energy being introduced into the grid. This option is not considered to offer the council value for money for the reasons noted above.
- 4.2 Certified Green Energy Tariff - These supplies are certified by the Office of the Gas & Electricity Markets (OFGEM) and include a requirement that the supplier demonstrates that the activity associated with the green tariff is in addition to what they already have to do to meet their legal obligations and the Government's targets. This is the only form of tariff guaranteed to provide additional activity in the renewables supply market. However, these tariffs are not a viable option for the council's contracts due to the high premium attached to them. During the mini-competition process for the current non half-hourly fixed contract, prices were sought for this tariff which would have resulted in an expected budget uplift of 40%.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 On notification by LASER of the impact of the Chancellor's budget statement on the CCL charge consultation took place between the Assistant Director (Property & Design) and the Chair of the Policy & Resources Committee. The Chair agreed the recommendation made by officers to revert to a standard electricity supply tariff with the proviso that the decision was reported to the Policy & Resources Committee at the next available meeting.
- 5.2 Key council units have been consulted in the preparation of this report including colleagues from the finance and legal teams.

6. CONCLUSION

- 6.1 The Chancellor's July budget statement would have resulted in an estimated £60,000 additional annual cost (£240,000 over the four year life of the contract) to our main corporate electricity supplies through the imposition of the Climate Change Levy (CCL) charge on our 100% renewable supply tariff.
- 6.2 It was possible to avoid this additional cost by switching from the 100% renewable tariff to a standard tariff which would retain our unit costs at the same pre-budget level.

- 6.3 As our 100% renewable supply contract did not result in any additional renewable energy into the market or further environmental benefits this option is no longer considered to offer the council value for money and a decision was therefore made under urgency powers in consultation with the Chair of the Policy & Resources Committee to switch to a standard tariff for our current and future main electricity supply contracts.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 The Medium Term Financial Strategy includes pressure funding to cover increased energy costs above standard inflation for the general fund but would not factor in increased costs associated with changes in government policy such as the withdrawal of the CCL support. This would result in an additional rise in energy costs of circa £60,000 pa. The transfer of the energy supply from the 100% renewable energy tariff to the standard tariff will avoid this increased costs for the current and future years.

Finance Officer Consulted: Rob Allen Date: 26.10.15

7.2 Legal Implications:

In cases where a decision which should properly be taken by a Committee needs to be taken urgently and it is not practicable to obtain the prior approval of a Committee, the decision may be taken by an Authorised Officer following consultation with the Chair of the relevant Committee. The action taken must subsequently be reported to the Committee. [Constitution Part 6.2 Part A General Delegations section 7.]

There are no procurement implications nor contractual implications beyond the changes indicated in the body of the report concerning the switch to standard tariff.

Lawyer Consulted: Judith Fisher Date: 21.10.2015

Equalities Implications:

- 7.3 There are no equalities implications.

Sustainability Implications:

- 7.4 Sustainability implications are discussed in the main body of the report.

Any Other Significant Implications:

- 7.5 No other significant implications have been identified relating to this area.

SUPPORTING DOCUMENTATION

Appendices:

None

Documents in Members' Rooms:

None

Background Documents:

None

