
Report to: Cabinet **Date of Meeting:** 9th March 2017

Subject: Energy Procurement Plan

Report of: Head of Corporate Resources **Wards Affected:** All

Is this a Key Decision? Yes **Is it included in the Forward Plan?** Yes

Exempt/Confidential No

Purpose

The purpose of this report is to seek approval to the proposed Energy Procurement Plan including proposals for the supply of electricity through the Energy Supply Partnership with Scottish Power and the proposed extension of the arrangement for gas supply through the Crown Commercial Services (CCS) best value framework.

Recommendation(s):

It is recommended that Cabinet:

1. Notes and approves the proposed Energy Procurement Plan;
2. Approves the proposals for purchase of gas supplies through the Crown Commercial Services (CCS) framework through to 31st March 2018; and
3. Authorise the Head of Corporate Resources and Head of Commissioning Support and Business Intelligence, in conjunction with the Cabinet Member for Regulatory, Compliance and Corporate Services to accept the CCS framework price for gas supply through to 31st March 2018

How does the decision contribute to the Council's Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		✓	
2	Jobs and Prosperity		✓	
3	Environmental Sustainability	✓		
4	Health and Well-Being	✓		
5	Children and Young People		✓	
6	Creating Safe Communities	✓		
7	Creating Inclusive Communities		✓	
8	Improving the Quality of Council Services and Strengthening Local Democracy		✓	

Reasons for the Recommendation:

Approval is sought to confirm proposals for the procurement of electric and gas supply in order to secure supplies on the most advantageous terms. The specific recommendations are made in order to secure best value supplies in the short term while options for provision in the longer term are continuously reviewed.

What will it cost and how will it be financed?

(A) Revenue Costs

The cost for the supply of electricity with effect from 1st April 2017 has been identified, with costs increasing by an average of 8% on 2016/17 rates. The Council's total cost of electricity is expected to be in the region of £5.7M, including schools and street lighting, for 2017/18.

The cost of for gas supply is currently established in April each year on the basis of prevailing market forces. CCS has reported that due to market forces, not least those arising following the EU referendum result, they would expect there to be a significant increase in the cost of gas supply. The Council's total cost of gas for 2017/18 is, including schools, therefore expected to be in the region of £2.1M.

The cost of electricity and gas supply is met from departmental revenue budget provisions.

(B) Capital Costs

There are no Capital funding implications attached directly to this report. The on-going Energy Supply Partnership with Scottish Power will however, support the identification of potential capital funded 'invest to save' opportunities.

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal: Para. 2.4.1 of Contract Procedure Rules makes provision for the Council to join (or remain within) existing public sector framework arrangements where it is evident that such frameworks represent the optimum solution to the Council in terms of service and cost.	
Human Resources None	
Equality	
1. No Equality Implication	<input checked="" type="checkbox"/>
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

The proposals identified will not have any direct impact upon the on-going day to day delivery of the wider Council services. The proposals identified do however, represent an efficient approach to procurement allowing a greater level of focus to be applied to other energy conservation areas and fuel poverty issues.

What consultations have taken place on the proposals and when?

The Head of Corporate Resources has been consulted and their comments have been incorporated within the body of this report. (FD4497/17)

The Head of Regulation and Compliance has been consulted and their comments have been incorporated within the body of this report. (LD3780/17)

The Head of Commissioning Support & Business Intelligence has been consulted as part of on-going procurement review including other Merseyside LA's and alternative energy supply frameworks, and is supportive of the recommendations made in this report.

Are there any other options available for consideration?

The options available are set out within the body of the report. Failure to renew electricity and gas supply arrangements in advance of the relevant expiration dates will incur expensive non-contract penalty tariff rates.

Implementation Date for the Decision:

Following the expiry of the "call-in" period for the Minutes of the Cabinet Meeting.

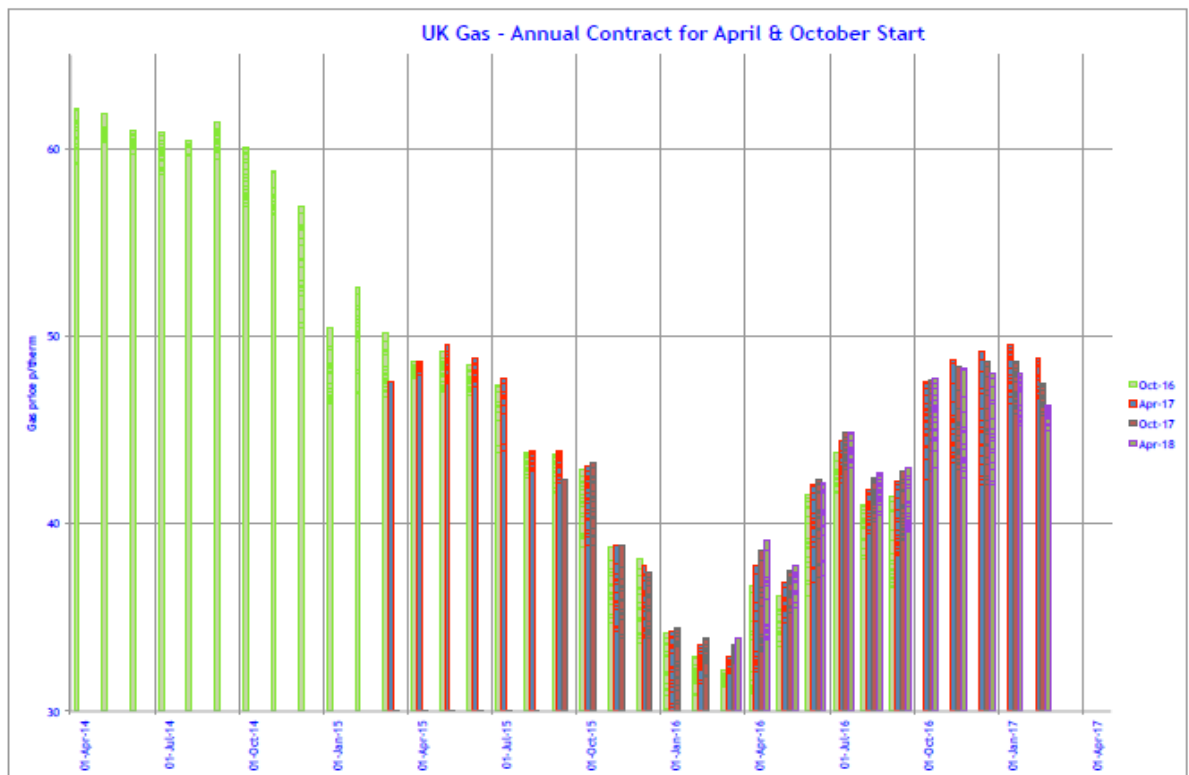
Contact Officer: Ian Weller/Rebecca Johnstone/Barry McKean
Tel: 0151 934 4138
Email: ian.weller@sefton.gov.uk

1.0 Introduction:

- 1.1 In order to comply with European and UK Procurement Rules, it is necessary for the Council to secure its gas and electricity supply via either: direct procurement, carried out in accordance with the prescribed European Journal (OJEU) requirements, or by utilising a pre-existing Energy Procurement Frameworks operated by an appropriate Central Purchasing Body (CPB).
- 1.2 This report advises on the proposed approach to procurement for the supply of gas and electricity and seeks approval to such proposals as appropriate.

2.0 Background:

- 2.1 The Council currently procures gas via an Energy Procurement Framework operated by the Crown Commissioning Services (CCS) – formerly the Government Procurement Service (GPS).
- 2.2 The cost of supply is established by the CCS in April each year on the basis of prevailing market forces.
- 2.3 The CCS has reported that due to market forces, not least those arising following the EU referendum result, they would expect there to be a significant increase in the cost of gas supply over and above 2016/17 levels. The Council's total cost of gas for 2017/18 is, including schools, therefore expected to be in the region of £2.1M.
- 2.4 Trends in gas prices over the last 3 years can be seen as follows:



Each of the four coloured lines represents the cost of gas purchased at that particular point in time relevant to different supply start dates (please refer to key). While these costs can vary slightly, gas costs generally have been on a consistent upwards trend since early 2016. This is due most significantly to the EU referendum outcome and the subsequent decline in the value of Sterling.

- 2.5 The Council currently procures electricity via a framework agreement with Scottish Power. This agreement is about to enter into the 4th and final year and the rate for the supply of electricity through to 31st March 2018 has been identified.
- 2.6 There is an option by which the Council can prolong the supply via the present arrangements for the period 1st April 2018 to 31st March 2019. This is providing that the pricing for this is secured prior to the end of the Framework period, i.e. 31st March 2018.
- 2.7 The rates agreed for 2017/18 show an average increase of 8% on 2016/17 rates. The total cost of the electricity purchase for 2017/18 is expected to be in the region of £5.7M, including schools and street lighting.

3.0 Proposed Plan for the Procurement of Gas Supply

- 3.1 The Council has previously taken the decision that its gas supply should be procured via a Central Purchasing Body (CPB) framework as this offers best value benefits and frees up Council resources for the management of the electricity supply contract and supply partnership. Authority to remain within the present framework will end on 31st March 2017.
- 3.2 There are a number of alternative CPB frameworks available however many of these do not cater comfortably for the Council's multi-site, small individual usage, high overall usage configuration. The frameworks most commonly utilised by local authorities, including the majority of those in the Liverpool City Region, are the Council's present framework organisation CCS, and the framework provided by the Yorkshire Purchasing Organisation (YPO).
- 3.3 The level of supply prices which will apply to the Council can only be established once an agreement has been entered into and the rates are then fixed on the basis of prevailing market conditions.
- 3.4 This, and because customers make commitments at different points in time when rates are subject to the fluctuations of the wholesale energy market, means that it is not possible to take a real time market view or make direct comparisons on cost across alternative supply frameworks.
- 3.5 It is only possible to gauge the performance of frameworks in retrospect and to take a view on whether, because of the level of participation in them, it is reasonable to expect a framework to achieve benefits through enhanced purchasing power and economies of scale.
- 3.6 The Council's present framework organisation CCS is the largest buyer of gas supply in the UK which utilises in-house analysts and risk management specialists, together with live minute by minute industry information systems, to track the market and provide in-depth market intelligence to inform the buying decisions that capitalise on wholesale price movements. Analysis of previous

performance indicates that the CCS framework regularly out performs the remainder of the market in terms of the supply rates it is able to achieve.

- 3.7 The supply contract currently provided through the CCS Framework is with Corona Energy Limited. Corona have performed exceptionally well over the period since appointment, providing an excellent level of service to the Council with minimal billing disputes and an efficient and co-operative approach to the resolution of queries.
- 3.8 The YPO framework could provide similar potential benefits to that of the CCS and, as the Council has recently become an associate member of YPO, the use of this framework would normally be considered. However, over the last 24 months, the YPO framework has been the subject of an urgent recovery plan following poor gas supplier performance and, although a new supplier has been identified, it is not believed to be in the Council's best interest to consider the use of this framework until such time as the new supply contract is fully proven.
- 3.9 Ultimately, Officers are satisfied that the Council can be assured that in terms of both cost and quality of delivery, the CCS framework and Corona Energy will provide what is likely to be the most advantageous arrangement for gas supply for the period 1st April 2017 to 31st March 2018.
- 3.10 Approval is therefore sought to remain within the current agreement with CCS for the provision of gas supplies for the 2017/18 financial year.
- 3.11 The actual cost of supply will only be established in April 2017 and Cabinet is recommended to authorise the Head of Corporate Resources and Head of Commissioning Support and Business Intelligence in conjunction with the Cabinet Member for Regulatory, Compliance and Corporate Services to accept the rates as appropriate.
- 3.12 It is intended that the on-going review of CPB gas framework performances be maintained such that a report may be provided to Cabinet in the summer of 2017 in respect of proposals for gas supply purchases for 2018/19 and beyond.

4.0 Proposed Plan for Procurement of Electrical Supply

- 4.1 The Council is about to enter into the 4th and final year of the present framework agreement with Scottish Power
- 4.2 The cost for the supply of electricity for the financial year commencing 1st April 2017 has been identified.
- 4.3 A review of the electricity supply market for 2018/19 onwards is well advanced but has not yet been concluded. It is proposed that a further report on the options for procurement for electricity supply from 1st April 2018 will be provided to a future meeting of Cabinet.