
Report to: Cabinet **Date of Meeting:** 6th April 2017

Subject: Energy Procurement Plan – Electricity 2018/19

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 in respect of the purchase of electricity for the 2018/19 financial year.

Recommendation(s):

It is recommended that Cabinet:

1. Approves the proposals for purchase of electricity for the 2018/19 financial year via prolongation of the existing Scottish Power electricity supply framework.
2. Subject to 1 above, 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 most appropriate framework price(s) for electricity supply in 2018/19.
3. Subject to 1 above, authorise the Head of Corporate Resources to explore the potential for joint energy procurement with other Local Authority partners and, provided any arrangements are not detrimental to the Council's interests, permit such Local Authorities to join in with the Council's existing arrangement for 2018/19.
4. Authorise the Head of Corporate Resources to explore with other Local Authorities the potential for future collaborative joint working arrangements.

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 the proposals for the procurement of electricity for the 2018/19 financial year. The specific recommendations are made on the basis that it is believed these provide the most advantageous option available.

What will it cost and how will it be financed?

(A) Revenue Costs

The cost of electricity 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: None | |
| 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 will however provide for effective and efficient electricity 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. (FDFD 4589/17)

The Head of Regulation and Compliance has been consulted and their comments have been incorporated within the body of this report. (LD3872/17)

The Head of Commissioning Support & Business Intelligence has been consulted as part of on-going procurement review 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 supply arrangements in advance of the relevant expiration date 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

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1.0 Introduction / Background:

- 1.1 The purchase arrangements for the supply of energy are amongst the most financially significant entered into annually by the Council. The annual cost of gas and electricity is estimated for 2017/18 at £2.1M and £5.7M respectively.
- 1.2 Cabinet, at its meeting on 9th March 2017 authorised the acceptance of proposals for the purchase of the Council's gas supplies in 2017/18 financial year and authorised a review of the options available for the 2018/19 and beyond.
- 1.3 The Council's present arrangement for the purchase of electricity is via an energy supply partnership with Scottish Power. The arrangement supplies the needs of the entire Council together with partner organisations, including schools and colleges.
- 1.4 This report advises Members on the options available for the purchase of electricity for 2018/19 and beyond and seeks approval to adopt the most advantageous option available. It is necessary to consider this matter now in order to allow the time to implement the Members decision ahead of the commencement of the 2018/19 financial year.

2.0 Procurement Options:

- 2.1 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 Official Journal of the European Union (OJEU) requirements, or by utilising a pre-existing Energy Procurement Frameworks operated by an appropriate Central Purchasing Body (CPB).
- 2.2 The Council has previously undertaken an OJEU compliant procurement exercise leading to the current arrangement with Scottish Power (SP) under which they will supply the Council with electricity until at least the 31st March 2018. The rate for the supply of electricity from 1st April 2017 to 31st March 2018 has been fixed under the terms of the framework.
- 2.3 The nature and scope of both the original OJEU enquiry and the subsequent agreement with Scottish Power were such as provide an option by which the Council can prolong the present arrangements for the period 1st April 2018 to 31st March 2019 - providing that the pricing for this is agreed prior to the end of the Framework period.
- 2.3 This means that the options available to the Council are as follows:
 - i. Undertake a new OJEU compliant procurement exercise.
 - ii. Enter into agreement to use an existing procurement framework.
 - iii. Exercise the option to prolong the present arrangements with Scottish power for a period of 12 months.
- 2.4 It should be noted that, while options i and ii would relate to a new agreement lasting typically 3 – 5 years, option iii relates to the prolongation of the present

arrangements for the duration of the 2018/19 financial year only. In the event that Option iii is adopted then it will be necessary to procure a new arrangement for supply from 1st April 2019 onwards.

3.0 Matters for Consideration:

- 3.1 The Council's present arrangement with Scottish Power is well established and performing well. In addition to providing an arrangement for the flexible purchase of electricity the agreement is configured to meet the Council's requirements in terms of support of energy management and saving opportunities.
- 3.2 The partnership arrangement has, in the 3 years to date, supported the Council in its investment of almost £200,000 on energy saving measures - these have already achieved a saving of £86,000 and are well on course for a 3 year pay back.
- 3.3 The original procurement was such that it allowed the Council to make purchases on behalf of partner organisations, such as schools and colleges, and allowed other public organisations to join in side by side arrangements to meet their needs. Aware of this provision, a number of other Local Authorities have expressed an interest in joining with the Council's arrangements should it opt to prolong it for supply in 2018/19.
- 3.4 Such an arrangement would then be the basis to explore a longer term relationship leading to joint procurement and co-operative working which, because of economies of scale is likely to provide financial benefits to all parties. The option to prolong the present arrangement for 2018/19 is therefore an attractive one.
- 3.5 Alternatively the Council could look to replicate the currently successful arrangements and undertake a new OJEU compliant procurement exercise in order to identify a partner for a new 3-5 year arrangement.
- 3.6 However, there would appear to be little benefit in undertaking a new procurement exercise in an attempt to replicate what is already in place and working well – particularly while the potential relationship with other Local Authorities is fully explored.
- 3.7 The final option is to consider the use of an established CPB framework. There are a number of alternative frameworks available however many of these do not cater comfortably for the Council's multi-site, small individual usage, high overall usage configuration.
- 3.9 The best CPB Frameworks have proven that they are able to provide a good, competitively priced supply service but do not tend to provide the flexibility to purchase energy, for say a 2 year period, when the market conditions are most advantageous or to be tailored to meet specific Council requirements.
- 3.10 Unless there is a clear financial advantage, there would appear to be little benefit in looking at a CPB framework option while the potential advantages of a future joint purchase with other Local Authorities is being explored.

4.0 Financial Considerations

- 4.1 It is not possible to take a normal real time market view in respect of energy supply or make direct comparisons on cost across alternative supply options.
- 4.2 This is because all customers make commitments to purchase their electricity at different points in time and such commitments are influenced by their own particular requirements and the market conditions which prevail at the time. This means that there is never a single consistent market supply price available for up front comparison purposes.
- 4.4 It is only possible therefore to consider the likely benefits of any option by examination of previous performance in relation to market averages and to retrospectively compare the cost of the various options.
- 4.5 The table below compares the cost obtained in previous years under the Council's present arrangements (SP) with that achieved by the leading CPB framework Crown Commercial Services (CCS).

| Supply to: | CCS - 2016 Increase (%) | CCS – 2016 Cost (£/mWh) | SP - 2016 Increase (%) | SP – 2016 Cost (£/mWh) |
|---------------------------------|-------------------------|-------------------------|------------------------|------------------------|
| Large Sites | 18.42 | 4.55 | 4.43 | 4.43* |
| Smaller Sites | 23.19 | 4.76 | 4.86 | 4.43* |
| Unmetered (street Lighting etc) | 20.99 | 4.52 | 10.64 | 4.43 |

* 2 year rates agreed in 2015

- 4.5 This indicates that the price the Council has been able to achieve in the past compares favourably with the leading CPB framework supplier – the arrangement having the flexibility to allow the Council to commit to a 2 year purchase in 2015 and thereby to secure stable rates for the period.
- 4.6 The Council can be further reassured as to the beneficial nature of the present arrangements as schools and colleges are constantly targeted by supply companies and others seeking to acquire their energy supply business – despite this 100% of schools continue to buy their energy via the Council.
- 4.7 In addition, other Local Authorities have demonstrated from their interest in joining with the Council for 2018/19 that the Council's present arrangement offers an attractive option in the current market place.
- 4.8 Members are advised, for information, that electricity prices are expected to continue to fluctuate with an upwards trend due most significantly to the EU referendum outcome and the subsequent decline in the value of Sterling.

5.0 Preferred Option / Recommendations:

- 5.1 Ultimately, Officers are satisfied that the prolongation of the present arrangement with Scottish Power is likely to provide the most beneficial option for electricity supply during the 2018/19 financial year.
- 5.2 The actual cost of supply will be established during the course of the year leading up to commencement of supply on 1st April 2018 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 approve purchase commitments and accept supply rates as appropriate.
- 5.3 Subject to agreeing the proposal as set out in 5.1 above, Cabinet is requested to authorise the Head of Corporate Resources to explore the potential for joint energy procurement with other Local Authority partners and, provided any arrangements are not detrimental to the Council's interests, permit such Local Authorities to join in with the Council's arrangement with Scottish Power for 2018/19.
- 5.4 Cabinet is also requested to authorise the Head of Corporate Resources to explore the potential benefits that may be derived from co-operative working with other Local Authorities.
- 5.5 The Head of Corporate Resources will continue to monitor the energy market and review the performance of the options available to the Council so that procurement proposals for 2019/20 and beyond can be considered in the early part of 2018.