

Report to: Lead Member for Resources

Date of meeting: 20 September 2019

By: Chief Operating Officer

Title: Procurement of Supply of Gas and Electricity to Council Assets

Purpose: To seek Lead Member approval to the procurement of gas and electricity supply to Council Properties and Assets.

RECOMMENDATIONS

The Lead Member for Resources is recommended to:

1. agree to procure the supply of gas and electricity for Council assets from the Crown Commercial Services Supply of Electricity and Gas Ancillary Services Framework RM6011;
 2. agree to the recommendation for the supply of renewable electricity as part of these agreements; and
 3. delegate authority to the Chief Operating Officer to take any actions necessary to give effect to or in consequence of recommendations 1 and 2.
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1 Background

- 1.1 East Sussex County Council's current arrangements for the supply of gas and electricity come to an end on 31 March 2020. These arrangements are procured through the Crown Commercial Services Energy Supply Frameworks.
- 1.2 The Council currently procures gas and electricity for the following assets and customers:
 - Corporate Buildings (including Social Care Buildings and Libraries);
 - Schools; and
 - Street Lighting.
- 1.3 Due to the nature of the markets, the Council must enter into agreements in advance of this date (31 March 2020) to allow advanced trading on the wholesale market.
- 1.4 The annual cost for the supply of gas and electricity across all the assets above will change according to demand but is approximately £5.3m for electricity and £1.4m for gas.

2 Supporting information

- 2.1 Officers from Property and Procurement across the three Orbis partners (East Sussex County Council, Surrey County Council, Brighton & Hove County Council) have been working together to develop a strategy for the purchase of gas and electricity supply. This work has included extensive research and analysis into the various options available as well as comparison of various buying strategies, as gas and electricity is traded as a commodity on the market.
- 2.2 Within Local Government, as well as the wider public sector, the general consensus and central government advice is that the best way to secure optimum value for money in respect of any procurement for the supply of utilities is to purchase through a Central Purchasing Body (CPB)..

- 2.3 However there are other ways of securing the supply of gas and electricity, and these have been investigated as part of the Orbis wide approach to determining the right strategy. These include direct procurement of a supplier, trading through a third party intermediary and investing in the generation of our own energy. None of these options were considered appropriate in the medium term for the Council's needs and do not provide the best value for money approach at this time.
- 2.4 Under the Crown Commercial Services (CCS) framework RM6011, there are further options to secure a long term agreement for the supply of gas and electricity. These are known as "baskets" and vary in terms of the length of time over which the energy is traded to ensure purchase is made in a way similar to investment strategies, taking advantage of downward fluctuations in the wholesale market at any given time but also securing enough advance supply to mitigate against spikes in cost. These baskets are normally secured on a six (6), twelve (12) or thirty (30) month advance purchase strategy.
- 2.5 Information provided by CCS, and analysis of current purchasing strategies employed by the Councils currently against the assets described in paragraph 1.2 above shows that the variable thirty (30) month (V30) basket will provide the best overall value and based on a previous six (6) year window is less prone to variations in price due to market vagaries. This isn't an absolute guarantee; however, it is likely that any market fluctuations would affect any energy supply agreement and the V30 appears to be the most effective way of mitigating these.
- 2.6 The V30 basket performs on average approximately 2% better in terms of price per megawatt hour than other baskets for electricity and gas. Moving to this basket is expected to lead to an avoided cost of just under £100,000 per annum against current costs for East Sussex County Council and Schools that will help mitigate the impact of expected future price rises.
- 2.7 The council is developing a policy around the climate emergency and officers have been mindful throughout this project that the procurement of energy can play a role in helping to move towards net zero emissions in a national context. However, the Council continues to be required to report annually on its own emissions and guidance from central government suggests that all electricity supplied via the national grid should be accounted for using UK wide average conversion factors.
- 2.8 It is currently difficult to quantify the carbon reduction that might be achieved through the purchase of green electricity and the scope and timescale of any targets to be adopted by the Council are yet to be defined. However, it is clear that effort will still be required in other areas, such as energy conservation in council buildings, in order to meet its current target to reduce carbon emissions by 3% per year, make financial savings, and contribute to the objectives of the East Sussex Environment Strategy.
- 2.9 The government and energy industry have made progress in developing a greater mix energy derived from renewable sources, i.e. wind, solar, hydro, wave, FarmGas etc. Currently the Council receives about 17% of its gas and electricity supply from renewable sources, but this is not the result of an active decision by the Council, more a general reflection of national supply mix.
- 2.10 The Council has an opportunity under the new arrangements with CCS to request that 100% of supply is from renewable sources. There is an additional cost to this, that is different for electricity and gas. If the Council and Schools opted for renewable supply this additional cost would be:

Electricity (Corporate and Street Lighting)	£53,260
Electricity (Schools)	£60,442
Gas (Corporate only)	£65,682

Gas (Schools)	£221,803
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- 2.11 The above is based on the underlying current cost of green gas. There has been aggressive purchasing of supplies of green gas within the wholesale market and the cost has risen substantially recently. Currently there is a lack of availability and therefore the premium applied is at a particularly high point.

Financial Appraisal

- 2.12 The cost of utilities are included with the Council's operating budget for services and adjusted on an annual basis to take into account fluctuations in price. The Council also receives a rebate where the performance of the trading/purchasing strategy is better than the annual price set.
- 2.13 The proposed approach to purchasing gas and electricity will meet the Council's statutory duty to ensure best value and is in line with HM Treasury best practice guidance.

3. Conclusion and reasons for recommendations

- 3.1 The Council needs to provide a secure and value for money supply of gas and electricity for its assets and properties, including schools. On its own, the Council does not have the appropriate demand and leverage to gain an optimum price and value for this supply and will benefit from partnering with the two other Orbis partners and the Crown Commercial Services, who purchase for a majority of the public sector to achieve this.
- 3.2 It is therefore recommended, with regard to renewable options, that all Corporate Sites and Street Lighting electricity supply is purchased as 100% renewable and that schools are encouraged to follow suit from the start of the new supply arrangements (01 April 2020). The cost of this is largely offset by the cost avoidance achieved from the new basket strategy being adopted.
- 3.3 It is also recommended to wait and reassess the cost and benefit of purchasing renewable gas, by reviewing the cost from CCS on a six (6) monthly basis. It is therefore recommended that authority is delegated to the Chief Operating Officer to take any actions required as a result of any change to the current position in respect of purchasing the supply of renewable gas.

KEVIN FOSTER
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