

CENTRAL SERVICES CABINET MEMBER MEETING

Agenda Item 15

Brighton & Hove City Council

Subject:	Corporate Procurement of Energy – 100Kw Energy contract for 2009-10.		
Date of Meeting:	29 June 2009		
Report of:	Director Finance and Resources		
Contact Officer:	Name: Jason Clarke	Tel: 29-1431	
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Key Decision:	N/A		
Wards Affected:	All		

1. SUMMARY AND POLICY CONTEXT:

The council's current 100kw electricity supply contract with Eon is due for termination on 30th September 2009. The portfolio encompasses 22 buildings, including several major sites, notably Brighton Conference Centre, Kings House, King Alfred Leisure Centre, Royal Pavilion, Brighton Town Hall, Hove Town Hall, Bartholomew House, Priory House, Bartholomew Car Park and 7 Secondary Schools. The council has committed to procure energy solely from 100% renewable sources. This report explains the current market, the testing undertaken to achieve value for money and gives the council's energy expert's recommendations with regard to the future contracting of the 100kw electricity contract.

2. RECOMMENDATIONS:

- 2.1 Following soft market testing, the council's energy expert recommends that, in order to maintain the supply of 100% renewable energy and to secure the best possible price, a new 100 kW electricity contract is placed with Eon for 12 months. This recommendation is made in the belief that the council remains committed to the procurement of electricity from 100% renewable sources and Eon's position as the only available supplier. The contract would commence at the current predicted price of approximately £1.1m pa.
- 2.2 This report also recommends that powers be delegated to the Director, Finance and Resources in consultation with the Cabinet Member to enable the contract to be placed without delay, ensuring the lowest possible price.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 Brighton & Hove City Council (B&HCC) has utilised 100% green energy from renewable sources for the past seven years, a commitment which has formed a central plank in the council's sustainability and use of natural resources strategies. Soft market testing of the 100Kw electricity contract has been

undertaken by the council's energy expert with the aim of achieving value for money. The council carried out a full OJEU tender exercise for the electricity 100Kw contract in 2007, at this time only four suppliers were able to offer electricity from 100% renewable sources for the entire portfolio. Since this time, there have been no new entrants into the over 100kW market. The market has in fact been characterised by a reduction in suppliers due to corporate mergers. A soft tender exercise was conducted on 11th February 2009, Documents were issued to those companies which were able to offer Electricity from 100% renewable sources during the last OJEU tender exercise.

- 3.2 Of the 4 suppliers notified only the incumbent supplier Eon, was able to look at securing the purchase of Green Energy for the entire portfolio Other suppliers included in original tender included :
- EDF – Only Brown offer available.
 - Npower – Only Brown offer available.
 - British Gas – Did not quote for either, as we requested green energy for sites.

During the period since the placement of the current contract on 2 July 2007, we have seen huge fluctuations in the price of wholesale electricity, driven by the global price of oil which rose to \$148/ barrel in October 2008 before falling back in the subsequent months. This led to a peak electricity generating cost of around £55/MWh; this is shown in **Appendix A**. By fixing the price for a 2 year term in 2007 the council was able to secure electricity at a generated price of around £24/MWh a saving of around £0.6 m per annum.

- 3.3 Oil prices which currently sit at around £68\$/ barrel, are now beginning to rise again, taking wholesale electricity prices with them. Current predictions estimate that the price of oil will reach 100\$/barrel by the end of the year. With this in mind the council would be well placed to fix a price as quickly as possible.
- 3.4 Having thoroughly tested the market, it is the opinion of the councils Energy advisors that no other supplier in the market place can supply B&HCC for the entire portfolio from 100% renewable sources other than Eon and would therefore recommend placing a contract with them. As the only available supplier of electricity from 100% renewable sources, demonstrated by the tender exercise and all available advice, the council may enter into a negotiated contract directly with Eon as the most expedient route to secure a price.

4 OPTIONS

- 4.1 Whilst the council remains committed to continuing it's policy of procuring energy from 100% renewable sources, all other alternatives were explored to ensure an accurate market appraisal and to illustrate the financial implications of this policy decision.
- 4.2 The alternative to a negotiated contract with the sole supplier capable of supplying electricity from 100% renewable resources would be to carry out a full OJEU tender exercise with revised criteria, to include electricity from non renewable (brown) sources. Whilst this may provide some saving against the price of energy from 100% renewable sources (circa 5%), this is likely to be mitigated by the price rise that we would expect to see during the full OJEU process (min 52 days).

Framework

- 4.3 The option to purchase electricity via a Framework supplier as offered by purchasing purchasing solutions (formerly OGC) was also investigated. Purchasing via a consortium does allow some flexibility in purchasing volumes and has consistently been seen to provide discounts. However his route will only allow energy to be sourced from one supplier, EDF, who as demonstrated by the soft tender exercise and reinforced through discussions with the purchasing solutions framework supplier, are unable to supply electricity from 100% renewable sources. Additionally, B&HCC would not be able to enter the current purchasing round and as such would need to secure an interim contract for 6 or 12 months before joining the purchasing framework in either April or October 2010

ESCC

- 4.4 Aligned purchasing with East Sussex County Council was also investigated. The ESCC contract will also expire at the end of September. ESCC are likely to utilize Purchasing solutions for their next contract and having not commenced purchasing will themselves need to secure an interim contract for 6 or 12 months, unfortunately removing any short term benefits.

5 TENDER ANALYSIS

- 5.1 As the sole organisation to return on the tender exercise Eon were asked to provide prices for 12 or 24 months. Prices for brown energy as provided by Eon are also shown by way of an indication of current market prices were the council to no longer seek energy from 100% renewable sources.

The table below clearly shows that electricity from 100% renewable sources currently attracts a premium of 0.476p/kwh, which represents a 5.5% difference (£61k) and the chart below shows a cost comparison between the brown and green energy offers.

<u>Supplier</u>	<u>Expected Total (£)</u>	<u>Increase (£)</u>	<u>Increase (%)</u>
Current annual spend	825,923		
Eon 12 month proposal (GREEN)	1,112,295	286,372	34.67
Eon 24 month proposal (Green)	1,166,586	340,663	41.32
Eon 12 month proposal (brown energy)	1,050,958.	225,035	27.24
Eon 24 month proposal (brown energy) p.a	1,105,296	279,373	33.83

Please note that these prices are indicative and are for guidance. They should be confirmed fully on placing a contract.

- 5.2 Analysis of the figures show that the bid for a supply period of 12 months offers better value than the 24 months received from Eon Energy in the short term and would allow the council the flexibility to investigate procurement via a Framework or any other value for money options.
- 5.3 The 12 month offer currently values the contract portfolio at £1.112m per annum, an increase of £0.286m per annum from £825,923. This 34.67% rise, is in line

with market trends and if tendered any later would incur much higher price rises as the \$/barrel price is set to keep rising.

- 5.4 It is evident that the tender returns show a 34.67% price rise and this is the forecast of the increased price that the council will be paying in the market if the contract is placed now. From the experience of the council's energy expert and all market analysts these prices are of the correct order to reflect the current market state and represent value for money.

Market volatility

- 5.5 The market price rises are due to a number of economic reasons, the most influential being the price of oil in the international supply market. The close link between UK electric prices and this globally traded commodity has meant that as significant world events occur, such as high oil demand in emerging economies, the "credit crunch" and various geopolitical events, the UK energy prices are also affected. Suppliers are now placing an element of risk within the unit prices in their pricing structure on all contracts.

6 RECOMMENDATIONS FOR BHCC

- 6.1 Based on the above analysis the council's energy consultants recommend the placement of a 12 month contract with Eon for the half-hour sites to be secured via a negotiated agreement. This will ensure the cheapest price at this stage, guarantee green energy for a further year and enable the council to retain the option of procuring via a framework or other options.
- 6.2 The prices returned are only valid for the day they were quoted and will have to be re-quoted when a firm decision is made by the Council, thus the attached prices are for guidance only. The energy consultant will require the authority of the Council to approach the selected supplier, subject to contract and Council final approval, as soon as possible. As such it is requested that powers be delegated to the Director Finance and Resources to ensure this is carried out with the minimum delay.

7. CONSULTATION

- 7.1 Market evaluation has been carried out by the council's energy consultant and assessed by the council's Energy & Water Manager. Further benchmarking has been carried out in association with East Sussex County Council Energy Management team and the national framework with Purchasing Solutions. Further advice on procurement routes was obtained from the B&HCC senior procurement advisor.

8 FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 8.1 The council has benefited for the past 2 years from a fixed price contract commenced in 2007 that secured a 16 % saving in price. The recommendation to extend the existing contract with E-on for 12 months will see an increase in price of 34.6%, however this has been market tested, reflects the current market position and represents value for money. It is felt that to agree a contract at this time would enable the council to secure the most advantageous unit prices. The increased energy costs would need to be covered within directorates cash limit

budget allocations for 2010/11. For 2009/10 directorates would need to find in year savings to absorb the part year pressure. Assuming the relet in September 2010 is at the same prices as the proposed contract the pressure per directorate would be:

Directorate	2009-10 Budget	2009-10 Pressure	2010-11 Pressure
CYPT	197,000	34,000	64,000
Culture & Enterprise	292,000	51,000	95,000
Environment	216,000	37,000	71,000
Finance & Resources	242,000	42,000	79,000
	947,000	164,000	309,000

Finance officer consulted: Patrick Rice

Date: 16/05/09

Legal Implications:

- 8.2 A new contract for electricity supply of the value indicated is subject to EU procurement rules, as implemented by the Public Contracts Regulations 2006. Although there is a current contract in place with Eon, any extension of this would also constitute a new contract for these purposes. However the legislation allows for negotiations to take place with a single contractor where that contractor is the only UK/EU supplier capable of supplying the product (in this case green energy). Otherwise the contract will be subject to the usual procedures relating to the advertising and tendering of contracts laid down by the legislation.
- 8.3 The Council must take the Human Rights Act into account in respect of it's 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: Sonia Likhari

Date: 15/05/09

Equalities Implications:

- 8.4 An Equalities impact assessment has not been carried out as it is unlikely that the renewal of the contract will have any equalities implications

Sustainability Implications:

- 8.5
- *Sustainable Consumption and Production* - The renewal of the contract will not directly impact the consumption or production however we will aim to minimise consumption
 - *Climate Change and Energy* – The ability to secure the 100kW electricity contract from renewable sources will greatly reduce the council's carbon emissions and footprint and supports the council's Sustainability policy and Climate Change action plan. However, it should be noted that incoming legislation around the Carbon Reduction Commitment (CRC), does not confer any benefit for the use of green energy.
 - *Natural Resource Protection and Environmental Enhancement* – The council has consistently stated it's commitment to the use of electricity from 100% renewable sources. A commitment that has been again stated in the ongoing CAA natural resources audit.
 - *Sustainable Communities* – Consultations have been conducted with relevant parties and will need to be undertaken with schools.

Crime & Disorder Implications:

- 8.6 There are no crime and disorder implications

Risk and Opportunity Management Implications:

- 8.7 There are no additional risk or opportunity management implications

Corporate / Citywide Implications:

- 8.8 Key corporate implications are the increase in unit price. The council has sought the best possible price and is satisfied that the proposed extension represents value for money.

9. EVALUATION OF ANY ALTERNATIVE OPTION(S):

- 9.1 The options researched and analysed by the council's energy consultant and Energy & Water Manager include Purchasing Solutions, alignment with ESCC and soft market testing through a tendering exercise of the existing contract rates on a "brown" and "green" offer. These options have been benchmarked and compared against the current market conditions and it can be seen that the consultants recommendation to a 12 month contract with Eon on the "green" offer reflects the current market conditions and represents value for money.

- 9.2 Due to the volatile market conditions the council may need to re-assess the requirement for electricity to be supplied from renewable sources if the price rises over the next 12 months become unsustainable and may need to balance out the reduction of carbon emissions against budget requirements and see if there are alternative ways of reducing carbon emissions that may be seen as more cost effective.

10. REASONS FOR REPORT RECOMMENDATIONS

- 10.1 The council's 100Kw electricity contract supplied from renewable sources is on a fixed offer that expires at the end of September 09. The main grounds for the recommendations that are sought are to allow BHCC to benefit from the best price available, contract from a renewable source and obtain value for money within a volatile market where prices are held for a maximum of 24hrs.

SUPPORTING DOCUMENTATION

Appendices:

1. Price Variances from July 02-April 09.

Documents in Members Rooms

1. None

Background Documents

1. None

