

Subject:	Energy Procurement Strategy - Award of Supply Contracts		
Date of Meeting:	11 July 2019		
Report of:	Executive Director, Economy, Environment & Culture		
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Ward(s) affected:	All Wards		

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

- 1.1 This report seeks delegated authority to re-procure Brighton & Hove City Council's ('the Council') electricity and gas supply requirements from 1 October 2020. This comprises 1,655 supplies across the Council's corporate operational portfolio including schools, housing with communal utilities and street-lighting. The current total spend on these requirements is approximately £5.7m per annum.
- 1.2 The Council currently procures its electricity and gas supply requirements through a Central Purchasing Body ('CPB'). CPB's set up and manage energy purchasing frameworks which public sector bodies can access. The energy market is unpredictable and procuring through a CPB provides an element of protection against market volatility as well as benefitting from economies of scale through the aggregation of our supply requirements with other public sector organisations.
- 1.3 The Council has been working with our Orbis partners in East Sussex and Surrey on a commercial strategy for utility procurement which includes alignment of our respective utility contract dates to allow future joint procurement when our current arrangements end, benefitting from a single procurement process to maximise economies of scale.

2. RECOMMENDATIONS

That Policy, Resources & Growth Committee:

- 2.1 Grants delegated authority to the Executive Director Economy, Environment & Culture to procure and enter into call off contracts using the Crown Commercial

Services framework for the Supply of Energy and Ancillary Services (RM6011) as follows:

- (i) a call-off contract for Half Hourly and non-Half Hourly electricity and ancillary meter management and automatic meter reading data services with a maximum term of four years; and
- (ii) a call-off contract for gas and ancillary meter management and automatic meter reading data services with a maximum term of four years
- (iii) evaluate the comparison prices between an 100% Green tariff and a Brown tariff and make a value for money decision on the affordability of Green energy within existing energy budgets
- (iv) evaluate the various 'basket' options including fixed and flexible pricing and the length of the contracts in consultation with the respective budget holders and make a value for money decision within existing energy budgets

3. CONTEXT / BACKGROUND INFORMATION

The Council's Current Contract Arrangements

3.1 The Council currently has four main energy supply contracts procured through Central Purchasing Bodies (CPBs) to be included in this procurement exercise:

- **Non-Half-Hourly ('NHH') Electricity Supply Contract**

This contract comprises 1,230 smaller metered supplies (defined as consuming less than 50,000kWh of electricity per annum) across the operational portfolio including smaller schools, libraries, sports pavilions, some housing sites and other smaller council buildings.

Contract Period: 1 April 2019 to 30 September 2020

Value: Currently £0.8m per annum

Tariff: Fixed price for eighteen months

Current Supplier: SSE

CPB: Laser Energy Buying Group

- **Half-Hourly ('HH') Electricity Supply Contract**

This contract comprises 125 larger metered supplies (defined as consuming more than 50,000kWh of electricity per annum). These sites include the main civic offices, larger schools and other large council buildings.

Contract Period: 1 October 2016 to 30 September 2020

Value: Currently £2.3m per annum

Tariff: Flexible with annual price reviews

Current Supplier: NPower

CPB: Laser Energy Buying Group

- **Gas Supply Contract**

This contract comprises around 300 sites including schools, corporate buildings and housing.

Contract Period: 1 October 2016 to 30 September 2020

Value: Currently £1.3m per annum

Tariff: Flexible with annual price reviews

Current Supplier: Total Gas & Power

CPB: Laser Energy Buying Group

- **Street Lighting Electricity Supply Contract**

This contract comprises the unmetered electricity supply for the Council's street-lighting and illuminated street furniture including 20,698 lighting columns, 2,828 illuminated traffic signs, 858 illuminated bollards and 358 feeder pillars and associated private cable networks. Approximately 20% of the street-lighting equipment has been converted to low energy LED with a plan to convert the remainder to LED over the next two years.

Contract Period: To be extended to 30 September 2020

Value: Currently £1.3m per annum

Current Supplier: EDF

CPB: Crown Commercial Services ('CCS')

3.2 **Ancillary Meter Management & Automatic Meter Reading ('AMR') Data Services**

The Council currently procures AMR data services through our electricity and gas suppliers. AMR data reduces the Council's reliance on manual or estimated reads and allows the Council to monitor energy consumption more accurately. Procuring AMR data through our suppliers reduces our data costs (as these are often provided free-of-charge or at a reduced rate) and places the responsibility for maintenance on the supplier rather than the Council. The current annual cost of AMR services across the council is around £10,000 and it is proposed that AMR data services continue to be procured alongside our energy suppliers.

The management of utility metering, including new connection and disconnection requests and maintenance of metering equipment can be delivered by the energy supplier or appointed to a third party. It is proposed that the successful energy supplier is appointed for these services if a value for money price can be secured.

Market Engagement

3.3 A number of the utility market's key players from both the private and public sector were invited to present their offers to Orbis partners as part of the Orbis Commercial Strategy for Utilities. These included: Crown Commercial Services ('CCS'), Kinect, the Laser Energy Buying Group and the Yorkshire Purchasing Organisation. Additionally, desk top research, telephone conversations and face-to-face discussions took place with the London Energy Project and Energy for Good.

3.4 The services offered by these organisations have been thoroughly assessed against the Council's requirements that included account management, billing, ability to self-serve, social value, purchasing options, metering and renewable energy. Commercial benefit figures (that is, the difference between the organisation's current price for electricity & gas and the average market price) were also compared where available.

3.5 The conclusion of this assessment is that CCS are considered to offer the best value for money to all three Orbis partners for the reasons detailed below. This recommendation was subsequently approved by the Council's Procurement Advisory Board ('PAB') on 28 January 2019.

Rationale for Procuring in Collaboration with Orbis partners

3.6 Across the Orbis partnership there are two CPB framework providers currently in use – the Laser Energy Buying Group and Crown Commercial Services ('CCS'). Historically, the sovereign authorities within the Orbis partnership have procured their utility supply requirements independently through these national frameworks. The current landscape is therefore varied as contracts have different durations and end dates. By aligning our contract dates and jointly procuring these contracts in future, the Orbis Procurement Team anticipates the following benefits for the Council:

- A reduction of around 500 hours of Procurement staff time due to consolidated procurement activities across all three authorities.
- The consolidation of Orbis partner energy volumes & requirements has resulted in a single provider across the three partner sites. This will lead to efficiencies in managing accounts.
- Allowing further best practice to be shared and developed across the Orbis partner authorities.

Rationale for Procuring Through a Central Purchasing Body ('CPB')

3.7 A CPB allows the Council to procure energy supplies through a compliant framework rather than direct from an energy supplier with the following advantages:

- The CPB will aggregate energy supply demands across a large number of public sector organisations and procure in bulk using a compliant framework allowing the participant organisations to benefit from increased buying power and economies of scale which would not be available to them individually.
- The energy market remains highly volatile and the CPB will have the expertise and capacity to purchase energy over time when market conditions are favourable and reduce the risk of purchasing when the market reaches a peak.
- It has been estimated by the Orbis Procurement Team that the Council already benefit by approximately £230,000 per annum through cost avoidance by procuring our metered energy supplies through our current CPB compared with contracting directly with a supplier. Such cost avoidance results from lower management fees, CPB trading flexibility, bulk purchasing and reduced usage penalty risks.

Rationale for Procuring Through Crown Commercial Services ('CCS')

3.8 Due to the larger volumes of the CCS framework it is possible that additional cost avoidance can be achieved by switching from Laser to CCS due to CCS's current track record for beating wholesale market averages and improved risk management. However, due to the current upward trend in energy prices, the Council's overall energy spend is still expected to increase year-on-year.

3.9 It has been estimated that the Council will benefit from an annual saving of approximately £10,000 due to CCS's lower management fees compared with our current CPB.

3.10 Using a combination of CCS's short-term and long-term purchasing strategies (formerly known as 'baskets'), greater price stability over the longer term will be

delivered with the potential for further savings due to the extended purchasing period and the possibility of purchasing at periodic market lows.

3.11 CCS has the most significant buying power of any CPB based on the volumes detailed below making CCS close to the big six suppliers in terms of market influence.

- CCS's annual half-hourly electricity framework spend is £935m with 800 customers and 17,656 meters across the public sector (2016-17 data),
- CCS's annual gas framework spend is £400m with 885 customers and 30,000 meters across the public sector (2016-17 data),
- CCS has the most comprehensive set of key performance indicators ('KPI's) with which to manage supplier performance and the most effective way of responding when KPI targets are not being met and
- CCS's management fees are lower than other CPBs.

3.12 The accuracy of forecast expenditure for budget monitoring can be improved as the CCS purchasing periods align with the financial year.

Electricity Supplies from Renewable Sources

3.13 All CPBs offer 'Green' tariffs where electricity supplies are sourced from 100% renewable sources. The provenance of the energy is certified through the REGO (Renewable Energy Guarantees of Origin) scheme.

The REGO scheme is administered by OFGEM (Office of Gas & Electricity Markets) and has been designed to increase transparency for consumers who wish to buy renewable energy.

Although the purchase of a Green electricity tariff does not guarantee any direct additionality of renewable generation into the grid, it is considered that high demand by consumers for 100% renewable supplies will increase pressure on electricity suppliers to invest in further renewable energy generation in the future. Purchase of a Green electricity tariff will therefore be a reputational benefit to the council in supporting the reduction of carbon emissions from national electricity generation in response to climate change.

BHCC currently has a 'Brown' electricity tariff (from non-renewable sources). Switching to a 100% Green electricity tariff will result in higher unit costs although the exact additional costs cannot be assessed at this stage as the latest CCS framework is not yet in place.

3.14 As part of the procurement process BHCC will therefore seek comparison prices for both a 100% Green electricity tariff and a Brown tariff (from non-renewable sources) from CCS.

The Executive Director, Economy, Environment & Culture will then consider the additional cost of the Green supply and make a value for money decision on which tariff to procure including an assessment on the affordability of Green energy within existing energy budgets.

Purchasing methods

- 3.15 CCS offer various means of procuring our supplies (called 'baskets') which can include fixed or variable price tariffs over various terms as well as options to take advantage of market fluctuations to secure energy when the price is low. The longer the contract term the more likely it is that suppliers will be able to iron out market peaks and be able to take advantage of market lows. Orbis Procurement is currently looking at the advantages and disadvantages of the various basket options, including contract length, for each part of each authority's portfolio and the final decision will be delegated to the Executive Director, Economy, Environment & Culture based on an overall value for money assessment in consultation with the relevant budget-holders. Due to the volatile energy market delegated authority enables a more flexible approach to market conditions and the allows the council to take advantage of competitive prices at the right time. A report will be done to capture decisions taken and to include financial and other implications.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

Several other options were considered and rejected during the development of the Orbis commercial strategy for utilities, namely:

4.1 Option 1 – Procure our own energy by direct tender

This option is possible but would involve the Council undertaking a stand-alone OJEU tender to secure our own energy independent of a CPB or other intermediary. In this case each of the Orbis partners would be contracting directly with the selected energy provider(s). This approach is unlikely to represent best value due to the relatively small scale of the Council's energy supply requirements compared to the CPBs. In addition, a direct tender would require the Council to engage additional resources including skilled energy traders and additional contract management staff and provides a greater risk of exposure to energy price fluctuations.

4.2 Option 2 – Procure through a private sector provider

The Orbis partners could use a private sector third party intermediary ('TPI') to procure our energy supplies but it would need to be sure that it is getting best value through a truly aggregated, flexible contract. Full price transparency of all costs, including TPI fees and any commission paid by suppliers to the TPI, would be needed. By aggregating our volumes, the TPI could access the wholesale market on our behalf but we may only receive prices based on the supplier's view of the market. A full OJEU tender would be required to engage with such a provider with all the associated resource and time implications that would be entailed.

4.3 Option 3 – Procure from generators / self-supply

The Council could procure electricity via an OJEU procedure using a Power Purchase Agreement ('PPA') to buy electricity direct from the operators of small scale off-site renewable generation assets such as solar photo-voltaic ('PV') installations. Depending on the type of PPA, this could reduce the impact of power / price volatility on the Council as it is possible to fix prices on a longer-term basis (typically up to five years). However, these arrangements tend to be more commercially attractive if the electricity can be supplied direct to the user (i.e. outside of the National Grid) which is unlikely to be possible for the Council due to the spread of buildings across its geographical area.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 As the non-half hourly ('NHH') electricity supply contract will directly affect leasehold housing tenants who are invoiced for their agreed share of the electricity charges on communal areas of blocks of flats, the Energy & Water Team will liaise with the Housing Management Team who will lead on the statutory consultation notifications that might be required.

6. CONCLUSION

- 6.1 Contracting through a Central Purchasing Body ('CPB') offers the Council the best value procurement route.
- 6.2 Following an evaluation of the currently available CPB frameworks, Crown Commercial services ('CCS') was considered to offer the most favourable route for purchasing the Council's energy supply contracts.
- 6.3 Aligning contracts with Orbis partners unlocks potential for additional efficiencies including a reduction in officer time on separate future procurement exercises.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 The Council's non-half hourly and half-hourly electricity supply contracts have an annual spend of approximately £3.1m whilst the gas supply contract has an approximate value of £1.3m per annum and the street-lighting electricity supply contract has an approximate annual value of £1.3m.

The proposed procurement is subject to compliance with the Council's Contract Standing Orders ('CSO') and Financial Regulations. The Council's CSOs state that contracts above the value of £0.5m require approval from the relevant Committee or executive decision-making body. The achievement of value for money when procuring goods and services is a key task to ensure that public money is well spent.

The Council currently procures its energy supplies through a Central Purchasing Body ('CPB') rather than directly from an energy supplier. This reduces the risk to the Council of price fluctuations within the utility market through increased flexibility in purchasing as well as economies of scale through bulk purchasing but prices are still subject to market conditions. It is considered, after analysis of available procurement options, that entering into a CPB under the Crown Commercial Services framework will provide the greatest opportunity of maximising value for money. It is estimated that the Council currently makes financial efficiencies of £230,000 per annum through a CPB route.

Through the proposed alignment of energy supply contract dates and by jointly procuring these contracts through the Orbis Partnership it is estimated that the Council may make annual savings of £10,000 as well as a reduction in administration and officer time.

Finance Officer Consulted: Steven Bedford

Date: 10/05/19

Legal Implications:

- 7.2 The Council has a duty to secure continuous improvement in the way in which its functions are exercised having regards to a combination of ‘economy, efficiency and effectiveness’.

In accordance with Part 4 of the council’s Constitution, Policy, Resources & Growth Committee is the appropriate decision-making body with respect to the recommendations set out in Section 2 above. In addition, in order to comply with CSO 3.1, authority to enter into contracts in excess of £0.5 million must be obtained by the relevant Committee.

Using the CCS framework will ensure that the Council complies with its own Contract Standing Orders and the relevant public procurement legislation.

Lawyer Consulted: Wendy McRae-Smith

Date: 31/05/19

Equalities Implications:

- 7.3 There are no equalities implications.

Sustainability Implications:

- 7.4 Alternative prices will be sought during the procurement exercise for ‘Brown’ and ‘Green’ electricity supplies. The Executive Director Economy, Environment & Culture will consider the additional cost of the Green supply and make a value for money decision on which tariff to procure including an assessment on the affordability of Green energy within existing energy budgets.

Any Other Significant Implications:

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

SUPPORTING DOCUMENTATION

Documents in Members’ Room: None

Background Documents: None

V8