

TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	13 January 2016
Subject:	Procurement of Energy
Report of:	Simon Dix, Finance and Asset Management Group Manager
Corporate Lead:	Rachel North, Deputy Chief Executive
Lead Member:	Councillor D J Waters
Number of Appendices:	None

Executive Summary:

The Council's current contract for gas and energy supplies comes to an end in March 2016. Officers have reviewed the options available to the Council and recommend that a new contract with West Mercia Energy is entered into to deliver the gas and energy needs of the Council over the next five years.

The Council's approved Contract Procedure Rules requires that all contract awards over the European Union threshold are approved by Executive Committee.

Recommendation:

That the Committee AGREES:

- 1. to enter into a new three year contract for energy supplies with the option to extend for a further two years with West Mercia Energy.**
- 2. that Tewkesbury Borough Council becomes the lead authority within the partnership arrangement with Gloucester City Council.**

Reasons for Recommendation:

West Mercia energy (WME) offer a product that enables the authority to purchase gas and electric on the wholesale market with the ability to purchase and sell energy throughout the contract term ensuring best value for the purchase price of the energy.

Resource Implications:

The contract is within the current budgets. The Council, excluding Cascades, currently spends £15,850 on gas per annum and £77,002 on electricity per annum. This gives an expected cost over five years of £464,260.

Legal Implications:

The Council's Contract Procedure Rules require any contract with a value in excess of OJEU limits (£164,176) be approved by Executive Committee. The Council has accessed West Mercia Energy through a framework agreement in accordance with the Contract Procedure Rules.

The Council will enter into a new partnership agreement with Gloucester City Council, which will include this Council as the lead authority for the purposes of the contractual arrangement with West Mercia Energy for the supply of energy to both Councils.

Risk Management Implications:

The product offers a 10% maximum risk exposure to the authority through the trading opportunities but significantly reduces the risk of purchasing energy at high cost due to the timing of the tender exercise and the prevailing market conditions.

Performance Management Follow-up:

The Asset Manager, and representatives from Gloucester City Council, will meet with WME on an annual basis to agree the capped price for the forth coming year to establish the relevant budgets. Trading gains that are realised throughout the year will be credited via monthly invoices. Performance is monitored against the average annual wholesale price of the energy compared to the actual average price paid to WME for the energy.

Environmental Implications:

None.

1.0 INTRODUCTION

- 1.1 Tewkesbury Borough Council currently has a contract with West Mercia Energy (WME) for the purchase of both gas and electricity. This commenced on 1 November 2010 and is due to expire 31 March 2016.
- 1.2 WME is a Local Purchasing Organisation established under Section 101 of the Local Government Act 1972 and comprises four constituent authorities. They are on a framework agreement and have OJEU notices for the contracts they have with the energy companies.
- 1.3 In order to access the framework agreement, a purchaser has to have a certain size of energy requirements. Tewkesbury Borough Council on its own does not have the necessary energy requirements and so a partnership arrangement with Gloucester City Council, Forest of Dean District Council and Cotswold District Council was entered into.
- 1.4 The particular benefit of using WME for energy supplies is with regards to trading energy. Whilst a capped price is agreed at the beginning of each financial year giving budget stability, the model operates in a flexible way so as to be able to respond to both increases and decreases in the market price of energy. The WME model allows for pre bought energy to be sold if the market price starts to fall meaning that energy can be rebought at a lower price. Similarly, if the market price starts to rise, the model allows the purchase of additional energy to insulate the authority from the full extent of the increase. This flexibility gives the authority additional benefit over a traditional fixed price purchase particularly if the Council purchases its energy needs at the wrong time of the market activity whereby the Council is locked into paying a high price.
- 1.5 Tewkesbury Borough Council has benefited from the use of this framework for the past five years and the service and financial benefits have been excellent. Table 1 illustrates

how the framework has performed in the last few years against:

- Baseline (price available when first started trading).
- Market average (the average from when started trading up until the review point).
- Review point (position when we set the annual capped price).

Table 1 – WME performance data

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>TOTAL</u>
<u>GAS</u>					
Final price vs					
Baseline	10.0%	6.8%	21.2%	36.5%	17.2%
Market average	3.2%	-2.8%	7.5%	21.9%	6.4%
Review point	3.8%	1.3%	3.1%	6.9%	3.6%
<u>BASELOAD ELECTRICITY</u>					
Final price vs					
Baseline	14.7%	17.5%	34.2%	49.8%	28.9%
Market average	5.6%	2.0%	10.8%	25.5%	10.6%
Review point	0.5%	1.9%	3.5%	5.1%	2.7%
<u>COMBINED</u>					
Final price vs					
Baseline	12.7%	13.3%	29.6%	45.2%	24.5%
Market average	4.6%	0.1%	9.6%	24.2%	9.0%
Review point	1.8%	1.7%	3.3%	5.7%	3.0%

Green coloured where final price is better and red where it is not.

2.0 NEW CONTRACT

2.1 The current contract with WME comes to an end in March 2016 and a new contract for the supply of energy must be entered into. Forest of Dean District Council and Cotswold District Council have opted to leave the consortium and follow other opportunities with fellow Vision 2020 members. The size of the energy demand from Tewkesbury and Gloucester City Council is still sufficient to gain access to the framework.

2.2 It is suggested that a three year contract, with the possible extension of a further two years, is entered into with WME. In addition, given this Council's expertise with energy

contracts and this particular framework, it is suggested that Tewkesbury becomes the lead authority for the consortium. This simply means that Tewkesbury is the specific point of contact for the framework operators on behalf of the consortium. There is no additional financial liability placed on Tewkesbury as a result of being designated lead authority.

2.3 Whilst there is some risk associated with trading within the energy market, the risk is capped and is outweighed by the potential benefits. WME has been very successful in procuring its energy supplies over the period that Tewkesbury has been a member and the controlled risk model operated by WME is in line with the more commercial culture that the Borough Council is developing.

3.0 OTHER OPTIONS CONSIDERED

3.1 Alternative suppliers, on other framework agreements, were sought and a company called Laser Energy presented their products to officers. However, Laser Energy does not currently have a flexible purchasing model that enables the authority to benefit from trading gains.

3.2 A conventional procurement option, purchasing at a fixed point for the duration of the contract, was considered but discounted as it ties the purchaser to the price of the market at the time of tender and does not allow for any flexibility in purchasing.

4.0 CONSULTATION

4.1 Other potential partners have been consulted with a view to joining the purchasing group but had little appetite to accept any risk despite the potential benefits.

5.0 RELEVANT COUNCIL POLICIES/STRATEGIES

5.1 None.

6.0 RELEVANT GOVERNMENT POLICIES

6.1 None.

7.0 RESOURCE IMPLICATIONS (Human/Property)

7.1 Using a framework limits the resources required to manage the complex energy market whilst maximising the benefits to the authority.

8.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

8.1 No adverse impact.

9.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)

9.1 Value for money as detailed within the report.

10.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

10.1 None.

Background Papers: None.

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Appendices: None.