

Cabinet – 12 December 2012

Contract for the supply of Natural Gas from June 2013 – March 2017 for all of the Council's Buildings

Portfolio: Councillor Adrian Andrew, Deputy Leader, Regeneration

Service: Regeneration

Wards: All Wards

Key decision: Yes

Forward plan: Yes

1. Summary

- 1.1 The Council's current gas supply framework contract contracted through YPO, expires on the 31 May 2013. This report recommends that the Council continues to procure its gas supplies through YPO on a flexible/fixed contract basis. The new YPO gas framework agreement is for a 46 month contract period commencing on the 1 June 2013 and continuing up to and including the 31 March 2017.
- 1.2 It is proposed that through entering into the above buying arrangement that a value for money, risk-managed, legal and compliant solution will be reached which also meets the expectations of Government for the procurement and purchasing of energy.

2. Recommendations

Cabinet are recommended to approve the following:-

- 2.1 To enter into YPO's flexible purchasing gas framework contract from 1 June 2013 – 31 March 2017.
- 2.2 To delegate to the Executive Director for Regeneration in consultation with the Portfolio Holder, authority to commit to the YPO framework gas contract.
- 2.3 To delegate to the Executive Director for Regeneration in consultation with the Portfolio Holder, authority to accept contract prices subject to EU procurement procedures.

3. Report detail

- 3.1 The Council currently owns about 300 sites throughout the borough to which gas services are required.

- 3.2 The management of the energy services is provided by Property Services, who following a Cabinet report in November 2007, engaged the assistance of a specialist consultant in the energy procurement field – Yorkshire Purchasing Organisation (YPO).
- 3.3 The Government Procurement Service project recommends that organisations use a contract with the ability to fix volumes over a series of purchases in the wholesale traded gas markets. This is known as flexible purchasing.
- 3.4 Previously the Council's gas supply contracts were tendered under fixed price arrangements, which in a relatively stable market have secured best value for the Council. However, in recent years wholesale energy prices have become extremely volatile and increasingly influenced by a set of global factors such as security of supply, weather trends, exchange rates, European prices, geopolitical issues, market sentiments and increasing demand for energy from China, India and Brazil.
- 3.5 YPO has in place over 100 fully EU compliant contracts procured by their specialist teams covering a diverse range of service areas including energy. YPO is a not-for-profit organisation that provides its services free of charge to their portfolio of customer's across the country including schools, academies, colleges and universities, in addition to local government authorities, charities, social enterprises, and the emergency services. Also, they have the experience of working in conjunction with the UK's principal Buying Organisations the Government Procurement Service on Central and Local Government contracts, providing a ready platform for obtaining competitive tenders from major energy suppliers through electronic bidding processes.
- 3.6 The YPO tender was published in the Official Journal of the European Union and appeared under Notice 2011/S 249-405897 on the 28 December 2011 with the intention of being in a position to invite competing bids from OFGEM registered gas shippers to enable an award to be made to the successful tenderer.
- 3.7 The key objectives of the tender exercise were to:
- Drive down management /risk fees
 - Move the supply start date of the contract to the 1 April
 - Enable procurement of gas to take place more than 12 months in advance
 - Ensure a fully OJEU compliant contract
- 3.8 Following publication of the requisite PIN notice in OJEU tenders were submitted by Corona Energy, British Gas Centrica, Total Gas & Power and Shell Gas. YPO have informed us that the submission from British Gas Centrica was the most competitive and met all of the key objectives. The bid also offered a saving by way of a significant reduction in management fees which will ultimately feed through to the bottom line cost of gas for all YPO gas contract users. Accordingly a Contract Award notice 2012/S 104-173347 was published in the OJEU on the 2 June 2012.
- 3.9 The new gas supply framework contract was awarded to British Gas Centrica for a 46 month contract period commencing 1 June 2013 to 31 March 2017

inclusive.

3.10 Following a cabinet report in November 2007 and in order to manage the risk and protect the Council's interest Property Services, engaged specialist energy consultant Yorkshire Purchasing Organisation (YPO) for the procurement of electricity and natural gas supplies. YPO are the largest Local Authority purchasing consortium in the UK and are members of the Pro5 Group of Public Buying Organisations and the Pan-Government Energy project with the relevant knowledge and requisite aggregated consumption volumes, to effectively carry out risk managed flexible/fixed energy purchases on a national basis, through EU compliant frameworks contracts.

3.11 Flexible fixed contracts

This is a flexible purchasing contract with fixed prices for one year, whereby YPO will purchase the Council's gas requirements over several transactions. The Council will be notified of the gas price for the full 12 months of each contract year before it starts in years one, two, three and four (1 June 2013 to 31 March 2014, 1 April 2014 to 31 March 2015, 1 April 2015 to 31 March 2016 and 1 April 2016 to 31 March 2017 respectively).

There are several advantages:

- Price certainty for the full twelve months in advance of the contract starting each year;
- Removing the 'one day' risk element by purchasing at the top of the market;
- Lower fixed cost element;
- It follows the Government Procurement Service's (previously known as the Office of Government Commerce, OGC) transforming government guidelines.

A further advantage is that in the highly volatile energy market, adopting a hedging strategy through an aggregated flexible contract avoids the risk of fixing prices at the highest points in the market. Over the past seven years public sector organisations that have been operating flexible contracts have delivered 5% cost reductions against the wholesale markets. In addition, buying direct from the wholesale market and by aggregating volumes organisations can reduce costs in other areas, such as suppliers cost to serve. Based on the Council's 2012-13 consumption levels this would translate into a cost savings of approximately £157,000.

Wholesale energy prices are influenced by a range of factors that influence supply and demand such as supply security, weather trends, exchange rates European prices, geopolitical issues, market sentiments and so on. This complicated mix can result in price volatility of 5 – 10% over the course of a few days.

The alternative option to flexible purchasing contracts is to procure annually on a single day which is high-risk strategy, with a 1-in-220 chance (220 working days in the year) of getting the best price. Purchasing the same energy requirement in chunks over multiple trades and longer periods of time from the wholesale

market (known as flexible procurement) avoids the high-risk strategy of single day purchasing. Flexible procurement enables the adoption of a robust risk strategy that can mitigate the price risks inherent in the current energy markets.

- 3.12 Wakefield Council's senior auditors carried out a stringent audit of YPO from December 2011 through to February 2012, and the flexible procurement model was examined. To that end the Organisations Gas framework agreement are recognised as being fully compliant and fit for purpose for use by Local Government and other public sector bodies.

4. Council priorities

- 4.1 The continued work of Property Services will enable the procurement of cost competitive utility and meet customer's needs, putting the customer at the centre of our service delivery as outlined in the corporate plan, complying with European competition requirements.

5. Risk management

- 5.1 The energy market is extremely volatile with prices varying significantly on a daily basis. Procuring gas on a flexible framework agreement will enable the Council to manage risks and better control costs by aggregated flexible, risk managed energy procurement.
- 5.2 Any decision to delay the renewal of the gas supply contract is likely to have a detrimental financial effect on the Council by extending current contracts and would not advantageous as it limits negotiable options.
- 5.3 The use of YPO and flexible contracts reduces the Council's risk in the volatile energy market

6. Financial implications

- 6.1 The energy supply market continues to be volatile, and estimates of future increases shall continue to be provided to Financial Services. Financial Services will be advised of the actual gas costs prior to the start of the first contract year commencing 1 June 2013.
- 6.2 Presently, the wholesale gas price is approximately 5% below the current 2012-13 contract prices. Current budgeted expenditure on gas supplies for the contract period 1 June 2012 – 31 May 2013 across all non-education and education buildings is estimated at £3.14m p.a.

7. Legal implications

- 7.1 Our in house Commercial Team - Legal Services have verified all relevant documentation related to YPO's framework agreement complies with Official Journal of the European Union (OJEU) protocol and the Public Contract Regulations 2006, and it is available for the Council to use.

8. Property implications

- 8.1 The continued work of Property Services will enable the delivery of a corporate contract for gas to all council buildings.

9. Staffing implications

- 9.1 Day to day management of the gas supply contracts shall continue to be undertaken by Property Services – Compliance & Energy Team.

10. Equality implications

- 10.1 As part of the procurement evaluation procedures, evaluation of equality policies will be included, and will be in line with the West Midland Forum for Equality in Council Contracts.

11. Consultation

- 11.1 Property Services shall advise Financial Services of potential future gas price increases and are working with our Commercial Team - Legal Services to ensure the framework contract is fully EU compliant.

Background papers

None.

Author

Mark Bassett
Interim Head of Property
☎ 01922 655918
✉ bassettm@walsall.gov.uk



Tim Johnson
Executive Director
Regeneration



Councillor Adrian Andrew
Deputy Leader
Portfolio holder – Regeneration

12 December 2012

12 December 2012