

## Briefing Note

# Re-Procurement of the Council's Electricity supplies effective from 1<sup>st</sup> October 2020 to 30<sup>th</sup> September 2024

### Summary:

- 1.1 There is a requirement to re-procure the Council's electricity supply contract from the 1<sup>st</sup> of October 2020. This briefing gives a recommended solution and outlines alternative options available.
- 1.2 As the revenue spend on electricity is around £780,000 per year (estimated £3.1m over the life of the contract) this is a key decision and requires approval from the Executive Councillor.
- 1.3 The Council purchases electricity that comes from 100% renewable sources (solar, wind, and hydro/wave) and this will continue in the new contract. This supports the Council's Climate Change Strategy aims to reduce carbon emissions.
- 1.4 It is recommended that this procurement decision is made as an out of cycle decision rather than wait until Strategy and Resources Scrutiny Committee on 5<sup>th</sup> October 2020. Energy prices fluctuate and ESPO report prices are currently at a low level. It is likely, although not certain, that electricity prices will increase this year.
- 1.5 Energy markets are complex so public sector organisations can take advantage of energy supply framework contracts. These are designed to procure large volume single supply contracts at more favourable rates than would be possible if organisations such as the City Council procured independently.

### 2. Recommendations:

- 2.1 It is recommended to approve continuing to purchase electricity via the Eastern Shires Purchasing Organisation (ESPO) energy framework. As outlined in Option 3 below.
- 2.2 The contract period for the provision of electricity should run for four years from the 1st October 2020 to the 30<sup>th</sup> September 2024. The Council may terminate this agreement by providing at least twelve months' notice, prior to the anniversary date of 1st October each year, following the initial 2 year period.

- 2.3 Authorize the Strategic Director or Head of Housing Maintenance and Assets to approve the actual electricity price tariff when the procurement is completed by ESPO.

### 3. Background:

- 3.1 Cambridge City Council spends approximately £780,000 per annum on electricity (excluding VAT based on the current year). The current contract commenced on the 1<sup>st</sup> of October 2016, procured via an ESPO Framework. Total Gas and Power is the current supplier. The contract expires on the 30<sup>th</sup> September 2020.
- 3.2 The Council currently purchases electricity that comes from 100% renewable sources (solar, wind, and hydro/wave) and it is planned that this will continue in the new contract. There is a small additional cost that will be confirmed when the actual procurement is completed. This helps supports the Council's Climate Change Strategy aims to reduce carbon emissions.
- 3.3 The energy supply market can be volatile and complex and requires specialist expertise to obtain best value. The Council, therefore, currently employs ESPO to procure its gas and electricity supply contracts and provide support with the account management.
- 3.4 There are other alternative options open to the council in order to procure replacement electricity supplies. These are summarised below:

**Option 1 – Direct procurement.** The Council could procure its electricity supply directly without the involvement of any third party specialist consultant advice. The market and tariff options available via direct procurement are complex and would involve significant officer time to draft tender documentation and manage an OJEU procurement process, which would be necessary due to the value of the contract involved. There is no guarantee that this option would deliver any significant benefits and, due to the Council's lack of specialist expertise in the market, it is unlikely that the outcome would be the best value.

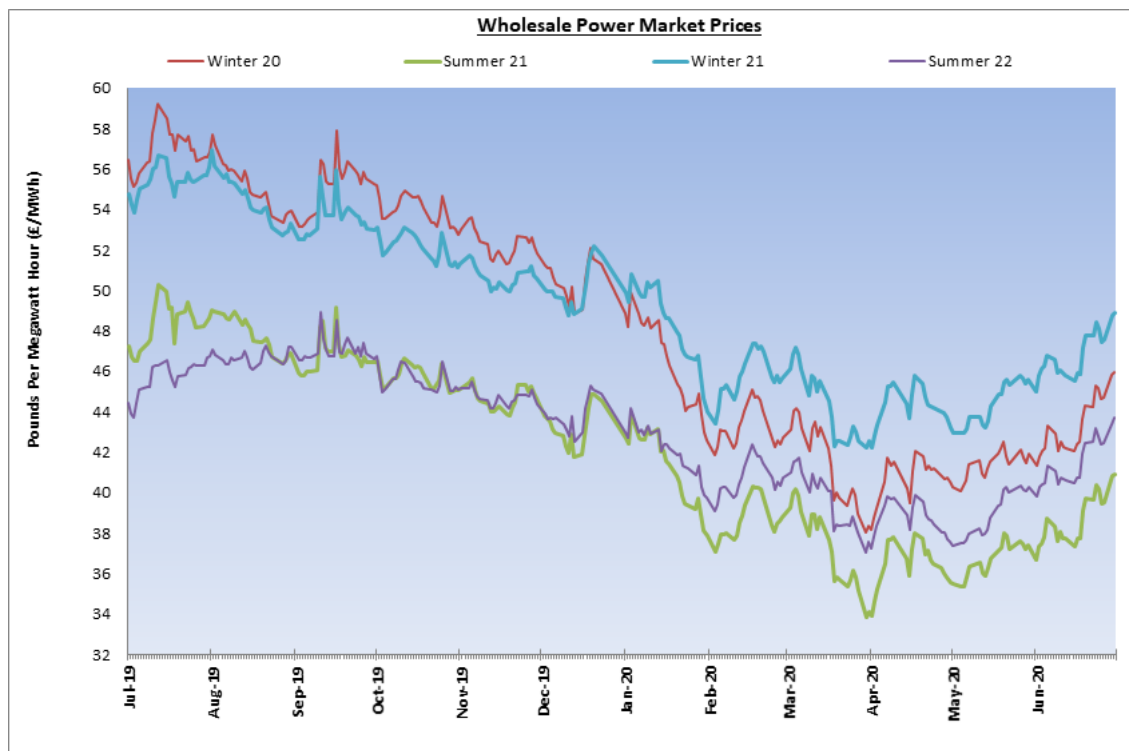
**Option 2 – Procurement via a consultancy/brokerage.** The Council could use an independent energy consultancy to broker the electricity contract. There would be an additional cost for this and any plan to use a consultant broker arrangement would first require market testing to procure a consultant. This would require specialist expertise and knowledge of the market.

**Option 3 – The use of a Framework agreement.** Procurement organisations are common in the public sector and can deliver significant economies of scale across a range of services by combining requirements of member organisations in order to secure more favourable pricing than would generally

be possible for each organisation acting independently. Such organisations guarantee fully EU compliant tendering and due to the scale of procurement they provide specialist procurement and market expertise which is especially important when dealing with energy markets. The Council already makes use of this solution and procures gas and electricity at a competitive tariff via an ESPO framework agreement. While past performance is no guarantee of future delivery the Council also benefits from a fully managed account service. It is therefore recommended that option 3 represents the best option for electricity procurement at the current time.

**3.5** Energy prices have proved to be unpredictable historically and while there is uncertainty of future supply costs the use of the ESPO framework will ensure that the Council has access to appropriate specialist market advice and will provide a good degree of certainty about pricing during the contract period. There are no other financial implications and the cost of electricity supply is already allowed for in the Council’s budget.

**3.6** ESPO has reported the events over the last 6 months have increased the volatility of commodity markets in general and this has been the case for energy. The graph below shows the movement for some wholesale electricity futures and gives a good indication of how the pandemic impacted commodity costs in the early part of 2020, and now that conditions are returning to normal, demand is recovering.



The graph shows prices per MWh for four different electricity futures over the last 12 months (“Winter 20” is for power used October 20 – March 21;

“Summer 21” is for power used April 21 – September 21 etc.) For example the wholesale cost of power for use in “Summer 21” was £47 MWh in July 2019, falling to £34 MWh in April 2020 this year and has now recovered to around £40 MWh. “Winter 21” power was as low as £43 MWh in April this year, is now £49 MWh, but was £55 MWh in July 2019.

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