

Shawn Chilcott



## DECISION OF DIRECTOR OF DEVELOPMENT AND ENVIRONMENT

DECISION NO. 16/17 DE42

**SUBJECT: ENERGY SUPPLY CONTRACT TO HIGHWAY INSTALLATIONS**

### **BACKGROUND:**

This report is for the entering into a 24 month agreement with SSE Energy Supply Ltd for the supply of unmetered power to the council's street lighting, illuminated traffic management, traffic signals and other unmetered electrical installations on the highway.

#### **Unmetered Framework**

The council's current framework contract is with LASER (Local Authorities South East Region) for the supply of unmetered energy to electrical installations on the highway. LASER are part of Kent County Council's Commercial Services unit.

NPower are currently used by LASER as their energy supply partner. The actual energy is purchased by NPower, on instruction from LASER, on the open market.

There have been no major problems with this framework, however predicted kWh unit price forecast for the current purchasing period (October 2015 - September 2016) was found to be underestimated resulting in an higher than expected expenditure for the Council.

The framework expires on 30 September 2016 and a new supply framework agreement is needed to be in place by 1 October 2016, to prevent the council incurring inflated standard tariff rates.

#### **Metered Framework (option for street lighting)**

The Council currently uses Energy Management Ltd as its consultant for procurement of its metered electricity and gas energy services who also provide a full contract management service, dealing with all bill, meter and supply queries etc.

The council's current metered contract for the supply of energy (gas and electricity) was tendered 2014 and commenced 1 October 2014. The contract was advertised via OJEU for a new framework of suppliers to provide electricity, natural gas and include street lighting for a 4 year period with an option to extend.

The tender was divided into four lots:

Lot one: Electricity Half Hourly metered supplies

Lot two: Electricity non Half Hourly metered supplies  
Lot three: Natural Gas Banded into three consumption bands  
Lot four: Electricity for Street Lighting unmetered supplies

All supplier tender submissions were technically evaluated on a MEAT (most economically advantageous tender) basis. The price / quality ratio agreed was 90% in respect of price and 10% in respect of quality.

Following assessment the framework was agreed as being the most cost effective option of procurement for the Council and signed off in August 2014 (Decision no: CSD37).

Framework supplier approval for lot four, street lighting Half Hourly unmetered, was given to SSE Energy Supply Ltd who from October 2016 will provide the Council with a choice of fixed kWh unit rates for 12 or 24 month periods for its unmetered energy. Call off from the framework can be made until its expiry at the end of September 2018.

**DECISION:** That the contract enters into a 24 month agreement with SSE Energy Supply Ltd for the supply of unmetered power to the council's street lighting, illuminated traffic management, traffic signals and other unmetered electrical installations on the highway, commencing 1 October 2016.

#### **Reasons:**

1. Due to the volatility and lack of stability within the current energy supply market, licensed energy suppliers will only hold their submitted tender prices on average up to a maximum of 24 hours.
2. The price obtained from SSE Energy Supply Ltd has been benchmarked by Energy Management Ltd against two other suppliers and is considered to represent good value in the current market.
3. Contract standing order 20.1.5 provides for the relevant Director and the Section 151 officer to authorise the award of electricity contracts.

#### **Other Alternatives Considered:**

##### **In-house (standalone) unmetered energy contract**

Whilst there are resources available in the council to carry out a procurement exercise, the council does not have the internal expertise to monitor markets, or identify the optimum time to seek tenders. The council would be making its energy purchase on a fixed date and therefore no assurances could be gained whether this is an optimum time to be making the purchase.

##### **Alternative framework agreements**

There are other external purchasing bodies who also offer the opportunity of access to Flexible Framework agreements for unmetered electricity supply. All provide similar levels of service as LASER and therefore it is considered that there would not be any significant advantage of going with an alternative Purchasing Organisation.

### **Risk Assessment:**

Market intelligence supplied by the council's framework consultant Energy Management Ltd clearly identifies energy prices will continue to increase and with the continuing lack of stability within the current energy supply market, it is envisaged prices will continue to increase for the foreseeable future. To mitigate against the risk of increased tariff rates between June and September 2016 it is essential the Council acknowledges this risk and acts appropriately to secure a competitive price for period October 2016 to September 2018.

### **Financial Implications:**

#### **LASER Framework**

The framework option with LASER is purchase in advance (PIA) - The total energy requirement for the 12 month period, commencing in October each year, is purchased in advance of the October start date at various times depending on market conditions. The final supply price is communicated to councils and is fixed for 12 months from October to September.

#### **Current charges from October 2015 to September 2016**

Duration	Details	Price p/kWh	Annual Cost
12 months	kWh unit price (inclusive of all Government levy's)	13.96	£977k

#### **Council Corporate Framework**

The prices received from SSE Energy Supply Ltd for supply from 1 October 2016 are set out below.

Duration	Details	Price p/kWh	Estimated Annual Cost	Annual Saving over current contract price
12 months	kWh unit price (inclusive of all Government levy's)	13.29	£930k	£47k
24 months	kWh unit price (inclusive of all Government levy's)	13.59	£951k	£26k

(Estimated Annual Cost based on an indicative 7m kwh usage per year)

Every 1p/kWh unit increase represents an approximate annual increase of £70k.

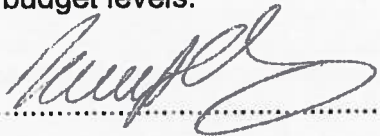
Our advisors, Energy Management Ltd, are recommending the 24 month price.

The result of the prices achieved will see an estimated saving of around £13k in the current year's budget, and a full year saving of £26k for 2017/18

### **Implications for Future Years:**

By securing a 24 month price for its unmetered energy will allow the Council to mitigate against expected energy market increases for the next 24 month period and also achieve savings over

current budget levels.

Signed  .....

Director of Development and Environment

Dated 21/6/16 .....

Signed  .....

Head of Finance & Property

Dated 21/6/16 .....

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1. Framework Decision Notice CSD37
2. Market test results May 2016
3. Market test results June 2016
4. Market graph