

NORTH SOMERSET COUNCIL DECISION

DECISION OF: COUNCILLOR ASHLEY CARTMAN, THE EXECUTIVE MEMBER FOR CORPORATE SERVICES



WITH ADVICE FROM: DIRECTOR OF CORPORATE SERVICES & S151 OFFICER

WITH ADVICE FROM: HEAD OF STRATEGIC PROCUREMENT

DECISION NO: 22/23 DP 521

SUBJECT: COMMISSIONING AND PROCUREMENT PLAN FOR NEW ENERGY CONTRACTS FROM SEPT 2023

KEY DECISION: YES

REASON: THE DECISION IS OVER £500,000

BACKGROUND:

It is intended that the Councils energy requirement will be procured in-line with the Climate Emergency Strategy and Action Plan approved by Council on the 12th of November 2019. The award of contract will need to assist in delivering the aim of the strategy 'to be a carbon neutral Council and carbon neutral area by 2030' by providing our energy with these key principles in mind. Consideration will always be given if carbon production can be; avoided, reduced, mitigated or stored, in line with the actions identified in the strategy (see Energy Reduction section below).

DECISION:

It is requested that this combined Commissioning & Procurement Plan be approved.

REASONS:

Introduction

In May 2017 the Council ran a tendering process for an Energy Supply Framework. The purpose of the framework, which is in effect a list of pre-approved suppliers, was to enable us to spot buy from the market at the right time without having to undertake a full procurement process.

Following the 1-year energy award made 1st October 2022, this framework has now expired. We do not intend to create another bespoke framework as our research has indicated a number of existing frameworks accessible to us that have broadly the same major energy providers. The Council's current energy contracts expire in September 2023. This report seeks to gain approval to proceed with the re-procurement of these contracts.

The energy market continues to be volatile, and it is important to ensure that North Somerset Council's energy demands can be met by a reliable and predictable supply. This procurement exercise seeks to re-procure energy through an existing framework as this is considered to be the most reliable procurement route currently available to cover the entire energy demand of the Council.

Requirement

Having received a delegated decision to allow the s151 Officer to approve the signing of new contracts will allow the Council to mobilise with speed to lock in the prices when it is considered the right for the supply of energy post September 2023.

The procurement will include the supply of energy for all Council buildings and also provide an option for schools to access the contract if they wish. The procurement will also incorporate a range of associated services, such as invoice validation and market advice, that are currently provided by Energy Management Consultants under a separate contract that expires in September 2023.

Contract Structure and Value

It is proposed to enter a three-and-a-half-year framework contract with West Mercia Energy (WME), with an option to extend for a further two years.

The term of the contract with WME does not mean that we will immediately enter into a three-and-a-half-year energy contract, but it provides contractual energy cover for this period from October 2023. The proposed contract period would enable the Council to move its energy contract start date from October each year to April, which would better align with the Council's financial planning processes and also avoid having to re-procure energy contracts going into the winter period, which is often a time of year where energy prices start to increase.

The actual length of energy contracts will be determined at a later date based on our view of the overall energy market and the performance of West Mercia Energy. The Council would normally procure longer term energy contracts (i.e. 4 years plus) to protect against price increases and provide cost and budget certainty. However, given the volatility and uncertainty in the current market over recent years, the decision on length of contract is not as straight forward.

Reviews have shown that wholesale energy costs are still higher than pre-2019, but have dropped considerably since September 2022 which means that we would anticipate a saving on current levels of expenditure although given that the market continues to remain unpredictable, it is not possible to estimate how much that would be. Whilst cost certainty is valued, we do not envisage that costs will have reduced far enough for the Council to procure longer term contracts this time.

Market

As previously highlighted the market continues to be unstable due to current limitations in energy sources, increased demand and other external factors including the situation in Ukraine. Whilst the larger suppliers appear to be stable, many smaller suppliers have gone

out of business in the last few years. Both within the domestic and business market, competition is currently limited.

Route to Market

West Mercia Energy (WME) are a public purchasing organisation who are owned by 4 Local Authorities and provide a service to 15 Local Authorities. They have a customer retention rate of 99.4% and offer a Fully Managed Service with either a Fixed or Flexible energy contract.

It is proposed to enter a 3.5 year framework contract, with an option to extend for a further two years, with West Mercia Energy (WME).

WME offer three models of energy procurement. In the explanation below the “period” means the period for which energy is being procured e.g., from October 23:

- Fixed – WME go to the market and purchase the energy required for the period in advance. Under this model, all of the energy is purchased in one go.
- Flex, Trade in Advance – all of the energy for the period is purchased before the period commences, but energy is generally purchased in blocks in the months before the period commences, optimising fluctuations in market price
- Flex, Trade during period – some of the energy is purchased before the period commences, but some of it is purchased during the period, again optimising fluctuations in the market.

There are variations within these models, and ways in which risk can be limited, It is also possible to change the model for different periods under the overall 3.5 year contract with WME. The actual model used will be agreed with WME once the contract has commenced.

Net Zero Compatible Energy

The Council currently uses “green” energy, which in principle is energy from renewable, non-polluting sources, as opposed to “brown” energy, which is produced from polluting resources.

Currently, within our Council target, we treat our “green” procured electricity as zero carbon. However, in 2021 the UK Green Building Council released energy procurement guidance for zero carbon buildings. In order for procured energy to be deemed zero carbon the energy must be renewably sourced, and it must provide credible additionality. For most “green” electricity procurement, the additionality requirement is not possible – projects must result in real and verifiable emission reduction or emission avoidance for the organisation / consumer, as their direct effect is to increase renewable energy generation.

For North Somerset Council, approximately 3,500 tonnes CO₂e result from electricity consumption. Using a standard green tariff will do nothing directly to reduce those emissions, however it does show ambition and commitment to climate action. It sends a signal to energy providers that green electricity procurement is important. Net zero compatible tariffs which meet those three criteria will reduce those 3,500 tonnes CO₂e to zero.

For green gas, no energy provider can currently guarantee all gas is renewable – for example produced in an anaerobic digester – British Gas and SSE guarantee a certain percentage of their gas to be renewable (10% and 25% respectively), with the rest of their gas being offset. While the purchase of green gas shows willing it does not meet the zero carbon buildings requirements.

Energy reduction and self-generation

The most effective way to manage energy expenditure and resulting emissions is to reduce the amount of energy that we consume. A wide range of energy reduction initiatives are ongoing, including LED Street Lighting and Spend to Save initiatives agreed across 19 sites.

It should be noted that regardless of the amount of renewable energy generated by these projects, the council will still need to secure an energy supplier. Renewable energy projects will continue to be considered and evaluated, and the procurement exercise that is the subject of this plan does not preclude us in any way from progressing such projects.

Consumption levels

In order to model the recommended strategy for procuring our next energy contract, future energy consumption levels from October 2023 have been estimated taking into account:

- Previous usage levels
- Impact of reduced office occupancy as a result of post Covid new Ways of Working
- Impact of Street Lighting LED project and other savings initiatives

Consumption levels that have been used to model the procurement options and financial implications are as follows:

- Electric - NSC Buildings & Street Lighting – 7,906,725 kwh
- Gas - NSC buildings – 5,051,527 kwh

Schools

Schools will be in scope for the contract but will have the option to contract independently should they wish. The level of take up by schools is not expected to impact the contract prices. Usage levels over the past year, based on the current number of schools who have chosen to opt into the contract, are shown below:

- Electric – Schools – 866,506 kwh
- Gas – Schools – 3,492,855 kwh

Modelling and Pricing

Updated usage values have been obtained from April 2022 and reflected within the financial modelling, although some elements will require further validation over the coming months.

Indicative prices have also been obtained based on the latest indications from the market and reflected within the financial modelling although it is important to note that under the West Mercia Energy model prices are not fixed and agreed at the contract signing date. This is because WME buy energy from the market over a rolling period up to the required usage levels advised by the Council within the contract. As a proportion of the energy will be

purchased in advance of need, it means that the council can potentially benefit from the hedging strategy used by WME. This approach has proven successful in recent years and allowed WME customers to benefit and avoid the more excessive increases that have been seen over the past 12 months.

The table below contains a combination of usage and costs, both current and projected, as well as a comparison to the approved budget for council services. School energy budgets are not held and so have been excluded from the table.

Indicative Modelling - Costs & Usage	Usage		Current Cost	Projected Cost p.a.		Profiled cost for 2023/24	Budget for 2023/24	Budget for 2024/25
	Previous assumptions	Projected		Based on				
				Current Usage	Projected Usage			
NSC power - excl schools	4,685,324	5,906,725	£ 3,548,664	£ 1,778,080	£ 2,241,602	£ 2,947,416		
Power - Street Lighting	2,000,000	2,000,000	£ 1,439,000	£ 759,000	£ 759,000	£ 1,126,200		
NSC gas - excl schools	6,112,212	5,051,527	£ 1,364,246	£ 1,375,248	£ 1,136,594	£ 1,289,121		
NSC - WMC fees	-	-	£ -	£ 42,651	£ 42,651	£ 21,325		
Sub total - revenue budget	12,797,536	12,958,252	£ 6,351,910	£ 3,954,979	£ 4,179,847	£5,384,062	£6,352,000	£5,380,000
Schools power - electric	866,503	866,503	£ 656,289	£ 328,838	£ 328,838			
Schools - gas	3,492,855	3,492,855	£ 779,605	£ 785,892	£ 785,892			
Sub total - schools	4,359,358	4,359,358	£ 1,435,895	£ 1,114,730	£ 1,114,730			
GRAND TOTAL	17,156,894	17,317,610	£ 7,787,805	£ 5,069,709	£ 5,294,577		-£ 967,938	-£ 1,200,153

The modelling shows that:

- The council currently expects to spend approximately £6.352m on its energy costs in the 2023/24 financial year, based on the contracts that started in October 2022 (yellow shaded column). This agrees to the budget reflected within the Medium Term Financial Plan (MTFP) approved by Members in February 2023. [nb these values exclude schools]
- The council could expect to spend approximately £3.955m per annum on its energy costs in the future **assuming the usage levels stay the same**, based on the indicative unit prices currently available from the markets and which could be obtained from WME after contracts have been signed (this is the first green shaded column).
- As noted above, the council has updated its forecast of energy usage which has changed slightly over the past year. Based on the **revised energy usage levels**, the council could expect to spend approximately £4.180m per annum on its energy costs in the future using the indicative new pricing rates.
- Whilst the modelling provides an indicative cost per annum for a new contract it is necessary to undertake further calculations to assess the likely impact in a specific financial year, i.e., for 2023/24, as the current contract with higher prices will remain in place until the end of September 2023.

When the existing contract costs are combined with the potential financial impact for the new contract, the table above shows that the council could expect to spend approximately £5.385m on its energy in 2023/24. This compares to a budget £6.352m, which would give a saving of £0.968m. Given that the council plans to fund £1.522m of its energy costs from reserves in that year, it would mean that the council would draw down less reserves than planned.

- A similar assessment has been carried out for the 2024/25 financial year, using the indicative market rates and updated usage levels. Costs are likely to be £4.180m, compared to the budget of £5.380m currently reflected within the MTFP, generating a saving of £1.2m.
- All of these prices reflect the council's environmental requirements, for example the unit cost for gas has a premium of 2.5 pence per kWh, the premium for Your Green electric is 1.25 pence per kWh and 1.05 pence per kWh for Pure Green electric.

Outline timeline

The current contracts expire end of September 2023 therefore the new contracts will need to be awarded by 30th September 2023 at the latest. This will be dependent on the chosen WME model; if the council decides to hedge and buy energy at beneficial rates prior to need then contracts would need to be signed sooner. This means WME will start to purchase energy prior to our need and the price will be unknown until the official contract start date in October 2023. It will be a combination of the hedged lots up to that point.

This provides an indicative timeline of activities with the new energy supply commencing from October 2023. .

STAGE	DEADLINE
Delegated Decision Report to the Executive	8 Feb 2023
Commissioning/Procurement Plan to the Exec Member	March 2023
Market analysis of prices	March – Sep 2023 (driven by market conditions and expert advice)
Contract Award	May – Sep 23 (as above)
Contract Commences	1st October 2023

Governance

The main officers involved in this contract are:

- Deputy Head of Strategic Procurement
- Head of Finance
- Principal M&E and Energy Engineer (Contract Manager)
- Property Team Officers
- Climate Emergency Project Manager

The following have been consulted:

- S151 Officer
- Assistant Director Place Making and Growth. In accordance with Delegated Authority 22/23 DP 53
- Finance Business Partner for Place

- Executive Member for Corporate Services

Social Value

The conditions of the mini-competition process, mean that procurements under the framework will be 100% price based. For this reason, TOMs cannot be utilised for this opportunity.

Evaluation Criteria

The evaluation will be made 100% based on the price and its green credentials.

Contract Management

Although our energy management consultants, Energy Management LLP, are in contract until September 2023, WME will provide the contract management support through this framework and will work alongside the Principal M&E and Energy Engineer, Mark Reed. A Contract Management Plan will be produced once the contract has been awarded.

OPTIONS CONSIDERED:

Four options were considered:

1. WME – preferred option as set out above
2. Crown Commercial Services Framework – this is mandated for use by central government and uses aggregated buying power to secure the best deal. The WME option provides a wraparound service including invoice verification and managing the admin with schools, and also provides more flexibility.
3. Energy Management Services – EMS have access to a framework that they could use to procure energy on our behalf. The framework is managed by EMS's holding company, Zenergi. Again, it is considered that the WME option provides better overall service and flexibility.
4. Tendering our own framework – this is the option that we chose four years ago, and this framework has now expired. Tendering a new one would be very resource intensive, and the output is unlikely to be as robust and efficient as the WME offering.

FINANCIAL IMPLICATIONS:

Costs of Energy Supply:

A table showing the indicative financial implications is included above and is based upon projected levels of usage and indicative market rates available at this time.

Given that the council's current contract was fixed at the height of the market, the table does indicate that the council will achieve financial savings in both 2023/24 and 2024/25 if market conditions remain as they are, and the council can sign with WME within expected

timescales to give them sufficient time to incorporate the council's projected usage within their existing model.

That being said, the market is still highly volatile and susceptible to change which makes the WME proposal even more attractive as they have the ability to hedge and buy energy over a period of time. This is clearly helped by their scale and the number of organisations who operate within the framework.

The final cost achieved will depend on several variables including the market conditions, the type of energy selected (i.e. to include green options), usage levels and the date of the contract signing.

Cost of Energy related services:

WME charge a range of fees for their services which are based on a combination of energy volumes and numbers of meters installed at the various locations. Prices also vary depending on the nature of the supply, i.e. metered, unmetered, data collected half hourly and non-half-hourly. A calculation using indicative volumes shows that the cost would be between £42,000 and £48,000 per annum.

Funding:

The majority of the council's energy supply contract is paid from resources set aside within the approved revenue budget and specific energy budgets are included within a range of service areas, across all directorates. The major components are street lighting and supply to office accommodation premises.

The council's approved revenue budgets for energy are £6.352m in 2023/24 although this is predicted to change over time; the MTFP assumes that the cost will be £5.380m in 2024/25, £5.775m in 2025/26 and £6.210m in 2026/27.

The Medium Term Financial Plan (MTFP) for 2023/24 included growth to the budget in order to meet the expected increase in costs, although noting that the energy prices spiked, £1.522m of this increase will be funded from the council's financial risk reserve on the expectation that prices would fall to lower levels within the following 12 months.

It can be seen throughout the report that part of the Council's energy portfolio and modelling is made up of schools, these costs have been excluded from the MTFP calculations and budget comparisons since they are funded directly by schools.

LEGAL POWERS AND IMPLICATIONS:

This contract will be procured following relevant Procurement Regulations (Public Utilities Regulations 2015) and North Somerset Council's Contract Standing Orders. Due to the nature of the contract, if a new framework of suppliers is required, the Find a Tender Service (FTS) will be utilised to advertise the opportunity.

The Terms and Conditions of the Contract will be the awarded Supplier's standard terms and conditions.

CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS:

The environmental implications of buying energy are extremely high which gives the council a good opportunity and responsibility to support the Climate Emergency aspirations through this procurement. The key areas of opportunity are:

- Buying Net Zero Compatible energy
- Continuing to reduce consumption levels
- Initiatives to generate our own energy

The energy procured under this contract will be net zero, as previously agreed by Executive.

CONSULTATION:

This paper and its recommendations have been discussed with:

- Amy Webb, Director of Corporate Services
- Informal Executive/CLT

RISK MANAGEMENT:

As described above, the energy market remains highly volatile and unpredictable, prices are still high but have come down in comparison to last year. The market will further be impacted by decisions by countries who provide energy to the UK (i.e. Russia) and the amount of renewable energy generated over winter.

In this context, the key risks of this procurement are as follows:

- Contract term – a short term (1 to 2 year) contract will be financially beneficial if the market recovers over the next 12-18 months and prices stabilise or reduce. However, a short-term contract carries the risk that, should the market deteriorate the prices for subsequent years will increase further. A longer (3 to 4 year) contract will offer price certainty for a longer period, but would be economically disadvantageous should the market recover and prices reduce over time. By using the WME arrangement this will assist mitigate this risk as they provide expert advice and experience and are monitoring the market.
- There is a risk that we fail to optimise the opportunity to mitigate the impact on the environment of the energy that we buy. This risk is mitigated through buying net zero compatible energy, and supported through our ongoing efforts to reduce demand and generate our own energy.

EQUALITY IMPLICATIONS:

Have you undertaken an Equality Impact Assessment? N/A

The initial Equality Impact Assessment completed last year demonstrated that none of the customer groups identified would be negatively affected by this contract.

CORPORATE IMPLICATIONS:

This contract supports the council’s desire to be a net zero estate by 2030, this contract is managed by the Principal M&E and Energy Engineer with support from the WME arrangement.

Part of the council’s energy portfolio includes schools and therefore they will be impacted by the pricing we procure, however the Principal M&E and Energy Engineer will consult with the schools prior to approaching the market and will provide information we have on possible price increases and schools can choose to opt out if they wish. Ultimately schools spend is not significant enough for its absence to impact our buying power, conversely they are likely to incur much higher costs procuring separately so are likely to want to remain part of our portfolio.

APPENDICES:

BACKGROUND PAPERS:

SIGNATORIES:

DECISION MAKER:

Signed:

Title:

Date:

WITH ADVICE FROM:

Signed:

Title:

Date:

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Date: