

Gas Supply Contract Renewal

To: Strategy and Resources Committee

Meeting Date: 2 November 2021

From: Steve Cox, Executive Director, Place and Economy and Tom Kelly, Director of Resources

Electoral division(s): All

Key decision: Yes

Forward Plan ref: 2021/064

Outcome: The Council continues to have a supply of mains gas secured at best value to those properties that require it.

Recommendation: The Committee is asked to:

- a) agree to renew the mains gas supply contract using the ESPO framework for the supply period 1 April 2023 to 31 March 2027;
- b) agree that expenditure on gas supplies may exceed £500,000 during the contract period as set out in Section 2.8 of the report; and
- c) discuss with ESPO how the Council can encourage a transition to greener fuels.

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Member contacts:

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1. Background

- 1.1 Cambridgeshire County Council is responsible for the utility bills at a number of properties, including around 70 of its sites that are connected to mains gas supply. The remaining sites are heated by either electricity, renewables or other fuels.
- 1.2 The Council's current contract for the supply of mains gas expires on 31 March 2023. The contract was procured through the Eastern Shires Purchasing Organisation (ESPO) framework. ESPO have contacted the Council asking us to confirm if we wish to renew the contract for the next supply period from April 2023 to March 2027.
- 1.3 The intended outcome is that the Council continues to have a supply of mains gas to those properties that require it, and the best value to the Council is secured.

2. Main Issues

Procurement process

- 2.1 ESPO have already carried out a full procurement process and appointed a sole supplier to their framework. The gas framework for the period 1 April 2023 to 31 March 2027 was awarded to Total Energies Gas and Power Ltd after a full tender exercise. An open procedure was used for this procurement and two tenders were submitted. The framework is fully EU/UK Compliant. ESPO have already done the procurement work, so there is no need for the Council to run a full tender.
- 2.2 ESPO have over 4,000 customers utilising their gas framework. The supplier appointed by ESPO is Total Energies Gas and Power Limited, which is the Council's current supplier. ESPO have historically provided a good service to the Council and continuity of supply would be advantageous as switching to an alternative supplier would require significant administration.
- 2.3 The Council's procurement team have advised that it would be sensible to continue to use the ESPO framework for this service because the Council does not have the in-house expertise or resource to be trading on wholesale energy markets directly, nor would it be in its interest to do so. Furthermore the Council will get better prices by going through a purchasing organisation such as ESPO. The only viable alternative would be to use a different purchasing organisation such as Crown Commercial Services, but there would be no advantage to doing this.

Gas pricing

- 2.4 The contract does not fix what the actual gas prices will be; it is for ESPO to then trade on wholesale markets to secure the best prices on the Council's behalf. Unit prices for gas are expected to increase each year by estimated average 4.11% (based on forecasts from the Department for Business, Energy and Industrial Strategy) but this could vary a lot from one year to the next. Gas prices are primarily influenced by the wholesale markets, global politics and supply issues, and secondly UK taxes. These factors will be the same no matter who our supplier is.

- 2.5 The price of gas is extremely volatile, therefore ESPO have adopted a flexible, aggregated, risk management approach to energy procurement. The contract is based on a fixed 'supplier margin' which shall remain fixed for the full duration of the contract. ESPO have to date performed well in securing low prices for the Council and its other public sector customers.

Gas usage

- 2.6 There is a large variation in gas usage from one year to another as it depends on the weather. The average annual gas usage in total for all Council properties over the last three years was 6,337,600 kWh use per year but this is on a declining trend. If there is a cold winter though it will go up again. In the financial year April 2020 to March 2021, the Council used 5,759,521 kWh of gas, and this had a carbon footprint of 1,197 tonnes carbon dioxide equivalent (CO₂e).

Transition to low carbon heating

- 2.7 The decline in gas usage will steepen in the next couple of years as the Council comes off gas onto renewable heating at more of its sites. 22 projects are already in progress this year that are expected to save approximately 2,200,000 kWh gas per year, so the Council can expect gas usage in the contract period to be at least a third lower than it is now. These projects will also save approximately 357 tonnes CO₂e emissions per year. Future years will bring further reductions in gas usage but the size of the reductions are hard to predict. Assuming that the Council retains the low carbon heating programme funded currently via the Environment Fund and applications for Public Sector Decarbonisation Scheme grants, to meet its carbon reduction targets, gas usage could even be close to zero by 2027.

Contract value

- 2.8 The contract value is very hard to estimate, because the eventual expenditure depends on both gas usage and pricing. The Council's spend on gas over the last three years was on average £223k per year. On that basis the contract value could be up to £900k, but this is extremely unlikely due to the expected reduced usage of gas in future as a result of 22 buildings this year replacing gas with heat pumps and more buildings to follow. The overall gas contract value for the four years 2023-27 is therefore estimated to be nearer to £488k, based on estimated price increases and reductions in usage. The gas expenditure could be far less if the Council accelerated the low carbon heating programme but this financial benefit is replaced through increased electricity costs. The carbon benefit is that the Council purchase on a green electricity tariff and grid electricity is decarbonising.
- 2.9 ESPO fees are 29p per meter per day. Based on our current portfolio that would be £8,044 per year (around 4% of current total cost) but will reduce as the Council dispose of sites or take them off gas. This is good value for the service we get. The framework also provides access to associated services including Bill Validation Services, Automated Meter Reading (AMR) and new meter connections, and includes a Dedicated Account Manager. ESPO also provides comprehensive support encompassing supply point administration, portfolio management and price

validation, general queries and advice related to the contract, and supply and market intelligence.

- 2.10 Legal advice has been obtained from Pathfinder Legal Services to review the contract terms and conditions, and no significant issues have been raised. Sites can be removed from the framework without penalty in the event of disposal of the site or permanent disconnection of the gas supply. ESPO have also confirmed that no penalties will apply in relation to any 'minimum annual quantity' if the Council reduces usage of gas for any individual site.

Timing

- 2.11 Although the contract is for the supply period from April 2023, ESPO require the Council to sign the Agreement for the renewal by 30 November 2021. The long lead in time is required because, to secure the best value for their customers, ESPO purchase gas up to 18 months in advance of the usage period. This means that purchasing for the new contract period will commence in October/November 2021. They need to have an understanding of how many customers are joining the basket prior to this start date, so they understand the amount of gas required and can ensure they get the best value for money for all customers.
- 2.12 The expenditure on this contract would be within 'business as usual' existing revenue budgets.

'Green gas'

- 2.13 Total Energies do also offer a 'green gas' tariff. The term 'green gas' refers to biomethane, which is produced from waste plant material and organic waste through a process called anaerobic digestion. Customers who purchase the green gas tariff are not supplied with biomethane directly, but the supplier purchases sufficient Renewable Gas Guarantee of Origin (RGGO) certificates to match the quantity of gas purchased. RGGOs are issued to producers of biomethane for the amount they produce and then sold on separately and can only be used once (similar to the process of Renewable Electricity Guarantees of Origin (REGOs) for green electricity tariffs). However, unlike electricity (which can be produced from 100% renewable sources such as solar), burning gas still releases carbon into the atmosphere, even if it is green gas. The advantage of green gas is that it is from biological sources rather than fossil fuels. These biological sources would have absorbed the equivalent amount of carbon during the plant's growth phase, making the emissions 'carbon neutral' (but not zero carbon emissions), however when the gas is burnt it does still emit carbon emissions and this occurs at a far quicker rate than the original absorption. The other challenge with green gas is that the sustainability of this option depends on the source of the biological material, which is unknown.
- 2.14 The prices for the green gas tariff are set each year so it is unknown what the cost of this option would be from 2023, but at the moment, the green gas option costs around 30% more than the standard tariff. At 2020-21 prices and usage, the green gas option would have added £61,485 to the Council's annual gas bill. The carbon footprint, based on 2020-21 usage, would have reduced from 1,197 tonnes CO_{2e} to 1,146 tonnes CO_{2e} (a saving of 51 tonnes or 4% reduction). The carbon footprint of

the green gas option would still need to be reported but just outside of the definitions of 'scopes 1 to 3' (direct and indirect emissions). The extra cost of green gas, based on 2020-21 prices and usage, would therefore be £1,218 per tonne of CO₂e saved. For comparison, the value of carbon for public policy appraisal set by the UK government is currently £245 per tonne. Due to the uncertainty of the costs and potential carbon savings of the green gas option from 2023, further discussion on the different options is required.

3. Alignment with corporate priorities

- 3.1 Communities at the heart of everything we do
There are no significant implications for this priority.
- 3.2 A good quality of life for everyone
There are no significant implications for this priority.
- 3.3 Helping our children learn, develop and live life to the full
There are no significant implications for this priority.
- 3.4 Cambridgeshire: a well-connected, safe, clean, green environment
Please see section 4.8 below.
- 3.5 Protecting and caring for those who need us
There are no significant implications for this priority.

4. Significant Implications

- 4.1 Resource Implications
The report above sets out details of significant implications in Sections 2.4 to 2.9.
- 4.2 Procurement/Contractual/Council Contract Procedure Rules Implications
The report above sets out details of significant implications in Sections 2.1 to 2.3, and 2.11 to 2.12.
- 4.3 Statutory, Legal and Risk Implications
The report above sets out details of significant implications in paragraph 2.10.
- 4.4 Equality and Diversity Implications
There are no significant implications within this category, as the proposal does not impact on individuals.
- 4.5 Engagement and Communications Implications
There are no significant implications within this category.
- 4.6 Localism and Local Member Involvement
There are no significant implications within this category.
- 4.7 Public Health Implications
There are no significant implications within this category.

4.8 Environment and Climate Change Implications on Priority Areas:

4.8.1 Implication 1: Energy efficient, low carbon buildings.

Positive/neutral/negative Status: neutral

Explanation: Although the use of gas causes carbon emissions, the Council's choice of supplier has no impact on the quantity of gas used.

4.8.2 Implication 2: Low carbon transport.

Positive/neutral/negative Status:neutral

Explanation: No effect

4.8.3 Implication 3: Green spaces, peatland, afforestation, habitats and land management.

Positive/neutral/negative Status:neutral

Explanation: No effect

4.8.4 Implication 4: Waste Management and Tackling Plastic Pollution.

Positive/neutral/negative Status:neutral

Explanation: No effect

4.8.5 Implication 5: Water use, availability and management:

Positive/neutral/negative Status:neutral

Explanation: No effect

4.8.6 Implication 6: Air Pollution.

Positive/neutral/negative Status:neutral

Explanation: No effect

4.8.7 Implication 7: Resilience of our services and infrastructure, and supporting vulnerable people to cope with climate change.

Positive/neutral/negative Status:neutral

Explanation: No effect

Have the resource implications been cleared by Finance? Yes

Name of Financial Officer: Stephen Howarth

Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the Head of Procurement? Yes

Name of Officer: Henry Swan

Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or LGSS Law? Yes

Name of Legal Officer: Fiona McMillan

Have the equality and diversity implications been cleared by your Service Contact?

Yes

Name of Officer: Elsa Evans

Have any engagement and communication implications been cleared by Communications? Yes

Name of Officer: Ken McErlain

Have any localism and Local Member involvement issues been cleared by your Service Contact? Yes

Name of Officer: Sheryl French

Have any Public Health implications been cleared by Public Health?

Yes

Name of Officer: Iain Green

If a Key decision, have any Environment and Climate Change implications been cleared by the Climate Change Officer?

Yes

Name of Officer: Emily Bolton

5. Source documents

[ESPO Mains Gas Framework](#)

[Valuation of greenhouse gas emissions: for policy appraisal and evaluation](#)