

ELECTRICITY PROCUREMENT FOR 2020-24

To: **Commercial and Investment Committee**

Meeting Date: **12 July 2019**

From: **Steve Cox; Executive Director, Place and Economy**

Electoral division(s): **All**

Forward Plan ref: **2019/047** *Key decision:* **Yes**

Purpose: **To consider a strategy for procurement of an electricity supply contract for 2020 to 2024.**

Recommendation: **Committee is recommended to:**

a) approve renewing Cambridgeshire County Council's electricity supply contract for 2020-2024 with ESPO

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1. BACKGROUND

- 1.1 Cambridgeshire County Council and Peterborough City Council collectively consume significant volumes of electricity per year (~21 GWh for Cambridgeshire and ~14 GWh for Peterborough), at an annual cost of approximately £6.2 million (~£3.4m for Cambridgeshire County Council and ~£2.8m for Peterborough City Council). This accounts for our entire portfolio but excluding schools. Cambridgeshire County Council currently are liable for electricity bills at circa 200 supply points, which includes around 160 buildings, plus street lighting, feeder pillars, electricity for traffic signals etc.
- 1.2 Both Councils also generate electricity from a variety of solar photovoltaic projects (including ~13 GWh per year from Cambridgeshire's Triangle farm) and Peterborough generates ~55 GWh per year from its Energy Recovery Facility.
- 1.3 The UK's electricity system is going through substantial change as we move from centralised power generation from coal, gas and nuclear to a broader mix of clean fuels including renewables and battery storage, across a greater number of sites. Energy regulation and markets are also changing and we need to prepare for this new future and benefit from the changes.
- 1.4 Cambridgeshire County Council and Peterborough City Council have established a working group to scope opportunities to improve the value obtained from the energy that we generate through (i) using it ourselves to enable us to reduce purchase costs, (ii) optimising our procurement mechanisms to create greater value from our generating assets, and (iii) managing future costs of electricity. The working group comprises of Sheryl French, Matthew Rathbone, Claire Julian-Smith and Sarah Wilkinson from Cambridgeshire County Council, plus Andy Cox, Jan Thistleton, Carole Coe, Elliot Smith and Richard Pearn from Peterborough City Council.
- 1.5 Opportunities to align all utility contract arrangements and potentially reduce associated administration fees are also being considered as part of this programme. Peterborough City Council has two electricity contracts, which are arranged through Crown Commercial Services. These are of one-year duration with six months' notice prior to the next procurement basket required to exit. Peterborough City Council also has some other smaller arrangements outside of these main contracts. Cambridgeshire County Council has a single contract in place for the supply of electricity via an arrangement with Eastern Shires Purchasing Organisation (ESPO), expiring in September 2020, with one year's notice required.

2. MAIN ISSUES

- 2.1 *Feasibility of options.* The working group has investigated the potential of a sleeving arrangement, to link our generation assets to our own consumption. Sleeving is a mechanism to link generation assets to specific consumers, through a Power Purchase Agreement. Under this arrangement we could be either the generator or the consumer, or both. However, upon more detailed examination have found that this is not currently a feasible option on its own. This is due to a number of factors including the following:

- Most of our generation is located at different sites to our consumption, meaning we still need to use the grid. All of the non-commodity charges (including transmission and distribution charges), will still apply as long as we are using the grid. These charges comprise a significant proportion of the purchase price of electricity.
- Non-commodity charges can only be avoided by generating on the site of consumption, or by private wires to neighbouring sites, which is of limited use. Maximising on-site generation will help, but we will still need to be connected to the grid for the remainder of our demand.
- Netting off import and export contracts could make us appear to be self-sufficient, but is not necessarily the most cost effective option.
- Much of our current generation capacity is already in an existing contractual arrangement, which is beneficial to keep as it is. For example, Triangle Solar Farm receives 'Contracts for Difference'. Contracts for Difference is a Government mechanism to support low carbon electricity generation, through guaranteeing the price we receive for the electricity we produce over a 15-year period.
- Additional generation capacity is not forecast to be operational until 2020/2021.

2.2 *Long term strategy.* In line with our Corporate Energy Strategy, we are on a journey to secure renewable and resilient energy supplies whilst maximising commercial benefit for the Councils. Procuring an energy supply contract is one part of that. This is illustrated in the diagram below. This paper is focussed on the first part of this strategy.

<p>1. Procurement of supplier. Purchasing energy at a low cost to meet demand, through securing a supply contract.</p>	<p>2. Additional services Making best use of our assets, generating income through selling energy, and supporting sustainable growth.</p>	<p>3. Continual improvement Reducing costs and waste through energy efficiency, new technologies and energy investment projects.</p>
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2.3 *Route to procurement.* Currently, both Cambridgeshire County Council and Peterborough City Council purchase electricity through a purchasing body; respectively, ESPO and Crown Commercial Services. These bodies provide Cambridgeshire County Council and Peterborough City Council with a wide range of services including:

- Development of and periodic review of price risk strategy;
- Data collation and validation;
- Invitation to tender, supplier evaluation, selection and appointment;
- Contract award;
- Supply point transfers;
- Support with disputes and queries;
- Contract performance monitoring;
- Provision of market intelligence information; and
- Trading team expertise: purchase required energy volumes in line with agreed price risk strategy.

- 2.4 For these services, ESPO charge annual fees which are included in the standing charges that we pay. These fees currently equate to around £12,500 per year (excluding schools) or ~0.37% of Cambridgeshire County Council's total electricity bill. Crown Commercial Services fees are structured slightly differently but equate to a similar proportion of the bill. The service from ESPO has in general been excellent and what we get for the fee is good value for money.
- 2.5 The alternative to buying through an organisation such as ESPO or Crown Commercial Services would be to run a procurement ourselves to contract with a supplier directly. The advantage of that approach would be that we could define the contract scope ourselves and would have full control over the specification. However, this would necessitate running an 'Official Journal of the European Union' (OJEU) compliant procurement process in-house, which would require significant in-house expertise, and would be time and resource-intensive. OJEU is the publication in which all tenders from the public sector which are valued above a certain financial threshold according to EU legislation, must be published. It is vital to get the scope and specification of such a contract right, which would have to consider metering, Automated Meter Reading, Meter Operator services, site works, data provision, billing platform and more. (A Meter Operator agreement is a legal requirement for all half-hourly electricity supplied meters.) The high cost, risk and difficulty of running such an exercise is currently unlikely to be worth pursuing, when compared with the alternative option. This direct procurement option is therefore not recommended.
- 2.6 *Contract renewal deadlines.* ESPO has already procured a supplier for the 2020-24 period, and have awarded the contract to Total Gas & Power, who also have the current 2016-2020 contract. Originally ESPO asked Cambridgeshire County Council to confirm by 1 April 2019 whether or not we wished to renew our contract from October 2020, however they have granted an extension until 1 October 2019 before we need to confirm.
- 2.7 The incumbent supplier with Crown Commercial Services is EDF, but their procurement for April 2020 onwards is still in progress and so we do not yet know who the supplier from 2020 would be. This is expected to be confirmed in August 2019. The deadline with Crown Commercial Services is 14 September 2019, to confirm if we wish to join their contract starting April 2020.
- 2.8 *ESPO or Crown Commercial Services.* We have the option of procuring through either ESPO or Crown Commercial Services. A comparison of the two options is given in the table below:

	ESPO	Crown Commercial Services
Current supplier	Total Gas & Power	EDF (for Half Hourly meters) / British Gas (for Non-Half-Hourly meters)
Deadline to join	1 October 2019	14 September 2019
Contract start date	1 October 2020	1 April 2020 (for Peterborough City Council, Cambridgeshire County Council could join on 1 Oct 2020)
Supplier from 2020	Total Gas & Power	Unknown

	ESPO	Crown Commercial Services
Fees	£40.15 per Non-Half-Hourly meter per year, £120.45 per Half-Hourly meter per year, 0.02p/kWh for unmetered Half-Hourly, (=~0.37% of Cambridgeshire County Council bill.)	£5 per Non-Half-Hourly 01/02 meter per year, £24 for 03/04 meters. £240 per Half-Hourly meter per year. (=~0.35% to 0.4% of bill)
Energy costs	Unknown. Depends on buying strategy / tariffs / products chosen, and on wholesale market. We won't know actual costs before we decide. Prices are updated every 6-12 months.	
Customer base / scale of operation	Gas and electricity frameworks used by over 100 local authorities, housing associations and charities, and 1600 schools and academies.	Largest energy purchaser for the public sector - 31% of public sector use.
Buying power / historic prices achieved	Good. Electricity prices were around 20% below the market in 2018-19.	Good. Similar to ESPO, very slightly higher in some cases.
Tariffs and pricing strategies.	Two main options: Purchase in Advance (fixed annually) or Purchase within period (every six months)	Three main options: Purchase in advance (lock prices annually), Purchase throughout year, or Longer term variable.
Customer service	Very good (based on Cambridgeshire County Council experience)	Satisfactory (based on Peterborough City Council experience)
Products and services	Contract already defined. Provision of additional services included. Billing routine established.	Procurement in progress. Provision of additional services included.
Other	Cambridgeshire County Council and Peterborough City Council are both members of ESPO, and we receive a significant dividend from this.	

Taking into account all the above, ESPO appears to offer the best option overall.

- 2.9 *Green electricity tariffs.* Currently, Cambridgeshire County Council purchase Total's 'Pure Green' electricity tariff at a small extra cost. The cost of this will be 0.05 pence per kWh from October 2019, equivalent to ~0.7% of our total electricity bill, or around £23,000 per year. This tariff means that we can report zero net greenhouse gas emissions for electricity, as the electricity we use can be matched to Renewable Energy Guarantees of Origin. Continuing with this tariff option would fit well with our Corporate Energy Strategy by supporting low carbon generation and clean growth. It will also have a positive impact on the Council's reputation, particularly in line with the Environment motion passed by Full Council in May 2019. Peterborough City Council will consider this option too.
- 2.10 *Pricing strategy.* Both ESPO and Crown Commercial Services offer a choice of fixed or variable prices. The 'fixed' option favours price certainty and lowers the risk of market fluctuation by purchasing all energy in advance of the period, and fixes prices annually. The

'variable' option favours price optimisation by purchasing throughout the period but this comes with some exposure to risk and price fluctuations. We have flexibility to choose either strategy and to change strategies each year.

- 2.11 *Additional services.* Most suppliers offer a range of additional services, such as Power Purchase Agreements, Demand Side Response, electric vehicle charge points, battery storage and smart metering. A Power Purchase Agreement is a legal contract between an electricity generator and an electricity consumer. Usually purchased by electricity supply companies on behalf of their customers, commercial Power Purchase Agreements are a variant allowing owners of electricity-generating assets to contract directly with consumers. Demand Side Response is a method of reducing strain on the National Grid by turning down energy use at peak times, in return for payment. These services will be essential in developing the second and third aspects of the strategy referred to in the diagram in 2.2 above. The energy procurement group will continue to scope further potential opportunities to reduce costs and generate income, whichever procurement route we take.
- 2.12 *Data.* A key challenge for development of further business cases such as Power Purchase Agreements or Demand Side Response services is ensuring good energy data to inform the profile of how and when we use electricity and how this maps against our generating assets. Cambridgeshire County Council currently has reasonably good data. Peterborough City Council will need to do some further work to improve their data.
- 2.13 Energy efficiency and reducing energy consumption will still have a key role to play, whatever procurement option we select. (The cheapest kWh is always the one we don't use!)

3. ALIGNMENT WITH CORPORATE PRIORITIES

3.1 A good quality of life for everyone

There are no significant implications for this priority.

3.2 Thriving places for people to live

There are no significant implications for this priority.

3.3 The best start for Cambridgeshire's children

There are no significant implications for this priority.

4. SIGNIFICANT IMPLICATIONS

4.1 Resource Implications

The following bullet points set out details of significant implications identified by officers:

- Annual revenue costs to Cambridgeshire County Council of approximately £3.4m.
- Electricity supply is essential for all our property assets, buildings and street lighting.
- Green electricity tariff will help ensure that resources are being used in a sustainable way, by purchasing electricity matched to renewable generation sources.

4.2 Procurement/Contractual/Council Contract Procedure Rules Implications

The following bullet points set out details of significant implications identified by officers:

- Procurement through either ESPO or Crown Commercial Services framework energy supply contracts will ensure compliance with Council's contract procedure rules.
- The Espo contract would provide an electricity supplier for October 2020 to September 2024.

4.3 Statutory, Legal and Risk Implications

The following bullet points set out details of significant implications identified by officers:

- Whilst there are no significant implications in this category at this stage, legal advice will need to be sought in future on any new procurement arrangements especially where we plan to use our generating assets and Demand Side Response assets for greater commercial gain. £10k has already been allocated for legal advice, however it must be noted that the cost of advice required may be in excess of this.

4.4 Equality and Diversity Implications

There are no significant implications within this category.

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.

Implications	Officer Clearance
Have the resource implications been cleared by Finance?	Yes Name of Financial Officer: Sarah Heywood
Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the LGSS Head of Procurement?	Yes Name of Officer: Gus de Silva
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: Joanna Shilton

Have any localism and Local Member involvement issues been cleared by your Service Contact?	Yes Name of Officer: Emma Fitch
Have any Public Health implications been cleared by Public Health	Yes Name of Officer: Stuart Keeble

Source Documents	Location
ESPO electricity framework 2020-24	https://www.espo.org/Frameworks/Energy/191-Electricity
Crown Commercial Services Energy services framework	https://www.crowncommercial.gov.uk/agreements/RM6011