

**REPORT OF HEAD OF FINANCIAL SERVICES**

**Portfolio: RESOURCE MANAGEMENT**

**LARGE SITES ELECTRICITY SUPPLY CONTRACT**

**1. SUMMARY**

- 1.1 The current contract for the supply of electricity to Green Lane Offices, Depot and Leisure Centres expires on 30<sup>th</sup> September 2007. In light of a substantially changed energy supply marketplace, this report considers how the Council's major site electricity requirements from 1<sup>st</sup> October 2007 should be procured. As an Associate Member of the North East Purchasing Organisation (NEPO), the Council can participate in NEPO's electricity contract with N Power and this option is recommended with effect from 1<sup>st</sup> October 2007.

**2. RECOMMENDATION**

- 2.1 That the Council joins the NEPO contract with N Power for the supply of electricity to the large user sites, with effect from 1<sup>st</sup> October 2007.

**3. DETAIL**

- 3.1 The contract for large sites electricity was awarded to Scottish and Southern Energy from 1<sup>st</sup> October 2004. This 3 year fixed price contract, with an annual value of £245,000, has provided excellent value for money over the last 2 years and this will continue for the next year. The substantial increases in prices within the energy markets since the contract started has totally vindicated the decision to enter into the 3 year fixed price contract. However, the Council will inevitably be faced with a substantial increase from October 2007 and early consideration on how to procure electricity is necessary.
- 3.2 The last 2 years have seen major increases in electricity prices. To a significant extent this has been caused by the volatility within the gas market, since a large proportion of electricity is generated by burning gas. It is likely that energy prices will continue to be subject to the pressures of world markets and industry experts consider that following the traditional formal tender routes is extremely risky, with timing so crucial to the results.
- 3.3 Research has shown that major energy procurers, such as the Office of Government Commerce (OGC) and NEPO, as well as leading energy consultancy businesses, are entering into contracts which allow the forward buying of energy in numerous 'tranches' at various flexible dates during the year. The expertise of market analysts, in making judgements of when prices

are 'attractive', should help secure prices that are lower than the market averages.

- 3.4 The Council is an Associate Member of NEPO and is entitled to participate in any contract arranged by NEPO. The NEPO electricity contract commenced in April 2004 and, with extension options, will expire in March 2009. Following a full tender process, the contract was awarded to N Power, on the fundamental basis of flexible forward buying. Up to 72 tranches of electricity can be purchased in any year at times when market prices are deemed 'attractive', leading to an annual calculation of prices fixed for the next financial year.
- 3.5 Advance purchasing of electricity for 2007/08 year will commence shortly and it is therefore necessary for the Council to consider whether to participate in the NEPO contract and, if so, to give its commitment to NEPO for participation from 1<sup>st</sup> October 2007.

#### **4. RESOURCE IMPLICATIONS**

- 4.1 The proposal contained in this report is designed to secure favourable prices within an increasingly expensive, complex and volatile market. The proposed contract arrangement with NEPO would operate from 1<sup>st</sup> October 2007 and an assessment of the financial impact will be carried out as part of the 2007/08 Revenue Budget exercise. The impact of energy price increases formed part of the Medium Term Financial Plan (MTFP) undertaken in June 2006 and the next MTFP will review the assessment using the latest available pricing data.

#### **5. CONSULTATION**

- 5.1 Proposal has been formulated following full consideration of relevant information sources, including energy market analysts and purchasing organisations.
- 5.2 The Council's Energy Management Group has considered the content of this report.

#### **6. OTHER MATERIAL CONSIDERATIONS**

##### **6.1 *Links to Corporate Objectives/Values***

Impacts on the effective delivery of all Council services , and the corporate objective to be responsible with and accountable for public finances is reinforced by the action proposed.

##### **6.2 *Sustainability***

The proposed contract provides for electricity generation based upon High Quality Combined Heat and Power ( CHP ) sources , rather than renewable sources. NEPO and NPower are currently discussing possible changes to the contract terms to further recognise sustainability issues. Of course Energy sustainability issues are within the remit of the recently reformed Energy Management Group. An initial target saving of 10% on energy usage has been set.

##### **6.3 *Risk Management***

- 6.3.1 The dramatic changes in the energy market are causing serious problems to all substantial users of energy, in both the public and private sectors. The Council's Medium Term Financial Plan recognises the major resource implications and regular re-assessments will take place to reflect continuing market supply changes.
- 6.3.2 The proposal to participate in the NEPO electricity contract is regarded as the preferred way of minimising the financial risks, compared with the uncertain traditional open tender procurement route. The expertise of market analysts in buying energy in tranches throughout the year should ensure that a below market average price is achieved.
- 6.3.3 The work of the Energy Management Group should help identify further energy efficiency measures to control usage around the Council.
- 6.4 **Health and Safety**  
No additional implications have been identified.
- 6.5 **Equality and Diversity**  
No material issues have been identified.
- 6.6 **Legal and Constitutional**  
The Council is an Associate Member of NEPO and entitled, under the NEPO Constitution, to participate in contracts negotiated by them on behalf of Members. The arrangements proposed are submitted to Cabinet for approval in accordance with Contract Procedure Rules 1(1) and 1(2).
- 6.7 **Procurement**  
Full consideration has been given to the alternative methods of contracting for electricity and the report's proposals should ensure that the procurement process produces the most advantageous prices whilst minimising risk.
- 6.8 **Efficiency**  
The Energy Management Group will be identifying areas where energy efficiency can be improved and the measures needed to secure increased efficiency. Any proposals will take investment payback periods into account in determining priorities.

## 7. OVERVIEW AND SCRUTINY IMPLICATIONS

- 7.1 There are no additional implications beyond normal budgetary performance reporting.

Contact Officer:	Dennis McKinnell
Telephone No.:	01388-816166 ext. 4245
E-Mail Address:	dmcklnnell@sedgefield.gov.uk
Ward(s):	Not Ward Specific
Key Decision Validation	Expenditure over £100,000
Background Papers:	Cabinet – 13 <sup>th</sup> May 2004 'Large Sites Electricity Supply Contract'.

## Examination by Statutory Officers

	Yes	Not Applicable
1. The report has been examined by the Councils Head of the Paid Service or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Councils S.151 Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. The report has been approved by Management Team	<input checked="" type="checkbox"/>	<input type="checkbox"/>