

ABERDEEN CITY COUNCIL

COMMITTEE: Finance and Resources
DATE: 15th March 2012
DIRECTOR: Stewart Carruth
TITLE OF REPORT: National Electricity & Gas Contracts for 2013 and 2014
REPORT NUMBER: CG/12/017

1. PURPOSE OF REPORT

This report seeks the approval of the Committee to allow for the signing of the Scottish Government's Agency Agreement in order for the Council to be party to the renewal process for the national electricity and gas contracts.

2. RECOMMENDATION(S)

It is recommended that the Committee approve:

- (i) the signing of an addendum to the Agency Agreement which will contractually commit the Council to entering into these renewed national electricity and gas contracts starting in 2013 and 2014 respectively.

3. FINANCIAL IMPLICATIONS

The overall cost for the supply of utilities to all Council sites, excluding housing, during 2010/2011 were £3.6 million for electricity and £3.5 million for gas. The costs incurred during the same period for street lighting, which is also part of the contract, was £1.6 million.

It should be noted that national contract only covers the payment for the electricity supplied. The Council has to pay transmission and distribution costs on top of this which constitutes approximately 17% of the overall cost. Although these ancillary costs are provided on a regulatory basis there is potential for them to increase above the rate of inflation.

Electricity and gas prices will be confirmed in 2013 and 2014 respectively after the tender process. Prices are expected to increase for the next few years. However the Distribution Use of System (DUoS) charges relating to street lighting have actually fallen because the

Council has moved from un-metered supply to half hourly passive supply in this area.

4. OTHER IMPLICATIONS

If the Council were to conduct a competitive tendering exercise on their own it would incur significant staffing costs and also specialist advisory support would be required.

Further the economies of scale from such a collaborative joint exercise would be lost if the Council did not participate with the joint initiative and as such it is very likely that the end users would incur higher costs for the provision of these utilities.

5. BACKGROUND/MAIN ISSUES

The Council is currently party to consortium contracts administered by the Scottish Governments Procurement and Commercial Directorate for the supply of both electricity and gas. The electricity contract comprises the supply to half hourly metered sites, non half hourly metered sites and un-metered supplies.

The existing electricity contract expires on 31 March 2013 and the gas contract expires on 31 March 2014.

There are currently 180 separate public bodies across Scotland participant to the national contracts accounting for 99% of all public sector volumes.

The re-tender process for the electricity contract is underway with responses being returned on 31 January 2012. Gas will be retendered during the third quarter of 2012. In preparation for commencement of the new electricity contract on 1 April 2013 (gas commences 1 April 2014) all public bodies wishing to participate in the new arrangements are required to formally agree to do so by 31 March 2012.

The renewed contracts depend on buying electricity and natural gas in advance. This forward commitment allows the Scottish Government to accurately identify the energy requirements for the public sector portfolio. Due to the buying strategy of the flexible contract ie price secured in advance of year of consumption it is necessary for the Scottish Government to have a forward commitment from public bodies one year in advance as well.

The UK electricity market in particular is dominated by 6 main suppliers all of whom have the capacity to manage the national contract. Whilst the UK market is amongst the most competitive in the world, the level of competition is not as strong as one would like and it is not anticipated that there will be any real variance in actual cost whoever the provider. New entrants are finding access to the market very

difficult and a number of market probes have been carried out by the regulators of the electricity and gas markets, OfGEM, in order to test and ensure that suppliers are not abusing their market positions.

The tender evaluation of these commodities will be centred on the cost models proposed, service delivery and quality, account management information, implementation capability which will be of prime importance should there be a change in provider and energy management and sustainability criteria. The sustainability criteria will give weighting to the incorporation of community benefits into the contract and what, if any, opportunities exist for tackling fuel poverty. A major focus of the re-tender will also be on increasing renewable generating capacity using the leverage of the contract.

Both the Scottish Government and the public bodies involved can terminate the agreement by providing 12 months notice. This period provides a realistic time frame both to determine exit arrangements and to put in place alternative contract arrangements.

6. IMPACT

The following outcomes derived from the SOA are relevant:

National Outcome 14: We reduce the local and global environmental impact of our consumption and production.

Local outcome: The impact of council activities on the environment is minimised, including a target of being carbon neutral overall by 2020 and a commitment that all new council developments will be carbon neutral. (VD&FL).

7. BACKGROUND PAPERS

N/A

8. REPORT AUTHOR DETAILS

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