

**Report of Martin Flanagan & Peter Lynes**

**Report to Chief Officer, Asset Management & Regeneration**

**Date: 13<sup>th</sup> October 2014**

**Subject: Award of Gas Supply Contract, YORE-9DMKPC**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary of main issues**

1. This report is to seek approval to award the above contract to GdF Suez.
2. The contract will provide heating to Council Offices, Civic Buildings, workplaces, leisure centres and some schools.
3. Pricing is competitive and will provide potential savings to LCC in line with its policy of spending money wisely.

**Recommendations**

4. The Chief Officer, Asset Management & Regeneration is recommended to approve the award of the contract to GdF Suez.

## **1 Purpose of this report**

- 1.1 This report seeks the approval to award the gas supply contract to GdF Suez for a period of two years, with options to extend for up to 10 years.

## **2 Background information**

- 2.1 If this procurement were not undertaken, gas consumed by the council's operations would increase in cost by 50%, as from 1<sup>st</sup> November 2014, when "deemed prices" would replace agreed forward contract values.
- 2.2 During the process of procuring tenders for a supply of gas to LCC for at least two years, three competitive bids were obtained through the "open procedure" procurement method.
- 2.3 A bid by Corona Energy was rejected at PQQ stage, since they were unable to meet the threshold level in the "Quality" section of the offer. In effect, they were unable to offer one of the key services set out in the contract offer.
- 2.4 Following evaluation of the bids from the remaining tenderers, Laser Energy / Total Gas and Power consortium, and GdF Suez, the bid from Laser/Total achieved the highest overall score for price and quality. The evaluation team were concerned that the price was abnormally low.
- 2.5 Clarification was sought from Laser/Total, through the Yortender process, who confirmed that there was no error, and that they could confirm their price was complete.

## **3 Main issues**

- 3.1 After confirmation was received that Laser/Total believed that their price was accurate, a decision was made by the Executive Project Manager to award the contract to Laser/Total. An announcement was made on 29<sup>th</sup> September 2014, at which point the Alcatel standstill period was started.
- 3.2 On 6<sup>th</sup> October, a challenge was received from GdF Suez, suggesting that, since the costs in the transportation were essentially fixed, and that this element of charge was almost 90% of the non-energy charges, Laser/Total could not have achieved a saving on GDF Suez's price of 7%.
- 3.3 The Alcatel period was stopped, and the challenge was reviewed by the authors of this report, the Executive Project Manager, and the Procurement Governance & Regulation Manager. It was decided that Laser/Total's assistance should be sought to rebut the challenge on 9<sup>th</sup> October 2014.
- 3.4 Laser/Total replied on 10<sup>th</sup> October that they had found that, despite an earlier clarification, they had made a mistake in believing that their price was complete. They could no longer stand by their original pricing and offered a new price structure.

3.5 The change in circumstances was further considered by the team along with the Executive Manager (Commercial), and a recommendation was made that the Laser/Total bid should be disqualified, as non-compliant, and the contract be awarded to GdF Suez.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

Consultation has taken place with the Executive Project Manager, the Procurement Governance & Regulation Manager, the Executive Manager (Commercial), and the Chief Officer, all of the Public Private Partnerships & Procurement Unit.

### **4.2 Equality and Diversity / Cohesion and Integration**

4.2.1 There are no particular implications for Equality and Diversity/Cohesion and Integration

### **4.3 Council policies and City Priorities**

4.3.1 This decision supports the Council's Core Value of 'Spending Money Wisely'.

### **4.4 Resources and value for money**

4.4.1 GdF Suez's bid represents the best value. If instead, the replacement bid from Laser/Total had been acceptable, it would have entailed higher costs amounting to 100.7% of the non-energy costs of the contract. Non-energy costs amount to approximately one third of the total value of the contract.

4.4.2 In terms of ability to procure the energy component at favourable prices, GdF Suez is able to offer LCC a spread across two strategies. The first is Month+1 standard-flex product as per current procurement. The second is a Day+1 product designed to exploit short-term market volatility. The combination of these two approaches on a risk-managed basis would enable GdF Suez to meet our requirement to avoid the risk of paying too much, while avoiding the disadvantageous effects of market anomalies. GdF's submission indicates that they have a record of achieving weighted average gas prices at least 6% lower than the average level of trades in the UK market place – a saving of approximately £160,000/year.

4.4.3 The GdF Suez bid demonstrated significantly higher quality. However, with a 75% price / 25% quality split, this difference had been outweighed. The recommended replacement now yields the most favourable price alongside higher quality

### **4.5 Legal Implications, Access to Information and Call In**

4.6 This decision, as an Administrative decision under a previously approved strategy, is not subject to call-in.

### **4.7 Risk Management**

- 4.7.1 It is considered that the decision to withdraw the acceptance of the Laser/Total bid could possibly generate a further challenge from the Laser/Total consortium. However, the terms and conditions of the procurement process were very specific about the inadmissibility of a changed late bid. Allowing the amended Laser/Total bid to be accepted would be entirely contrary to LCC Policy.
- 4.7.2 On this occasion, it is considered that the Alcatel standstill has produced a result entirely in line with best practice and OJEU procurement processes.
- 4.7.3 The risk if this procurement is not awarded is that that gas consumed by the council's operations would increase in cost by 50%, as from 1<sup>st</sup> November 2014, when "deemed prices" would replace agreed forward contract values.

## **5 Conclusions**

- 5.1 The recommended contract provides value for money, high service quality and flexibility for future changes in the energy market. It eliminates the risk of LCC relying on the professional services of a single colleague to provide expert guidance in this market.
- 5.2 The recommended contract is fully compliant.

## **6 Recommendations**

- 6.1 The Chief Officer, Asset Management & Regeneration is recommended to approve the award of the contract to GdF Suez.

## **7 Background documents<sup>1</sup>**

- 7.1 None

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.