

## Half-hourly electricity metering contract extension

Date: 11<sup>th</sup> March 2024

Report of: Senior Project Manager, Climate & Energy

Report to: Chief Officer - Climate, Energy & Green Spaces

Will the decision be open for call in?  Yes  No

Does the report contain confidential or exempt information?  Yes  No

### Brief summary

The report seeks approval from the Chief Officer for Climate, Energy and Greenspaces to award a contract extension to SMS Energy Services Ltd (SMS) for the provision of meter maintenance, installation, communications and data collection services for the half-hourly (HH) metered element of the Council's electricity supply portfolio.

The original contract was awarded to SMS in early 2021 (decision D52847), with the initial three-year term due to expire on 31<sup>st</sup> March 2024. The contract provided for a potential further 2 x 2 year extensions beyond this initial term.

The Energy Team have conducted benchmarking and considered other market risks and factors in determining the preferred approach with the conclusion that the best value for money solution is to award SMS a full 4 year extension in a single tranche.

The provision of this service is essential in ensuring that the Council's energy consumption is being accurately recorded and measured, and that this data is being uploaded into industry systems so as to ensure that supplier billing is accurate. Award of the contract extensions to SMS will ensure continuity in the provision of this service.

Pricing details are included with Confidential Appendix 1, which is deemed to be confidential under Access to Information Procedure Rule 10.4(3).

### Recommendations

- a) The Chief Officer for Climate, Energy & Green Spaces is recommended to:
- b) Approve the award of a single 4 year extension to SMS Energy Services Ltd (SMS) for the provision of maintenance, installation, communications and data collection services for half-hourly (HH) electricity meters across the Council's estate starting from 1<sup>st</sup> April 2024, in line with original contract (decision D52847), and with an estimated total contract value of £352,000.

## **1. What is this report about?**

- 1.1 The report seeks approval from the Chief Officer for Climate, Energy and Greenspaces to award a contract extension to SMS Energy Services Ltd (SMS) for the provision of meter maintenance, installation, communications and data collection services for the half-hourly (HH) metered element of the Council's electricity supply portfolio.
- 1.2 The original contract was awarded to SMS in March 2021 (decision D52847), with the initial three-year term due to expire on 31<sup>st</sup> March 2024. The contract provided for a further 2 x 2 year extensions beyond this initial term.

## **2 What impact will this proposal have?**

- 2.1 The Council is required to have HH metering contractual arrangements in place as a standard part of managing its electricity supply portfolio and as a standard energy supply industry requirement. HH refers to the frequency of readings and consumption data captured by the meters and HH meters are generally installed for higher consuming electricity supply points and sites. The Council currently has around 350-400 HH meters installed across its portfolio.
- 2.2 The provision of this service is essential in ensuring that the Council's energy consumption (and export) is being accurately recorded and measured, and that this data is being uploaded into the industry systems so as to ensure that supplier billing is accurate. Award of the contract extensions to SMS will ensure continuity in the provision of this service.
- 2.3 The Council's Energy Team, supported by Procurement and Commercial Services (PACS), has assessed alternative procurement routes, including a range of available framework options, and has undertaken price benchmarking to assess the best value for money option.
- 2.4 SMS's current and proposed pricing includes different rates for maintaining existing meters and maintaining meters where these have had to be replaced. SMS were requested to quote prices for both 2 and 4 year terms in line with the available extensions. Since only around 10% of the portfolio might be expected to require replacement each year, with the majority of the annual cost relating to meters charged at the 'existing' (i.e. meter not replaced) rate, this latter element of the cost is the most significant. SMS have proposed an increase of 11% in this 'existing meter' rate over that tendered three years ago, and are offering to hold this rate over a full four year period. The rate proposed for two years only is the same.
- 2.5 In terms of the rate proposed for meter replacements, this escalates year-on-year reflecting the progressively shorter contractual payback period to recover the costs of the new equipment installed. SMS have also cited increased manufacturer costs, reduced competition in the meter manufacturing market as a result in key players exiting this market and regulatory changes which have impacted costs, factors which the Council at least in part acknowledges.
- 2.6 Although it is difficult to provide an exact like-for-like comparison between SMS's current and proposed pricing since structured differently and over a different term, comparing

their current 2023/24 pricing with an estimated average annual cost over the proposed 4 year extension term indicates an increase of around 21%.

- 2.7 As regards benchmarking, the Energy Team have sourced price information from other potential providers, Again, although exact comparisons are difficult to make given differing pricing structures, SMS's pricing appears to compare favourably. There are also some concerns that a new contractor might take a more aggressive approach to meter replacements with the result that a higher proportion of the portfolio is charged at a higher 'replacement' rate, thus quickly offsetting any perceived benefit.
- 2.8 Given these market and other factors outlined above, and what might be expected as a matter of course in terms of annual inflation three years on from SMS's original tender, the pricing proposed by SMS over a 4 year extension term is not deemed unreasonable or excessive, and in light of the risks associated with alternative options it is recommended that SMS be awarded a 4 year extension in a single tranche.

### 3 How does this proposal impact the three pillars of the Best City Ambition?

Health and Wellbeing                       Inclusive Growth                       Zero Carbon

- 3.1 Given the nature of this service and proposal it has limited implications in terms of health and wellbeing or inclusive growth but is essential in enabling the Council to monitor its energy consumption accurately and to implement its carbon reduction strategy effectively, with energy consumption accounting for the vast majority of the Council's carbon footprint.

### 4 What consultation and engagement has taken place?

Wards affected: N/A		
Have ward members been consulted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

- 4.1 Since this decision relates exclusively to the provision of electricity metering services across the Council's corporate estate, Ward Member consultation has not been deemed relevant or necessary.
- 4.2 The relevant PACS Category Manager and senior Finance officers have been consulted on this proposal and report.

### 5 What are the resource implications?

- 5.1 The actual annual costs of this service will be in part determined by the level of meter replacements required each year, and also the number of supply points retained by the Council which require HH meters, but based on current assumptions this is estimated to be around £352k in total over the proposed 4 year term.
- 5.2 This cost is not budgeted for separately but included within service level energy budgeting, with these costs billed to the Council within overall electricity supplier invoicing and then journalled to the relevant cost centres by the Energy Team.
- 5.3 Pricing details are included with Confidential Appendix 1.

## **6 What are the key risks and how are they being managed?**

6.1 The main risk relates to ensuring appropriate contractual arrangements and continuity of provision of this essential service following expiry of the initial contract term on 31<sup>st</sup> March 2024.

## **7 What are the legal implications?**

7.1 This is a significant operational decision linked to decision D52847 in March 2021 for the award of the original contract, and is therefore not eligible for call in.

7.2 Although the decision on this contract extension is below the £500,000 key decision threshold in terms of value, it is noted that this may take the ultimate overall contract value (i.e. including the initial three year term of 2021-2024) just over this threshold. At the point of awarding the original contract this was not expected to be the case, but the market specific factors outlined in section 2 above have resulted in price increases above the level anticipated.

## **8 Options, timescales and measuring success**

### **What other options were considered?**

8.1 Benchmarking with framework providers was undertaken by the Energy Team, and a range of different contract timescales and pricing structures considered, but the recommended preferred approach is to award the full 4 years of extensions to SMS as set out in section 2 above.

### **How will success be measured?**

8.2 Success will be managed through monitoring costs and performance against the existing contractual KPIs.

### **What is the timetable and who will be responsible for implementation?**

8.3 The contractual extension will commence from 1<sup>st</sup> April 2024, following on immediately from expiry of the initial contract term. The Chief Officer for Climate, Energy & Green Spaces will be responsible for implementation.

## **Appendices**

- Confidential Appendix 1 – contractual pricing

## **Background papers**

- Report to the Chief Officer for Climate, Energy & Green Spaces - Authority to award a contract for the installation, maintenance and data collection for electric metering services – March 2021.