

Report of: Project Manager, Sustainable Energy and Air Quality Team

Report to: Director of Resources and Housing

Date: 26th July 2018

Subject: Supply of Gas and Electricity to Leeds City Council

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

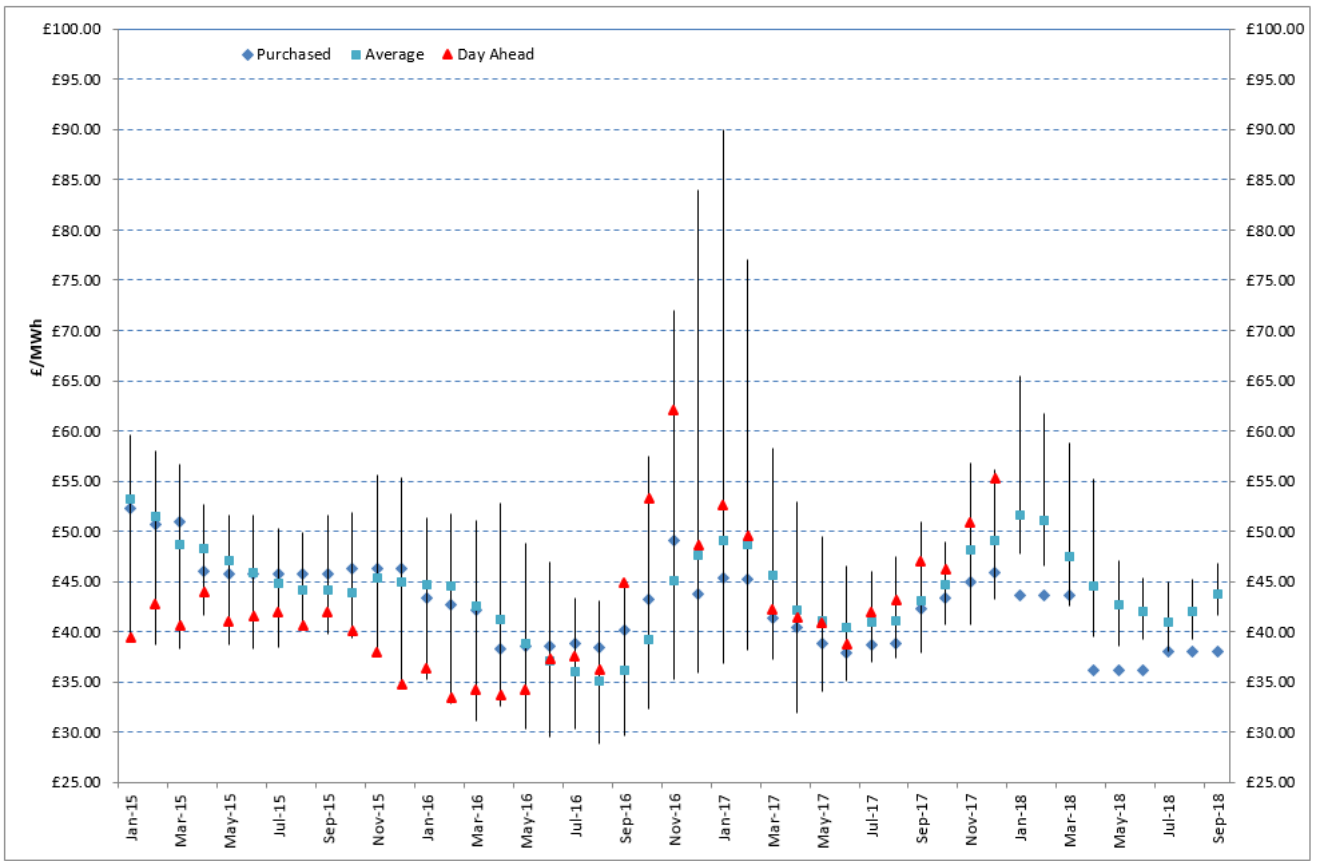
Summary of main issues

1. The Council's contract for gas expires on 31st October 2018 and for electricity expires on 31st March 2019, but has provision to extend both contracts.
2. The contract will provide heating and energy to council offices, civic buildings, workplaces, leisure centres, street lighting and some schools, as well as supplying fuel for combined heat and power units across the councils' portfolio of buildings.
3. The contract has competitive pricing which realises savings to the council in line with the policy on spending money wisely.

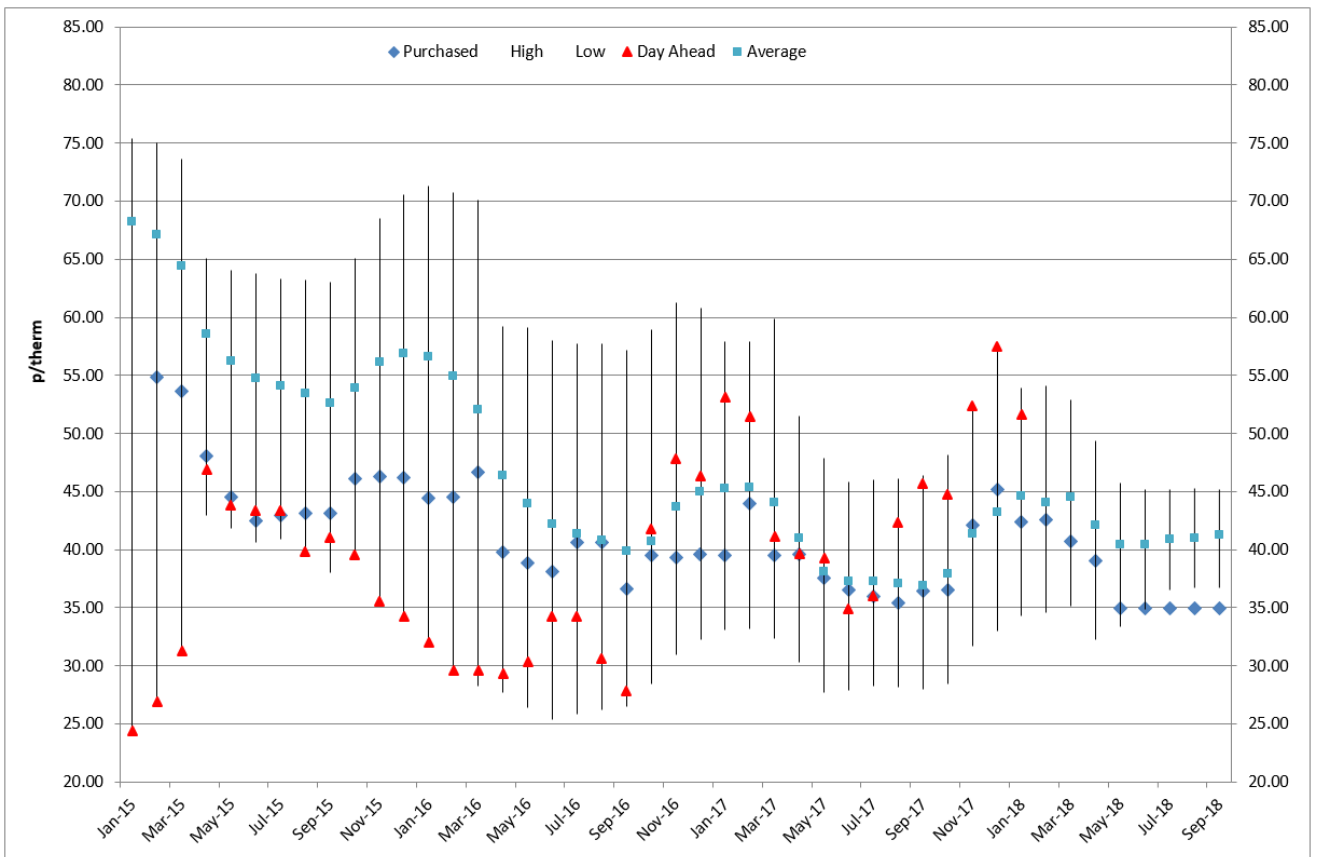
Recommendations

4. The Director of Resources and Housing is recommended to approve:
 - the extension of the Supply of Gas including a brokerage contract (YORE-9DMKPC) for 2 years (1st November 2018 – 31st October 2020) to Engie Gas Limited.
 - the extension of the Supply of Electricity including brokerage contract (9KLF-NAHFOE) for 2 years (1st April 2019 – 31st March 2021) to Engie Power Limited.

- 1.1 The purpose of the report is to confirm that the contract remains best value for money, and to subsequently seek approval to extend the gas and electricity contracts for a second period of 2 years.
- 1.2 Contract Procedure Rule 21.1 states that any contract may be extended before the expiry date where it is in accordance with its terms and proves to deliver best value for money. Approval for such extension shall be sought in a timely manner and supported by an appropriate delegated decision signed by the relevant Chief Officer.
- 1.3 Both the gas and electricity contracts contain such provision to extend for four 2-year periods beyond its initial term. Approval is being sought to extend for the second two year periods from 1st November 2018 to 31st October 2020 for gas and 1st April 2019 to 31st March 2021 for electricity.
- 1.4 The contracts for gas and electricity including brokerage were procured in 2014/15 and was awarded for an initial period of 2 years. The contracts contain the option to extend both of the contracts for a further 4 periods of 24 months.
- 1.5 During the 2017/18 financial year the council spent £16.5M (£3.6M gas and £12.9M electricity).
- 1.6 Savings from the contract have improved due to the bundling of all electricity supply into one contract, providing volume discount, and reducing the proportion of peak rate electricity. Using the brokerage service has also meant that the council has been able to forward buy a baseload of gas and electricity to protect it from spikes in cost over the period of the contract. The figures below show the average base unit prices against the price that has been secured by utilising this service. The table highlights the purchase price the council paid, the average price for the period and the day ahead price (the price that would have been paid if purchased upon that day). The lines show the spread of price for the commodity for that purchase period.



Electricity



Gas

2.4 The relationship has not been without issues the main one being a change in Engies software to generate their monthly charging download which has caused issues when passing billing details to the council through electronic data interchange (EDI). This has put an additional burden upon the Energy Team and generated a number of site accounts that have had to have been queried by the team. It has to be highlighted that some of the issues are as a result of how Leeds City Council has configured its database as other users of the same software have not experienced the same issue. The issue has now been resolved and resulted in some additional measures that have been implemented with Engie to ensure that we do not experience the same issues again;

- a non-contractual performance indicator has been agreed around the number of site accounts that fall into query or fail the process,
- beta testing of new software releases to ensure that the council does not suffer a similar experience with future software releases,

2.5 The extension is within the scope of the original contract, and is compliant within Contract Procedure Rules.

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3.1 There are 2 main options to consider;

3.1.1 Extend the contract with the existing supplier Engie Power Limited. Benefits would include no additional costs and the retaining of benefits of a rewarding relationship, especially the brokerage.

3.1.2 Go back out to the marketplace. Benefits would be to test the marketplace to confirm that Engie Power Limited remain competitive.

However, disadvantages would be:

- the cost of the tendering exercise,
- the cost of administration required by various departments to change supplier for 2300 plus sites,
- the potential loss, if there is a change of supplier, of dual fuel discount
- the potential loss of benefits, especially brokerage.

3.2 The mark-up by Engie Power Limited remains at the same level as when the contract was tendered. This was the best available on the market at the time. The market has not changed in terms of price build-up since the original tendering exercise.

3.3 The prices received at the time of tendering were lower than any other bidder and the level of savings has been greater than anticipated.

3.4 The brokerage service included in the contract for electricity has enabled Leeds City Council to significantly improve on average market prices. Between April 2016 and September 2017, a total of £1.345M had been saved on electricity and just under £1M on gas, compared to established industry benchmarks. The consistency and scale of the savings made is impressive and serves to vindicate the approach being taken.

- 3.5 The current contract continues to provide a much improved quality of service compared to previous suppliers. Response to queries, query resolution and number of queries are each significantly improved.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 Consultation has taken place with members of the Energy Strategy Team, the Executive Programme Manager who has delegated authority with regard to energy procurement and the Procurement Category Manager for the energy contracts.

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 The rationale of flexible purchasing is to optimise buying opportunities and thereby capture the best available value, as explained in section 3.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The decision to extend the contract is a Significant Operational Decision under Article 13 of the Council's constitution, under footnote 1b to article 13.4a.

4.6 Risk Management

- 4.6.1 The risk if this contract is not extended is that the electricity consumed by the Council's operations would increase in cost.

5 Conclusions

- 5.1 It has been concluded that based on market intelligence and in accordance with the risk management strategy the gas and electricity contracts should be extended for the second available extension of 2 years.

6 Recommendations

- 6.1 The Director of Resources and Housing is recommended to approve:

- the extension of the Supply of Gas including a brokerage contract (YORE-9DMKPC) for 2 years (1st November 2018 – 31st October 2020) to Engie Gas Limited.
- the extension of the Supply of Electricity including brokerage contract (9KLF-NAHFOE) for 2 years (1st April 2019 – 31st March 2021) to Engie Power Limited.

7 Background documents¹

None.

¹ 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.