

Report of: Chief Officer of Sustainability Energy & Air Quality (SEAQ) Team

Report to: Director of Resources & Housing

Date: 20/12/2019

Subject: Request to approve contract award for supply of biomass pellets call-off from YPO framework for solid fuels (ref. 737/lot 3)

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 & diversity and cohesion & 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: Rule 10.4(3)	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Appendix number: Appendix 1 - YPO biomass supply - tender eval. spreadsheet (DN443813)		

Summary of main issues

1. A supply contract is required for biomass pellets in order to fuel 4 biomass boilers installed within council assets.
2. This contract replaces an existing arrangement where both parties have agreed to end the contract early, by mutual consent.
3. Based on anticipated order volumes, an estimated 200 tonnes of pellets is required per annum across the 4 sites.
4. The new contract will be for an initial period of 3 years with an option to extend for 2 x 12 months, giving a potential contract period of 5 years in total. Uptake of the extension will be subject to both performance and the council's preference at the time.
5. Two bids were received by the council, both of which were compliant.
6. A robust evaluation process was subsequently followed and the preferred bidder has been identified as AMP Biomass Fuel Ltd. The total tendered cost was £216,480.

Recommendations

7. In line with contract procedure rules (CPRs) 15.3 and 18, the Director of Resources & Housing is advised to accept the evaluation outcome and approve the award of a contract to AMP Biomass Fuel Ltd for a period of 3 years from the 1st of February 2020 with the possibility of 2 potential 12 month extensions after the initial term.

1 Purpose of report

- 1.1 The purpose of this report is to seek authority to award a contract AMP Biomass Fuel Ltd (trading as AMP Clean Energy) for the supply of biomass pellets.
- 1.2 The content of the report provides the justifications for why this decision is recommended.

2 Background information

- 2.1 The current contract – in its extended form – was with Forever Fuels Ltd but after the extension was agreed they stopped responding and our previous contract price variation discussions – which had been ratified in principle – were paused.
- 2.2 It transpired that Forever Fuels were bought out by a company called Balcas on the 1st of September 2018. This necessitated the need for a novation agreement, although technically this was not been properly formalised. We have continued to accept deliveries from 'Forever Fuels' ('FF') but in reality this has just been Balcas continuing FF as a brand alone, under another subsidiary called Brites.
- 2.3 Furthermore, Balcas elevated the prices quite markedly compared to what we had formerly agreed (in principle) with Forever Fuels.
 - Clydes - £220.00 + VAT per tonne (formerly agreed £210)
 - All other sites - £225.00 + VAT per tonne (formerly agreed £217)
- 2.4 The other major change was that the lead-in time for deliveries went up to a potential 3 weeks during the peak winter demand (during periods of cold weather). This went against what was agreed in the contract – which was 5 working days – and caused major operational problems as the boiler stores ran dry. This risked causing knock-on effects as a continuation could have put undue pressure on conventional contingency boilers. In addition, such delays reduced the subsidy income we were able to accrue, and we couldn't allow this to continue.
- 2.5 Balcas were unable to renegotiate on their prices and their service levels were fixed. They fully accepted that on this basis we were left with little option but to re-engage with the market and go elsewhere for our supply requirements so as to: a) avoid paying too much for our pellets and b) mitigate the risk of service cut-outs due to excessively long lead-in times for the pellets.
- 2.6 It was identified that the Yorkshire Purchasing Organisation (YPO) had a framework in place that would allow us to call off for our wood pellet needs, namely framework reference 737 (lot 3), which relates to 'solid fuels & related services'. This was considered to be the best option given the fact that it was tailor-made for the very purpose we needed it.

3 Main issues

- 3.1 Given the background discussed above, a contract was required to provide continuity of biomass pellet supply when the existing arrangement is brought to an early conclusion.
- 3.2 A call-off from a YPO framework was undertaken (solid fuels - ref. 737/lot 3), with a 70/30 percentage split chosen between price and quality. This was due to the

fact that our core focus was on attempting to achieve a low cost supply since quality considerations are secondary concerns for a simple contract of this nature, given that prescribed specification requirements cover the key elements.

- 3.3 Via past experience in the field and up-to-date market knowledge, we ensured that the specification and evaluation methodology were both robust and technically sound. In particular, we sought to make sure that pellets:
- a) Conform with appropriate quality standards that reflect boiler manufacturer recommendations and industry best practice;
 - b) Are sourced from virgin stem wood;
 - c) Are capable of being hose blown into storage receptacles by the provider in question; and,
 - d) Adhere to UK legislation around sourcing of legal and sustainable timber.
- 3.4 A total of two bids were received prior to the deadline and both were considered compliant. The highest scoring organisation was AMP Biomass Fuel Ltd, who placed 1st on quality and 2nd on price (but only marginally).
- 3.5 AMP scored 960 points overall – from a total of 1,000 available points – achieving 685 points for price (out of 700) and 275 points for qualitative aspects (out of a possible 300). Their combination of scores made them the winner by a clear margin and these scores are clearly indicative of a high quality bid submission.
- 3.6 AMP are one of the largest wood fuel distributors in the UK and they also have regional hubs, not to mention a local depot in the vicinity.
- 3.7 Within their method statements they provided excellent responses in terms of explaining how they ensure unfettered access to pellets and how they avoid any supply chain issues. The council actually experienced the brunt of industry-wide pellet shortages last year so it provides comfort to know that AMP avoided these problems, via proactive management and forward-thinking in their own business.
- 3.8 Their nationwide fleet is also very extensive, which gives further comfort, and they have preferential supply chain arrangements for pellet imports, thus providing additional security of supply, beyond holding large stocks alone.
- 3.9 It is anticipated that the new supply arrangement will commence at the start of February 2020. There might be some brief overlap of service provision between the outgoing supplier and the appointed contractor but this interface will be managed proactively.

4 Corporate considerations

4.1 Consultation & engagement

- 4.1.1 The service areas affected by this procurement have been consulted throughout the process and were fully aware of the need to tender the requirement.

There was thorough engagement with the environment programme board (EPB) before a decision was sought.

4.2 Equality & diversity / cohesion & integration

- 4.2.1 There are no equality and diversity issues to be considered in taking this decision given that this contract is completely neutral in terms of its links to that agenda.
- 4.2.2 Regardless, a screening document has been prepared and an independent impact assessment is not required for the approvals requested. The screening document will subsequently be sent to the equality team to be approved and published.

4.3 Council policies & city priorities

- 4.3.1 Biomass is a low carbon fuel, compared with conventional sources of commercial building heating, such as gas. Ergo, this supply arrangement fits in with the council's commitments to lower carbon dioxide emissions from both its own activities and those of the city as a whole, as per the climate change emergency work we are tasked with.

4.4 Resources & value for money

- 4.4.1 An options appraisal of potential tendering options identified that the council going out to market in its own right was the only viable option.
- 4.4.2 The tender has come in slightly under budget in terms of offering a cheaper cost per tonne of pellets than was originally envisaged based on market analysis.
- 4.4.3 The costs of the biomass pellets will be covered by the respective services that are custodians of the sites where the biomass boilers are located. Each site will be responsible for purchasing their own pellets using money set aside within their revenue based energy budgets.
- 4.4.4 Local day-to-day management of pellet ordering and associated requirements will be carried out by the site.

4.5 Legal implications & access-to-information

- 4.5.1 In line with the council's constitution, the Director of Resources & Housing is authorised to make the decision to award this contract to AMP Biomass Fuel Ltd.
- 4.5.2 After this decision is made, a 10-day standstill period will be observed. This step is taken to eliminate any future risk of challenge and to avoid a potential risk of the contract being set aside.
- 4.5.3 There are no specific legal impediments or implications to speak of and this scheme falls under a 'significant operational decision' ('SOD') as defined under article 13 (part 2) of the council's constitution. The decision requires publication but is not subject to call-in under the scrutiny board procedure rules.
- 4.5.4 Appendix 1 constitutes the tender evaluation scoresheet and is therefore confidential/exempt information as per access-to-information procedure rule 10.4(3).

4.6 Risk management

- 4.6.1 AMP are a certified ENplus trader and have been distributing pellets for 13 years. They specify >99% durability from their pellet suppliers whereas the standard ENplus spec is for 98%. This reduces the risk of pellet breakdown, which then decreases potential boiler downtime from excessive fines (dust). All shipments have independent analysis and a small payload sample is taken from each delivery vehicles for testing and corroboration – which is excellent. Robust checking procedures are in place, both visually and physically, to help with pellet quality screening. Some 10% of their vehicles also have automated screening too, which is part of their fleet modernisation strategy.
- 4.6.2 AMP also look to minimise pellet blowing distances in terms of tubing product into pellet stores, which reduces risk of degradation. Drivers check for any store issues during each delivery and will configure best way of delivering at the start of contract.
- 4.6.3 Five working days will be the standard lead-in time post order, which compliant with expectations. They also have a pragmatic approach to emergency deliveries and this was backed up with a logical explanation of their system, i.e. diverting other customer deliveries or splitting loads. Nevertheless, contracted partners receive priority in busy periods. They also have dedicated (employed) delivery drivers and their own fleet vehicles, and they use the same route optimisation software as a leading supermarket chain.
- 4.6.4 They can also provide fuel monitoring software to eliminate the need for manual monitoring of stores and manual ordering, which in turn reduces the risk of human error and makes matching demand and supply in the winter far easier. This hardware would also mitigate the risk that the sites run out of fuel, which would have a deleterious impact on accretion of renewable heat incentive (RHI) government subsidy revenue if it were to transpire. It is recommended that the sites in question consider the purchase and installation of this equipment as soon as possible post-contract award.
- 4.6.5 In addition, they recommend having a stock of pellet bags at all sites to cover emergency situations; for example, to mitigate the risks during spells of prolonged inclement weather over the winter months.
- 4.6.6 All other risks around pellet quality and compliance to legislation are dealt with, emphatically, through the minimum specification requirements that were imposed by the tender documentation and therefore, within the contract too by association.

5 Conclusions

- 5.1 The council needs to establish a long-term supply of biomass pellets to replace a current arrangement that is no longer fit-for-purpose. As such, the procurement is a formality and the route described in this report is considered to be the best way through which to satisfy this obligatory council requirement.
- 5.2 The tender has achieved an excellent result in terms of securing a high quality preferred bidder.
- 5.3 This procurement was tendered on a competitive basis – using an established YPO framework – and therefore, value for money should be engendered by the

arrangement, assuming that we set out our requirements accordingly, which we believe we have.

- 5.4 The company that has won the right to be appointed has a wealth of experience in the biomass industry and is considered a marketplace leader in the UK. This should give the council confidence that AMP Biomass Fuel Ltd has the ability to deliver a high quality service.

6 Recommendations

- 6.1 In line with contract procedure rules (CPRs) 15.3 and 18, the Director of Resources & Housing is advised to accept the evaluation outcome and approve the award of a contract to AMP Biomass Fuel Ltd for a period of 3 years from the 1st of February 2020 with the possibility of 2 potential 12 month extensions after the initial term.