

Report of Senior Project Manager, Sustainable Energy & Air Quality

Report to Chief Officer, Sustainable Energy & Air Quality

Date: 18th December 2020

Subject: Award of an interim maintenance contract for Merrion House gas-fired generators

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| Are specific electoral wards affected? If yes, name(s) of ward(s): | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Has consultation been carried out? | <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 |
| Will the decision be open 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

1. Main issues

- The Council installed gas-fired generators as part of the Merrion House refurbishment, which were designed to be operated at peak times to generate electricity to create an income stream to the Council and to reduce running costs for the building. Technical issues have resulted in an extended period of downtime for the generators recently, during which time the previous contractual arrangement for maintenance has expired.
- The Council has separately commissioned ENGIE through the provisions within its existing energy supply contracts to optimise the assets based on market prices in terms of when they will operate, provide power to the building, and export to the grid.
- It is proposed that Contracts Procurement Rules 8.1 and 8.2 be waived and that Edina UK Ltd be awarded an interim contract to a value of up to £90,000 allowing a sufficient period in which a competitive tendering process can be completed and the successful contractor mobilise. This will ensure, particularly with winter arriving, that short-term savings and income resulting from the optimisation of the Merrion House generators can start to be realised quickly.

2. Best Council Plan implications (see the [latest version of the Best Council Plan](#))

- The Council's energy strategy and energy efficiency proposals support Best Council ambitions to:
 - be efficient and enterprising;
 - become more financially sustainable and resilient, safeguarding public funds while achieving value for money;
 - have a modern, efficient, sustainable estate.

Resource implications

- The arrangements proposed for the Merrion House generators are currently forecast to provide a saving of around £84,000 per annum (although subject to energy market prices).
- The maintenance costs will be met from the existing Merrion House budget, noting that the energy savings will also accrue to this budget.
- A waiver of Contract Procedure Rules 8.1 and 8.2, which require competition in respect of intermediate value procurements, is recommended such that the Council can start to benefit immediately from these savings while a competitive tendering exercise is completed.

Recommendations

The Chief Officer (Sustainable Energy & Air Quality) is recommended to:

- a) Approve the waiver of Contracts Procedure Rules 8.1 and 8.2 (relating to the requirement for competition for intermediate value procurements) in respect of an interim maintenance contract for the Merrion House gas-fired generators;
- b) Approve the award of a contract to Edina UK Ltd in the sum of a maximum of £90,000 for the maintenance of the Merrion House gas-fired generators, noting that it is intended that the contract commence on 5th January 2021 and expire on 4th January 2022.

1. Purpose of this report

- 1.1 The purpose of this report is to seek Chief Officer approval to the waiver of Contracts Procedure Rules (CPRs) 8.1 and 8.2 (which require competition for intermediate value procurements) in order to directly award an interim contract for the maintenance of the Merrion House gas-fired generators.

2. Background information

- 2.1 The Council undertook a deep retrofit of its offices in Merrion House, which was completed in early 2018. As part of this refurbishment, the Council installed two 1MW gas-fired power generators in the new plant room with a view to improving site resilience and taking advantage of industry based revenue schemes.
- 2.2 The floor-plate of the building was increased by >30% as part of the refurbishment but the potential increase in energy demand was reduced through improvements in insulation, lighting equipment, controls and general building services. The building has now been fully occupied for over two years and the baseload for power is estimated at just under 1MW.
- 2.3 Assuming grid gas remains available, Merrion House can run continuously on the generators at any time should the need arise (e.g. during a power outage or in order to avoid paying very high prices for peak electricity).

3. Main issues

- 3.1 The generators at Merrion House need to be maintained on a regular basis to ensure that they are running efficiently and that the savings or income that they are capable of generating are maximised. Technical issues have resulted in an extended period of downtime for the generators since installation, during which time the previous contractual arrangement for maintenance has expired.
- 3.2 With these issues now resolved, the Council is in a position to start running the generators again. However, whilst preparations are being made to go out to tender for the longer-term contractual arrangements for maintenance, there is an urgent need for an interim arrangement to be put in place to ensure that there isn't a further period during which no savings or income are being realised.
- 3.3 Edina UK Ltd previously held the contract for the provision of this maintenance service, and, as such, have the knowledge of the system to be able to mobilise immediately. Edina UK Ltd's pricing, since only to cover this 12 interim month period, is on the basis of a less intensive baseline maintenance regime than previously specified. However provision has been made within the specification and pricing for ad hoc repairs or replacement of parts to be assessed and agreed as required. On this basis, pricing is therefore deemed reasonable and to represent value for money in the circumstances.
- 3.4 The maximum value of the contract for which approval is sought is based on a higher level of maintenance than is anticipated to be necessary, with costs currently estimated at around £50k. However, it is deemed prudent to make provision for this higher level of spend in the event that the more intensive regime proves necessary during the contract term.
- 3.5 The Council has separately commissioned ENGIE through the provisions within its existing electricity and gas supply contracts to apply their expertise to optimising the assets in terms of when they will run, provide power to the building and export to the grid. This agreement includes a guaranteed minimum payment, but modelling shows that the estimated net benefit to the Council is around £84,000 per annum taking into

account the reduced electricity costs and the income from exported electricity, and also the additional gas consumed and the expected maintenance costs. This is of course subject to fluctuating market prices for both gas and electricity.

- 3.6 Given the urgency of the need to start securing these savings, it is proposed that Contract Procurement Rules 8.1 and 8.2 be waived and that Edina UK Ltd be awarded an interim contract without competition to the value of up to £90,000, allowing a 12 month period to complete a competitive tendering process and for the successful contractor to mobilise. This will ensure, particularly with winter arriving, that short-term savings and income resulting from the optimisation of the Merrion House generators can be maximised.

4. Corporate considerations

4.1 Consultation and engagement

- 4.1.1 Consultation has taken place with the Head of Facilities Management and BAM, the FM contractor for Merrion House.
- 4.1.2 The Procurement and Commercial Services team has also been consulted in relation to the procurement issues associated with this proposal.
- 4.1.3 No other consultation has been deemed necessary since this proposal is effectively concerned with enacting arrangements for the optimisation of assets for which the investment has been the subject of a previous key decision.

4.2 Equality and diversity / cohesion and integration

- 4.2.1 A screening assessment has been undertaken previously for the Merrion House generator scheme and concluded that a full impact assessment does not need to be carried out. There will be no adverse impact on any particular groups of people within the City as a result of this proposal.

4.3 Council policies and the Best Council Plan

- 4.3.1 The Council's energy strategy and energy efficiency proposals support Best Council ambitions to:
- be efficient and enterprising;
 - become more financially sustainable and resilient, safeguarding public funds while achieving value for money;
 - have a modern, efficient, sustainable estate.

Climate Emergency

- 4.3.2 The net effect of the balance of additional gas consumption versus reduced grid electricity consumption, the avoidance of electricity transmission losses and reductions in electricity consumption during peak periods is not clear cut. However, the operation of the generators should also be considered in the context of national policies for the decarbonisation of heat (including the gas grid) and the opportunities this affords, and the Council's commitment to make the transition to low carbon technologies at the end of life for existing assets across its corporate estate (including Merrion House).
- 4.3.3 Although not yet determined as viable, further carbon reductions could also be achieved through the potential use of waste heat from the power generation process for

hot water and space heating in the building itself. There is also the potential to connect into future phases of the district heating network.

4.4 Resources, procurement and value for money

- 4.4.1 The overall arrangements proposed for the Merrion House generators are forecast to provide a saving of around £84k per annum to set against the re-financing costs for the generators themselves.
- 4.4.2 The maintenance costs will be met from the existing Merrion House budget, noting that the energy savings and income will also accrue to this budget.
- 4.4.3 A waiver of Contracts Procedure Rules 8.1 and 8.2, which require competition in respect of intermediate value procurements, is recommended such that the Council can start to benefit immediately from these savings and income rather than awaiting the completion of the proposed competitive tendering exercise.
- 4.4.4 It is essential that measures are put in place to address this cost pressure immediately in light of the current financial position for the Council, especially with winter arriving and the associated higher energy which the Council could either avoid, or benefit from in terms of income from export.
- 4.4.5 As noted, Edina UK Ltd's pricing, since only to cover a 12 month period, is on the basis of a less intensive baseline maintenance regime than previously specified, but with provision made within the specification and pricing for additional ad hoc maintenance as required. On this basis pricing is therefore deemed reasonable and to represent value for money in the circumstances.
- 4.4.6 Alongside this, the Sustainable Energy and Air Quality team plan to work with colleagues in Facilities Management and Corporate Property Management to prepare for a competitive tendering process for a longer-term maintenance contract for the Merrion House generators.
- 4.4.7 Officers are also exploring with Town Centre Securities the option of including these maintenance arrangements within the main facilities management agreement for Merrion (as they were previously), although the Council would need to be satisfied that any additional cost involved was acceptable and represented value for money.

4.5 Legal implications, access to information, and call-in

- 4.5.1 In accordance with CPR 27, this is a significant operational decision since involving a waiver of CPRs.
- 4.5.2 There are no access to information implications and call-in does not apply.

4.6 Risk management

- 4.6.1 The Merrion House refurbishment has created a scenario whereby a very significant proportion of the Council's city centre staff are based in one building. This increased concentration of staff in a single place increases the risk of disruptions to business continuity. The availability of these generators helps to mitigate this risk whilst also ensuring that the costs of investment in the infrastructure are offset to the maximum level possible. Ensuring the appropriate level of maintenance of these assets is therefore essential.
- 4.6.2 The proposed arrangement also provides an interim contractual solution which addresses a financial pressure through maximising the potential for short-term income and savings that would otherwise be lost.

4.6.3 There remains a level of risk in the event of a scenario whereby, for example, gas prices increase and the assumed electricity income is less than forecast, with the result that the maintenance costs are not fully offset. However, based on modelling, projected savings and income are substantially higher than the anticipated fixed maintenance costs, and the position can be monitored and these arrangement reviewed on an ongoing basis.

5. Conclusions

5.1 Having a usable generation asset on-site at Merrion House helps to make the Council's flagship building more resilient to grid outages, which could be a possibility in the future given growing grid demand. It is essential that robust maintenance arrangements are in place to ensure the efficient operation of these generators.

5.2 The cost pressure associated with the Merrion House generators needs to be addressed as a matter of urgency, and this interim arrangement will ensure that there is no further delay in securing a level of income and savings to offset the re-financing costs.

5.3 As the previous maintenance contractor for the Merrion House generators, Edina UK Ltd have detailed knowledge of the system and are able to mobilise immediately.

5.4 It is therefore recommended that an interim contract be awarded to Edina UK Ltd to the value of up to £90,000 allowing a period of an estimated 12 months in which a competitive tendering process can be completed and the successful contractor mobilise.

6. Recommendations

6.1 The Chief Officer (Sustainable Energy & Air Quality) is recommended to:

6.1.1 Approve the waiver of Contracts Procedure Rules 8.1 and 8.2 (relating to the requirement for competition for intermediate value procurements) in respect of an interim maintenance contract for the Merrion House gas-fired generators;

6.1.2 Approve the award of a contract to Edina UK Ltd in the sum of a maximum of £90,000k for the maintenance of the Merrion House gas-fired generators, noting that it is intended that the contract commence on 5th January 2021 and expire on 4th January 2022.

7. Background documents¹

7.1 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.