



Cabinet Meeting on Wednesday 19 June 2019

Contract for the Supply of Electricity and Associated Services

Cllr Mark Deaville, Cabinet Member for Commercial said,

“With careful forward planning and by joining forces with other local authorities to increase our purchasing power, the county council is committed to obtaining best value for money for our taxpayers and those organisations which rely upon us.

Entering this contract will give us both the certainty of fixed costs that can be chosen at the optimum time, and the flexibility to take advantage of decreasing costs.”

Report Summary:

The objective of the report is to establish approval for procurement direction and contract award for the period 1st April 2020 until 31st March 2023 for the supply of electricity from npower via the Yorkshire Purchasing Organisation energy framework.

Recommendation

I recommend that:

- a. The Council enters into an agreement with Npower for the supply of electricity through the Yorkshire Purchasing Organisation framework for the period of 1st April 2020 until 31st March 2023.

Local Members Interest
N/A

Cabinet – Wednesday 19 June 2019

Contract for the Supply of Electricity and Associated Services

Recommendations of the Cabinet Member for Commercial,

I recommend that:

- a. The Council enters into an agreement with Npower for the supply of electricity through the Yorkshire Purchasing Organisation framework for the period of 1st April 2020 until 31st March 2023.

Report of the Director of Corporate Services

Reasons for Recommendations:

1. The existing contract of the supply of electricity ends on 1st April 2020 (volume needs to be secured before the contract end date), SCC are currently on a contract called off from the YPO Electricity Flexible framework.
2. The Council purchases electricity for corporate use at approx. £1.6m p.a and falling. The Councils procurement also provides for schools to purchase electricity at approx. £6.4m pa.
3. Within the public sector arena, energy procurement has been a focus for central purchasing bodies (referred to as consortiums or public sector buying organisations) throughout the UK. These bodies offer aggregated volume based flexible pricing procurement routes and are EU compliant. There has also been a strong drive from the UK Government Energy Project board to utilize such Central Purchasing Bodies (CPBs) such as YPO, Crown Commercial Services and Eastern Shire Purchasing Organisation, all of which were reviewed as part of market research.
4. This is a high-profile category to SCC and stakeholders due to financial impact. The category can also be classed as contentious due to the SCC user and general public awareness of the volatility of the markets, underpinned by the domestic market understanding.
5. Historically SCC and Entrust Energy Management have conducted a call off from a consortium contract based on flexible volume procurement.
6. There is a strong drive in the public market place that flexible procurement can produce savings compared to that of fixed contracts. Between 2015 and 2018 public sector organisations that were operating on flexible framework agreements delivered on average 8% cost reduction against average wholesale market price. Consortiums with flexible solutions can facilitate aggregation of demand.

7. Fixed price procurement is where a price is fixed for the length of the contract and not subject to any energy price increase or decreases. It may be subject to other elements, increases in use of system and, transportation charges. A fixed price can assist with creation of budgets. The day of price fixing is the responsibility of the buyer and can be achieved months before the supply contract date if required. This could be viewed as a high-risk strategy as the buyer must monitor the ever changing markets to ensure the day of locking is at a low time in the market however if locked at the optimum period, then prices can be favourable.
8. YPO offer a number of purchasing solutions by including the option of a different kind of fixed / flexible price contract. This contract option is called Flexiplus and shares elements of the Flexible and Fixed contracts options. A percentage of electricity volume is purchased by YPO at optimum times which is then ringfenced for customers who require a fixed price at the start date of their contracts. This solution is ideal for budget certainty but allows YPO users to take advantage of any decreases in the price of electricity through remaining volume being purchased flexibly. YPO also offer an extremely attractive rebate scheme for members which returns around £56,000 per annum (depending on spend).
9. To provide an example the typical YPO SCC portfolio flexiplus Day Rate is around 12p/kWh and a Night Rate of 8.5p/kWh, if SCC were to move onto a standard non-contracted tariff then this would rise to 59.6p/kWh and a Night Rate of 29.04p/kWh. This would represent a cost increase of around £3.2 million per annum. This demonstrates the market advantage of the YPO flexiplus purchasing option.
10. SCC's use of the YPO flexible framework will ensure SCC procures at the best kWh rates possible and will continue the positive results of it use for SCC. Use of other products would potentially result in a cost increase for SCC and doing nothing and moving onto a standard non contracted rate would incur an increase to SCC of £3.2 million per annum.
11. Following considerable comparison and market research, it is the recommendation of the SCC Commercial and Entrust Energy Management team that SCC join the YPO / Npower Flexiplus purchasing framework for the period 1st April 2020 until 31st March 2023

List of Reference Material:

Npower Business deemed rates for Electricity spreadsheet (this is commercially sensitive and is provided by Npower and includes their rate structure)

Report Commissioner: Matt Sutton
Job Title: Category Manager (Commercial Team)
Telephone No.: 07866912668
E-Mail Address: matthew.sutton@staffordshire.gov.uk