

Cabinet Meeting on Wednesday 21 September 2022

Contract for the Supply of Electricity and Associated Services (Call off from YPO Framework 791)



Cllr Mark Deaville, Cabinet Member for Commercial Matters said,

“Current events show the importance of ensuring we have flexible arrangements in place to obtain the best value for taxpayers despite the volatility of markets.

“In line with the County Council’s commitment to reach Net Zero carbon emissions by 2050, we will purchase Green Electricity.”

Report Summary:

The objective of the report is to establish approval for procurement direction and award for the time period 1st April 2023 until 31st March 2027 for the supply of Electricity and Associated Services, by utilising the Yorkshire Purchasing Organisation energy framework and their flexible purchasing model to gain the best value possible and volume for the purchase of Electricity, from the supplier Npower Business Solutions. The contract will be for the supply of 100% green Electricity product.

Recommendation(s)

I recommend that Cabinet:

- a. Approve the approach for procuring, awarding, and entering into an Electricity and Associated Services contract through the Yorkshire Purchasing Organisation (YPO) framework for the period of 1st April 2023 until 31st March 2027, with Npower Business Solutions.

- b. Agree that the Deputy Chief Executive and Director of Corporate Services be given delegated authority to approve the contract award and delegated signatory of the contract

Local Members Interest
N/A

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Recommendation(s) of the Cabinet Member for Commercial Matters

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- a. Approve the approach for procuring, awarding, and entering into an Electricity and Associated Services contract through the Yorkshire Purchasing Organisation (YPO) framework for the period of 1st April 2023 until 31st March 2027, with Npower Business Solutions.
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Report of the Deputy Chief Executive and Director of Corporate Services

Reasons for Recommendations:

1. The objective of the report is to establish approval for procurement direction and award for the time period 1st April 2023 until 31st March 2027 for the Electricity and Associated Services contract, by utilising the YPO energy framework and their flexible purchasing model to gain the best value for the purchase of electricity, from the supplier Npower Business Solutions.
2. Within the public-sector arena, energy procurement has been a focus for Central Purchasing Bodies ('CPBs', referred to as consortiums or public sector buying organisations) throughout the UK. These bodies offer aggregated volume based flexible pricing procurement routes and are Public Contracts Regulations compliant. There has also been a strong drive by from the UK Government Energy Project board to utilise such CPBs such as YPO, Crown Commercial Services and Eastern Shire

Purchasing Organisation, all of which were reviewed as part of market research. Energy Market conditions have presented several challenges regards the supply and delivery of these contracts.

3. The annual value of the electricity is changing from a fairly stable cost to one increasing significantly to due international events. The total electricity spend on corporate buildings, schools and other minor partner sites in the current financial year is circa £6m
4. The category covers the supply of electricity and associated services to SCC (25%) and Schools and associated non-SCC sites (academies, emergency services sites and higher education establishments managed by Entrust Support Services Limited ("Entrust") Energy Management) (75%) portfolio. This is a high-profile category for SCC and stakeholders due to the financial impact. The category can also be classed as contentious due to the SCC user and public awareness of the current volatility of the markets which is widely reported.
5. Contractual Obligation for volume – Volume (clips) are purchased based on data showing previous demand, but there is no commitment to volume or volume purchase. With the YPO arrangement electricity volume can be "handed back" to YPO under the contract if it is not used or needed, or more commonly absorbed by the other sites contained on the SCC asset list. This is another advantage of the YPO arrangement.
6. Historically SCC and Entrust Energy Management have conducted a call off from a consortium contract based on flexible volume procurement, this enabled SCC to take advantage of lower prices and flex in the way future volume is purchased through Energy markets. Due to the current volatility in the markets, this has shifted to volume purchase to reduce risk of supply or higher variable rates.
7. YPO offer a number of purchasing solutions including the option of a different kind of fixed / flexible price contract. The flexible service allows electricity volume to be purchased by YPO at optimum times which is then ringfenced for customers in this trading basket, the volumes are bought throughout the preceding 24 months at optimum trading times when prices are lowest to deliver a period of volume supply at a stable price. This allows YPO to take advantage of very minor movement in current markets and pass these benefits on to customers, but also protects customers from spikes in electricity volume trading. It is noted however that current trading conditions are extremely volatile, and purchases are made to secure volume where possible whilst this volatility continues.

8. To provide an example (as at today 26/08/2022) * the typical YPO Framework Electricity Rate is currently around 27.7p/kWh, if SCC were to move onto a standard non-contracted deemed tariff, then this would rise to 36.6p/kWh. This would represent a significant cost increase. This demonstrates the market advantage of the YPO flexible purchasing option. ***NB** Rates are currently fluctuating hourly, and volatility continues to impact and increase unit rates significantly.
9. In regards the green electricity provision YPO will ask members for their green requirements once new contracts are signed and will return to the market to ascertain the volume price increase.
10. Currently (as at today 26/08/2022) prices are circa £10 per MWh that would equate to an additional 1p p/kWh for green electricity provision.
11. This equates to approximately £81,000 for corporate properties and £104,000 for maintained schools. With equivalent carbon reduction of 1,800tCO₂e and 2,400tCO₂e, respectively.
12. Following framework comparison, it is the recommendation of SCC Commercial and Entrust Energy Management team that SCC join the YPO Energy Flexible purchasing framework for the period 1st April 2023 until 31st March 2027. Npower Business Solutions are the only provider of electricity through YPO.

Cost Implications

13. In the financial year 2021-22 the cost per kWh was 15p, in the current year it is 30p per kWh. The MTFS assumed an increase of 50% in 21/22 compared to the actual increase of 100%. The additional cost in 21/22 can be met from one-off savings on the pooled buildings budget, mainly relating to a reduced contribution to the Shirehall project. The market is so volatile currently that it isn't possible to accurately predict future costs. However, for budgeting purposes a reasonable high estimate for the next year is 60p per kWh, which would result in a budget pressure in 22/23 in the region of £2.4m for corporate properties, after also taking account of the increase in 21/22, and £3m across the maintained schools. These additional costs in 22/23 will be considered as part of the MTFS refresh.
14. Through energy efficiency measures and property rationalisation the corporate estate has reduced its electricity consumption by 25% from 2017 to 2022 and further energy reduction actions are part of our ongoing property strategy.
15. There currently are no purchasing arrangements available that offer a fixed price.

Legal Implications

16. The tendering process completed by YPO complies with the Public Contract Regulations 2015 and was advertised and awarded following the regulations

Resource and Value for Money Implications

17. Current Energy market trading conditions are extremely volatile, and purchases are made to secure volume where possible whilst this volatility continues. Prices have already increased by around 300 – 400% and there is no noticeable trend for this ceasing or reducing.
18. There are projections which are provided by Npower business solutions for their records and YPO along with market trend information from OFGEM. Our current purchasing strategy has shifted from securing unit rate and volume discounts to a necessity to secure volume to ensure supply.

Climate Change Implications

19. Having consulted with the Sustainability & Climate Change Team areas for consideration within this procurement should be the conservation of fuel and power this contract will be for 100% green electricity and upon the signature of the contract and securing of volume a REGO certificate will be provided to the Sustainability & Climate Change Team from Npower business solutions for their records

List of Background Documents/Appendices:

NA

Report Commissioner: **Ian Turner**
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