

Cabinet Meeting on Wednesday 21 February 2024

Procurement of Gas Supplies



Councillor Mark Deaville, Cabinet Member for Commercial Matters said,

“When the opportunity arises, it is important that all our contracts are the best option for this county council and offer the best value for taxpayers.

“The awarding of this new contract from 2025 to 2029 ensures we will get a competitive agreement for the public purse.”

Report Summary:

The objective of the report is to establish support for the procurement direction and award of the supply of the gas contract, by utilising Crown Commercial Services (CCS) energy framework and their flexible purchasing model to gain the best value and volume for the purchase of gas, from the supplier Total Energies Gas & Power Limited for the period 1st April 2025 until 31st March 2029.

Recommendation

I recommend that Cabinet:

- a. Award a contract for the supply of gas and associated services to Total Energies Gas and Power Limited for the period from 1st April 2025 to the 31st March 2029 using the Crown Commercial Services (CCS) framework.

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Local Member Interest:

N/A

Report of the Deputy Chief Executive and Director for Corporate Services

Reasons for Recommendations:

1. The objective of the report is to establish approval for the future supply arrangements of gas to gain the best value by utilising the CCS energy framework and their flexible purchasing model. The framework has a single supplier, Total energies gas & power limited.
2. 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 Public Contract Regulations (PCR) 2015 compliant.
3. There has also been a strong drive from the UK Government Energy Project board to utilise such Central Purchasing Bodies (CPBs), all of which were reviewed as part of market research. Energy market conditions have presented several challenges in the supply and delivery of these type of contracts over the past 24 months, and all CPBs and in particular CCS have adapted to the changes in the market.
4. The annual value of the gas usage is currently an estimated £2.4 million per annum for corporate properties and maintained schools for 2024/5. The framework also allows for partners such as Police and Fire, Academies and District councils to utilise it. For 2024/5 this spend is estimated at circa £5m, with academies accounting for £4m. This is

therefore a high-profile category for the Council due to the financial impact.

5. The amount of Gas purchased is based on data showing previous demand, but there is no contractual obligation to a set volume purchase. CCS have a dedicated account management team who review and monitor the market and liaise with the supplier (Total energies gas & power limited) to identify the optimal purchasing window. Volume is then purchased in varying amounts across the basket period creating a consistent pricing approach for all customers. This allows CCS to take advantage of minor movement in current markets and pass these benefits on to customers, but also protects customers from spikes in gas volume trading. It is noted however that current trading conditions are still extremely volatile, and purchases are primarily made to secure volume where possible whilst this volatility continues.
6. To provide an example (at the time of writing: 19/12/2023)* the typical CCS Framework Gas Rate has recently changed to 4.06p/kWh, if the Council were to move onto a standard non-contracted deemed tariff, then this would rise to 6.25p per kWh, with suppliers able to change this at any given moment. This would represent a significant cost increase and risk.

*Rates are currently fluctuating daily, and market volatility continues to impact on unit rates significantly.
7. Following a framework comparison, it is the recommendation of the Council's Commercial team and Entrusts Energy Management team that the Council move from YPO (Yorkshire Purchasing Organisation) to CCS Energy Flexible purchasing framework for the period 1st April 2025 until 31st March 2029.
8. SCC are required to serve notice with YPO 12 months prior to the end date of the contract. Hence the dates in this report.
9. Crown Commercial Services (CCS) is a UK-wide procurement organisation providing a broad range of solutions, including energy services, to public sector entities.
10. Alternative framework offers for Gas exist, such as from Yorkshire Purchasing Organization, Eastern Shires Purchasing organisation, Laser Energy and West Mercia Energy all of which offer a framework provision for Gas.
11. CCS sets itself apart by offering tailored procurement frameworks for energy services, designed to streamline the process for public sector

entities, ensuring efficiency and flexibility. CCS also have a significant public sector customer base, team of dedicated risk analysts, and have recently published information which included data showing that during the energy crisis they required no government assistance as the rates procured had been below the energy cap for Gas. This gives assurance and confidence in CCS.

12. Alternative options of a specific procurement of our own is not recommended. There is a considerable resource overhead in conducting the procurement and then operating it that will not be returned via a different service level or cheaper prices. It would present potential significant additional risks in terms of the volume purchasing decisions. The council would need to secure considerable additional skills for itself that we can access via the CCS framework.
13. Spot purchases, either ourselves or via a broker, are not recommended by LGA and government guidance which clearly indicates utilising a collaborative procurement approach.

Legal Implications

14. The tendering process completed by CCS complies with the PCR 2015 and was advertised and awarded in accordance with the regulations.
15. Partner organisations will be required to complete an access agreement establishing the commitment to the framework and supply contract terms.

Resource and Value for Money Implications

16. Current energy market trading conditions are extremely volatile, and purchases are made to secure volume where possible whilst this volatility continues. Gas prices increased by around 400 – 500% from winter 2022 to spring 2023. However, the trend has now started to decrease significantly, and markets have continued to stabilise.
17. There are projections which are provided by Total energies gas & power limited along with market trend information from the Office of Gas and Electricity Markets (OFGEM). Current purchasing strategies have shifted from securing unit rate and volume discounts to a necessity to secure volume to ensure supply. In addition, CCS have developed (following recent world events) an extremely robust risk profiling model for the purchasing of energy to ensure any trades meet a series of purchasing markers prior to the volume being committed.

Climate Change Implications

18. The council has a commitment to carbon reduction and reaching net zero by 2050. There are programmes of work to reduce energy consumption and the use of gas as a source of heat. However, the phasing out of gas heating will take time and considerable investment and in the meantime a cost efficient supply mechanism remains an essential requirement of the council.
19. The framework has enhanced provisions for sleeving power purchase agreements (PPAs).
20. PPAs allow you to buy green energy directly from renewable generators, which can be secured with long term, fixed prices. The opportunity to purchase a percentage of green energy Gas using the PPA process, can be explored upon the authorisation to proceed. There will be an additional cost to this, which will be calculated at the point of application and a partial purchase approach may not be possible due to the nature of the commodity (Gas).
21. It should be noted that Green Gas is subject to limited availability and usually demands a large additional premium.
22. Any future change over the purchase of Green Gas would be subject to a further formal decision.

List of Background Documents/Appendices:

Appendix 1 – Gas Sourcing Strategy 2024

Appendix 2 - Report of energy sourcing options by FPA Consulting Ltd

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