

**TITLE OF REPORT: RENEWAL OF GAS & ELECTRICITY SUPPLY CONTRACTS
INFORMATION REPORT - UPDATE ON CONTRACT APPROVAL**

<p>CPC MEETING DATE</p> <p>9 September 2019</p>	<p>CLASSIFICATION:</p> <p>Open with exempt appendix 1</p> <p>By Virtue of Paragraph(s) 3, Part 1 of schedule 12A of the Local Government Act 1972 appendix A is exempt because it contains Information relating to the financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.</p>
<p>WARD(S) AFFECTED</p> <p>All</p>	
<p>CABINET MEMBER</p> <p>Cllr Burke</p> <p>Cabinet Member for Energy, Waste, Transport and Public Realm</p>	
<p>KEY DECISION</p> <p>No</p> <p>The report provides the outcome of the procurement strategy agreed in the March 2016 by Cabinet Procurement Committee</p> <p>REASON</p>	

Energy is purchased on wholesale markets in advance of the delivery date.

GROUP DIRECTOR

Ian Williams – Finance and Corporate Resources

1. CABINET MEMBER'S INTRODUCTION

- 1.1 The London Borough of Hackney, in common with many other local authorities, relies heavily on the supply of gas and electricity from the market to deliver essential services to residents. As part of the Mayor and Council's commitment to rapidly decarbonising the full functions of the local authority, the Council switched to a minimum of 50% renewable electricity on 1 April 2019. This next step will see the Council secure 100% renewable electricity through the purchase of Renewable Energy Guarantee of Origin Certificates (REGO).
- 1.2 In October 2018, the Intergovernmental Panel on Climate Change issued its starkest warning yet, through the Special Report on Global Warming of 1.5C, regarding both the timescales and level of action required to drastically reduce greenhouse gas emissions in order to avert catastrophic warming and subsequent climate change. The report concluded that "limiting warming to 1.5C is possible within the laws of chemistry and physics but doing so would require unprecedented changes" and that "the next few years are probably the most important in our history." The deep decarbonisation programme that Hackney Council is undertaking in respect of its consumption of energy, both on the supply and demand-side, could not be more timely.
- 1.3 In June 2019, the Council further strengthened its commitment to playing a full role in the transformation of the energy system through the agreement of a Climate Emergency motion at Full Council. This motion commits the local authority to a 45% reduction in emissions against 2010 levels by 2030 and net zero emissions by 2040, in-line with the most stretching targets contained within the IPCC 1.5C report.
- 1.4 REGO certificates are a major step forward for the council in delivering against the 2018 manifesto commitment to transform the way we purchase wholesale energy to increase the generation of renewable energy beyond Hackney's borders by using our corporate spending on gas and electricity to increase investment in sources of clean energy.
- 1.5 The natural next step in the process beyond 1 April 2020 will be to explore the potential for a Power Purchase Agreement (PPA) with a specific generation facility. Doing so will provide greater transparency and certainty regarding the provenance of the Council's - and other bodies that procure energy jointly with the Council, such as local schools - electricity. Securing such an agreement - and exploring

ways of reducing the global warming impact of our gas consumption - would demonstrate in a very visible way to the residents of Hackney that our corporate spending on renewables is contributing to the delivery of new sources of clean energy, rather than merely sending a signal to the market that more renewable energy is required, which is the role that the purchase of REGO certificates performs.

2. GROUP DIRECTOR'S INTRODUCTION

- 2.1 This report provides the outcome of this year's purchasing round for energy used within Council offices, Hackney Housing and in Schools, where such Schools are part of the corporate contracting arrangement. This year's contract prices show an estimated 15% average increase on the bottom line against last financial year's prices, which is due to an increase to 3rd party costs.
- 2.2 Notwithstanding the level of pricing achieved, the Council and in particular the Energy Management Unit will continue to work with other departments to pursue the delivery of energy conservation measures, some of which are highlighted in other parts of this report.

3. RECOMMENDATION(S)

Cabinet Procurement Committee is recommended to:

- 3.1.1 **Note the outcome of the purchasing arrangements which have placed Supply contracts with the Energy companies as follows:**
 - 3.1.1.2 **The Half Hourly and Unmetered Electricity Supply contract is awarded to Supplier A as detailed in Appendix 1, estimated contract values of £2,146k and £ 830k respectively.**
 - 3.1.1.3 **The Non-Half Hourly Electricity Supply contract is awarded to Supplier B as detailed in Appendix 1, at an estimated contract value of £ 4,119k.**
 - 3.1.1.4 **The Gas Supply contract is awarded to Supplier C as detailed in Appendix 1, at an estimated contract value of £ 2,610k.**
- 3.1.2 **Note the indicative aggregate cost impact for Hackney, including Housing and Schools, from these tender awards is a 15% increase year on year, but that the actual impact will be monitored via OFP.**

4. RELATED DECISIONS

- 4.1 Cabinet Procurement Committee approved the Business Case report in its meeting of the 15th March 2016. The report recommended the appointment of the Crown Commercial Service as the energy purchasing agent for the Council and also for the Group Director of Finance and Corporate Resources to engage the service provider for future years' purchases

5. REASONS FOR DECISION/OPTIONS APPRAISAL.

- 5.1.1 This report provides Cabinet Procurement Committee with the results of the “risk managed flexible purchasing” exercise carried out on behalf of the Council by Crown Commercial Service (CCS) between Oct 2018 and March 2019 for all gas and large electricity supplies (Half Hourly including public street lighting) to secure a twelve month contract.
- 5.1.2 The report also provides the outcome of the purchase carried out by CCS who were also appointed to purchase the Council’s small electricity supplies (NHH supplies) based on the delegated authority provided by Cabinet Procurement Committee to the Group Director of Finance and Corporate Resources in March 2013.
- 5.1.3 The current contract prices for all supplies include those large (HH) Half Hourly electricity supplies including Unmetered (UMS) public street lighting, all gas and small (NHH) Non-Half Hourly electricity supplies for the year commencing 1st April 2019 to 31st March 2020 were presented to the Council during April and May 2020.
- 5.1.4 This year’s contracted prices (pence per unit) for the NHH electricity supplies are estimated at 19% higher than last year’s prices. Increases in energy prices are due to a number of reasons. The increase in this cost is quoted by the suppliers as due to factors including an increase to 3rd party costs, commodity rates, renewable levies as well as transmission and distribution costs.
- 5.1.5 Contracted gas prices (pence per unit) are estimated at 28% higher than last year’s prices. Gas prices has been impacted by concerns about nuclear availability, gas storage, and declining European gas production. Since the start of the winter, prices have fallen on the back of mild weather and a significant increase in deliveries of liquefied gas into Europe.
- 5.1.6 Large electricity supply prices have increased by an estimated 2% for both the Half Hourly (HH) and Unmetered (UMS) supplies. As with the NHH supplies, this is due to Non Electricity Costs which the government levies on supplies to help incentivise the low-carbon economy, as well as the cost of delivering the electricity.
- 5.1.7 For this year’s supplies, the electricity contract was procured with 50% of its volume from primary “standard” electricity generation and an average 50% of electricity from renewable sources. The total premium on the renewable electricity is £7,680 at £0.30/MWh
- 5.1.8 The contracts for all supplies is for a twelve month period commencing from April 2019 to March 2020.
- 5.1.9 The Council will continue working with the CCS framework for the 2020/21 Energy Procurement exercise. We will also seek to secure a higher proportion of renewable energy within our contracts. The Council will be able to secure 100% REGO certificated electricity supply through the CCS arrangement. The additional premium for BG supplies is quoted at 0.11p/kWh and 0.03p/kWh for the EDF supplies. The estimated total cost is circa £39,000 based on the 2017/18 electricity consumption at 49,295MWh. The Council will also explore the Energy Market to appraise how it can procure 100% Renewable Electricity through PPA agreements.

5.2 ALTERNATIVE OPTIONS (CONSIDERED AND REJECTED)

- 5.2.1 Previous Business Case reports and in particular the one considered and approved by Cabinet Procurement Committee in March 2016 detailed the options available to the Council for procuring its energy supplies contracts. The risk managed flexible purchasing of energy in advance of contract start date was and is still preferred to other types of purchasing arrangements.

6. PROJECT PROGRESS

6.1 Developments since the Business Case approval.

NONE

6.2 Whole Life Costing/Budgets:

- 6.2.1 The Council's requirement for gas and electricity has existed for many years and annual budgets are established and maintained. There is central provision to cover unexpected additional costs because of price volatility.

- 6.2.2 The Council's preferred strategy for managing inflationary cost pressures is that these are managed, wherever possible, from within existing cash limits and thus the budget for energy is not given an annual inflation uplift. However, in recognition of the potential volatility in the energy markets, and due to the fact that in the short term at least, demand is broadly uncontrollable, the Council sets aside a reserve to meet unforeseen changes in price, demand or any potential market volatility.

6.3 Savings

- 6.3.1 As part of the Council's Accommodation Strategy there is potential for reduced demand for energy as fewer buildings remain in the Civic Estate. This will be reviewed year on year and recurring savings may be able to be taken in future years.

7. SUSTAINABILITY ISSUES

7.1 Equality Impact Assessment and Equality Issues:

- 7.1.1 There are no specific equalities issues in these procurements but a failure to procure would have profoundly adverse effect on services.

7.2 Environmental Issues:

- 7.2.1 The use of gas for heating homes has increased for communal supplies within Housing estates with all oil to gas boiler conversions successfully completed. Gas

boilers emit less CO₂ per kWh and other pollutants than oil fired boilers and are more economical.

- 7.2.2 For this year's supplies, the electricity contract was procured with 50% of its volume from primary "standard" electricity generation and 50% from renewable sources.
- 7.2.3 An increasing proportion of the delivered electricity cost relates to non-energy costs that support providing reliable, secure, low carbon energy to the UK as part of the Government's Electricity Market Reform. Transmission and Distribution costs are pass-through costs charges set by National Grid and Distribution Network Operators. These charges are site specific and typically represent over 40% of the overall delivered cost.
- 7.2.6 The Council is actively looking to ensure that energy use in its building is efficient as possible and also make the most effective use of under-utilised buildings with a view to rationalise its corporate estate. The activities will not only deliver financial savings but will achieve CO₂ reduction. The Council successfully installed Solar PV systems at administrative buildings with potential savings of over 1,000 tonnes of CO₂ savings over the lifetime of these installation. The estimated yield on the 2018/19 renewable generation across the corporate sites is 137,981kWh which is equivalent to 39 tonnes of carbon.
- 7.2.7 In addition the Council has also supported the development of community led projects to increase the production of renewable energy at a local level. One example is the 120kWp Solar PV project at Banister House which is estimated to generate 900MWh of electricity over its 20 year lifetime.
- 7.2.8 The Council has committed to implementing ISO 50001 Energy Management Standard, this will help the Council to identify efficiency savings measures that can be implemented through energy projects and energy efficient practices. As part of the initiatives under the Hackney Energy Company, we are investigating the installation of solar panels in the suitable Council properties with £300k funding from the Council's Climate Change Fund.

7.3 Economic Issues: None

8. TENDER EVALUATION

8.1 Evaluation:

- 8.1.1 The purchasing of the Council's requirements was carried out over a six-month period using an existing framework agreement that was put in place by Crown Commercial Service (CCS). The framework was competitively tendered and fully compliant with EU procurement regulations.
- 8.1.2 This report provides the outcome of purchases carried out by the suppliers appointed by CCS and contracts prices for all supplies (Non-Half hourly smaller electricity supplies, Half Hourly large electricity supplies, unmetered electricity supplies and all gas supplies) for the period from 1st April 2019 to 31st March 2020

of the contracted year. The contract prices were purchased between the six month period, 1st October 2018 to 31st March 2019, prior to the contract start date.

9. CONTRACT MANAGEMENT ARRANGEMENTS

9.1 Resources and Project Management (Roles and Responsibilities):

9.1.1 Contract management is undertaken by the Energy Management Unit. Each supplier provides a single contract manager to liaise with the Council.

9.1.2 All operational matters including supply and invoicing issues are dealt with directly between the EMU officers and the energy suppliers, while the CCS handles all strategic matters on behalf of the members of the Consortium. There is also a direct link between the Council and the CCS based on the contract awarded to the organisation to purchase energy on behalf of the Council. Issues that cannot be resolved at operational level are escalated to the CCS.

9.1.3 The Council is also a member of the London Energy Project which takes up concerns of common interest to its members with the CCS and suppliers

9.2 Key Performance Indicators: The EMU approve BACs and Direct Debit batches of invoices for payment and direct recharges to cost centres. Consumption data is collected in the EMU's monitoring database. This data is used to monitor budgets across the organisation and to assemble consumption data to be used for the purchase of carbon allowances under the Carbon Reduction Commitment scheme.

Category	KPI	Monitoring
Failed Registrations	Failed Registrations including Notice of Objections and Rejections to be notified to the Customer within two (2) Working Days of receipt.	LBH to hold record of nominations with proposal dates. Supplier to provide all details of objections and rejections to time scale. Record to be maintained by LBH
	Weekly report of any failed Registrations to be sent to the Authority on the first (1st) Working Day of each week.	Supplier to provide emailed spreadsheet. Record to be maintained by LBH
New Sites – Pricing	Interim prices to be provided to the relevant Customer and the Authority within three (3) Working Days for a single Site and within seven (7) Working Days for group Sites.	Supplier to provide emailed spreadsheet. LBH to hold record of nominations with proposal dates. Supplier to provide prices to timetable

Customer Contracts	<p>Electricity Products Customer Contracts to be populated with individual Customer details and Metering Point Information, and issued to Existing Customers prior to the First Supply Start Date.</p> <p>Electricity Products Customer Contracts to be populated with individual Customer details and Metering Point Information, and issued to New Customers prior to the Earliest Supply Start Date for such New Customer.</p>	<p>Supplier to provide emailed spreadsheet.</p> <p>Compliance monitored by LBH.</p>
Customer Queries	<p>Responses to Customer Queries by telephone or letter to be given within two (2) Working Days. If it cannot be resolved within two (2) Working Days, a “holding” response giving the reason why resolution is not possible and a date when full resolution is expected must be provided.</p>	<p>Log of queries raised, held by LBH. Compliance monitored by LBH.</p> <p>Supplier to provide emailed response.</p>
Customer Complaints	<p>Customer Complaints to be given priority treatment and acknowledged by the Supplier to the Customer within one (1) Working Day of receipt. An estimated timescale for resolution must accompany the acknowledgment</p>	<p>Log of complaints held by LBH. Compliance monitored by LBH.</p>
	<p>Customer Complaints to be logged and reported to the Authority within one (1) Working Day of receipt.</p>	<p>Log of complaints raised, held by LBH. Compliance monitored by LBH.</p>
	<p>The Supplier to send a progress report to the Authority and the Customer each Working Day the complaint remains open/unresolved.</p> <p>Where resolution of the Complaint is not achieved within the estimated timescale, or the estimated timescale is not acceptable to the Authority or the Customer, escalation procedures shall be invoked.</p>	<p>Log of complaints raised, held by LBH. Compliance monitored by LBH.</p>

Quotations – Site Works and Installation Services	Quotations to be provided to the Authority within six (6) weeks of receipt of Order.	Log of quotations requested, held by LBH Compliance monitored by LBH.
Completion of work – Site Works and Installation Services	Completion of the work to be within the timeframe stated in the Supplier's quotation and acceptance letter. On completion the new Site is to be priced in accordance with the standard terms of the Electricity Products Customer Contract and arrangements for pricing.	Log of site works held by LBH Compliance monitored by LBH.

10 COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND RESOURCES

- 10.1 This report provides notification of the procurement of gas and electricity for the Half Hourly and Unmetered Electricity Supply contract, the Non-Half Hourly Electricity Supply and Gas Supply contract from suppliers A, B and C respectively for the 2019/20 financial year.
- 10.2 As mentioned in the recommendations, the aggregate indicative increase on the bottom line is 15%, which for the non schools elements of Hackney's portfolio is as follows:

	General Fund £	HRA £	Total £
Elec 18/19 outturn	2,152,674	2,461,202	4,613,876
Gas 18/19 outturn	374,411	1,597,827	1,972,237
Total 18/19 outturn	2,527,085	4,059,029	6,586,114
Indicative 15% increase for 19/20	2,906,148	4,667,883	7,574,031

LB Hackney contracts energy suppliers on behalf of schools, but energy costs are incurred by schools direct. The estimated impact for schools is as follows:

	2018/19 £	2019/20 £
Schools energy cost	2,051,626	£2,359,370

- 10.3 The volatility of the energy markets will mean an increase in the cost of energy to the Council in the current year. Spend will be closely monitored through OFP (excluding schools). The "risk managed flexible purchasing" exercise carried out on behalf of the Council by Crown Commercial Service (CCS) to purchase the

Council's energy requirements for the year commencing April 2018 continues to comply with policy framework with the contract values within budget.

11. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE SERVICES

11.1 On 15th March 2016 Cabinet Procurement Committee approved a Report to appoint the Crown Commercial Services (formerly the Government Procurement Service) to procure energy on behalf of the Council and to retrospectively report on contract award. This Report sets out details of such procurement exercises for the supply of electricity and gas. Procuring supplies on behalf of a contracting authority by a third party is permitted under Regulation 37 of the Public Contracts Regulations 2015.

11.2 Following the procurement of energy supplies by the Crown Commercial Service, the Council will conclude individual supply agreements with each of the three suppliers. Such supply contracts are to be concluded for the period from 1st April 2019 until 31st March 2020.

12. COMMENTS OF THE PROCUREMENT CATEGORY LEAD

12.1 Cabinet Procurement Committee is recommended to note the outcome of the energy purchasing activity carried out, on behalf of the Council, by Crown Commercial Service (CCS) for the Council's energy contracts.

12.2 As detailed in the report, CCS framework agreements provide a platform for the Council and other public sector bodies to continue to leverage better prices from energy wholesale market. This year's contract prices show a rise in price compared to what was achieved last year for reasons detailed in 5.1.4. During the lifetime of this contract award we need to be mindful of some upwards cost pressure on pricing, however, the relative position to the market of the CCS contract is still showing good value for money.

APPENDICES

EXEMPT

Appendix 1: Summary of Contract Values by Suppliers

By Virtue of Paragraph(s) **(3)** Part 1 of schedule 12A of the Local Government Act 1972 this report and/or appendix is exempt because it contains

Information relating to the financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information

BACKGROUND PAPERS

Description of document		Date
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	Location (i.e. Service or Section)	
#22124640. 2019-20 Price Summation	EDOCs	June 2019

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