

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

<b>CPC MEETING DATE</b>  6th July 2020	<b>CLASSIFICATION:</b>  Open with exempt appendix  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.
<b>WARD(S) AFFECTED</b>  All	
<b>CABINET MEMBER</b>  Cllr Burke  Cabinet Member for Energy, Waste, Transport and Public Realm	
<b>KEY DECISION</b>  No  The report provides the outcome of the procurement strategy agreed in the March 2016 by Cabinet Procurement Committee	

**REASON**

**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 100% renewable electricity on 1 April 2020. The next step which the Council is actively working towards will see the Council secure 100% renewable electricity through the Power Purchase Agreements (PPA). This is a very challenging target but we believe that it will contribute towards reaching our net zero target

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 13% average decrease on the bottom line against last financial year's prices.
- 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:**
- 3.1.2 **The Half Hourly and Unmetered Electricity Supply contract is awarded to Supplier A, estimated contract values of £1,981k and £ 793k respectively.**
- 3.1.3 **The Non-Half Hourly Electricity Supply contract is awarded to Supplier A and B at an estimated contract value of £68k and £ 3,600k.**
- 3.1.4 **The Gas Supply contract is awarded to Supplier C at an estimated contract value of £1,692k. However, some supplies remain with Supplier D at £278k. These supplies have not migrated over to the new supplier due to outstanding account debts.**
- 3.1.5 **Note the indicative aggregate cost impact for Hackney, including Housing and Schools, from these tender awards is a 13% decrease against last financial year's projection, 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 2019 and March 2020 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 2016.
- 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 2020 to 31st March 2021 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 12% less than last year’s prices. The prices include 3rd party costs, commodity rates, renewable levies as well as transmission and distribution costs. At the very end of 2019, COVID-19 has had a dramatic effect on markets around the world and the prices have reacted to this change.
- 5.1.5 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 60% of the overall delivered cost.
- 5.1.6 Contracted gas prices (pence per unit) are estimated at 30% less than last year’s prices. An increasing proportion of the delivered gas cost relates to non-energy costs that support providing reliable, secure, low carbon energy to the UK, the proportion in this contract is estimated at 28%
- 5.1.7 Large electricity supply prices have increased by an average 6% less for the Half Hourly (HH) and Unmetered (UMS) supplies . As with the NHH supplies, this is due Non Electricity Costs which the government levies on supplied to help incentivise the low-carbon economy, as well as the cost of delivering the electricity.
- 5.1.8 For this year’s supplies, the electricity contract was procured with 100% of its volume from renewable sources at £0.05/p/kWh (Supplier A) and £0.11p/kWh (Supplier B)
- 5.1.9 The contracts for all supplies is for a twelve month period commencing from April 2020 to March 2021.
- 5.1.10 The Council will explore the adoption of PPAs for the 2021/22 Electricity Procurement exercise. If Electricity is procured via PPAs, the Council will continue with CCS to procure energy for the gas contracts.

## **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 For this year's supplies, the electricity contract was procured with 100% from renewable sources.

- 7.2.2 The Authority has made a commitment to "achieving net zero carbon across the full range of council functions by 2040". This will require the complete decarbonisation of the electricity supply grid by this date. Many suppliers in the market offer "renewable" electricity tariffs, also known as REGOs, choosing to buy these does not necessarily result in additional renewable generation and carbon savings beyond those incentivised by the regulatory mechanisms. The only clear

ways to achieve this is to develop local generation (e.g. solar photovoltaics) and procure electricity through Solar PPA.

7.2.3 We have explored the potential for a Power Purchase Agreement (PPA). PPAs 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. The next step appraising the options of acquiring a large scale solar asset or signing a Corporate PPA. Under both options, the Authority will need to sign long term contracts of at least 10 years and the implications of this will need to be ascertained. The Authority will need to consider the commitment of resources to cover costs such as contracts, specialist advice etc; to support the development of this project. As the supply would still be via the grid, there would need to be an additional contract with a licensed supplier to manage and charge for all the grid services (i.e. transportation/distribution etc.).

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 CO<sub>2</sub> reduction. The Council successfully installed Solar PV systems at administrative buildings with potential savings of over 1,000 tonnes of CO<sub>2</sub> savings over the lifetime of these installations. The estimated yield on the 2020/21 renewable generation across the corporate sites is 137,000kWh. The Council is currently in the process of installing solar panels in two Leisure Centres under a PPA arrangement with the GLL

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 as part of the fulfilment of the Mayor's Manifesto to install solar panels in Council owned properties.

7.2.8 For gas supply there are no 'renewable gas' contracts (although there are very small quantities of 'biogas' injected into the public supply network). As gas is consumed across the council estate for heating, the only route to '100% clean energy' target is to convert to zero carbon heating systems. This would need to be achieved through a longer term Decarbonisation strategy and program. This has been recognised as part of the development of the Energy Strategy.

**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 1<sup>st</sup> April 2020 to 31<sup>st</sup> March 2021 of the contracted year. The contract prices were purchased between the six month period, 1<sup>st</sup> October 2019 to 31<sup>st</sup> March 2020, 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	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.  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.	Supplier to provide emailed spreadsheet.  Compliance monitored by LBH.
Customer Queries	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.	Log of queries raised, held by LBH. Compliance monitored by LBH.  Supplier to provide emailed response.
Customer Complaints	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	Log of complaints held by LBH. Compliance monitored by LBH.
	Customer Complaints to be logged and reported to the Authority within one (1) Working Day of receipt.	Log of complaints raised, held by LBH. Compliance monitored by LBH.
	The Supplier to send a progress report to the Authority and the Customer each Working Day the complaint remains open/unresolved.  Where resolution of the Complaint is not achieved within the estimated	Log of complaints raised, held by LBH. Compliance monitored by LBH.



	timescale, or the estimated timescale is not acceptable to the Authority or the Customer, escalation procedures shall be invoked.	
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 2020/21 financial year.
- 10.2 As mentioned in the recommendations, the aggregate indicative decrease on the bottom line is 13%, which for the non schools elements of Hackney's portfolio is as follows:

	General Fund £	HRA £	Total £
Elec 19/20 outturn	2,711,931	3,435,390	6,147,321
Gas 19/20 outturn	460,002	1,526,165	1,986,167
<b>Total 19/20 outturn</b>	<b>3,171,933</b>	<b>4,961,555</b>	<b>8,133,488</b>
<b>20/21 Indicative cost with 13% decrease</b>	<b>2,759,582</b>	<b>4,316,553</b>	<b>7,076,135</b>

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:

	2019/20 £	2020/21

Schools energy cost	2,359,370	2,052,652
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10.3 The ongoing volatility of the energy markets means it remains difficult to predict year on year changes to prices and particularly given Covid19. Spend will be closely monitored through OFP (excluding schools).

## **11. COMMENTS OF THE ACTING 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 20120 until 31st March 2021.

## **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 to cover the next 12 months from 1st April 2020 to 31st March 2021..

12.2 This year's contracted prices (pence per unit) for the NHH electricity supplies are estimated at 12% less 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. COVID-19 has had a dramatic effect on markets around the world and the prices have reacted to this change.

## **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

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## **BACKGROUND PAPERS**

### **Exempt appendix 1**

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