

BOROUGH OF KETTERING

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Report Originator	Guy Holloway – Head of Corporate and Cultural Services	<i>Fwd Plan Ref No:</i> A19/029	
Wards Affected	ALL	15 th January 2020	
Title	ELECTRICITY PROCUREMENT – MINIMISING THE IMPACT ON CLIMATE CHANGE AND THE BUDGET		

Portfolio Holder: Cllr Ian Jelley and Cllr Lloyd Bunday

1. PURPOSE OF REPORT

- 1.1 Provide an overview of the Council's approach to electricity procurement.
- 1.2 Present members with the options available for future electricity procurement. These include the recommended options of:
 - (a) Using a public sector framework agreement to procure electricity; and
 - (b) Purchasing 100% 'Green Electricity' for new contracts, helping the Council meet its climate change commitments.
- 1.3 To update members on some of the actions the Council is taking to reduce its electricity usage and the impact of its operations on climate change and the Council's budget.
- 1.4 To seek delegated authority for the Strategic Management Team to award a contract for the supply of electricity in 2020/21 in accordance with the resolutions of this committee.

2. BACKGROUND

Electricity – An essential commodity

- 2.1 Kettering Borough Council procures electricity for a wide range of non-domestic properties and facilities that it is responsible for within the Borough of Kettering. This electricity is often vital to services, for example, powering lighting to outdoor community spaces, heating and lighting community centres and supplying heating, lighting, air-conditioning, computing and phone systems at operational properties.
- 2.2 The Council uses in the region of 2,200,000 kWh of electricity each year at a cost of around £340,000 per annum. To put that into context, the average home in the UK uses between 3,000 and 4,000 kWh per annum. The Council has over 150

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individual electricity supply points and the bulk of the electricity is used by a relatively small number of premises.

Streamlining the procurement of electricity

2.3 Over the past few years the Council has brought the renewal dates of electricity contracts into line and streamlined the related procurement processes. Electricity is now mainly procured through contracts accessed through two public sector framework agreements provided by two different organisations:

(1) **ESPO** (managed by Leicestershire, Lincolnshire, Cambridge, Norfolk and Warwickshire County Councils and Peterborough City Council)

(2) **LASER** (a trading company owned by Kent County Council).

2.4 The Council has purchased smaller quantities of electricity when needed direct from the market, sometimes using a broker. The objective over recent years has been to move all supplies into contracts let through framework agreements. The 'mixed-model' approach adopted in the past has provided a broader experience of the different routes available and allowed the relative value of different approaches to be gauged. This has informed the development of a standardised approach.

2.5 The largest parcel of electricity is supplied to the Council by Total Gas and Power (Total) and was accessed via an ESPO framework agreement. This parcel makes up over 75% of the Council's electricity supply. The contract with Total expires at the end of September 2020. **The Council therefore needs to make a decision as to how best to proceed with the supply of electricity in order to avoid 'out of contract' rates.**

2.6 The Council has valuable experience of changing its electricity suppliers, both inside and outside of framework agreements. In addition, the effective financial management arrangements the Council has in place, coupled with the synchronisation of electricity contracts, makes the process of changing suppliers and dealing with invoicing relatively straight-forward. As a result, the Council has not felt the need to outsource its energy procurement to what is known as a 'fully managed' model which is adopted by some other organisations. With a fully managed approach, the framework provider will deal with all invoices and supply queries on behalf of their client.

The energy procurement market

2.7 The energy procurement market for large-scale, non-domestic electricity is complex. Energy is traded as a commodity and there are a range of different approaches that can be adopted to secure preferable rates and to dampen the impact of sudden price fluctuations. The complexity of the different options entail risks and add a requirement for technical expertise. As with many things in life there are also significant economies of buying in bulk.

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2.8 Members will already be familiar with the fact that there are different sources of energy generation, some more environmentally sustainable than others. To date Kettering has purchased electricity generated from a mix of sources, both from renewable and more traditional unsustainable sources. Many suppliers now offer green energy products that come from 100% renewable sources. The need for a renewable focus is considered central to the recommendations of this report and will be considered further in 2.13(d) and Section 8 of this report.

The benefits of framework agreements

2.9 Framework agreements help provide the end-user of non-domestic energy with a solution to help address the 'complexity' issues outlined in 2.7 above. ESPO for example, procure in excess of 750,000,000 kWh of electricity per annum, providing significant buyer power which organisations like Kettering Borough Council can benefit from.

2.10 The benefits of framework agreements go beyond those of bulk-purchase. Contract terms are standardised to help avoid some of the common pitfalls such as unit prices that vary dependant on usage floors and ceilings. These clauses often penalise energy reduction initiatives which should go hand in hand with smarter energy procurement. In addition, organisations such as ESPO offer technical advice and expertise on the timing and options for the purchase of electricity. ESPO are not unique in this regard. LASER, as well as other purchasing consortiums also offer these benefits and can also provide a fully managed service where they will deal with invoicing and problem resolution for example.

Pricing of electricity

2.11 Electricity prices are volatile. The price can depend on many factors including demand, which itself is influenced by unpredictable variables such as the weather. International geo-political factors can also influence the market and can be equally unpredictable. Government policy also has a big impact. It is however generally accepted that the price of electricity will continue to increase year-on-year as demand overall continues to rise. Based on the Council's current usage, a 1p /kWh increase in the price of electricity would cost the Council in the region of £20,000 per annum.

2.12 Kettering Borough Council has benefited from the significant buying power of the public sector purchasing arrangements it has used. The electricity prices accessed from Total via the ESPO framework agreement earlier in 2019 provides an example. A day rate of 12p /kWh and a night rate of 10p /kWh were secured for a large portion of the electricity portfolio under the agreement. Accounting for additional costs such as the Climate Change Levy (CCL) and Standing Charges, the resulting rate for comparison purposes is 15p /kWh (excluding VAT).

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2.13 Green renewable energy has traditionally been in scarcer supply than other forms of energy. Supply has increased significantly over recent years but this has also been matched by increases in demand. In 2019 the advice from industry experts had been to factor in a price premium of 0.05p /kWh on top of energy prices when buying green energy. However, some experts have recently amended their advice, suggesting that a 0.1p /kWh premium is more realistic due to increases in demand for green energy. Even so, the impact on the cost of electricity for the Council for procuring 100% green electricity is predicted to be around £2,500 per annum. This can be considered a relatively small cost given the overall expenditure on electricity and the associated environmental benefits.

The options moving forwards

2.14 It is essential that the Council maintains its electricity supply within a formal contract arrangement. Failure to do so could double the cost of electricity due to out of contract rates that apply to non-domestic electricity supplies. There are however options for the Council as to how it wishes to procure its electricity moving forward and these are set out below:

Options

- a. **Do nothing:** This is not considered a viable option. Out of contract rates for electricity tend to be at least double contracted rates. This option should be avoided.
- b. **Purchase electricity direct from the market:** This is not considered viable as it would be too onerous to complete a compliant procurement process and secure the necessary benefits. This is particularly the case given Kettering's relatively small demand for electricity.
- c. **Procure the same grade of electricity through a framework agreement:** This is considered a viable option. However, given the Council's climate change commitments, this is not recommended.
- d. **Procure 'Green Electricity' generated from 100% renewable sources through a framework agreement:** This is considered a viable option and is recommended. The financial implications of this option are assessed in section 5 of this report.
- e. **Procure Green Energy via a framework agreement in conjunction with a neighbouring Council:** It is understood that Northamptonshire County Council are currently considering their procurement options in relation to both electricity and gas. Although it would be beneficial to understand more about the opportunity, it should be noted that the County Council is looking to procure a fully managed service which differs from Kettering's approach. It is considered unlikely that the increase in procurement quantities arising from joining forces with a neighbouring authority will have an impact on price given the significant quantities of energy already purchased via the public sector framework

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agreements. There would however be no harm in maintaining a dialogue in order to make an informed decision.

3. CONSULTATION AND CUSTOMER IMPACT

- 3.1 The recommended option of moving to the procurement of electricity generated by 100% renewable sources will have a positive impact on the environment and customers.

4. POLICY IMPLICATIONS

- 4.1 The Council set out a very clear policy at its meeting in July 2019 in terms of becoming carbon neutral by 2030. The recommendations of this report aim to help the Council deliver this policy objective by moving its electricity supply to 100% renewable sources at the earliest possible opportunity.
- 4.2 Although outside the scope of this report from the perspective of procurement thresholds, officers will also look to secure gas from renewable sources when and where it is possible to do so.
- 4.3 When making the decision to let the contract for the supply of electricity, officers will carefully take into account any considerations relating to future local government reform. Discussions will be held with neighbouring authorities to ensure mutual clarity of approaches.

5. FINANCIAL RESOURCE IMPLICATIONS

- 5.1 It is anticipated that the recommended option to purchase green electricity generated from 100% renewable sources will increase the cost of the electricity purchased by around 1%. This would equate to approximately £2,500 per annum based on current values. This cost is an estimated value as any resulting cost will depend on the amount of electricity used and the price of electricity, dictated mainly by market forces and Government policy at the time of procurement.
- 5.2 It should be kept in mind that by far the most effective method of reducing both the financial and environmental impact of electricity usage is to minimise the amount used. Energy reduction initiatives can often be used to offset energy price increases.
- 5.3 Failure to renew the contract for the supply of the portfolio of electricity that expires with Total in September 2020 could double the annual cost of electricity. This could have an adverse impact on the Council's budget upwards of £300,000 per annum.

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6. HUMAN RESOURCE IMPLICATIONS

6.1 None

7. LEGAL IMPLICATIONS

7.1 It is important that the Council complies with the relevant procurement regulations in relation to its procurement activities. Using one of the numerous public sector framework agreements available, such as ESPO, LASER, or CCS (Crown Commercial Service) will ensure that the Council meets the statutory European procurement regulations that apply for contracts of this value.

7.2 It is important that the Council honours the contractual commitments it has in place with existing electricity suppliers. Terminating contracts early will incur penalties. In addition, letting contracts lapse should be avoided as out of contract rates will apply which are often significantly higher.

8. CLIMATE CHANGE IMPLICATIONS

8.1 At its July 2019 meeting the Full Council made a commitment to make the area carbon neutral by 2030. The Council acknowledged that it has a vital role to play as both a service provider and community-leader in this regard.

8.2 Sourcing electricity from renewable sources is an important step in moving towards the above objective. A large proportion of the electricity used by the Council is currently supplied by Total Gas and Power via an ESPO framework agreement. The sources of energy for the current supply purchased from Total as well as the proposed 'Green Energy' supply is illustrated at **Appendix 1**.

8.3 This report does not set out to quantify the impact on carbon emissions of the option to source Green Energy. However, a decision to source electricity from 100% renewable sources will undoubtedly assist the Council in meeting its climate change commitments. One of the tasks for the Council moving forward will be to establish monitoring arrangements that help quantify the impact of its actions. With regards to electricity usage, data for the future supply arrangements will be available alongside historic usage values. These will help demonstrate the impact of the approach moving forward.

8.4 As well as the option to source Green Energy, the Council will continue to deliver a programme of energy reduction initiatives including measures such as:

- Continue to install low energy LED lighting;
- Procuring energy efficient plant, vehicles and equipment;
- Optimising the length of routes for vehicles for services such as refuse and recycling collections;

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- Providing education and information to staff and customers to help them reduce their individual and collective carbon footprint.
- Looking at new technologies and how they can reduce energy usage.

9. RECOMMENDATION

That the Executive Committee:

- 9.1 Note the Council's approach to electricity procurement and the continuing efforts it is taking to reduce its energy usage to lower its impact on the environment and the Council's budget; and
- 9.2 Delegate authority to the Strategic Management Team to award a contract for the supply of electricity to the portfolio of sites it owns for up to four years from October 2020 in line with the requirements that:
 - (a) The contract is for the supply of 100% 'Green Energy' from renewable sources;
 - (b) A public sector framework agreement is used that ensures the contract award is compliant with the relevant procurement legislation and best practice in energy procurement is followed;
 - (c) That the contract award can clearly demonstrate value for money;
 - (d) That any award considers the implications of the emerging local government reform agenda.

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