

TRAFFORD COUNCIL

Report to: Executive
Date: 18th March 2019
Report for: Decision
Report of: Executive Member for Environment, Air Quality and Climate Change

Report Title

Electricity Supply for Street Lighting and Council Properties

Summary

The purpose of this report is to provide details of procurement activities and a proposal to enter into a contract for electricity supply for street lighting and council properties.

Recommendation(s)

It is recommended that the Executive:

1. Approve the proposal to enter into a contract via the Yorkshire Purchasing Organisation Framework Agreement for the supply of electricity for Street Lighting with effect from 1st April 2019 as detailed in the report;
2. Delegate authority to the Corporate Director for Place in consultation with the Corporate Director of Governance and Community Strategy to finalise the terms and conditions of the contract.

Contact person for access to background papers and further information:

Name: Richard Roe
Extension: x4265

Background Papers: None

Implications:

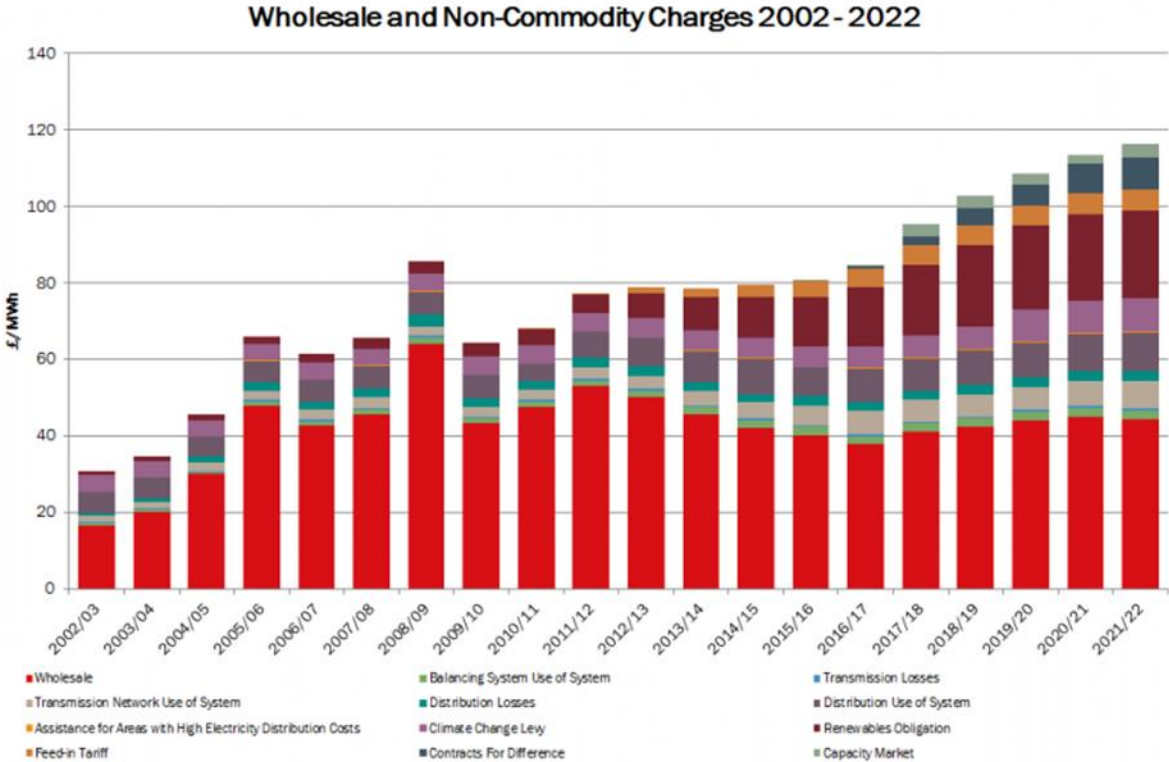
| | |
|---|--|
| Relationship to Policy Framework/Corporate Priorities | This energy supply award supports the Green and Connected corporate priority |
| Relationship to GM Policy or Strategy Framework | Greater Manchester's green ambitions are centred around the work of our Low Carbon Hub – a network of public, private, voluntary and academic organisations working together to make Greater Manchester one of the greenest city regions in the world. |
| Financial | The Council spends approximately £1.4m per annum on electricity, which includes street lighting (£0.9m) and buildings (£0.5m). The wholesale price makes up around 50% of this cost with the remainder relating to compulsory costs for elements such as for the distribution and supply network plus government taxes and levies. The recommended contract award to YPO is not expected to increase the cost of energy above the Council's existing budget assumptions. |
| Legal Implications: | Procurement proposals are compliant with relevant legislation and legal advice will be provided in respect of the contract terms and conditions. |
| Equality/Diversity Implications | Not applicable |
| Sustainability Implications | This energy supply award supports the development of renewable energy and reduced carbon emissions. |
| Resource Implications e.g. Staffing / ICT / Assets | Not applicable |
| Risk Management Implications | Not applicable |
| Health & Wellbeing Implications | Not applicable |
| Health and Safety Implications | Not applicable |

1.0 Background

- 1.1 Trafford Council's current contract for the supply of electricity for both Street Lighting and Half Hourly and Non-half Hourly charges is due to expire on 31/03/2019.
- 1.2 In October 2018 STAR engaged with Trafford Council in addition to its other three Partner Authorities including Stockport, Tameside and Rochdale, to assess opportunities for collaboration on the procurement of energy supplies. All four Authorities currently purchase energy with Npower via the Yorkshire Purchasing Organisation.
- 1.3 Following the establishment of a working group comprising of representatives of all four Partner Authorities, STAR began to assess available options that would best meet the needs of each Partner whilst delivering best value via economies of scale.

2.0 Current Position of the Energy Market

- 2.1 Since 2012 wholesale electricity costs have fallen by approximately 10%. However over the last few years the non-commodity cost (also known as ‘third party costs’), includes the other charges that make up the energy bill that are not for the supply of electricity (the commodity) itself, have risen steadily to represent 50% of the customer’s bill.
- 2.2 These compulsory charges cover the cost of delivering electricity, balancing the grid and all network costs. Also included are taxes and levies, primarily from the government in order to support the development of renewable energy and reduce carbon emissions.
- 2.3 The main non-commodity costs include charges such as: Transmission Network Use of System (TNUoS), Distribution Use of System (DUoS), Renewable Obligation (RO), Contract for Difference (CfD), Feed in Tariff (FiT) and Capacity Market (CM) to name but a few.
- 2.4 It is predicted that there will be a further rise to 60% by 2020 as indicated in the charts below.



2.5 To mitigate the impact of these additional costs, demand managed processes are applied across all Local Authorities to ensure that we are meeting Government targets with regard to CO2 emissions and Climate Change Levies and therefore reducing the overall cost of energy in the future.

3.0 Procurement Exercise

3.1 STAR subsequently identified four National Framework Agreements available of which further details are contained below, alongside a comparison of direct

procurement without using an existing framework agreement. This approach provided the opportunity to utilise the technical expertise, resource and market knowledge within these organisations to achieve better value for the procurement.

- Yorkshire Purchasing Organisation
- Framework A
- Framework B
- Framework C

| Framework | Process | Advantages | Disadvantages | Framework Term |
|-------------|-------------------------------------|--|---|---|
| YPO 296 | Direct call off | No Change of supplier so ease of call off and migration. | After 2 years options can be reviewed to assess changes in market trends however only a flex option would be available for an extended 12 month period. | 01/04/2019 - 31/03/2023 |
| Framework A | Direct call off or mini competition | | 1 Year initial Framework with extensions available for 3 x 12 month periods. Would have to be managed by each authority. | 15/10/2018-14/10/2019 And subsequent extensions to be implemented. |
| Framework B | Direct Call Off | | Historical problems with invoicing and lack of management from supplier Framework Provider No current market engagement to appoint providers since 2017 reliant on continuous trading. | 31/07/2017-31/07/2020 |

| | | | | |
|-------------|-----------------|---|---|-----------------------|
| Framework C | Direct Call Off | Change of supplier need to allow extra 30 days in timeline for change over. | Expires 30/09/2020 no recent Market test undertaken therefore maybe a new provider appointed from Sept 2019, cannot submit costs for 2- 3 year contract period. | 01/10/2017-30/09/2019 |
| STAR | OJEU Tender | Decision to be made on the type of Service required | Extended timelines and internal resources required to undertake this process. | |

3.2 Following a comparison exercise for Street Lighting between all Framework Agreement options illustrated in table 3.1 above (except Framework C), the best value option for Trafford Council is the YPO Framework Agreement as illustrated below.

| Authority | Current Cost | YPO | Framework A | Framework B |
|-----------|--------------|------------|-------------|-------------|
| | | Cost | Cost | Cost |
| Trafford | £ 867,933 | £ 819,070 | £ 907,022 | £ 947,809 |
| Stockport | £ 1,902,044 | £2,264,674 | £ 2,411,379 | £ 2,519,813 |
| Rochdale | £ 1,220,108 | £1,516,876 | £ 1,580,398 | £ 1,651,464 |
| Tameside | £ 1,505,809 | £1,577,659 | £ 1,748,317 | £ 1,826,935 |
| | | | | |
| | | YPO | Framework A | Framework B |
| | Trafford | £ 48,863 | -£ 39,089 | -£ 79,876 |

3.3 In addition to this comparison, YPO have recently been to the market and put in place a Framework Agreement which has demonstrated the following:

- 3.3.1 Cost effectiveness against other compliant framework agreements and options, some of which have also tested the market recently.
- 3.3.2 Support of energy expertise throughout the contract period allowing for better management of energy bills and payment.
- 3.3.3 Offers the best route to deliver the requirements within the required timescales.
- 3.3.4 No change of supplier therefore mitigating any potential change of provider costs.
- 3.3.5 Ease of access to the Framework Agreement which is available to contract under from 1st April 2019 which fits in with current requirements.
- 3.3.6 Processes would remain the same therefore internal resources would be kept to a minimum.

- 3.3.7 Additional value for money with the benefit of a rebate against spend through the Framework Agreement as all of the participating authorities are associate members.
 - 3.3.8 An option to agree the percentage of energy that we receive from renewable sources, and that these will be reviewed during the operation of the contract and reported to the Executive Member.
- 3.4 There are a number of caveats regarding the comparison at 3.2:
- 3.4.1 These are indicative costings only based on historical usage for the supply of non-metered supplies due to the energy market fluctuating on a daily basis. Up to date costs will be supplied once a decision to enter into contract is made.
 - 3.4.2 Green indicates a saving; Red denotes uplift in costs. This is indicative data only as the volumes purchased are likely to be different to those represented for comparison purposes.
 - 3.4.3 YPO and Framework A indicative pricing is based on the more current market variances, there has been a sharp increase in commodity cost from May 2018.
 - 3.4.4 We were unable to obtain a cost for comparison from the Framework Cat this time due to their Framework Agreement expiring on 30/09/2019. Framework C are not out to market yet to appoint a new provider so could not provide latest comparable rates.
 - 3.4.5 The average predicted increases in non-commodity costs are expected to represent 60% of the costs against the consumption commodity costs by 2020.

4.0 Consultation

- 4.1 This is a procurement issue with no direct implications on policy or service delivery and therefore consultation is not required.

5.0 Reasons for Recommendation

- 5.1 To enable the most cost effective provision of electricity supply.

6.0 Urgency of Decision

- 6.1 This report should be considered as 'urgent business' and the decision exempted from the 'call-in' process for the following reason(s):
 - 6.1.1 Due to the need to receive the latest up to date market prices via the YPO Framework Agreement, a decision needs to be made urgently in order to fix the costs across all 4 STAR Partner Authorities and benefit from the economies of scale.
 - 6.1.2 A decision needs to be made no later than 19th March 2019 to ensure that the new contract is in situ for 1st April 2019, otherwise Trafford Council will automatically refer back to the incumbent supplier's standard tariffs, resulting in a significant increase of approximately 5p per KWH.

Key Decision:Yes

If Key Decision, has 28-day notice been given? No

Exempt Information

By virtue of Paragraph 1 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended by The Local Government (Access to Information) (Variation) Order, the following information has been excluded from Part 1 of this report and included in Part 2 of the report:

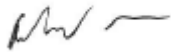
1. Information relating to the financial or business affairs of any particular person (including the authority holding that information)

In all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Finance Officer Clearance PD

Legal Officer Clearance DS

CORPORATE DIRECTOR'S SIGNATURE

A handwritten signature in black ink, appearing to be 'M. W.', followed by a horizontal line.

To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.