

WIRRAL COUNCIL

CABINET - 14 JANUARY 2010

REPORT OF THE DIRECTOR OF TECHNICAL SERVICES

ANNUAL ELECTRICITY AND GAS CONTRACT RENEWAL

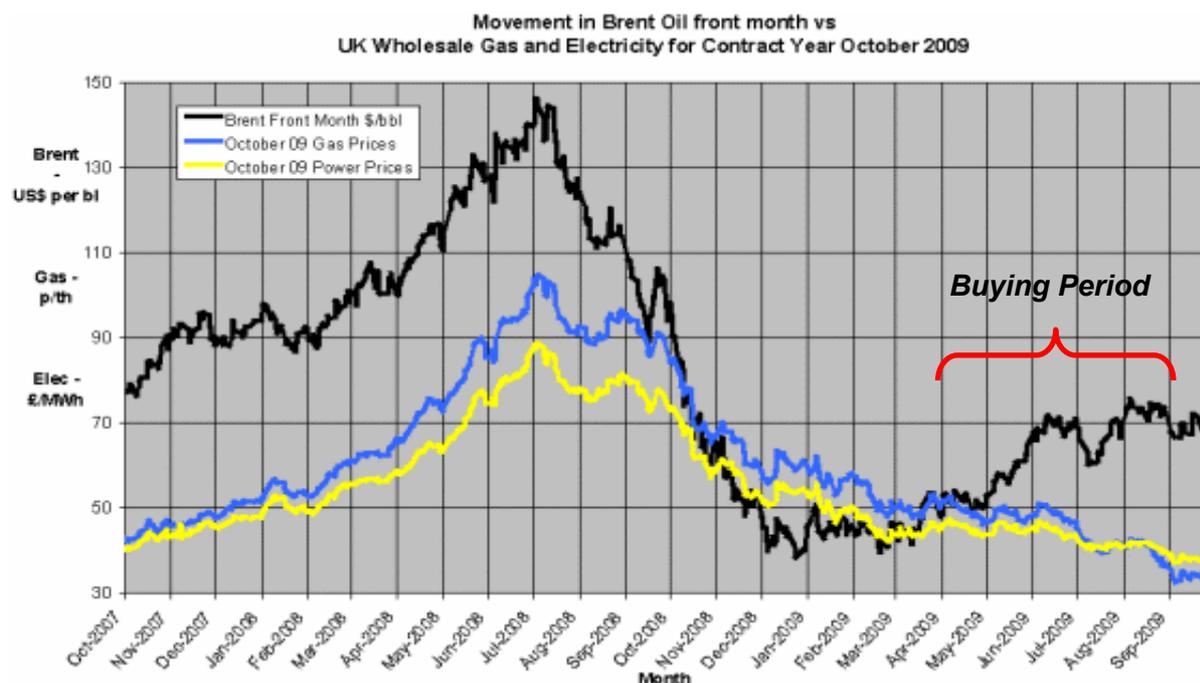
EXECUTIVE SUMMARY

This report details the Council's annual electricity and gas contract renewals, undertaken by Buying Solutions, following the end of the current contracts on 30 September 2009. The new contracts have reduced the projected annual energy costs by £2.9 million with £1.6 million savings to the General Fund services and £1.3 million to Schools. In order to meet the Carbon Reduction Commitment a five year programme of Automatic Meter Reading installations is recommended as the investment will assist with the delivery of future energy savings.

1.0 BACKGROUND TO THE CURRENT CONTRACT RENEWALS

1.1 During the buying period for the October 2008 utility contracts we saw oil prices reach record levels and gas and electricity prices followed. Since then recession has impacted on the demand for oil, plentiful supplies have pushed prices down. The credit crunch and the move into recession that followed saw industrial and commercial energy demand fall whilst new liquefied natural gas terminals in Wales are now operational and receiving supplies from a variety of locations. The combination of falling demand and plentiful supplies saw prices begin to fall at the end of last year, prices fell further during the buying period (April to September 2009) for the October 2009 contracts.

1.2 The graph below shows the movement in wholesale prices of gas [blue] (p/therm) and electricity [yellow] (£/MWh) for the year commencing October 2009 against the price for Brent Crude Oil [black] (\$ per barrel).



- 1.3 After the record increase in crude oil to \$147 per barrel a little over a year ago, prices dropped to as low as \$40 per barrel at the beginning of 2009 but crude oil prices are now back to between \$70 to \$80 per barrel. The direction of prices from now on seems to depend on the recovery in demand rather than available supply. The timing of any economic recovery seems now to be propping up wholesale energy prices for summer 2010 and beyond. One strange feature of utility prices at present is that summer prices are higher than those for winter, the first time this has occurred in the UK wholesale energy market.

2.0 CONTRACT RENEWAL DETAILS

- 2.1 The energy content of the four contracts detailed below is purchased on our behalf by Utility Traders at Buying Solutions (BS) part of the Office of Government Commerce over the preceding six months prior to renewal. The individual supplier then provides a dedicated customer service team to supply and administer a particular contract.
- 2.1.1 **Non-Half Hourly Electricity Contract (NHH):** This contract is administered by British Gas Business on behalf of BS, and is provided to sites with a maximum demand of less than 100kw of electricity in a half hourly period.
- 2.1.2 **Half Hourly Electricity Contract (HH):** This contract is administered by EDF Energy on behalf of BS, and is designed for sites requiring over 100kw of electricity in a half hourly period.
- 2.1.3 **Natural Gas Contract (All Sites):** This contract is administered by Corona Energy on behalf of BS, and supplies all sites with natural gas.
- 2.1.4 **Street Lighting Contract:** This contract is administered by EDF Energy on behalf of BS. It includes street lighting, associated highways lighting, traffic control systems and car parks.
- 2.2 The first three contracts currently operate for a period of twelve months from October to September each year when the prices are be reviewed by BS.
- 2.3 The street lighting contract currently operates for a period of twelve months from April to March and undergoes a similar price review. In the Street Lighting (Electricity) Contract Renewal 2009 report presented to Cabinet on the 23 July 2009 it has been agreed to align the Street Lighting contract with the remaining utility contracts which run from October to September in each purchasing period. A twelve month price was received in April 2009 and an interim price will be obtained for the period April to September 2010 so enabling a new twelve month contract to be issued from October 2010.
- 2.4 For the reasons detailed in section 1.2 and 1.3 above utility prices in general have significantly reduced over the last twelve months.
- 2.5 As there are individual tariff structures within the NHH, HH and Gas contracts based on operational profiles and metering costs, each site is individually priced based on the various detailed information. Therefore the average price increase for each contract has been calculated. The Non-Half Hourly contract has seen an average reduction of 40%, the Half Hourly contract has seen an

average reduction of 37% (giving a combined average electricity reduction of 38%) The average price of gas compared to last years prices has reduced by 45% when the average increase in metering and transportation charges of 140% are factored in (the overall price paid by customers) the percentage reduction falls to 31%.

3.0 CRC ENERGY EFFICIENCY SCHEME

- 3.1 Within the Council Corporate Plan one of the priorities is to reduce the Council's carbon footprint, the recently revised target sets out to reduce our emissions by 60% by 2025.
- 3.2 As has previously been reported to Cabinet, April 2010 sees the start of the Government's CRC Energy Efficiency Scheme (formerly known as the Carbon Reduction Commitment) a new regulatory incentive to improve energy efficiency in large public and private sector organisations. The Council will also be responsible for administering the scheme on behalf of Schools.
- 3.3 In order to comply with the performance criteria of the scheme there is a requirement for all buildings to have meters installed that enable half-hourly meter readings to be provided automatically. Automatic Meter Reading systems collect utility meter readings automatically using mobile phone technology. The system, when fully operational, will eliminate estimated bills, improve the reliability of electronic billing, improve Council budgeting and help identify inefficient energy use, it will also assist with the purchasing of future energy requirements and consequently reductions in future energy costs.
- 3.4 It is recommended that a contract be prepared for a 5 year programme for installing and operating the AMR system. The overall cost of individual meters depends on their size so the exact cost will not be known until the successful contractor has surveyed all meters. However, the costs for Council Buildings has been assessed for the combined total of 594 electricity and gas meters at an average cost of £14 per meter per month, approximately £100,000 per year. Similarly the costs for Schools has been assessed for the combined total of 479 electricity and gas meters at an average cost of £14.50 per meter per month costing approximately £83,000 per year. At the end of the 5 year programme operating costs will be reduced significantly as the installation programme will have been completed.

4.0 EQUAL OPPORTUNITIES IMPLICATIONS

- 4.1 There are no equal opportunities implications in this report.

5.0 PLANNING AND ANTI-POVERTY IMPLICATIONS

- 5.1 There are no planning and anti-poverty implications in this report.

6.0 COMMUNITY SAFETY IMPLICATIONS

- 6.1 There are no community safety implications in this report.

7.0 HUMAN RIGHTS IMPLICATIONS

7.1 There are no local human rights implications arising from this report.

8.0 ENVIRONMENTAL SUSTAINABILITY IMPLICATIONS

8.1 We have been informed by Buying Solutions of changes in the level of renewable energy available to customers, this will apply from the 1 October 2009 for non-half hourly electricity contract renewals.

8.2 The decision by BS is as a result of the introduction of the new Carbon Reduction Commitment, from October 2009 all customers currently taking renewable NHH electricity will receive an allocation of 10% under the new framework agreement with British Gas - irrespective of the percentage of renewable electricity they received in the past. Buying Solutions have stated that this change is to ensure that their customers are not paying for something that brings them no direct financial benefit.

8.3 As previously explained the Council can't officially claim the reduction because the Electricity Generators are required to claim these emissions as part of their licence agreements. As a result the amount of CO₂ emissions indirectly attributable to the purchase of certified green electricity will reduce by approximately 8,000t. CO₂ per year. Although we still obtain the indirect benefit from the Street Lighting and HH Electricity Contracts of approximately 6,500 t. CO₂ per year.

9.0 ACCESS TO INFORMATION ACT

9.1 There are no implications under this heading.

10.0 LOCAL MEMBER SUPPORT IMPLICATIONS

10.1 There are local Member implications for all Wards arising from this report.

11.0 FINANCIAL AND STAFFING IMPLICATIONS

11.1 The table includes the contracts for electricity and gas which are renewable each October and the street lighting contract which is presently renewable each April: and how the new contracts compare to the budget. The savings are based on the current budgets for all premises under Council ownership at 1 October 2009 and take account of energy efficiency measures implemented during 2009-10. The figures for schools have been included for information.

Contract	Contract Period	Budget	Savings	Savings
			2009/10	2010/11
		£	£	£
GENERAL FUND				
Electricity	Oct 2009 – Sept 2010	2,757,600	451,700	903,300
S/Lighting	Apr 2010 – Sept 2010	1,340,000	-	147,400
Gas	Oct 2009 – Sept 2010	2,079,900	250,300	500,700
		6,177,500	702,000	1,551,400

SCHOOLS				
Electricity	Oct 2009 – Sept 2010	2,214,300	420,700	841,400
Gas	Oct 2009 – Sept 2010	1,518,000	235,300	470,600
		3,732,300	656,000	1,312,000

- 11.2 In an effort to reduce costs further all sites are encouraged to contact the Sustainability Unit who will assist managers and staff to reduce consumption which includes good housekeeping which we are rolling out as part of our energy awareness raising programme.
- 11.3 Buying Solutions have identified the savings associated with the Council's use of their Managed Service as being £270,870 for the period October 2009 to September 2010. The methodology has been approved by the Office of Government Commerce and the figures are considered cashable (except TPI Cost Avoidance) and the information from Buying Solutions is in the Appendix.
- 11.4 To meet the Carbon Reduction Commitment Automatic Meter Reading is required in Council buildings and Schools and the 5 year programme will cost £100,000 per year for Council Buildings and £83,000 per year for Schools.

12.0 RECOMMENDATIONS

- 12.1 That it be noted that the offer made by Buying Solutions was competitively tendered and was accepted using Delegated Authority.
- 12.2 That the impact of the revised electricity and gas contracts be reflected in the 2009/10 General Fund budgets returning £0.7 million to Council balances.
- 12.3 That the impact of the electricity, gas and potential street lighting contracts be reflected in the 2010/11 General Fund budgets realising £1.6 million in savings.
- 12.4 That it be recognised that no provision has been made for the 2010 contract renewals at this stage. Given the unpredictability of the markets further reports will be presented to Cabinet as information is received.
- 12.5 That £100,000 per year for 5 years be allocated to a programme of installing/operating Automatic Meter Reading (AMR) in Council buildings to support the Council priority to reduce Wirral's carbon footprint and to comply with the performance criteria of the CRC Energy Efficiency Scheme and that this be met from the Efficiency Investment Fund.
- 12.6 That the savings to Schools of £0.7 million in 2009/10 and £1.3 million in 2010/11 be noted and the Schools Forum be requested to consider a programme of AMR installations within schools in order for them to comply with the performance criteria of the CRC Energy Efficiency Scheme and to deliver further benefits in carbon reduction and that the cost of this programme be met from the Schools Budget.

DAVID GREEN,
DIRECTOR OF TECHNICAL SERVICES

Appendix A. - Breakdown of financial savings resulting from the use of Buying Solutions Managed Service

Customer Savings Tracker Template			USER INPUT REQUIRED HERE				Customer Volumes
			HH MWh	HH MWh	NHH MWh	Gas therms	
Customer Name: Wirral Borough Council			16,095	16,820	20,129	2,826,706	
					405		No. Of Sites
Savings Area	Criteria	Criteria Rationale	Annual Savings By Supplier				Annual Savings (£)
			EDF - HH £	EDF - Street Lighting £	BG - NHH £	Corona - Gas £	
Fixed to Flexible	Bid -offer differential -	Trading on a flexible basis will allow prices to be secured at levels closer to the market bid price. Fixed price contract prices will be referenced to the offer price.	£ 5,745.92	£ 6,004.74	£ 7,186.05	£ 2,572.30	£ 21,509.01
	Tradebook price differential (price risk)	This is a price risk premium based on timing and added to direct contract offers (EdF have previously quoted this at 0.5p/MWh). This relates to the time for which the price is held open and potential fluctuations during that time	£ 4,828.50	£ 5,046.00	£ 6,038.70	£ 11,306.82	£ 27,220.02
Aggregation	Reduction in supplier margin	It is inevitable that a large aggregated portfolio such as this will attract a lower supplier margin	£ 31,063.35	£ 32,462.60	£ -	£ 63,035.54	£ 126,561.49
	Balancing fee (gas) (volume risk)	This is volume risk premium based on the uncertainty of volume to be taken over the 'fixed' period. This element could be relatively high. Flexible buying is undertaken in clips to enable purchases to be more closely matched to actual offtake.				£ 35,333.83	£ 35,333.83
	Balancing & settlement fee (elec) (volume risk)	As for balancing fee gas (but relating to electricity)	£ -	£ -	£ -		
Other, Non-Cashable	TPI Cost avoidance	As an alternative customers may use one of many energy consultancies to conduct the procurement on their behalf. As Buying Solutions are 'not for profit'	£ 2,585.06	£ 2,701.51	£ 8,234.02	£ 46,725.45	£ 60,246.04
			£ 44,222.83	£ 46,214.85	£ 21,458.77	£ 158,973.95	£ 270,870.39

Source: Buying Solutions, 20 October 2009.