

WIRRAL COUNCIL

CABINET - 9 DECEMBER 2010

REPORT OF THE DIRECTOR OF TECHNICAL SERVICES

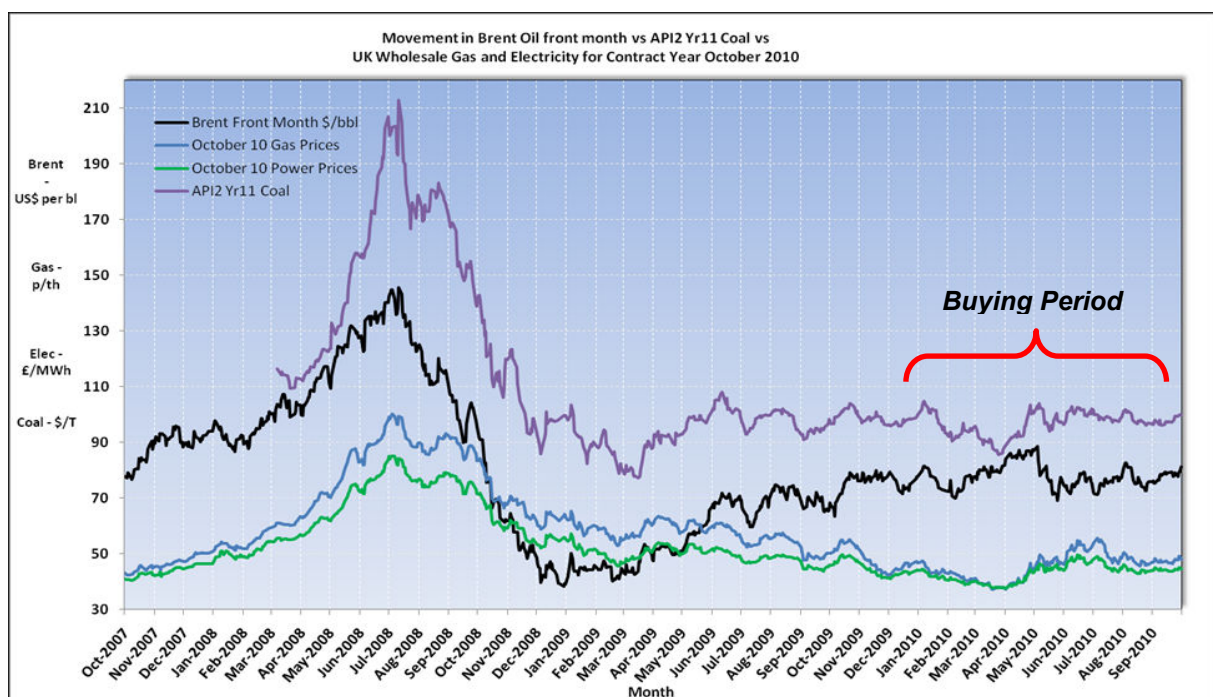
ANNUAL ELECTRICITY AND GAS CONTRACT RENEWAL

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 2010. The new contracts have increased the projected annual energy costs by £478,000 being a £298,000 increase to the General Fund services and £180,000 to Schools.

1.0 BACKGROUND TO THE CURRENT CONTRACT RENEWALS

- 1.1 Having come through the coldest winter for 30 years, the UK gas supplies coped very well with the highest levels of demand recorded. It was a surprise to most people when rather than prices falling as they usually do when we move into the Summer, spot gas prices actually rose. This may have been due to the significant gas demand to refill depleted UK storage and to export to continental Europe via the Zeebrugge interconnector. With lower supplies than expected from Norway, there was competition for supplies for the UK's gas fired power stations. Even significant deliveries of liquefied natural gas to the UK terminals struggled to meet often record daily demand for gas for export as the UK became somewhat of a transit country for gas from all over the world. As summer 2011 prices still seem to be holding firm, this will set the base position for Winter 2011/12 prices.
- 1.2 The graph below shows the movement in wholesale prices of gas [blue] (p/therm) and electricity [green] (£/MWh) for the year commencing October 2010 against the price for Brent Crude Oil [black] (\$ per barrel).



- 1.3 Oil prices have increased from the low price of \$40 per barrel at the beginning of 2009 to about \$85 at present. The direction of prices from now on seems to depend on the recovery in demand rather than available supply. This has resulted in a small increase in energy prices since last years 30 to 40% reduction in prices which was attributed to the financial recession.

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 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 For the reasons detailed in section 1 above utility prices in general have seen a small increase over the last twelve months.
- 2.4 As there are individual tariff structures within the NHH, HH and Gas contracts based on operational profiles, transportation 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 increase of 8.6%, the Half Hourly contract has seen an average increase of 8%, giving a combined average electricity increase of 8.5%. The average price of gas compared to last years prices has risen by 6%. As the Street Lighting contract is now reviewed in October each year its performance can be included within this report, the price has increased by 3.8%.

3.0 CARBON REDUCTION COMMITMENT ENERGY EFFICIENCY SCHEME

- 3.1 As part of the Comprehensive Spending Review on 20 October 2010 the Government announced a number of changes that will have an impact on the Council.

- 3.2 The CRC Energy Efficiency scheme will be simplified and the first purchase of allowances will now take place in June/July 2012 with the revenues from the sales being used to support the public finances, spend for the environment and the renewable agenda, rather than recycling back to participants as previously outlined. However, the scheme remains one focused on carbon reduction.
- 3.3 With the recycling payment no longer being returned to participants, costs will be considerably higher per annum and continue to increase year on year. Currently the price is set at £12 per tonne but now this **will rise to £16 per tonne by 2014**.
- 3.4 The scheme continues as a 'carbon reduction scheme' with customers having the responsibility to continue to reduce their carbon emissions. The outcome being a managed and maintained reduction ensuring carbon percentages are at a level which ensures the financial impact of allowances can be managed cost effectively.
- 3.5 The changes in summary are:
- **There will be no sale of allowances in April 2011.**
 - The first sale will be 2012 for emissions from April 2010 to March 2011.
 - The league table will be published as planned – October 2011 but will only have reputational impact.
 - Changes to the scheme will be made to remove the recycling payment mechanism and consultation with DECC and the Environment Agency continue.
 - There will be no recycling payments, revenue from the scheme will be retained by the Government in support of public finances.
 - It is still a legal obligation for participants and information disclosers to register (the Council registered for the scheme on 23 July 2010).
- 3.6 Organisations that meet the criteria for participation must include emissions from all energy consumed from non-transport use i.e. Electricity, Gas and Heating Oil from buildings. Councils must also include all State-funded Schools (inc. Academies) and PFI Schools where the Local Authority is responsible for the energy supply contract.
- 3.7 Based on current information the cost of carbon allowances are expected to rise from £12 per tonne in 2012 to £14 per tonne by 2014 this would mean that (based on our most recent emissions data) the first purchase of allowances due in June/July 2012 would cost £532,000, increasing to £576,000 in 2013 and £620,000 by 2014. With no recycling payment returned to the Council.
- 3.8 Automatic Meter Reading (AMR) project update: We are working with Stark Software International Limited to collect the large amount of technical data for all of our electricity, gas and water meters this will allow the replacement of obsolete meters in preparation for the installation of over 1,200 data loggers.

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 Emissions from the purchase of renewable sources of energy, 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 indirectly attributable to the purchase of certified green electricity will reduce emissions by approximately 18,000t. 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 all electricity and gas accounts which are renewable each October and how the new contracts compare to the budget. The increases are based on the current budgets for all premises under Council ownership at 1 October 2010 and take into account projected energy consumption during 2010/11. The figures for schools have been included for information.

Service / Contract	Revision Oct 2010	Budget 2010/11	Increase 2010/11	Increase 2011/12
		£	£	£
GENERAL FUND				
Electricity	+8.5%	1,854,300	+78,800	+157,600
S/ Lighting	+3.8%	1,193,000	+22,600	+45,300
Gas	+6.0%	1,579,200	+47,400	+94,800
		4,626,500	+148,800	297,700
SCHOOLS				
Electricity	+8.5%	1,372,900	+59,300	+116,700
Gas	+6.0%	1,047,400	+31,400	+62,800

		2,420,300	+89,700	+179,500
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- 11.2 The introduction of the Councils Carbon Budget will assist efforts 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 Last year Buying Solutions identified the savings associated with the Council's use of their Managed Service as being £270,870. Currently Buying Solutions are waiting for the revised savings model to be issued by the Government although the figure is expected to be similar as it is based upon fixed variables, premiums and avoided costs, and not actual purchase performance.
- 11.4 Current financial projections for the CRC Scheme are £532,000 in 2012/13, £576,000 in 2013/14 and £620,000 in 2014/15.

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 energy contracts be reflected in the 2010/11 General Fund budgets and the net increase of £149,000 be met from the General Fund balances.
- 12.3 That the impact of the revised energy contracts be reflected in the 2011/12 General Fund budgets and the net increase of £298,000 be added to the Budget Projections for 2011/15.
- 12.4 That the impact of the revised energy contracts upon the Schools Budgets be noted and the report be referred to the Schools Forum.
- 12.5 That it be recognised that no provision has been made for the 2011 contract renewals at this stage. Given the unpredictability of the markets further reports will be presented to Cabinet as information is received.
- 12.6 That the revisions to the Carbon Reduction Scheme be noted and that £532,000 be included in the Budget Projections for 2012/13.

DAVID GREEN
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