

**ANNUAL ELECTRICITY AND GAS CONTRACT RENEWAL**

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**EXECUTIVE SUMMARY**

The report “The Impact Of Energy Price Rises On The Authority” presented to Cabinet on 9 July 2008 advised of the likely financial impact of increasing energy prices. This included the renewal of our electricity and gas contracts from the 1 October 2008. Whilst energy markets remain volatile the unexpected downturn in prices in September meant that the actual increases were not as high as expected and this report sets out the implications for the Council.

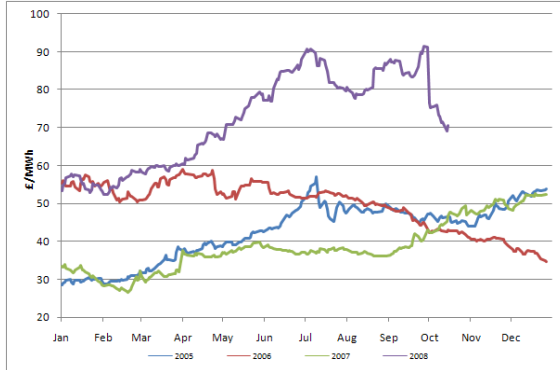
**1.0 BACKGROUND TO THE CURRENT CONTRACT RENEWALS**

- 1.1 Members will be aware of the report “The Impact Of Energy Price Rises On The Authority” presented to Cabinet on 9 July 2008 advising of the likely financial impact of increasing energy prices on the renewal of our electricity and gas contracts from the 1 October 2008 which was based on best available information at that time. At the time of writing the previous report oil prices had risen to new record levels of over \$140 dollars a barrel. Crude oil prices first broke through the \$70 dollar per barrel almost exactly a year ago.
- 1.2 The past 12 months, and in particular the 6 months to the end of September, has seen unprecedented movements in UK and World energy prices for all the main energy resources. In July oil prices hit a record high at \$147 per barrel, which was double that of May 2007. Added to the fact that coal prices peaked at over \$168 per tonne, it was inevitable that gas and electricity prices would follow. However, towards the end of the buying window (between April and September) for our October contracts, as oil prices fell sharply, gas and to a greater extent electricity prices did not fall by a corresponding amount.
- 1.3 There are several theories behind the failure of electricity prices to fall, but none of these in isolation seems to explain what happened – or what did not happen. There was an impact from the Large Combustion Plant Directive which was introduced this year to limit the number of operating hours for some of the older coal fired power stations. In addition four of British Energy’s eight Nuclear power stations have been offline and not able to produce electricity. They have also failed to come back online as scheduled, which has left concerns that supply margins could be very tight, particularly during the latter part of 2008.
- 1.4 As always these stories fuelled sentiment, and the problem has been compounded by a lack of generators selling power for the coming months and seasons. In a thinly traded wholesale market, prices are very volatile and even a single substantial purchase can drive the market upwards and trigger “stop loss” positions with other buyers, in turn driving further volatility. This was a very difficult time for all energy purchasers.

## 1.5 Historical Wholesale Utility Price Movements:

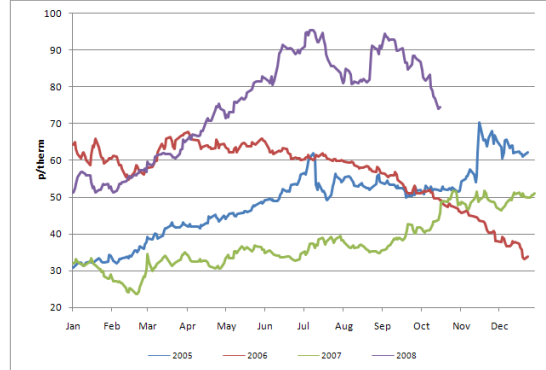
The charts show how both electricity and gas prices have performed over the last four years and identifies the significant fall after September this year, the end of our six month buying period.

**Electricity**



Source EIC Ltd

**Gas**



**Index:** Blue = 2005; Red = 2006; Green = 2007; Purple = 2008 (to date).

- 1.6 In recent weeks, due to the current national and international turmoil in financial markets and the resulting recessionary tendencies around the world the demand for oil has seen a drop in price to below \$40 dollars a barrel, the lowest price since July 2004. Although prices have recovered slightly since December 2008. Crude oil prices have slumped since rising to a record high of \$147 dollars per barrel in July on supply concerns. The Organisation of the Petroleum Exporting Countries (OPEC), in a bid to shore up falling prices, have cut production by a total of 4.2 million barrels per day to 24.8 million barrels in the last four months. The latest cut came into effect on the 1<sup>st</sup> January 2009. However, the oil market has remained relatively stable, despite OPEC's decision to cut supply. It is envisaged that as markets recover so will oil prices and, against this background, any projections are likely to be volatile.

## 2.0 CONTRACT RENEWAL DETAILS

- 2.1 The energy content of the three contracts detailed below is purchased on our behalf by Utility Traders at Office of Government Commerce Buying Solutions (OGC-BS) 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.
- 2.2 **Under One Hundred Kilowatt Electricity Contract (UH):** This contract is administered by British Gas Business on behalf of OGC-BS, and is provided for organisations with a maximum demand of less than 100kw of electricity per site.
- 2.3 **Over One Hundred Kilowatt Electricity Contract (OH):** This contract is administered by EDF Energy on behalf of OGC-BS, and is designed for organisations requiring over 100kw of electricity per site.
- 2.4 **Natural Gas Contract (All Sites):** This contract is administered by Corona Energy on behalf of OGC-BS, and supplies all sites with natural gas.

2.5 All three contracts operate for a period of twelve months from October to September each year when the prices will be reviewed/renewed by OGC-BS.

2.6 Due to the continued extreme volatility within the energy market, all three contracts saw significant price rises not previously experienced by the Council. Due to the flexible method of procurement used by OGC-BS they were able to reduce the expected high prices by deferring the completion of the purchases until the end of September, this is the reason for the late publication of prices.

2.7 As there are several tariff structures within the UH and Gas contracts based on operational profiles and each site within the Gas and OH contracts are individually priced based on various detailed information therefore the average price increase for each contract is UH contract 71%, OH contract 90% (giving a combined average electricity increase of 75%) and 92% for the Gas contract.

### **3.0 EQUAL OPPORTUNITIES IMPLICATIONS**

3.1 There are no equal opportunities implications in this report.

### **4.0 PLANNING AND ANTI-POVERTY IMPLICATIONS**

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

### **5.0 COMMUNITY SAFETY IMPLICATIONS**

5.1 There are no community safety implications in this report.

### **6.0 HUMAN RIGHTS IMPLICATIONS**

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

### **7.0 LOCAL AGENDA 21 IMPLICATIONS**

7.1 As a result of renewing these electricity contracts, the Council continues to obtain the indirect benefits of 100% green electricity which continues to reduce our emissions by approximately 14,500 tonnes per year.

### **8.0 ACCESS TO INFORMATION ACT**

8.1 There are no implications under this heading.

### **9.0 LOCAL MEMBER SUPPORT IMPLICATIONS**

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

### **10.0 FINANCIAL AND STAFFING IMPLICATIONS**

10.1 In summary departments have previously contained, as far as possible, the variation between actual spend and the budget available for energy in 2007/08. As set out in the table, based on the previously agreed street lighting contract and the new electricity and gas contracts, spend will exceed the currently available budget.

10.2 At this stage no contractual increases have been incorporated for street lighting renewal in April 2009 or the electricity and gas contracts in October 2009. It is recommended that a report be presented to Cabinet early in the next financial year as the volatility in the market makes any projections subject to potential wide variation.

10.3 The projections assume that the existing Council building stock is maintained and does not include future programmed energy saving measures. The figures for schools have been included for information.

10.4 Energy Cost Increases (including that for street lighting for 2008/09 which has previously been agreed by Cabinet):-

**COUNCIL  
DEPTS**

	<u>Budget</u>	<u>Actual</u>	<u>Projected</u>	<u>Projected</u>	<u>Variation</u>	<u>Variation</u>	<u>Variation</u>
	<u>2008-09</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
<u>Detail</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>
Street lighting	846	1,107	1,624	1,624	261	778	778
Electricity	1,310	1,622	2,222	2,838	312	912	1,528
Gas	940	1,093	1,595	2,099	153	655	1,159
<b>Total</b>	<b>3,096</b>	<b>3,822</b>	<b>5,441</b>	<b>6,561</b>	<b>726</b>	<b>2,345</b>	<b>3,465</b>

**SCHOOLS**

	<u>Budget</u>	<u>Actual</u>	<u>Projected</u>	<u>Projected</u>	<u>Variation</u>	<u>Variation</u>	<u>Variation</u>
	<u>2008-09</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
<u>Detail</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>
Electricity	930	1,490	2,051	2,607	560	1,121	1,677
Gas	930	700	1,022	1,344	-230	92	414
<b>Total</b>	<b>1,860</b>	<b>2,190</b>	<b>3,073</b>	<b>3,951</b>	<b>330</b>	<b>1,213</b>	<b>2,091</b>

10.5 In an effort to reduce costs, once again all sites are encouraged to contact the Energy Conservation Section who will assist managers and staff to reduce consumption including through good housekeeping which we are rolling out as part of our energy awareness raising programme.

**11.0 RECOMMENDATIONS**

That

(1) it be noted that the offer made by OGC Buying Solutions was competitively tendered and was accepted using Delegated Authority;

11.2 the impact of the revised electricity and gas contracts be reflected in the 2008/09 budget with the sums of £912,000 and £655,000 respectively being transferred from balances; and

11.3 the impact of the street lighting, electricity and gas contract renewals during 2008 be reflected in the 2009/10 budget with £3.5 million being approved.

11.4 at this stage, no further sums be set-aside for the 2009 contract renewals given the unpredictability of the markets and further reports be presented to Cabinet as information is received.