

NORTH LINCOLNSHIRE COUNCIL

GOVERNANCE AND TRANSFORMATION CABINET MEMBER

CONTRACT AWARD: SUPPLY OF NATURAL GAS

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 This report informs the cabinet member of the outcome of a Yorkshire Purchasing Organisation led procurement for the supply of natural gas to council sites.

1.2 The key points in this report are:

- Contract Procedure Rules detail that the relevant cabinet member must be notified of the outcome of all procurements over £1m
- A new regional contract for the supply of natural gas has been negotiated by Yorkshire Purchasing Organisation
- A range of customer service and value improvements will be delivered through the new contract

2. BACKGROUND INFORMATION

2.1 Cabinet previously agreed to the procurement of energy related contracts via the Yorkshire Purchasing Organisation (YPO) in line with the council's category management strategy and the outcomes of the Pan-Government Energy Project, specifically that all public sector organisations should adopt an aggregated, flexible and risk managed energy procurement through a recognised Central Purchasing Body.

2.2 Prior to the current flexible purchasing approach, electricity and gas were purchased through fixed price contracts. This was effective in securing best value when the energy markets were stable however in recent times the energy markets have become more volatile with wholesale prices subject to substantial fluctuations.

2.3 Under a fixed term contract approach the council would be required to purchase electricity or gas at the time the fixed term contract expires to ensure continuity of supply. There is a risk that this coincides with a time when prices are high and therefore that the council would be locked into a high price contract for the next fixed term period, usually 3 to 4 years. These arrangements typically involve volume tolerances and inflexible consumption terms ("take or pay") which impact value for money. For this reason the Pan-Government Energy project recommended a flexible purchasing approach.

- 2.4 Flexible purchasing means buying the annual requirement for electricity or gas in regular amounts in advance over a period (usually twelve months). This enables purchases to be timed to avoid unusual market price spikes and also spreads the risk of price fluctuations. It does not guarantee that all energy is purchased at the lowest possible price available during a particular period but experience during the current contract has shown that overall this approach has resulted in procurement at below average prices.
- 2.5 In addition, the aggregation of demand with other public sector bodies via the YPO energy consortium (representing 9,000 supply points across the region) has resulted in further price advantages through economies of scale, reduced management fee and a dedicated customer service and account management team.
- 2.6 The council's current contract with British Gas for the supply of gas is due to expire on 31 March 2017. Due to the requirement under flexible purchasing for the contractor to buy gas in advance it is necessary to put in place a new contract well before the end of the current contract to allow sufficient time for the benefits of flexible purchasing to be realised. Consequently YPO has undertaken an OJEU compliant procurement process to identify a supplier for the next contract period.
- 2.7 An open tender process was conducted; thirteen suppliers accessed the tender, four submitted responses and met all mandatory requirements, listed below.
- British Gas
 - Corona Energy Limited
 - DONG Energy Sales UK
 - Total Gas and Power Limited
- 2.8 The tenders were evaluated by YPO in accordance with the following weighting
- Cost 35%
 - Quality 65%
- 2.9 Corona Energy Ltd achieved the highest overall score.
- 2.10 YPO recommended that the energy consortium members enter into a contract with Corona Energy Limited for the supply of gas from 1 April 2017 to 31 March 2021. The council has confirmed its commitment.

3. OPTIONS FOR CONSIDERATION

- 3.1. As this is an information report there are no options to be considered.

4. ANALYSIS OF OPTIONS

4.1 As above.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1 The council's expenditure on gas is approximately £700,000 a year on average across c. 200 sites including schools. Costs are mitigated through a combination of:

- on-going asset rationalisation
- energy management measures
- commercial management through effective procurement

5.2 Entering into a new flexible purchasing contract for the supply of gas enables purchases to be timed to avoid unusual market price spikes and also spreads the risk of price fluctuations. It does not guarantee that all energy is purchased at the lowest possible price available during a particular period but experience during the current contracts has shown that overall this approach has resulted in procurement at below average prices. This provides the best opportunity to generate savings but does not guarantee that savings will be achieved as this depends on market prices.

5.3 This procurement process has been conducted in compliance with European Union procurement legislation.

5.4 The continued adoption of flexible purchasing is in accordance with the Pan-Government Energy Project, which recommended that all public sector organisations adopt aggregated, flexible and risk-managed energy procurement through a Central Purchasing Body.

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

6.1 Not applicable.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

7.1 The exercise was undertaken by the YPO in consultation with the council's energy manager and procurement team.

7.2 Terms and conditions of the contract have been shared with all schools and procurement subscription academies as key users.

8. RECOMMENDATIONS

8.1 That the outcome of the YPO led gas supply procurement is noted.

Civic Centre
Ashby Road
SCUNTHORPE
North Lincolnshire
DN16 1AB
Author: Jason Whaler
Date: 28 September 2016

DIRECTOR OF POLICY & RESOURCES

Background Papers used in the preparation of this report
YPO Framework Booklet – Mains Gas