

## **Summary Sheet**

### **Council Report**

Cabinet/ Commissioner Decision Meeting – 26 May 2016

Cabinet Member: Councillor Lelliott

Commissioner: Commissioner Kenny for decision

### **Title**

RMBC Mains Gas Supply Framework 1st April 2017 – 31st March 2021

### **Is this a Key Decision and has it been included on the Forward Plan?**

Yes

### **Strategic Director Approving Submission of the Report**

Damien Wilson – Strategic Director, Regeneration and Environment

### **Report Author(s)**

David Rhodes – Corporate Environmental Manager

Corporate Property Unit

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### **Ward(s) Affected**

All

### **Executive Summary**

The existing gas supply framework contract with British Gas (BG) commenced in April 2013 and finishes in March 2017. RMBC energy supply contracts are tendered through Yorkshire Purchasing Organisation (YPO) (with the exception of biomass). A procurement tender has now been carried out to ensure value for money/quality for the supply of gas using the YPO Framework.

This report is recommending the RMBC Mains Gas Supply Framework 1st April 2017 – 31st March 2021 is awarded to Corona Energy 4 Retail.

### **Recommendations**

Cabinet is asked to:-

- 1.1 Approve the RMBC Mains Gas Supply Framework 1st April 2017 – 31st March 2021 to Corona Energy 4 Retail.

**List of Appendices Included**

Exempt Appendix

**Background Papers**

None

**Consideration by any other Council Committee, Scrutiny or Advisory Panel**

No

**Council Approval Required**

No

**Exempt from the Press and Public**

The report is open with an exempt Addendum under Paragraph 3 – business affairs.

It is considered that the public interest in maintaining the exemption would outweigh the public interest in disclosing the information, as the parties' commercial interests could be prejudiced by disclosure of commercial information.

## **Main Report**

RMBC Mains Gas Supply Framework 1st April 2017 – 31st March 2021

### **1. Recommendations**

Cabinet is asked to:-

- 1.1 Approve the RMBC Mains Gas Supply Framework 1st April 2017 – 31st March 2021 to Corona Energy 4 Retail.

### **2. Background**

- 2.1 Rotherham MBC procures energy through YPO (Yorkshire Purchasing Organisation) using a flexible purchasing process in accordance with the recommendation of the Pan-Government Energy Project. The recommendation was that all public sector organisations adopt aggregated, flexible and risk managed energy procurement through a recognised Central Purchasing Body, such as YPO. RMBC is a shareholder and member of YPO.
- 2.2 RMBC'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.
- 2.3 An open tender process was conducted; thirteen suppliers accessed the tender, four submitted responses and met all mandatory requirements. The tenders were evaluated by YPO (Cost 35% / Quality 65%) with the results provided in the exempt addendum to this report.
- 2.4 YPO has 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.

### **3. Key Issues**

- 3.1 The current flexible purchasing approach (rather than fixed price contracts) was adopted as a result of volatile energy markets with wholesale prices fluctuating massively and all indications are that this will continue. Purchases are 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.

#### **4. Options considered and recommended proposal**

4.1 The aggregation of demand with other public sector bodies via the YPO energy consortium has resulted in further price advantages through economies of scale, a dedicated customer service and account management team and avoidance of take or pay contracts.

4.2 Alternative procurement options previously considered are:

4.2.1. Procuring outside the YPO framework using an independent broker/consultant. Prices have been offered below market rates from brokers/consultants but when closely scrutinised the prices were projected and didn't include the transmission costs or consultancy fees, resulting in an increased tariff and no contract management support that is currently received through YPO.

4.2.2 Procuring outside the YPO framework using the RMBC Procurement Team. In house procurement wouldn't secure the economies of scale discounts currently achieved through the YPO procurement process or provide the contract management support. If this option was used the Council would need to buy gas in a single purchase rather than the flexible procurement process currently used. Bulk buying on a set contract renewal day has been proven to increase costs.

YPO do continuously look at alternative purchasing options to reflect the changing energy market.

#### **5. Consultation**

5.1 There has been no formal consultation.

#### **6. Timetable and Accountability for Implementing this Decision**

6.1 The timetable on completion of the tender process is:

| <b>Activity</b>   | <b>Date</b>                     |
|---|---------------------------------|
| YPO Energy Initiative Steering Group (EISG) endorsement | 2 <sup>nd</sup> February 2016   |
| Framework intention to award                            | 26 <sup>th</sup> February 2016  |
| Framework awarded                                       | 7 <sup>th</sup> March 2016      |
| Framework agreement signed (YPO/CE)                     | From 7 <sup>th</sup> March 2016 |
| Customers (RMBC) sign new gas contracts                 | from 1 <sup>st</sup> April 2016 |
| Transition to new framework                             | Summer 2016                     |
| Framework commencement date                             | 1 <sup>st</sup> April 2017      |

## **7. Financial and Procurement Implications**

- 7.1 Under a flexible purchasing approach it is not possible to predict the financial implications of entering into the contract at the outset. However, on the basis of current gas prices and consumption levels, it is estimated that the annual value of the contract over the 5-year contract period is in the order of £2.2 million based on current prices.
- 7.2 The details of the current contract price and the recommended new contract is provided in the exempt appendix to this report.
- 7.3 Between 2010 and 2015 gas consumption has reduced by around 60%. This has been achieved through a combination of energy efficiency measures and property rationalisation. The cost of gas has reduced by 46% from £4,881,512 to £2,593,483 whilst the average tariff has increased by 19%.

## **8. Legal Implications**

- 8.1 As detailed in section 2.2 a full procurement process has been conducted in compliance with Council Procedures and European Union procurement legislation. Better procurement would secure better value for money for services provided to citizens, businesses and customers.

## **9. Human Resources Implications**

- 9.1 There are no direct HR implications arising from this report.

## **10. Implications for Children and Young People and Vulnerable Adults**

- 10.1 There are no specific implications for Children and Young People and Vulnerable Adults arising from this report.

## **11. Equalities and Human Rights Implications**

- 11.1 Equalities and human rights requirements are incorporated into RMBC and YPO's procurement processes.

## **12. Implications for Partners and Other Directorates**

- 12.1 Entering into this contract will ensure RMBC meets its best value considerations for providing energy within its buildings. The contract will mitigate against price fluctuations in what can be a volatile market.

## **13. Risks and Mitigation**

- 13.1 Failure to enter into a new contract for the provision of gas could result in RMBC reverting to procuring supply through the on the spot market at the expiration of the current contract which would result in increased costs. On spot purchasing doesn't allow any price negotiation; runs the risk of supply not being available (supplier contracts takes precedence) and makes it difficult to predict costs and set budgets.

13.2 Procuring energy through the YPO consortium is a tried and tested method that provides value for money; guaranteed supply; contract support and a low risk option. Previously other Local Authorities have opted out of the YPO framework (notably Sheffield City Council) only to re-join the YPO consortium after the independent supply contract expires at a significant financial loss.

#### **14. Accountable Officer(s)**

Paul Woodcock, Assistant Director for Planning, Regeneration and Culture

Approvals Obtained from:-

Finance Manager:- Jon Baggaley

Principal Officer (Legal Services):- Ian Gledhill

Head of Procurement (if appropriate):- Helen Chambers, Senior Procurement Category Manager

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