
 REPORT OF THE STRATEGIC DIRECTOR (Place)

TO THE PROCUREMENT BOARD

 ON 11 March 2020

 TITLE: Approval to award the Contract for the renewal of non-half hourly (NHH) electricity supply

RECOMMENDATION:

1. That Procurement Board approves adopting the 48 month renewal offer for NHH electricity contract with Scottish & Southern Electric
2. That Procurement Board accept 100% green energy contract for the renewal.

Detail required		
Title/Description of Contracted Service/Supply/Project	NHH contract for the supply of electricity	
Name of Successful Contractor	Scottish & Southern Electric (SSE)	
Supplier Registration Number	SSE – 03757502	
Type of organisation	Public Limited Company	
Status of Organisation	Non-SME	
Contract Value	NHH Electricity - £671,201	Per Annum
Contract Duration	48 Months	
Contract Start Date	01/04/2020	
Contract End Date	31/03/2024	
Optional Extension Period	0 months	
Who will approve each Extension Period?	N/A	
Contact Officer (Name & number)	Majid Maqbool 0161 607 6987	
Lead Service Group	Place Directorate	
How the contract was procured?	Manchester Framework	
Framework Details (where applicable)	TC970 – Multi-supplier Electricity Framework	
Funding Source	Revenue budget & schools budgets	

EXECUTIVE SUMMARY

The current NHH electricity contract was agreed as of April 2018 for a period of 2 years and is therefore up for renewal as of April 2020.

The purpose of this report is to outline the procurement strategy being utilised to re-procure the contract and to seek approval to agree the new contract duration.

BACKGROUND DOCUMENTS:

Appendix 1 – NHH electricity contract breakdown at site level

KEY DECISION:

YES

DETAILS:

1 Background

- 2.1 Salford City Council has utilised the Manchester Multi-supplier Electricity framework set up by Manchester in order to carry out the renewal of the electricity contract. The framework commenced as of 1 November 2018 for an initial period of 1 year, followed by 3 single year options to extend, which have been taken for each year to date.
- 2.2 The Multi-supplier Framework Agreement allows the flexibility to enter into a call-off agreement by a mixture of direct award and further competition. Consequently, it is anticipated that Salford Council will use a mixture of both strategies and the flexibility this brings to secure the best future prices possible.
- 2.3 A total of 4 suppliers are on the framework for the sub 100kW electricity sites, with the SSE being ranked as the winning supplier, as per the evaluation weighting shown below.

Evaluation Weighting	65% Price	15% Quality	20% Social Value
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Company Name	<u>SSE</u>	<u>Total</u>	<u>Haven</u>	<u>Engie</u>
Weighted Price Score	65.00	64.40	62.95	62.69
Weighted Quality Score	14.64	15.00	12.14	11.07
Total Weighted Social Value	20.00	18.25	19.00	13.50
Total Weighted Score	99.64	97.65	94.09	87.26
Ranking	1	2	3	4

2 Energy Purchasing Strategy (Direct Award / Mini competition)

- 2.1 The present supplier for direct award for the sub 100kW contract under the Manchester framework is Scottish and Southern Electric (SSE). This is also the current supplier for the existing contract that was also procured via the former single Manchester supplier electricity framework.
- 2.2 Under present contract arrangements, Salford council is in the process of AMR meter roll out across the whole portfolio for the sub 100kW contract and as such it makes sense to continue with this roll out and thereby use the direct award strategy to allow for the AMR roll out to be completed.
- 2.3 With the present market conditions showing a downward trend of wholesale prices and a continued upward trend of non-commodity elements, the overall unit cost of electricity has increased since 2018, albeit the increase being marginal when compared to historical price increases at point of renewal. Indicative prices obtained prior to the tender renewal process, coupled with market commentary reports suggest a longer contract duration to offer best value as well as budget certainty.

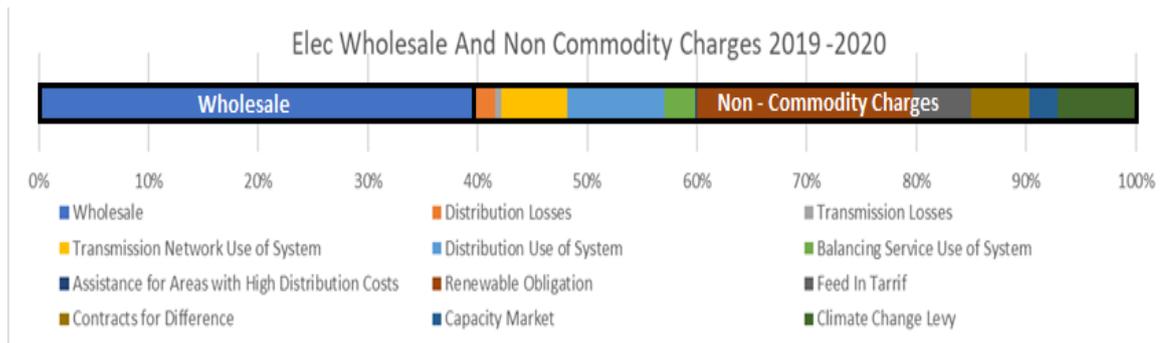
3 Electricity Market Commentary

- 3.1 Since the acceptance of the present electricity contract in 2018, wholesale electricity prices trend has overall been downward, with an overall reduction as shown in the graph below.



One of the reasons for the most recent continued downward trend is the increase in wind generation, which has provided between 20-33% of grid requirements for most of January. Electricity prices also in general follow gas prices, which have seen a significant reduction due to oil prices being 18% lower than at peak of \$70 a barrel, as well as the UK gas system being well supplied. The downward market trend suggests a longer contract duration will be better given that the market is more than likely to start moving upwards over the next 24 months.

- 3.2 The wholesale price of current contract makes up approximately 40% of the unit electricity price of current contract, with the remainder 60% being non commodity elements as detailed below.



3.3 Whilst wholesale price has reduced and is at its lowest level since 2016, the non-commodity elements have increased year on year, with the overall increase being greater than the reduction in wholesale price and therefore an overall increase in total contract renewal costs.

4 Financial Analysis

4.1 Prices were obtained for 24, 36, and 48 month contract durations, with all prices being 100% green energy. Prices for 12 month renewal were dismissed in light of the downward trend of wholesale prices.

4.2 The NHH electricity contract comprises of schools and corporate sites, as detailed in Appendix 1. A summary of the overall percentage price increase for the contract between corporate and schools and as a whole is as follows:

	24 Month Renewal	36 Month Renewal	48 Month Renewal
SCC Corporate	9.46%	11.04%	13.18%
Schools	8.52%	10.14%	12.35%
Trust	8.65%	10.27%	12.45%
Total contract	8.40%	10.01%	12.19%

A more detailed financial analysis at site level for each category is provided in Appendix 1 – NHH electricity contract renewal cost breakdown at site level.

4.3 Present market conditions show there is relatively little volatility in the market with wholesale prices at their lowest levels since 2016. At the same time, we have also witnessed steady continued increases in Government regulated non-commodity, pass through charges. These pass-through charges cover the cost of transporting the energy and provide support for Government initiatives and interventions in the energy industry, such as climate change policies.

4.4 The non-commodity element of an electricity bill now represents the largest proportion of the total bill, with the renewal contract comprising of approximately 65% non-commodity costs and 35% electricity commodity costs.

4.5 Both the falling wholesale prices and the increasing non-commodity elements mean that the overall electricity charges will be higher, but the downward wholesale price trend has helped to mitigate the overall price increase. Analysis of the contract durations have confirmed a marginal difference between 24 and 48 month durations of 3.79% (inclusive of green energy levy). With the typical average annual energy inflationary increase of

5% to 6%, a 48 month contract duration offers the best value in present market conditions, as well as ensuring budget certainty.

5 Social Value

5.1 Due to the remote nature of energy supplies, there are very limited opportunities to deliver social value to the Council through the delivery of this contract. All bidders have been assessed via the Manchester Framework to ensure they meet the minimum trading standards set by central government by adopting the newly revised standard supplier questionnaire which amongst other things ensures suppliers meet criteria regarding modern slavery, employee welfare and collective representation.

5.2 The option to procure a 100% green energy contract is available via the Manchester framework and SSE is able to provide this. However, following the Government announcement in 2015 for the removal of Climate Change Levy (CCL) exemption, green energy contracts will attract a premium. SSE have confirmed the premium to be 0.087p/kWh, which based on total electricity contract volume amounts to £4,179 per annum. Under a green energy contract, SSE will provide certification that the purchased electricity has been generated exclusively through SSE's portfolio of wind and hydro assets.

Procurement of a green energy contract will show the Council's support for the generation of electricity from renewable sources and its commitment to corporate social responsibility. It is therefore an effective and high profile way of demonstrating leadership in combating climate change.

5.3 Whilst electricity prices are predicted to continue to rise in the long term, the Energy Management Team is actively involved in implementing all measures available in reducing the overall electricity consumption. As well as the installation of AMR meters to aid in better monitoring and targeting, the team has implemented other measures, mainly via the Council's Local Authority Carbon Management Plan, including:

- Installation of voltage optimisation units in order to harmonise the electricity coming into the site. Sites where this measure has been implemented include Civic centre, Turnpike House, Higher Broughton Community Hub and a number of leisure centres.
- Installation of new lighting as part of major office refurbishments or lighting retrofits in order to install more energy efficient lighting coupled with better control via passive infra red (PIR) sensors.
- Installation of variable speed drives on pool water pumps at all leisure centres as well as on all office buildings that have air handling plants.
- Use of renewable energy sources, including solar PV and solar hot water.
- Implementation of behavioural change programmes to inform and educate end users of energy on what actions can be taken to reduce usage.

All of the above and continued energy saving measures will aid towards achieving the council's carbon neutral target by 2038.

6 Recommendation

6.1 The Procurement Board is requested to consider and accept the 48 month contract which will produce annual costs in the region of £671,201.

6.2 The procurement Board is requested to accept a 100% green energy contract at a relatively small premium in order to show the council's commitment and leadership in

encouraging generation from renewable sources and therefore combating climate change.

The contract period commences 1 April 2020 for 48 months' duration, thereby expiring on 31 March 2024.

The framework supplier will also provide internet billing and electronic data interchange with Salford City Council which will make it much easier for the payments to be processed, as well as allowing data to be imported directly in to Salford's Systemslink Energy Management System.

KEY COUNCIL POLICIES: Council's medium term financial plan and securing VFM outcomes
Carbon Reduction

EQUALITY IMPACT ASSESSMENT AND IMPLICATIONS: This procurement is for energy supply for Council's buildings and schools

ASSESSMENT OF RISK: Low

Wholesale electricity prices change on a daily basis and any delay in the contract renewal will have financial implications in terms of significantly higher out of contract rates being charged.

SOURCE OF FUNDING: General fund revenue budget and schools budgets.

LEGAL IMPLICATIONS: Submitted by Tony Hatton, Principal Solicitor, tel. 219 6323

When commissioning contracts for the procurement of goods, services, or the execution of works, the Council must comply with the Public Contracts Regulations 2015 (PCR) and its own Contractual Standing Orders (CSO's), failing which a contract may be subject to legal challenge from an aggrieved provider. The proposed award of the contract follows a tender exercise by mini competition in accordance with the process set out in the Manchester City Council multi-supplier framework as detailed in the report, which itself was procured in accordance with PCR and CSO's, which will help to ensure that the risk of challenge to the proposed awards is minimal and that any challenge, should it materialise, is extremely unlikely to be successful.

The purpose of a framework agreement is to select through a procurement / evaluation process a number of providers who can meet the service requirements of the Council, as and when those services are required. If they are required then the Council will undertake an exercise to call off the services from one or more of the providers who have been selected to be on the framework and this may be through any number of ways such as mini-competition or direct allocation, depending on the circumstances. A contract will then be formed between the Council and the chosen provider/s.

The Council will need to have followed the procedure set out in the framework agreement to ensure the procurement process is compliant. The procurement procedures therefore appear robust and compliant with the requirements of CSO's and PCR.

FINANCIAL IMPLICATIONS: Submitted by Jemma Singleton, Finance Officer Level 2, ext 2578

As highlighted in the main body of the report, the 48 month contract with SSE will produce annual costs of £671,201 of which £246,927.35 relates to Corporate Properties.

The current Corporate Property contract is £218,180.08 and therefore a 13.18% increase for the 48 months duration, which is marginal on an annual basis (see appendix 1). A longer contract duration offers best value as well as budget certainty.

These estimated additional costs for 2020/21 have been included within the assumptions made as part of the budget setting process.

PROCUREMENT IMPLICATIONS: Submitted by Heather Stanton, Category Manager ext 6241

This exercise has been conducted within the Council's Contractual Standing Orders for the supply of electricity.

The Manchester Multi-supplier Electricity framework has been used to carry out the renewal of the electricity contract. Benchmarking has been completed between the 4 providers on the framework to obtain the best prices possible. Wholesale prices are relatively low at the moment however, the non-commodity elements have increased year on year. All prices obtained are green energy which attracts a premium but it was felt that a 48 month contract presented the best value. Salford council are looking at various ways to reduce the energy consumption to offset this premium whilst demonstrating leadership in combating climate change

CLIMATE CHANGE IMPLICATIONS: Supplied by Majid Maqbool, Energy Manager ext 6987

The contract agreed is 100% green, therefore showing Salford City Council's support for the generation of electricity from renewable sources to tackle climate change.

OTHER DIRECTORATES CONSULTED: N/A

CONTACT OFFICER: Majid Maqbool TEL. NO. 0161 6076987

WARD(S) TO WHICH REPORT RELATE(S): All wards
