

**BRISTOL CITY COUNCIL**  
**RESOURCES SCRUTINY COMMISSION**  
**21<sup>st</sup> September 2012**

**Report of:** Director of City Development & Neighbourhoods

**Title:** Energy Procurement for Buildings & Infrastructure

**Ward:** All Bristol wards

**Officer Presenting Report:** Paul Isbell

**Contact Telephone Number:** 0117 92 24430

**RECOMMENDATION**

The Energy Management Unit (EMU) continues to procure energy on behalf of Bristol City Council and external clients, using framework agreements.

The Council increases the percentage of renewable electricity purchased.

To continue joint working with neighbouring authorities in the production of a joint procurement frameworks for electricity and gas.

To continue to develop wood fuel supplies so that Bristol is ready for the continued increase in the use of local low carbon biomass fuel.

**Summary**

The EMU energy procurement service is providing a fit for purpose method by which Bristol city council properties, partners and clients can obtain best practice and value for money.

**The significant issues in the report are:**

- Bristol City Council has a large and complex portfolio of energy supply points.
- The Council requires an energy procurement process that is adaptable to continual flux in terms of estate management and metering.
- The Council requires flexible energy frameworks and contracts that can accommodate future change, such as electricity generation from wind.
- Bristol City Council procures energy for other clients in the South West region as part of an energy service that generates income for the Council.
- The energy contracts form an integral part of the wider energy functions and responsibilities of the Council.

## **Policy**

### **1. Indicate how the recommendation relates to council policy**

- Compliance with EU procurement law
- Best value
- Obtaining data via supply contracts to comply with Carbon Reduction Commitment statutory reporting requirements
- Meeting target of 15% energy from renewable sources by 2010.

## **Consultation**

### **1. Internal**

SCPS: procurement procedures and policy

Finance Officers: budgeting requirements

Strategic Directors and Corporate Property Officers: Council restructuring and rationalisation in relation to contract terms, such as take or pay clauses.

Legal: contractual terms

### **2. External**

Mid-west Energy Group...

Major Energy Users Council

EIC Market Information

OFGEM / OGC

Energy suppliers

EMU Clients

## **Context**

The Energy Management Unit (EMU) manages energy and water supplies for the Council and provides an in-house procurement service.

Energy procurement statistics:

- Over 1000 Council sites
- Approximately 150 Bristol schools and Academies
- Over 2500 metered points

- Approx 20,000 energy and water invoices per annum
- AMR metering
- Daily downloads of half hourly consumption data
- 2010/11 energy consumption was 146,000,000 kWh
- A BCC spend of £10M Pounds - €12M Euros (buildings)
- Carbon emissions of 55,000 tonnes CO2 (estimate)
- Carbon Tax 11/12 - £525,000 - €630,000
- Wood fuel purchasing for one of the biggest biomass clusters in the country
- EMU provides procurement services to Clients in the south west region

EMU negotiates contracts for gas, electricity, oil, energy metering and biomass. Under EU law the Council's energy contracts are subject to competitive tender.

Energy markets are effectively commodity markets where energy prices fluctuate daily and are highly sensitive to global conditions. The EMU must evaluate electricity and gas tenders and award contracts within hours of receipt of bids to avoid having bid prices withdrawn if wholesale energy prices move upwards.

It is rare for Council contracts to require such a swift turnaround. EMU has set up framework agreements for the supply of electricity and gas, and we call off mini tenders from the Frameworks to ensure compliance with EU procurement rules.

An evaluation model that facilitates a fair comparison of bids under considerable time pressure is customised to suit each tender exercise.

EMU can offer very high-quality supply data and clear and concise procurement documentation that attracts strong bids from Suppliers when we go out to tender.

All energy supply invoice data needs to be recorded in our energy management database, Systemlink, to tie in with the wider services, functions and mandatory statutory duties of the Unit. Therefore, gas and electricity contracts must deliver good supply point administration, AMR metering and accurate invoicing.

EMU has appointed a combination of 'big-6' suppliers and 'niche' energy suppliers to our Frameworks. We have identified the suppliers that can deliver complex contract management to suit each type of contract that the Council requires. As an example, Eon Energy recently withdrew from the multi-site

market, but can supply over-100kW metered and highways unmetered (street lighting) contracts.

The current electricity and gas contracts have fixed tariff rates over fixed contract terms. This provides clear cost parameters, a buffer against rising pass-through costs, efficient contract administration and accurate electronic billing.

From studying the market the timing of the energy procurement has been altered to a summer tender rather than a more conventional April start so that reductions in price can be realised.

Energy Officers from Bristol meet with those of other authorities as the Mid West Energy Group. This meets roughly 4 times a year and provides a forum for the exchange of pricing information between authorities.

Other authorities use various methods of procurement and this forum enables Bristol to gain an understanding of the operational problems that have occurred which have been avoided by the current Bristol procurement process established over a long period of time.

## **Biomass**

The use of biomass requires a different procurement process as the markets are not fully established. The EMU has ensured that BCC can obtain low biomass price by

- Utilising Bristol's own arboricultural biomass wood supplies where possible.
- Enabling a viable wood fuel station to be established
- Selecting wood fuel suppliers that consistently deliver high quality fuel to avoid maintenance problems
- Selling our own poorer quality wood chip from arboricultural sources to partially supplement the cost of higher grade chip for some boilers.
- By obtaining grant funding to develop the wood fuel station at Blaise as a west of England exemplar project. To develop a highly profitable wood fuel station so that once costs are covered additional income can support other energy projects and the planting of new trees to better the environment and provide a future wood fuel resource.

This goes further than being a procurement service to establishing a viable going concern that our partnership authorities are learning from.

Bath and North East Somerset Officers and members have attended a

meeting with the EMU so that they can develop their own biomass service.

## **Development Proposals**

- The Council continues to purchase energy in-house, using fixed rate, fixed length contracts.
- The Council aims to purchase 100% Climate Change Levy exempt renewable electricity for its metered supplies, exceeding the Council's target (15% electricity from renewable supplies by 2010)
- To establish future Framework Agreements for electricity and gas collaboratively with BANES authority, and any other west of England local authority, but to run separate tenders.
- To look to the future wood fuel needs of the city and establish if there is a requirement for other locations for wood fuel supply in the city.

## **Other Options Considered**

### **2.Options which have been taken into account in making the recommendation:**

- a. Managing flexi or rolling price contracts in-house
- b. Using one of the purchasing bodies such as Government Procurement Service (previously known as Buying Solutions, OGC)
- c. Using energy consultants
- d. Joint procurement with other Local Authorities

### **A brief explanation why they have not been pursued:**

#### **a. Managing flexi or rolling price contracts in-house**

- There is no guarantee that the energy will be cheaper on a flexi contract than a fixed one
- Our portfolios are made up primarily of hundreds of low consuming supplies – not well suited to flexi pricing, due to the high administrative workloads, and high ratio of standing charges to unit costs.
- To tender and manage flexible gas and electricity contracts requires additional specialist staff-time compared with fixed contracts.
- Flexi contracts may be awarded to one company for, say, 4 years, so there may be less opportunities to change supplier than with a fixed term contract

- Some suppliers have informally advised that they are more likely to charge additional pass-through costs to customers of flexi-contracts than those on fixed rates
- More price variability results in less budget certainty

#### **b. Using an external purchasing body**

- Purchasing bodies add agency fees / uplifts, in the region of 100k / annum for a portfolio of our size
- 3rd party purchasing bodies obscure the tendering process. The cheapest bid is not always the most competitive or the most suitable for the Council.
- External bodies can not match EMU's knowledge of the Council's portfolio of supplies. With prices often only available for hours at a time we need to ensure that all suppliers have the correct information on which to base their offers

#### **c. Using energy consultants**

As above, and additionally,

- Consultants fees / uplifts may not be transparent, making price comparisons difficult
- Consultants may distort award to gain higher fees for themselves
- It may be more difficult to negotiate favourable contract terms

#### **d. Joint procurement with other local authorities**

- Other local authorities in the SW region such as Wiltshire, South Gloucestershire, North Somerset are have various other ongoing arrangements in place, so it is not possible for these L A s to co-operate at present
- Whilst there are advantages of Local Authorities sharing Frameworks, there are a number of disadvantages of combining large portfolios in a tender exercise, for instance:
  - Diminishing returns of bulk purchasing occur once supply schedules become too complex to price and evaluate – less bidders
  - Different contract anniversaries
  - Varying contract terms and priorities will compromise award decisions

- Separate energy databases creates administrative hurdles
- Different distribution areas, hence different pass-through costs etc
- Authorised staff may not be available in both Councils simultaneously to sign contracts

## Risk Assessment

3.A risk assessment has been completed for this project and a summary of the major risks is detailed below. The main risks of not agreeing to this course of action are as follows:-

3.1. If the Council does not continue to purchase energy in-house, using fixed rate, fixed length contracts:

- EMU has the resources to manage the contract renewal process from start to finish, continuing through to the contract management, validation and payment of invoices, and capture of energy data in a seamless, co-ordinated process. Using an external purchasing body would complicate the Council's management of energy, reduce efficiency, add fees and administrative costs, and introduce another layer in the supply chain.
- Tariff rates would be less verifiable. EMU make up to 30 checks to validate and verify accuracy of invoices. This is essential as nationally there is a utility supplier error rate approaching 10%, thus a potential misstatement of £1million is being prevented.
- EMU act as a purchasing organisation for other non profit-making organisations in the region. A change in our existing arrangements would result in loss of income to the Council from external clients and may hamper our potential to expand.
- EMU have a statutory duty to report CRC data for Bristol schools and Academies. We provide procurement services for most Bristol schools, enabling us to obtain accurate data for CRC returns, and avoiding high penalties. Collecting data would be hampered if an external organisation took over energy procurement.

3.2. If the Council does not exceed its 2010 target of 15% electricity from renewable supplies:

Climate change and other environmental risks

Publicity issues

3.3. If the Council does not opt to share future Framework Agreements for electricity and gas with BANES authority and other partnership authorities, we miss an opportunity to bulk up our purchasing power and strengthen our reputation, share expertise, reduce procurement and legal costs.



4.The main risks of agreeing to this course of action are as follows:-

- A closer tracking of the market with flexi-contracts could identify tariff reductions that fixed-rate contracts do not benefit from
- There can be a big jump in prices at renewal of fixed-rate contracts that needs to be absorbed by existing budgets

5.The action taken to mitigate these risks is:-

Tracking the markets to identify trends, to assist with budget forecasting

Timing our approach to market, enabling us to identify tender opportunities

### **Equalities Impact Assessment**

Security of supply: liaising with supply companies to ensure that problems with accounts do not result in disconnections. This would have the potential to cause widespread disruption to services to the vulnerable, for instance, an emergency control centre, an elderly persons home.

Site energy works - Disruption while works go ahead (for staff, the public if it is a public building, and residents if housing). Need to negotiate power downs and work with all stakeholders.

## **ACCESS TO INFORMATION**

### **Background Papers:**