

Decision Pathway – Report



PURPOSE: For noting

MEETING: Cabinet

DATE: 10 May 2022

TITLE	Electricity Contract Procurement and Renewals		
Ward(s)	Citywide		
Author: David Gray	Job title: Energy Supply Programme Manager		
Cabinet lead: Cllr Craig Cheney, Cabinet Member City Economy, Finance and Performance	Executive Director lead: Stephen Peacock, Executive Director Growth and Regeneration		
Proposal origin: BCC Staff			
Decision maker: Officer			
Decision forum: For noting			
Purpose of Report:			
<ol style="list-style-type: none"> To note an urgent officer key decision taken by the Executive Director Growth and Regeneration on 31 March 2022 in relation to electricity contract procurement and renewals. 			
Evidence Base:			
<ol style="list-style-type: none"> Energy prices have reached unprecedented levels, because of supply issues and major geopolitical events. Commercial contracts do not have price-cap protection. Council energy contracts (including streetlighting and maintained schools) are routinely renewed on a fixed price basis, via a dynamic purchasing system (DPS) which was approved by Cabinet in December 2020. In the current market, many suppliers have proven to be reluctant to submit tenders via the DPS, and those that have submitted have been very expensive. As reported to Cabinet in January 2022, officers have been developing alternative procurement strategies to reduce the council's exposure to rising prices, and have agreed short-term electricity contract extensions to cover the period while this work takes place The principal mechanism is "sleeving" which was originally approved by Cabinet in February 2021. This allows the routing of zero-carbon electricity generated from the Council's own renewable energy generation to nominated Council sites, along with the new contracting arrangements to recruit local Generators to supply additional electricity. As well as reducing the carbon intensity of the Council's electricity supply, this mechanism would also reduce Council exposure to electricity market prices, by replacing a large element of the Council's grid supply with locally generated sources at a more predictable price. Further detail on Sleeving can be found at Appendix A. A tender for Sleeving for all council supplies was prepared and launched in February 2022, coincidentally shortly before the war in Ukraine, which triggered a major disruption in the energy supply market. No bids were received, with prospective suppliers saying that while they were very interested, they were reluctant to take on new business of this scale. Officers have undertaken soft market testing and proposed an intermediate solution: <ol style="list-style-type: none"> To launch a new sleeving tender for the council's largest buildings only – this reduced scale has had a very positive market response, and provides a mechanism (subject to procurement) for contracting with community renewable generators over time A two-month extension of the existing contract for the council's largest buildings, to cover the procurement period for sleeving To place other supplies (smaller buildings and streetlighting) on an 18-month flexible contract – this spreads price risks over several purchases over an extended period. A similar approach was implemented for the council's gas supplies earlier this year 			

8. The council's existing electricity contracts all expired on 31st March. This meant that a decision had to be taken to make new arrangements in advance of Cabinet, because off-contract prices are prohibitively expensive
9. An urgent key decision was taken by the Executive Director Growth and Regeneration on 31 March 2022 in accordance with the Council's constitutional requirements to procure an 18-month flexible electricity contract via a compliant public sector framework (LASER) covering streetlights and supplies to smaller buildings (called "non-half-hourly") at a cost of £12m and extension of the half hourly buildings contract to cover the transition to new arrangement by two months at a cost of £1.5m.
10. Officers intend to work on an expanded sleeving mechanism, alongside the City Leap partner, ready for deployment when the flexible contract ends in September 2023.

Cabinet Member / Officer Recommendations:

That Cabinet:

1. Note the urgent key decision taken by the Executive Director Growth and Regeneration on 31 March 2022 to:
 - a) procure an 18-month flexible electricity contract via a compliant public sector framework (LASER) covering streetlights and supplies to smaller buildings (called "non-half-hourly") at a cost of £12m and
 - b) extend the half hourly buildings contract to cover the transition to new arrangement by two months at a cost of £1.5m.
2. Notes that the Energy Service will tender for Sleeving for the council's larger buildings, in line with previously delegated authority given by Cabinet in February 2021.

Corporate Strategy alignment:

1. These initiatives support the transition to the draft Corporate Strategy Priority ENV1 Carbon Neutrality and links to the Priority ED06 Estate Review in helping to reduce energy demand across the Council's own estate and decarbonising essential residual energy supplies
2. These initiatives reduce cost pressures on the council.

City Benefits:

1. These initiatives contribute to delivering One City Goals:
 - a. Goal 81 - Bristol City Council is carbon neutral for direct energy and transport emissions
 - b. Goal 115 - 30% of all electricity consumed in the city is generated from local, renewable sources with communities actively engaged and included

Consultation Details: No

Background Documents:

1. [Future Energy Supply Cabinet Report January 2022](#)
2. [Carbon Reduction Projects Cabinet Report February 2021](#)
3. [Energy Dynamic Purchasing System framework Cabinet Report Dec 2020](#) (Item 20)
4. OED [ModernGov - bristol.gov.uk](#)

Revenue Cost	£10M total annualised, including recharged supplies to schools	Source of Revenue Funding	Energy Service Utilities Purchase/Highways Electricity/HRA/Schools
Capital Cost	£	Source of Capital Funding	
One off cost <input checked="" type="checkbox"/>	Ongoing cost <input type="checkbox"/>	Saving Proposal <input checked="" type="checkbox"/>	Income generation proposal <input type="checkbox"/>

Required information to be completed by Financial/Legal/ICT/ HR partners:

1. Finance Advice: The report seeks to update Cabinet on the latest development on Energy cost pressures and a recent urgent decision taken by officers to lock-in electricity prices at a rate below the current market rates.

The report to Cabinet in January 2022 related to what was envisaged as the potential budget pressure on the Council for the increases in gas and electricity costs. At that point it was hoped that the 'sleeving' arrangement would be in place by the start of April 2022.

Unfortunately, the tender process was unsuccessful and has resulted in us having to buy additional electricity until this arrangement is in place. It is now anticipated that it will be in place by the end of May.

The proposal will result in about 2/3rds of our usage (for the street lighting and smaller buildings) being covered by a fixed rate for 6 months, following by flexible rates for another 12 months. The remaining buildings will operate under the “sleeving arrangement” and assumes that the ‘grid’ (or market price) is after offsetting any electricity available to us from our own generation. The assumption for the remaining year is that these rates will stay the same.

The quantities are based on 21/22 actuals which assumes usage of 37.6m kilo watts pa and generation of 15.7m kw pa.

The cost implications of this new arrangement for electricity will Costs an extra £1m, of which £570k will be the extra cost to the General Fund.

Table 1 below should the cost implications for 22/23

Costs (£000s)		22/23	Energy Service (GF only)	Highways	HRA	Schools	Exports	Total Costs
May 22 Cabinet	Electricity	9,737	1,885	3,577	3,231	1,752	(708)	9,737
	Gas	4,706	1,279		2,238	1,190		4,706
	Combined	14,443	3,164	3,577	5,468	2,942	(708)	14,443

- For completeness, the Gas costs have been included, but note that the emergency decision was only for electricity.

Since the January Cabinet, the flexible Gas contracts have been introduced, with prices guaranteed till September 2022, and partially guaranteed beyond that point. The latest estimate anticipates a cost increase of £1.1m against the figures reported to the January Cabinet.

The overall cost pressure that was assumed as part of the Budget setting totalled £3.2m, of which £1.1m was general fund. The current forecast based on the latest arrangements on both Gas & electricity suggest that an additional £2.1m in cost pressures, of which General Fund is £0.3m due to the impact of sleeving, as the General Fund benefits maximumly from the investment in Energy efficient infrastructure i.e., Wind & Solar power. It is worth noting that both HRA and schools still benefit from the sleeving arrangements as the costs for their HH buildings will benefit from significant price reduction (c75%) compared to the current market rates, and 66% reduction compared to the 18 months flexible rates that all non-HH buildings will be paying.

The Energy service are currently exploring mitigation measures to address the additional pressure within the General fund and will be using the recent Cabinet approved “Task force” to drive a change in behaviour that should reduce, if not eliminate all the pressure.

It should be noted that the current figures assumes/does not include any energy reductions that might result from the recently approved LED street lighting project.

Further work will be undertaken by the Energy team to review the charging arrangements for our own generated electricity to our internal clients.

Finance Business Partner: Kayode Olagundoye, Interim Finance Business Partner, Growth and Regeneration, 27 April 2022.

2. Legal Advice: Legal support has been provided and the procurement process followed is compliant with both the Public Contracts Regulations 2015 and the council’s own procurement rules.

Legal Team Leader: Husinara Jones, Team Leader, 7 April 2022

3. Implications on IT: Unless smart metering or some specific IT based electrical management system is needed, no implication upon IT is anticipated.		
IT Team Leader: Iain Godding, Head of Enterprise Architecture 12 April 2022		
4. HR Advice: I have read the report and can confirm that there are no HR implications evident.		
HR Partner: Chris Hather MCIPD, HR Consultancy Manager - Growth and Regeneration, 26 April 22		
EDM Sign-off	Stephen Peacock (Executive Director Growth & Regeneration)	1 April 2022
Cabinet Member sign-off	Cllr Craig Cheney, Cabinet Member City Economy, Finance and Performance	22 April 2022
For Key Decisions - Mayor's Office sign-off	Mayor's Office	19 April 2022

Appendix A – Further essential background / detail on the proposal	YES
Appendix B – Details of consultation carried out - internal and external	NO
Appendix C – Summary of any engagement with scrutiny	NO
Appendix D – Risk assessment	NO
Appendix E – Equalities screening / impact assessment of proposal	YES
Appendix F – Eco-impact screening/ impact assessment of proposal	YES
Appendix G – Financial Advice	NO
Appendix H – Legal Advice	NO
Appendix I – Exempt Information	No
Appendix J – HR advice	NO
Appendix K – ICT	NO
Appendix L – Procurement	NO