

WEST DUNBARTONSHIRE COUNCIL

Report by the Executive Director of Corporate Services

Corporate and Efficient Governance Committee – 21 March 2012

Subject: National Frameworks for Electricity and Gas

1. Purpose

- 1.1** The purpose of this report is to seek permission for the Council to access the national framework agreements for electricity and gas.

2. Background

- 2.1** The Council's use of the current national framework agreements for gas and electricity is governed by an Agency Agreement for electricity, with an addendum to this agreement facilitating access to the national gas framework agreement. The use of these contracts by the Council for supply of electricity and gas was approved by the Corporate and Efficient Governance Committee on 25th February 2009. The Agency Agreement and addendum covers the periods of the existing contracts only. The electricity contract ends on 31st March 2013 and the gas contract ends on 31st March 2014.
- 2.2** The re-tender process for the national electricity framework agreement is underway, with responses received on 31st January 2012. Gas will be re-tendered in Q3 or Q4 of 2012. In preparation for commencement of the new electricity framework agreement on 1 April 2013 (Gas commences on 1 April 2014), all public bodies wishing to participate in the new arrangements are required to do so by 31st March 2012.
- 2.3** The current Agency Agreement is time bound and expires with the current framework agreements. In order to address this, the existing Agency Agreement has been updated to reflect the following changes:
- Removal of time restrictions – there are no end dates specified in the new Agency Agreement so no need to keep renewing. The existing 12 month termination clause remains;
 - The Agreement has been updated to incorporate natural gas in the main agreement rather as via a separate addendum; and
 - There is additional clarification of public bodies' commitments and obligations with regard to data provision.

3. Main Issues

3.1 The flexible procurement model that was developed for the existing framework has been very successful and this approach will continue for the new framework. Energy is purchased in a number of tranches throughout the period of the contract but prior to the period of consumption. This gives certainty of pricing in advance which aids budget planning and smoothes market volatility.

3.2 The sourcing strategy for the electricity contract has been the subject of an extensive user consultation process and is expected to deliver a number of additional benefits over the current framework i.e.:

- Reduced risk premiums through improved data quality;
- A further reduction in management fees;
- Improved purchasing of commodities through realising wholesale market opportunities;
- Reduction in cost of 3rd party support; and
- Opportunity for Improved contract and supplier management through reduction in number of lots from 4 to 2.

The sourcing strategy for gas will be subject to the same user consultation process.

3.3 Over 180 bodies (representing greater than 99% of Scottish public sector volume) currently participate in the electricity framework. The contract has delivered £10.6 million annual cost avoidance for the Scottish public sector representing between 5% and 10% of annual spend.

3.4 There is insufficient capacity or expertise within the Council to manage a contract of this nature in a way that would deliver best value. If Members decide not to participate in these framework agreements, a third party would have to be employed to manage the contracting process on our behalf. This would take time to set up, would be costly and the benefits of national buying power would be lost.

4. People Implications

4.1 Accessing the national frameworks for electricity and gas allows the Council to take advantage of the expertise and resources available within the national Category Team. This allows the Council's own procurement staff to be freed up for Council led procurement activities.

5. Financial Implications

5.1 The Council's annual estimated spend on these commodities is:

Electricity	£1,700,000; and
Gas	£800,000.

- 5.2** For the year 2010/11, the following cost avoidance savings from the current frameworks were reported through the annual efficiency statement.

Electricity £86,903; and
Gas £44,399.

These savings were in respect of discount against published tariff, management fee cost avoidance, no green premium and saving in cost per kWh due to aggregation.

6. Risk Analysis

- 6.1** Electricity and gas are extremely volatile commodities and pricing and availability are subject to a wide range of global factors. The national frameworks are governed by Risk Committees with members drawn from all sectors including Local Authorities which have the biggest spend.
- 6.2** Upper and lower purchase triggers are set according to pre-prepared parameters and reviewed at least quarterly by the Risk Management Committee. Minimum and maximum exposure limits are set detailing the volumes of energy that must be purchased in any given period. So for example, if the market price passes through an upper trigger and the level of electricity purchased is less than the maximum exposure limit, purchases will be made up to the level of the maximum limit.
- 6.3** This approach ensures continuity of supply at the best possible price in the prevailing market conditions.

7. Equalities Impact Assessment (EIA)

- 7.1** No equalities impact assessment was required in relation to this report.

8. Strategic Assessment

- 8.1** Accessing the national frameworks for electricity and gas will allow the Council to demonstrate the best possible use of its financial resources and physical and human assets. The existing frameworks have already delivered significant savings for the Council and the new frameworks are expected to provide additional benefits.
- 8.2** In addition, it allows the Council to take advantage of the expertise and resources of the national Utilities Category Team thereby freeing up local procurement resources to focus on Council procurement activities.
- 8.3** There are no local suppliers that could meet the Council's gas and electricity requirements.

9. Conclusions and Recommendations

- 9.1** The national frameworks for electricity and gas, which have delivered significant benefits to the Council are due to be renewed and in order to ensure continuing participation, participants are being asked to sign an Agency Agreement with the Scottish Procurement and Commercial Directorate.
- 9.2** Members are asked to approve the Council's ongoing participation in the national frameworks for electricity and gas and to approve the signing of the revised Agency Agreement, and provide the Executive Director of Corporate Services with delegated responsibility to maintain the Council's participation until either the framework approach ends or the Executive Director of Corporate Services identifies that the framework is no longer an appropriate route to procure electricity and gas for the Council, at which point a further report would be required to Committee.

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Date: 5 March 2012

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Appendix:	None
Background Papers:	“Contract Arrangements for Electricity” – Paper to Corporate and Efficient Governance Committee – 25 th February 2009
Wards Affected:	All