

**Report of the Chief Constable to the Chair and Members  
of the Policy & Resources / Corporate Development Panel  
24<sup>th</sup> November 2009**

**Executive & Presenting Officer: Mrs Ann Hall, Assistant Chief Officer  
(Finance & Commissioning)**

**Status: For Decision**

**Procurement report for the provision of Gas supplies**

**1 Purpose**

- 1.1 This report is intended to provide Members with a summation of the current gas market, and also a summary of the contractual options available to the Authority on expiry of the current North East Procurement Organisation (NEPO) gas agreement.

**2 Recommendations**

- 2.1 That Members review the options appraisal below and approve entering into a new agreement with NEPO for gas supplies from 31<sup>st</sup> March 2011 onwards.

**3 Reasons**

- 3.1 As reported to the Authority in February 2009, the Force currently purchases its gas and electricity supplies through a CPB (Central Purchasing Body) called NEPO.
- 3.2 NEPO manages a flexible framework agreement for gas and electricity supplies on behalf of approximately twenty six local authorities within the North East region.
- 3.3 During February 2009, Authority members approved the Force entering into a new 5 year electricity agreement from April 2009 with NEPO plus an extension of the current NEPO gas agreement to 31<sup>st</sup> March 2011.

- 3.4 The current agreement for gas supplies is due to expire on 31<sup>st</sup> March 2011. NEPO started re-tendering for a new gas contract in September 2009, with plans to award a new contract on 1<sup>st</sup> April 2010.
- 3.5 The award of a new contract, approximately 12 months before expiry of the existing agreement, allows for forward purchasing of energy and continuation of supplies, it also enables best practice risk management in a very complex and volatile market.
- 3.6 NEPO would like to include Cleveland Police Authority's gas usage and requirements as part of their tender exercise but require a formal commitment beforehand.
- 3.7 As a result, procurement has concluded an options appraisal, detailing potential opportunities available to the Authority regarding the future provision of gas supplies.

## **4 Options Appraisal**

### **4.1 Option A - Tendering own contract**

The option of the Authority tendering its own gas contract is not recognised nationally as best practice due to the complexity of energy procurement plus the resource and skills required in managing such a service effectively.

4.2 Any contract awarded direct by the Authority would not provide the advantages that being part of a framework agreement provides:

- Benefit arising from larger volumes of energy spread across the portfolio, which in turn attracts lower supplier margins
- Effective risk strategy which is monitored and updated regularly by energy procurement specialists
- Access to wholesale markets and multiple purchasing opportunities

4.3 Due to the current spend on gas (£270,000 per annum), the Authority would be expected to go through a full EU tender process, with associated costs.

### **4.4 Option B - Commit to new NEPO Agreement**

One of the most resourceful ways for public sector organisations to buy energy is to use recommended frameworks through a Central Purchasing Body (CPB) that have aggregated volumes, can offer flexible purchasing and enable best practice risk management.

4.5 The CPB flexible approach is seen as the most innovative way to procure energy especially given the expected volatility of the market going forward. 24 North East Councils/Authorities are signed up to this arrangement representing regional collaborative working and best practice.

4.6 As highlighted above, NEPO manage the current gas contract on behalf of all

NEPO members. The option of entering into a new agreement would be a continuation of the current arrangements.

- 4.7 NEPO have the added flexibility to buy energy at any point throughout the year. Therefore, savings in a falling market can be realised and energy purchased early in a rising market.
- 4.8 The price to the Authority is fixed (with an element of price cushioning) for 6 or 12 months, but at the year end a balancing exercise is conducted and rebates paid to all member Authority's of the savings made under the NEPO arrangement.
- 4.9 The Force has already entered into other key NEPO agreements, such as temporary staff and electricity, and this continued collaborative working is beneficial to the Authority.
- 4.10 The NEPO Budget for 2009/10 was established in November 2008. The budget energy cost took into account the cost of all closed positions, the prevailing market price of any open positions and included a risk premium of 15% as recommended by the Energy Risk Committee. This resulted in an Energy Budget of £32,237,887 across the NEPO agreement and an aggregated budget price of 83.13p/therm against a forecasted volume of 38,780,088 therms. The stop loss position was set at 80p/therm.
- 4.11 Since the budget was set, market conditions have improved, and the opportunity was taken to close out the position for 2009/10.
- 4.12 Option C - Move to OGC agreement  
Office of Government Commerce (OGC) Buying solutions procure 106 million Therms of gas by contracting with Corona Energy to buy the gas on their and their customer's behalf. OGCBS procure their energy using a flexible framework.
- 4.13 OGCBS require a minimum 12 month commitment from any customer. OGCBS buy energy in April to September to cover for gas requirement for the following October to September. The price is then fixed to the Authority from 1<sup>st</sup> October to 30<sup>th</sup> March.
- 4.14 The Authority can only join this framework and receive gas under it from 1<sup>st</sup> April 2011.
- 4.15 Under this arrangement Gas will be procured well in advance of the actual consumption and so the savings achieved by a falling market may not be able to be realised. However, as there is a fixed price, any major rises in the market pricing will not affect the participating authorities.
- 4.16 A price from OGCBS cannot be obtained until a firm commitment is made to them regarding our future requirements.

#### 4.17 Option D - Move to another CPB framework agreement

Should the Authority look to use another CPB agreement (ESPO as an example – Eastern Shires Procurement Organisation) they would be joining a contract very similar to the existing NEPO agreement in terms of a flexible purchasing strategy managed by dedicated energy professionals.

4.18 ESPO is a major energy purchaser, representing a significant number of local authorities, public and charitable sector customers accounting for an annual expenditure on energy of over £80m. This annual figure is similar to the NEPO annual spend.

4.19 ESPOs customer base is broadly the East of England and the Midlands with customers such as Norfolk County Council, Leicestershire County Council and Peterborough City Council, therefore if the Authority were to move an ESPO agreement it would be moving away from regional collaborative working.

4.20 It is thought that not only would the ESPO agreement be similar to the NEPO contract, NEPO are geographically better placed to understand and service the Authority's needs.

4.21 The main difference with any of the energy framework agreements is the balance between who has the superior energy management team in terms of staff expertise and skills. Both NEPO and ESPO have similar performance levels during the past 12 months.

#### 4.22 Options Summary

##### ▪ Tendering own contract

- No direct access to wholesale markets and multiple purchasing opportunities.
- Poor cost leverage due to sole purchasing volumes.
- Not recognised nationally as best practice to tender own contract.
- Lack of resource/technical expertise to manage such a service in house.

##### ▪ Commit to new NEPO Agreement

- Benefit of regional collaborative working as well as direct access to various other NEPO agreements.
- Fully managed service offering best practice and flexible purchasing.
- Access to the EPG (Energy Procurement Group) regional working committee – sharing knowledge, best practice and efficiencies.
- Fixed costing for the remainder of 2009/10 and the majority of 2010/11.

##### ▪ Move to OGC agreement

- Purchasing not as flexible as NEPO, therefore saving opportunities may not be realised in a falling market.
- Minimum 12 month commitment from the Authority, on expiry of the current contract with NEPO.

- Large spend throughout the OGC portfolio, may lead to greater price efficiencies with energy providers.
- No current pricing available to benchmark.
- Move to another CPB framework agreement
  - Move away from regional collaborative working.
  - Benefit of a flexible purchasing strategy managed by dedicated energy professionals.
  - Access to regional working groups – YPO (Yorkshire), ESPO (Midlands), LASER (Kent).
  - Agreement very similar to the Authorities existing contract – albeit in a different region.
  - Element of risk with any energy purchase, organisations within any framework are fully dependant on the skills of the energy buyers making the final decision.

## **5 Implications**

### **5.1 Financial**

The Authority currently spends approximately £270,000 per annum on gas supplies.

5.2 The way that organisations such as NEPO monitor and procure gas means that regular peaks and troughs of gas procurement can be avoided and over the years regular savings can be achieved.

### **5.3 Diversity & Equal Opportunities**

The NEPO contract complies with all Diversity and equal opportunity issues.

### **5.4 Human Rights Act**

There are no Human Rights Act implications arising from this report.

### **5.5 Sustainability**

Using the NEPO agreement allows for energy conservation initiatives and direct access to schemes such as smart meters and consumption monitoring software.

### **5.6 Risk**

Any risk to the Force using the NEPO Contract is low, as risk is regularly monitored at the contract management meetings (EPG groups).

## **6. Conclusions**

6.1 From reviewing the information above as well as visiting the NEPO energy team and attending the regional EPG meetings, we would recommend that in order to achieve best value and extend its regional collaborative working, the

Authority commits to the new NEPO agreement. The CPB flexible approach is seen as the most innovative way to procure energy especially given the expected volatility of the market going forward.

Sean Price  
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Evaluation Team

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Appendices

1 – UK natural gas price January 2007 – August 2009

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