

Place and Resources Scrutiny Committee

1 December 2020

Update – Energy Procurement

For Decision

Portfolio Holder: Cllr G Suttle, Finance, Commercial & Capital Strategy

Local Councillor(s):

Executive Director: A Dunn, Executive Director, Corporate Development

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Report Status: Public

Recommendation:

It is recommended that Place and Resources Scrutiny Committee note progress made in respect of the procurement of energy supply contracts. This is following the decision of Cabinet on 5 November 2019 and is assured that action taken is in line with the decision of Cabinet.

Reason for Recommendation:

The purpose of this report is to provide a progress update in respect of the procurement of energy supply contracts following 5 November 2019 Cabinet.

1. Executive Summary

1.1 Background

On 5 November 2019 Cabinet considered a report titled “Procurement over £5m Report: Electricity and Gas Procurement” and consequently agreed the following:

Recommendation 1: *Approved* - the delegation of authority to the Executive Director for Corporate Development (S151) and the Executive Director of Place to enter into

appropriate Customer Access Agreements through the LASER framework agreement for the supply of electricity, gas and ancillary services.

Recommendation 2: *Approved* - the delegation of authority to the Executive Director for Corporate Development (S151) and the Executive Director of Place to procure and award a call off contract under a LASER ① framework agreement for the council's (including partners) gas and electricity supplies for a term of up to four years for the period 2020-2024.

Recommendation 3: *Approved* - the delegation of authority to decide on the preferred in-contract purchasing option to the Executive Director for Corporate Development (S151) and the Executive Director of Place.

① *Stands for Local Authorities South East Region but this 30 year old LASER acronym is no longer broken down as the frameworks are accessed by over 200 local authorities from all over England and Wales.*

1.2 Progress Update re Recommendations

As requested, this report to Place and Scrutiny Committee provides a progress report in respect of these recommendations approved by Cabinet.

Recommendation 1: In May 2020, the Council was provided access to the LASER framework agreement by entering into the necessary Customer Access Agreements. This included partner organisations such schools, academies, Town Councils, etc.,. An exercise of cleansing the supply portfolio was also undertaken by the Assets and Property team (Place Directorate).

Recommendation 2: In June 2020, the Access Agreements and Call-Off Contracts from the LASER Framework, for both electricity and gas supplies, were successfully negotiated and awarded. Electricity supply contract is with Npower and the gas supply contract is with Total. Both contracts commenced on 1 October 2020 with an end date of 30 September 2024 in respect of the Council supplies and those of partner organisations. Whilst both are committed 4 year contracts, pricing is not fixed for the full period as energy purchasing is flexible with pricing set annually based on purchasing carried out by LASER on behalf of the Council from point of sign up to the beginning of each annual supply period.

Recommendation 3: As part of contract negotiations and award, Renewable Electricity Guarantee of Origin (REGO) backed green electricity tariff has been selected for year 1 of electricity supply contract in respect of Council corporate sites and selected partner sites. This means all Dorset Council's electricity consumption will be under this Green Tariff which has a 0.065p / kWh price premium (additional cost). In-contract purchasing options, such as this tariff, may be selected or de-selected as part of setting pricing annually, as discussed above.

1.3 Green Tariffs

It should be noted that there is currently no standard definition of a “Green Tariff”. The tariff under the contract with Npower for electricity works the same way as others on the market in that all tariffs are regulated by OFGEM with energy supplied to the customer backed by REGO. For Council, and partner organisations, e.g. schools, this works as follows:

- Npower secure REGO certificates for the equivalent energy volume that is consumed.
- These certificates are issued for every megawatt-hour of renewable generation fed into the grid.
- Will match an equivalent number of REGO certificates that are valid within a Fuel Mix Disclosure (FMD) period to the Council’s, and partners, consumption that also falls within the same period.

1.4 CO₂ Emissions Savings

In order to claim CO₂ emissions savings, or zero carbon status, the Council must adhere to the reporting guidelines set by Defra. Other authorities that use green tariffs have made statements about CO₂ savings even though the Defra UK Greenhouse Gas Emissions reporting guidelines do not allow these tariffs to be used to reduce an organisation’s reported carbon emissions. The most appropriate approach to reporting is to calculate any emission savings based on UK national grid emissions as this includes all renewables feeding into the grid.

It is only through Power Purchase Agreements and / or direct investment in renewable installations can actual real carbon savings can be generated. The LASER frameworks allow organisations flexibility for such approach and this is being explored by Assets and Property.

In the meantime, whilst pursuing more effective longer term solutions, organisations signing up to a REGO backed green tariff sends a signal to the energy market that there is a demand for renewable energy. Moreover, that there is a need for reform of the regulation of “green energy” and carbon reporting.

Whilst it is recognised that there has been a surge in demand for REGO backed tariffs by the public sector organisations as a result of declared climate emergencies there needs to be reforms of the regulation of “green energy” and carbon reporting. The following recent article by REGEN SW highlights some of the failings of REGO backed tariffs and how potentially they might yet play a role in organisations achieving net carbon zero.

<https://www.regen.co.uk/price-transparency-is-welcome-but-can-regos-play-a-material-role-to-achieve-net-zero-carbon/>

2. Financial Implications

As discussed, from 1 October 2020 under the new contract with NPower the Council's electricity consumption changed to a Green Tariff with 0.065p / kWh price premium (additional cost).

For 2019/20, under the previous contract with NPower, the Council was paying an average price of 15.1p (including standing charges) per kWh and the Council own sites consumed 17.7 million kWh (including streetlighting) at a total cost of £2.68 million.

Based on the 2019/20 level of consumption, for 2020/21 the Council will be paying an additional cost of £16,600 for Green Tariff in respect of Council own sites.

As discussed in 1.2, the Council's pricing for both electricity and gas is not fixed for the full term of the contracts; pricing is subject to annual review.

During the period of the contracts, the Council may benefit from low points in the market by LASER purchasing energy at various points in advance of the Council's requirements for energy. For example, when the energy markets dropped to historical lows after the first Covid-19 lockdown, LASER purchased energy for the Council's future requirements, and as such the Council's gas pricing reduced by approximately 15%. Whereas, if the Council's pricing was fixed for a term of contract it would not have the opportunity to benefit from this type market price reduction.

3. Well-being and Health Implications

None.

4. Climate implications

As part of the Climate Plan, Assets and Property team and the Sustainability Team are working jointly to explore the potential of the Council developing large scale renewables for long term self-supply purposes.

5. Other Implications

None

6. Risk Assessment

Not applicable. This is a progress update and not a report seeking a decision.

7. Equalities Impact Assessment

Not applicable.

8. Appendices

None.

9. Background Papers

None.

Footnote:

Issues relating to financial, legal, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.