

CABINET

YPO Electricity Contract

11th November 2008.

Report of Head of Property Services

| PURPOSE OF REPORT | | | | |
|---|-------------------------------------|------------------|--------------------------|------------------------------|
| To consider the procurement of Electricity for a 12 month period up to 31 st October 2010. | | | | |
| Key Decision | <input checked="" type="checkbox"/> | Non-Key Decision | <input type="checkbox"/> | Referral from Cabinet Member |
| Date Included in Forward Plan | | | | |
| This report is public | | | | |

RECOMMENDATIONS OF HEAD OF PROPERTY SERVICES

That approval be given to purchase electricity through the Yorkshire Purchasing Organisation (YPO) for a twelve month Period from 1st November 2009 to 31st October 2010 at a current fixed rate around £63.00 MWh.

1.0 Introduction

- 1.1 The Council is a member of the Yorkshire Purchasing Organisation (YPO), a consortium of local authorities from throughout the north of England, which specialises in the procurement of energy and other consumables for local authorities.
- 1.2 The existing five-year Electricity supply contract was obtained through the YPO and expires on the 31st October 2010.

2.0 Proposal Details

- 2.1 The YPO have now aligned all Authorities under the current Electricity portfolios to enable all providers to give renewal prices for Electricity for an additional 12 months cover from 1st November 2009 to 31st October 2010. As at the 27th October 2008 electricity was trading at £63.00 per MWh compared to the current contract price of £82.60 per KWh which is fixed until 31st October 2009.
- 2.2 The YPO are now offering councils the opportunity of purchasing Electricity a £63 per MWh for a twelve month period from 1st November 2009 to 31st October 2010. However to benefit from this, the YPO have requested that submissions be logged with them by Wednesday 29th October 2008 at 11am. After this date we will not have the opportunity to move to this option and will remain on a fixed option until 31st October 2009.

3.0 Details of Consultation

- 3.1 There has been no formal consultation on this matter by the Council.
- 3.2 The YPO have however consulted its Clients and provided a confidential Report to Members of the Consortium. It is understood that the following authorities have already decided to accept the proposals that have been put forward Bury MBC, Calderdale MBC, Incommunities-Bradford Housing, South Lakeland, Kirklees MC, Tameside MBC, West Lancashire DC, Greater Manchester Fire Authority, Walsall MBC, Batley Grammar School, St.Helens MBC, First Choice Homes-Oldham, Barnsley MBC, City of Wakefield MDC (Council sites only), Chorley BC, Warrington DC, Barnsley Premier Leisure, Rotherham MBC, City of Bradford MC, North East Lincolnshire Council, Selby College, West Yorkshire Police Authority and Ryedale DC.

4.0 Options and Options Analysis

- 4.1 Option 1 – Do Nothing, this option would result in no change, with the Council continuing to acquire Electricity under the same type of contract as now. The YPO will buy the Council's total Electricity requirement on one day to be determined, when the market conditions are favourable for the period 1st November 2009 to 31st October 2010.

Due to the volatility of the market and strong bullish trends there are risks associated with option 1. For example the Council are currently fixed until 31st October 2009 at £82.6 MWh. The wholesale markets can rise and fall and in the current climate it is certain that the price will continue to change between now and the contract period, the difficulty being that it is not known whether it will rise or fall.

- 4.2 Option 2 The YPO are now offering councils the opportunity of purchasing Electricity a £63.00 per MWh for a twelve month period from 1st November 2009 to 31st October 2010.

This option will allow the Council to purchase electricity now for a twelve month period from 1st November 2009 to 31st October 2010 at a guaranteed rate that is lower than the price of the current contract. The risk associated with this option is whether the price will drop even further and the Council, whilst making a saving on current prices, will be paying more than the going rate at the time of the contract. Alternatively, the Council may make a saving if the price rises even higher than at present.

5.0 Officer Preferred Option

- 5.1 Option 2 is the preferred option at this stage. Although there is a possibility that prices could fall again.
- 5.2 The YPO are hopeful that this is a good deal for the council as there is the possibility of saving 31% on current rates.
- 5.3 Management of the arrangements proposed under the option can be met from within existing staff resources.

6.0 Conclusion

6.1 Based on the information provided by the YPO the benefits of moving to this option from 1st November 2009 are;

- Price certainty for the full twelve months in advance of the Contract start.
- Reduction of risk.
- Lower fixed cost element.

RELATIONSHIP TO POLICY FRAMEWORK

The Council's Corporate Plan includes action to support sustainable communities and action on climate change. This report has links to that policy

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

There are no direct implications arising out of this report.

FINANCIAL IMPLICATIONS

£504k is currently budgeted for electricity on 0910 under the General Fund Revenue Account. A proportion of this will fall under the existing contract which will be subject to a revision during the 09/10 budget process to reflect the current climate, usage and appropriate inflation rates, however it has not been possible to quantify this under the current reporting timescales. This can be subject to a follow up report if required. As the existing tariff is expiring in October 200, the current costs could be potentially increase substantially if no action is taken.

The energy prices have been and remain extremely volatile, and the flexible option for electricity purchase appears to provide the option of least risk to the Council. As a member of the Lancashire Procurement Hub, we are currently seeking its officers' views on the proposed arrangements and market conditions and will report any outcome verbally to the meeting.

As it is not possible to quantify detailed costings, it is essential that Property Services Liaise with Finance to keep them updated with progress as it occurs. Whilst it is anticipated that this option will hopefully prove favourable, i.e. 31% savings on current rates, due to the current economic climate there are potentially significant risks for any of the options contained within this report.

SECTION 151 OFFICER'S COMMENTS

On balance, whilst recognising the risks involved, the s151 Officer is in support of the recommendation.

LEGAL IMPLICATIONS

There are no implications directly arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

None other than included as appendices to this report.

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