

OVERVIEW AND SCRUTINY MANAGEMENT COMMITTEE
9th NOVEMBER 2006

ENERGY CONTRACT - ANNUAL REVIEW**Purpose of Report**

1. To present to Members the Annual Review of the performance of the Corporate Energy Contract and associated contract monitoring including any recommended remedial or performance enhancement measures that may apply.

Background

2. The Cabinet resolved on 24th March 2003 that the County Council enter into a Service Level Agreement with the Office of Government Commerce (OGC) for the procurement of energy supply requirements with effect from 1st October 2003. The initial agreement for electricity was for a fixed 3 year term with the option of "rolling" annual contracts.
3. All these contracts, or Service Level Agreements, have been operating well since that time. A general overview of performance and a number of key issues are discussed below.

Main Considerations for the Council**Scope**

4. Under the arrangements with the OGC there are four contracts. These are outlined in the table below.

Service	Finish Date	Provider
Gas	30 th March 2007	Corona Energy
Over 100kw sites (OH)	30 th September 2007	London Energy
Street Lighting and Unmetered Electricity (UM)	30 th September 2007	London Energy
Under 100kw sites(UH) (half hourly)	30 th September 2007	British Gas

Performance

5. The effectiveness of the contract management and monitoring services offered by OGC as part of this contract have been to some extent tempered by the high energy prices sustained during the past year. The factors affecting these prices are numerous and cannot be controlled by OGC. However, OGC is a major player in the energy market, contracting during 2005 for gas, electricity and liquid fuels to the value of more than £200 million.
6. The size of the OGC buying power has helped control the prices paid by the County Council and has ensured continuity of supply in a volatile market.

Environmental Impact of the Proposal

7. Due to world events over the last 18-24 months, energy has become a newsworthy item. From being a concern of business and industry, domestic users are now finding that the effects of world oil prices and consequent energy price rises are being felt in their bills.
8. The County Council is now working with The Carbon Trust to assess the Authority's carbon emissions and look at ways of reducing them. Work is ongoing to develop energy saving initiatives so that the effects of the price rises are mitigated. For example, a recent initiative asked users to ensure all electrical equipment was completely switched off rather than left on or on standby. The assessment found that 467 computer monitors had been left on during the weekend of 14th - 15th October 2006. When the exercise was repeated the following week 196 computer monitors had been left on, a reduction of over half.
9. Under its contract with the OGC, the County Council purchases "green energy" and this has significant benefits to the environment, not only in Wiltshire but at a national level. Currently all street lighting and a significant proportion of building stock are powered using this green energy source.

Risk Assessment

10. The Government-backed guarantee provided as part of the contract arrangements eliminates the risk of supply fluctuations in a volatile market. The risk inherent in this contract is as price rises managers of individual sites may choose to leave any one of the contracts claiming that they are able to secure a better price by "spot buying". However, what these managers might not consider is that, although spot buying might yield more competitive short term prices, in the long term they will become more vulnerable to fluctuations in the market supply and the contract management service offered by OGC will be absent. In addition, the purchase of "green" electricity cannot be secured under spot purchase arrangements.

Financial Implications

11. Detailed breakdowns of the performance under each contract are as follows:

Financial year 2004-05

Service	Consumption (kilowatt hours)	Spend (£)
Gas	53,672,110	603,301.79
OH electricity	12,779,047	577,685.83
UH electricity	17,367,206	922,829.18
UM electricity (street lighting)	15,776,708	608,192.09
Total	99,595,071	2,712,008.89

Financial year 2005-06

Service	Consumption (kilowatt hours)	Spend (£)
Gas	54,995,947	874,642.17
OH electricity	13,968,671	894,439.29
UH electricity	18,277,174	998,750.59
UM electricity (street lighting)	14,439,775	789,719.83
Total	101,681,567	3,557,551.88

12. Comparisons of the usage in the first six months of this financial year against the same period last year show a reduction. Although this may in part be due to the exceptionally hot summer, considerable work has been ongoing to reinforce the "Energy Aware" message.

Options Considered

13. As a result of the volatile energy market one option considered during recent months was for the County Council to end the Service Level Agreement with the OGC and tender the County Council's energy needs separately. Soft market testing and independent advice proved that rates were likely to be significantly higher than those available from the OGC. Another potential problem with this alternative route was the loss of availability of "green" energy.
14. Through the contractual arrangements with the OGC, supply to sites in the contracts is assured. In the event of supply failures, OGC are committed to sourcing an alternative supplier within 24 hours. This is becoming more important as the energy providers and electricity industry, in particular, become more consolidated with fewer providers.

Proposed Developments

15. Work to educate staff and end users to develop awareness of more efficient energy use is ongoing. In future all new buildings will be designed with energy efficiency as a key performance criterion.
16. The continued use of OGC Framework Contracts such as energy contracts is a key plank of the County Council meeting the recommendations of the recent Gershon Efficiency Review and any subsequent targets for imposed efficiencies that are likely to be developed.
17. In the drive for greater efficiency in the use of energy and the need to meet current and forthcoming Government requirements including the EU Energy Performance of Buildings Directive, the County Council will need to review energy use and efficiency strategies during the coming financial year. Officers will investigate the possibility of using efficiency savings to finance improved monitoring and management at all sites. External funding opportunities for energy saving and the use of renewable energy technologies will also be explored.

Reason for Proposal

18. To acknowledge the performance of the energy contracts in a volatile marketplace and to consider whether the Committee endorses the development of energy efficiency strategies for energy use in County Council buildings in the light of current and forthcoming regulations.

Proposal

19. That Members:
 - (i) Acknowledge the continued value for money performance of the Service Level Agreement with Office of Government Commerce and note the rebates achieved in the contracts.

- (ii) Continue to support the development of corporate strategies to encourage better and more efficient use of energy in County Council services and buildings through the work with the Carbon Trust, the Wiltshire Energy Efficient Centre and the Wiltshire and Swindon Renewable Energy Forum and by continually assessing the impact of Council services on climate change.

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The following unpublished documents have been relied on in the preparation of this Report:

Contract documents and monitoring information provided in support of the arrangements with the OGC