

To: POLICY & RESOURCES (FINANCE & CUSTOMER SERVICES) SUB COMMITTEE		Subject: PROCURING CHANGE – NATIONAL COLLABORATIVE CONTRACT FOR THE SUPPLY OF GAS AND ELECTRICITY
From: HEAD OF REVENUE SERVICES		
Date: 19 January 2012	Ref: AC/BC	

1. Purpose of the Report

- 1.1 The purpose of this report is seek Committee approval to participate in the national contracts for electricity and gas which will be put in place by Scottish Procurement on behalf of and in collaboration with the Scottish public sector.

2. Background

- 2.1 The Policy & Resources (Finance & Customer Services) Sub-Committee endorsed the Council's use of the national collaborative contract for the supply of electricity at the committee meeting of 5th November 2008 and for the supply of gas at the committee meeting of 9th February 2010.
- 2.2 Participation in the current national contractual arrangements for gas and electricity is governed by the Agency Agreement for electricity with an addendum to this agreement facilitating access to the national gas contract. This Agency Agreement and addendum is time bound and covers the periods of the existing contracts only.
- 2.3 The current national collaborative contracts for electricity and gas are utilised by more than 150 Scottish public sector organisations. The current contracts end on 31st March 2013 and 31st March 2014 for electricity and gas respectively.

3. Considerations

- 3.1 In consideration of the retender process, the development of the procurement strategy has again been predicated on extensive stakeholder engagement through vehicles such as the cross-sectoral Utilities National Commodity Forum (with representation from the local authority, higher & further education, health, central government, police and fire sectors); sectoral Centres of Expertise; and one-to one sessions with a wide range of individual organisations. The Council is represented on the National Commodity Forum.

- 3.2 The strategic sourcing plan that was endorsed by sectoral COEs late last year harnesses the combined purchasing power of Scottish public bodies to realise financial, environmental and service benefits. The model adopted aims to reduce and manage financial risk in the current volatile market conditions by adopting a flexible procurement model. This involves purchasing tranches of energy over a longer period within a predetermined risk management framework. Flexible risk managed contract arrangements are currently viewed as best practice by Government Procurement Service (formerly OGC).
- 3.3 In terms of electricity, all energy will be purchased from the wholesale market in advance of the year of utilisation. For gas, up to 90% of demand will be met in this way with 10% left floating for purchase in the day ahead market. This approach, which has been endorsed by the cross-sectoral Risk Management Committee reflects Scottish Procurement's assessment that the best possible prices will be achieved by adopting this approach.
- 3.4 The estimated annual value of the collaborative contract for electricity is in the region of £200 million and for gas around £85 million.
- 3.5 Scottish Procurement will again conduct the procurement of electricity and gas. As the estimated contract value of the collaborative procurements exceeds the financial threshold stipulated in the procurement Regulations the procurements will be subject to an EU compliant procurement process.
- 3.6 As Scottish Procurement has assessed that the current contract arrangements provide benefits in the region of 5-10% better than those likely to be achieved by individual organisations, it is unlikely that any exercise conducted by the Council would yield a better outcome compared to the aggregate buying power of the public sector which is the basis of the national collaborative approach.
- 3.7 As both electricity and gas will again be purchased in forward markets, a commitment to participate from public sector bodies will be required before supplies of electricity and gas is bought. This means putting governance arrangements in place during early 2012, which will take the form of a consolidated Agency Agreement for both electricity and gas where Scottish Procurement is acting "for and on behalf of" those public bodies who wish to participate in the new arrangements.
- 3.8 Such an approach is critical in dealing with volatile, fast moving commodity markets where procurement decisions are required to be appropriately delegated to ensure market opportunities are not missed. The Agency Agreement will be complemented by a collaboratively-developed Risk Management Policy which will be overseen by a cross-sectoral Risk Management Committee. Scottish Procurement will only be authorised to make purchase decisions in accordance with the agreed Policy.
- 3.9 The existing Agency Agreement has been updated to reflect the following changes;
- Removal of time restrictions (Existing 12 month termination clause remains).
 - Updated to incorporate natural gas in the main agreement rather as via a separate addendum.
 - Clarification of public bodies commitments and obligations with regard to data provision.
- 3.10 A Q&A document explaining the rationale for the need for an Agency Agreement is provided at Annex A.

3.11 In preparation for commencement of the new electricity contract on 1 April 2013 and the new gas contract on 1 April 2014 all public bodies wishing to participate in the new arrangements are required to do so by 31st March 2012.

3.12 Participating organisations require to approve and sign the Agency Agreement by 31 March 2012 to enable them to utilise the new collaborative contracts.

4 Financial Implications /Corporate Considerations

4.1 Costs to be met from existing budgets

4.2 Any savings arising from the national collaborative arrangements will contribute towards the corporate efficiencies within the Services and People first initiative.

5 Recommendations

5.1 The Committee is asked to approve the participation in the national collaborative electricity and gas contracts as outlined.



Head of Revenue Services

Members wishing further information please contact Mr Brian Cook, Head of Revenue Services, Tel:- 01698 - 40 3929.

ANNEX A

National Electricity Contract

Updated Agency Agreement

Question & Answer Document

Why a new Agency Agreement?

The Agency Agreement signed for the existing contract which runs until 31st March 2013 is valid only until the end of the existing contract. The new agreement provides the necessary commitment to the new national electricity contract commencing 1 April 2013 and will also cover natural gas which is due to be tendered during 2012.

Will I need to sign an addendum for the National Gas contract?

No. The new Agency Agreement covers both electricity and natural gas. The current addendum to the Agency Agreement for Natural Gas terminates on the 31st March 2014.

Why do I have to sign a new Agency Agreement?

The current Agency Agreement is time bound and is only valid for the existing contract which is approaching its final year. The current contract expires on the 31st March 2013 together with the current Agency Agreement for electricity.

Why sign now?

The contracts depend on purchasing both electricity and natural gas in advance governed by the Risk Management Strategy. The current mandate under the existing agency agreement is not valid to make purchases past March 2013 and this needs to be renewed in advance. This forward commitment allows Scottish Procurement to identify accurately the energy requirements over future years for the public sector portfolio and allows for risk management of the portfolio to be carried out in line with the Risk Management Strategy as governed by the cross-sectoral Risk Management Committee.

When will purchasing commence for the new contract?

Tender responses are due back on 31st January 2012 for the new contract which will commence on 1 April 2013 for purchases. Due to the buying strategy of the flexible contract ie price secured in advance of year of consumption it is necessary to have a forward commitment from public bodies 1 year in advance of the consumption of energy purchased.

What is the governance structure fro the new contract?

The current governance structure of a cross-sectoral risk committee chaired by Scottish Procurement will be maintained.

Is there any changes to the new Agreement?

The new Agency Agreement is substantially the same as the previous version. It has been updated to cover the following elements;

- Removal of time restrictions
- Updated to incorporate natural gas in the main agreement
- Clarification of public bodies commitments on data

What happens should I choose to leave the contract?

The current termination arrangements remain as the existing contract. Both Scottish Procurement and the public bodies can terminate the agreement by providing 12 months notice. This period provides a realistic time frame both to determine exit arrangements and to put in place alternative contact arrangements.

What are my obligations when signing the Agency Agreement?

Public Bodies who participate in the national contract via the Agency Agreement are obliged to provide Scottish Procurement, in the requested format, with site data including annual consumption data and or half hourly consumption where relevant, prior to sites joining the contract.

On an ongoing basis, Public Bodies are required to maintain an ongoing dialogue with Scottish Procurement and follow the defined process for adding/deleting sites and updating their individual portfolio consumption when requested to do so or where the public body concerned becomes aware of significant changes to their portfolio consumption ie a variance out-with the tolerance stipulated by the national contract e.g + or – 20%

There is a requirement to re-confirm consumption volumes on an annual basis.

When do I need to sign by?

The deadline for signing up to the next national contract and to ensure you obtain the contract prices from the contract commencement is 31st March 2012.