

Report – Finance Committee

Report of Urgent Action Taken: Provision of Energy (Electricity and Gas) Supplies – Contract Award Report

To be presented on Thursday, 18th October 2018

*To the Right Honourable The Lord Mayor, Aldermen and Commons
of the City of London in Common Council assembled.*

SUMMARY OF ACTION TAKEN

1. On 8 May 2018 your Finance Committee approved the procurement strategy report for the tender of electricity and gas supplies for all City of London sites.
2. A Working Group, consisting of representatives from City Surveyors Energy Management team and the City's appointed energy brokers, Utilyx, was established to review existing electricity and gas requirements, and develop specifications for each of the Lots. The Working Group also developed tender evaluation criteria based upon criteria deemed important for contract delivery.

Tender Process

3. The OJEU (Official Journal of the European Union) notice was published on 14th June 2018. The tender process was undertaken using the one-stage Open procedure.
4. 14 tenders were received by the submission deadline on 16th July 2018. Each tender was initially subjected to compliance checks before further technical and commercial evaluation was undertaken.

Tender Evaluation Summary

5. The tender evaluation panel, consisting of representatives from City Surveyor's Energy Management section and Utilyx, conducted the evaluation.
6. 14 tenders were received across four Lots:
 - Lot 1 – Supply of Electricity (Half Hourly and Non-Half Hourly) Flexible Purchase;
 - Lot 2 – Supply of Gas Flexible Purchase;
 - Lot 3 – Supply of Electricity (Half Hourly and Non-Half Hourly) Fixed Price term;
 - Lot 4 – Supply of Gas Fixed Price term.

Lot 1	Lot 2	Lot 3	Lot 4
<ul style="list-style-type: none"> • Haven Power • Npower • SSE Plc • Total Gas & Power Ltd • Vattenfall Energy 	<ul style="list-style-type: none"> • SSE Plc • Total Gas & Power Ltd 	<ul style="list-style-type: none"> • British Gas Trading • Haven Power • Npower • SSE Plc • Total Gas & Power Ltd 	<ul style="list-style-type: none"> • SSE Plc • Total Gas & Power Ltd

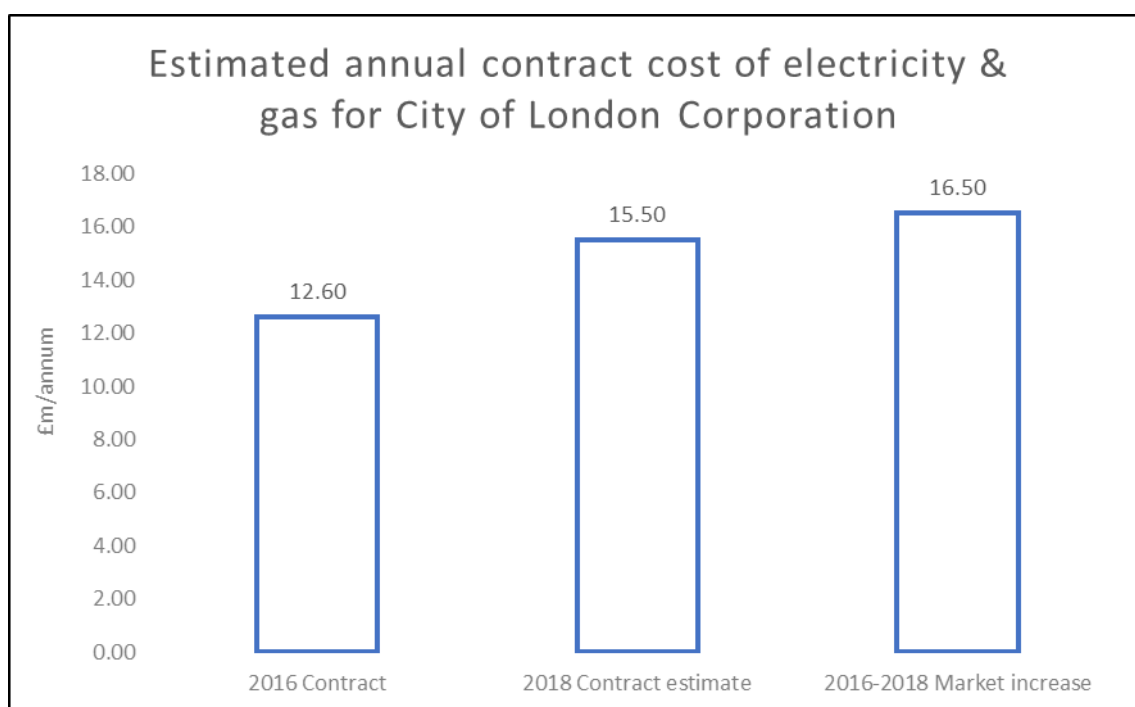
7. The tenders were evaluated based on the criteria of 60% quality, 40% price for Lots 1 and 2, and the criteria of 20% quality, 80% price for Lots 3 and 4.
8. Lots 1 and 2 are for flexible price contracts, whereby there is a greater emphasis on quality of trading, commodity and non-commodity invoicing and billing. It was therefore deemed appropriate to allocate a greater weighting to the technical/quality element to reflect the need for quality of service in these areas. Lots 3 and 4 are for fixed term, fixed price contracts. Whilst there is still a need for quality of service delivery around account management and account set-up, by nature of the fact that these will be fixed price contracts for the duration was reflected in a greater emphasis on the price weighting.
9. Once the independent evaluations were completed by all evaluators, a moderation process was co-ordinated by City Procurement for each lot. The purpose of the moderation was to ensure a consistent approach was taken and that a fair and transparent outcome that had been achieved prior to the award recommendation.

Evaluation Outcome

10. A summary of final scores for the highest scoring bidders for each lot is set out in the following table:

Lot	Bidder	Quality Score	Price Score	Total Score	Estimated annual price
1	Total Gas and Power Ltd	42	39.5	81.5	£10,900,000
2	Total Gas and Power Ltd	32.4	40.0	72.4	£1,110,000
3	Total Gas and Power Ltd	15.6	80.0	95.6	£3,120,000
4	Total Gas and Power Ltd	13.2	80.0	93.2	£370,000

11. The total estimated contract cost per annum is £15,500,000, representing an increase of approximately 23% from the previous contract. The increase in cost is due to increases in both commodity and non-commodity prices for gas and electricity, which were at a market low in Q1/2 2016/17, when the previous contract was secured. They have risen steadily since at well above inflation. Based on our analysis, the City Corporation has procured at a favourable rate compared to the market context, and this is illustrated below.



Corporate & Strategic Implications

12. The increase in energy costs follows continuing price escalation in both commodity and non-commodity costs and will require additional budget provision going forward; this is likely to continue at above base rate inflationary rates. Future energy budget provisions should also account for reductions in consumption resulting from an approved carbon descent plan and changes to the estate (see paragraph 13 – mitigation)
13. Mitigation of present and future cost increases will be managed through two streams, Energy reduction and Price Hedging.
 - **Reduction** of energy consumption through the proposed Carbon Descent Plan; this includes a number of capital and operational initiatives which identify costs and savings to deliver reduced energy consumption across the estate. The first stage of this plan has been presented and endorsed by the Energy Board and will be presented to the Corporate Asset Sub Committee in the autumn for approval. Our draft proposal is to set an energy reduction target of 26% by 2025/26
 - **Hedging** of energy prices by de-coupling procurement from grid prices and securing a renewable energy power purchase agreement; this will potentially allow for long-term hedging and the City Surveyor's Department are currently commissioning a third-party options review to determine the most advantageous approach.

Approval was consequently given to:

- Award a three-year contract for Lot 1 (Supply of Electricity, Half Hourly and Non-Half Hourly, Flexible Purchase), commencing 1st October 2018, to Total Gas and Power Ltd at an estimated cost of £10.9m per annum.

- Award a three-year contract for Lot 2 (Supply of Gas, Flexible Purchase), commencing 1st October 2018, to Total Gas and Power Ltd at an estimated cost of £1.11m per annum.
- Award a two-year contract for Lot 3 (Supply of Electricity, Half Hourly and Non-Half Hourly, Fixed Price term), commencing 1st October 2018, to Total Gas and Power Ltd at an estimated cost of £3.12m per annum.
- Award a two-year contract for Lot 4 (Supply of Gas, Fixed Price term), commencing 1st October 2018, to Total Gas and Power at an estimated cost of £370k per annum.
- Delegate to the Procurement Sub-Committee, on behalf of the Finance Committee, the right to exercise options to extend the contract by up to 2 years as permitted in the contract terms.

RECOMMENDATION

13. We **recommend** that the action taken be noted.

All of which we submit to the judgement of this Honourable Court.

DATED this 13th day of August 2018.

SIGNED on behalf of the Committee.

Jeremy Paul Mayhew
Chairman, Finance Committee