

# **Utilities Broker (Gas)**

## **REPORT TO;**

The Corporate Director, Strategic Resources (CS), Gary Fielding.

## **DECISION DATE:**

Monday 1<sup>st</sup> June 2020

## **SUPPORTING ANNEX;**

This report includes a supporting Annex which contains exempt information as described in paragraphs 1, 3 and 5 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended).

## **PROPOSED RECOMMENDATION**

It is recommended that North Yorkshire County Council (the Council) continues with the use of YPO as the Council's utilities broker and to proceed with a direct award to Corona Energy through the Supply of Gas Framework Agreement 986 contract procured by YPO.

## **BACKGROUND TO SUPPORT THE RECOMMENDATION**

The Council's current gas supply contract expires on 31 March 2021. It is essential, for the continuity of service across both the corporate property estate and traded customers, that a new supply arrangement is in place from 1 April 2021.

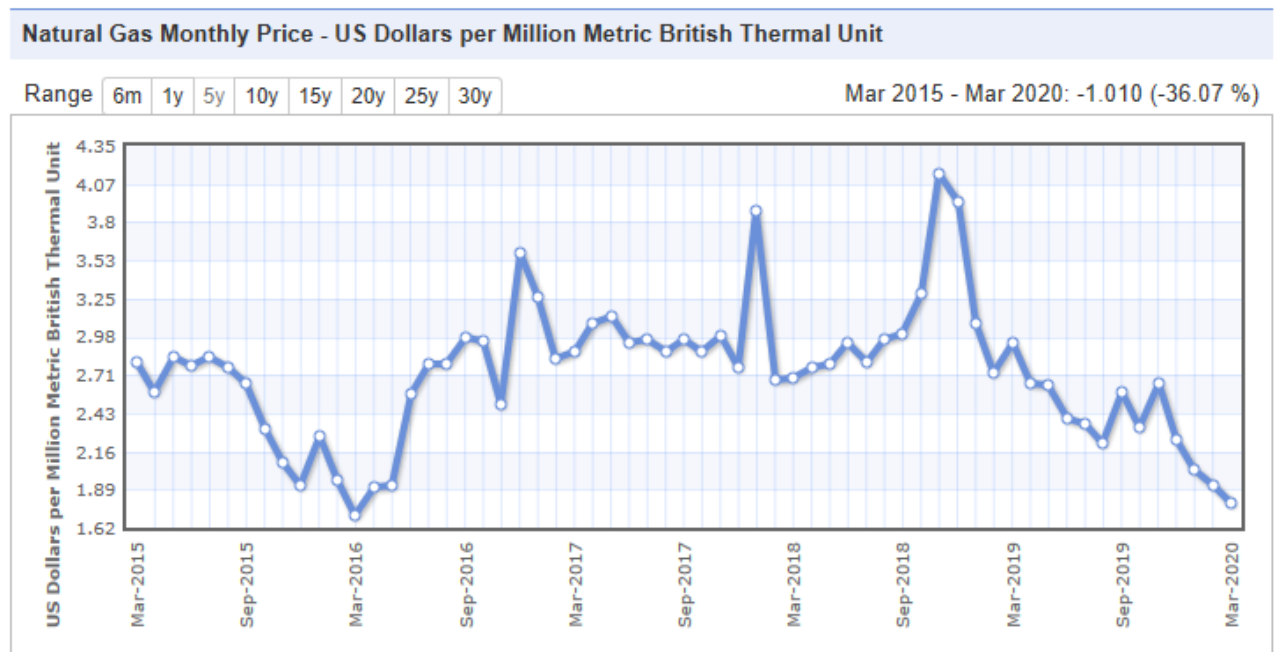
Natural gas, as a commodity, is purchased directly from the market. The Service Area lacks the time, resources and expertise available to undertake the direct purchase of commodities, so the Council uses, and will require in the future, a broker to do this. A schedule of sites, meter supply points and advanced commitment of demand (usually 12 months) are required in order for the broker to secure a futures contract for the commodity when the commodity price is low, protecting against future price rises and securing the best value unit rate for use by the purchasing consortium for the duration of the upcoming 12-month period.

YPO broker on behalf of a consortium of local authorities to provide additional leverage and to protect against individual usage discrepancies in the year. YPO agrees the buying strategy for each utility with the Energy Initiatives Steering Group (a group of representatives of all the local authorities using the YPO framework contracts). The previous strategy for buying gas was restricted purchasing to a 12-month window before the actual delivery of the Gas. If the supply period was 1 April 2020, purchasing for that period on the wholesale market could only commence on 1 April 2019 and not before. The amended strategy (from January 2020) allows for YPO to purchase for the length of the framework period. The new gas framework covers the period 1 April 2021 - 31 March 2025, YPO can now buy gas for every pricing year of that framework.

The reason for doing this is because like any trading commodities, there are periods of high and low prices depending on market drivers. Having a much larger trading window allows YPO to lock in value for multiple years in advance if pricing is favourable. This will mitigate some of the risks posed by extreme weather patterns

such as “the Beast from the East” and potentially take advantage of the current price drop as a result of the Coronavirus pandemic.

The graph below showing the change in natural gas price since 2015 demonstrates the volatility of the market and the importance of being able to flexibly purchase when the price is low to protect against future increases:



In the space of just three consecutive months between December 2017 and February 2018 the price of natural gas rose by 40% and then fell by 31%.

The contract is of strategic importance to the Council, this is for a number of reasons:

- The Council currently lacks the knowledge and resource in-house to purchase gas directly from the market and this would take time to realise in the event that a broker contract is not secured. Doing this without that expertise may result in poor commercial decision making, locking the Council into un-competitive pricing and also negatively affecting the traded service through lower take-up.
- Gas makes up a significant proportion of the Council's energy requirement and failure to secure a gas supply contract would result in increased expenditure for off contract spend (approximately three times the current contract price).
- Being a traded service also adds additional pressures to both prevent against reputational damage and also to ensure competitive pricing to maintain business.
- It is a key element of this contract that control is not entirely in the hands of the Council, and that decisions around purchasing and risk will be affected by uncontrollable global factors.
- Spend with the supplier is significant and will be multi-million over the contract life.

The benefits of utilising the YPO Framework have been set out below:

- Compliant route to market.
- Streamlined and accelerated process to meet pressing timescales.
- Rebate available from YPO.
- Continuity and consistency of relationships already established over the last four years, particularly important as this is part of a traded offer.
- Retains the same broker for all utilities, minimising the extensive workload required with a change of supplier, particularly across the traded service.
- Provides additional leverage through consortium buying and mitigates risks of under or over usage of anticipated requirements.
- Government guidance for local authorities is to use one of the public procurement contracts.
- Transparency of buying performance.

## **LEGAL AND GOVERNANCE COMPLIANCE**

The recommended approach is fully compliant with the Public Contract Regulations 2015.

As per the Council's Contract Procedure Rules, the relevant Corporate Director and the Assistant Chief Executive (Legal and Democratic Services) must each be in agreement with the recommendation and they confirmed their agreement as detailed in the Annex.

## **RECOMMENDATION**

It is recommended that North Yorkshire County Council (the Council) continues with the use of YPO as the Council's utilities broker and to proceed with a direct award to Corona Energy through the Supply of Gas Framework Agreement 986 contract procured by YPO.