

Item No.:	Classification: Open	Date: July 2009	Meeting Name: Finance Director
Report title	Gateway 2 - Contract Award Approval Supply of Gas to the Aylesbury Estate and Blakes Road (North Peckham) boiler house		
Ward(s) or groups affected	Faraday / Peckham / East Walworth		
From	Strategic Director of Environment & Housing		

RECOMMENDATIONS

1. That the Finance Director approve the use of a Consortium contract with Buying Solutions to award the contract of supply of gas to the Aylesbury Estate and Blakes Road (North Peckham) boiler houses as follows:
 - i) Gas being charged at a fixed rate supplied by Corona Energy for the period 1 August 2009 to 30 September 2009.
 - ii) Gas being charged at the same fixed rate with the new flexible framework contract supplier from 1 October 2009 to 31 March, and then at a flexible rate for the remaining contract period 1 April 2010 to 31 March 2011.

BACKGROUND

2. The recommendation of this report is that the gas requirements of this existing contract are secured via a framework contract for the period of 20 months. As gas is a volatile traded commodity, the 'wholesale' cost of gas has been excluded from the tender (gas will be purchased from the wholesale market at different times both before and during the contract term). Due to the nature of the recommended framework contract there will be a requirement to secure a fixed price for gas supply for the initial eight months of this contract period. This is explained in more detail in paragraph 8. Gas will be purchased on an ongoing basis during the remainder of the contract period of 12 months. The contract costs set out below are therefore estimates, and actual costs will depend upon market conditions and purchasing decisions taken during the contract.
3. The estimated annual cost of contracts is £1,791,000. The contracts will be awarded for a period of 20 months; the total contract value is estimated at £2,985,000.
4. These contracts can be extended on a year by year basis up to the limit of their permitted duration under EU law. However, further approved procurement options for buying gas are likely to become available over the next year. It is therefore recommended that the contract be awarded for the minimum 20 month period, and that the Council's procurement options reviewed over this period.
5. This report is on the Forward Plan for a July 2009 decision.

Timetable of procurement process followed

Activity	Date completed
Gateway 1: Approval given for procurement strategy	31/07/09
Completion of tender documentation	Tasks completed by Buying Solutions
Advertise the contract	
Closing date for expressions of interest	
Invitation to tenders	
Closing date for return of tenders	
Completion of evaluation of tenders	
Completion of any post-tender clarification meetings	n/a
Gateway 2: Contract award for approval	31/07/09
Place award notice in Official Journal of European Union (OJEU) (if applicable)	Completed by Buying Solutions
Start date of contract	01/08/09
Contract completion	31/03/11

Description of Contract Outcomes

6. This contract is a re-tender for an existing requirement for gas supplies to the Aylesbury and North Peckham estates.
7. The current contract is with E.ON Energy and is due to expire by 31/07/09. The procurement strategy was set out in the Gateway 1 report which was agreed by Deputy Leader & Executive Member for Housing Management by 31/07/09.
8. This report recommended adopting one of the 'flexible' methods of procurement being recommended by central government and the 'Regional Improvement & Efficiency Partnership'. In a flexible contract gas is purchased at various times throughout the contract period to mitigate the risks associated with purchasing from this highly volatile market. The recommended contract with Buying Solutions will entail requesting an initial fixed price from the framework supplier for a period of 8 months. The flexible purchasing period will then run for 12 months to the contract end 31/03/11. The volatile nature of the gas market is such that suppliers will only hold fixed price offers valid for a few hours and buyers must accept (or reject) prices on the same day as the offer. Because of this, the Deputy Leader & Executive Member for Housing agreed the report recommendation to delegate the award of this gas contract to the Finance Director.
9. This contract award is a key decision and as such was entered onto the forward plan. However, as the award decision has to be implemented on the day of the tender (as indicated in the above paragraph) the decision cannot be delayed and must be implemented under the urgency rules.

KEY ISSUES FOR CONSIDERATION

Policy Implications

10. There is no opportunity to secure more environmentally preferable supplies of gas through the public gas network. Council policy in this case is to secure gas supplies at the lowest cost.

Tender Process

11. The agreed procurement strategy appointed a third party agent "Buying Solutions" to manage the tender process. The existing Buying Solutions framework contract (with Corona Gas) has been extended to September 2009. The new flexible framework contract has been advertised in the OJEU to start 1st October 2009 (to select a new framework gas supplier).
12. The initial fixed price offer, for the first 8 month period of the contract, was requested by 31/07/09 and this offer was accepted by the Finance Director on the same day.

Plans for the Transition from the Old to the New Contract

13. Buying Solutions will arrange for the two supplies on this contract to be transferred to the new supplier. The new framework contract will start in October 2009, should this be awarded to a different supplier, Buying Solutions will arrange for the supplies to be again transferred to the new supplier.

Plans for Monitoring of the Contract

14. Invoices for both of the supplies on this contract are issued on a monthly basis and sent directly to the Energy Team within Environment & Housing. The Energy Team are responsible for ensuring the accuracy and validity of the invoices and for resolving any queries with the supplier.

Community Impact Statement

15. This contract covers gas supplies to central boiler systems which provide heating to the Aylesbury Estate and the remaining housing blocks served by the Blakes Road (North Peckham) boiler house.
16. The procurement route being recommended in this report is specifically designed to minimise the risks associated with the extremely volatile gas market, and therefore achieve the lowest gas prices for tenants and leaseholders.

Sustainability Considerations

17. This contract is concerned with securing natural gas supplies to heating systems. As such, there are no sustainable alternatives for this form of supply. The longer term plans for re-developing the Aylesbury Estate proposes adopting district heating with the additional use of combined heat and power (CHP, to generate heat and electricity at the same time) and the use of biomass fuels (e.g. wood chips or pellets). This will reduce CO₂ emissions, and is a more flexible energy supply option as natural gas CHP can be substituted with bio-fuel CHP when this becomes commercially viable.

Market Development Considerations

18. The successful tenderer is a private organisation with over 500 employees operating on an international scale.

Financial Implications

19. It should be emphasised that recommended contract is method of buying gas from the wholesale market on an ongoing basis during the contract period, not a set of fixed gas prices resulting from a competitive tender. All predicted costs are therefore estimates according to current market conditions. The actual billed costs will depend on future purchases of gas from the wholesale market

20. The Buying Solutions charge a flat annual fee per supply meter included on the contract of £240. As there are only two metered supplies the annual procurement fee to Buying Solutions will be £480.

21. As described in paragraph 8, a fixed price will be charged for an initial eight month period. The total contract period costs shown in Table 1 have therefore been estimated using these prices. The costs are also estimated using current consumption levels (in practice these will vary according to weather conditions). This indicates that there will be an estimated increase over the current contract cost of X%.

Table 1 : Effect of new contract prices on annual cost

Site	Predicted annual cost	Current annual cost	Annual increase
Aylesbury Estate	£1,364,687	£1,066,162	£298,525
Blakes Road (North Peckham) boiler room	£426,317	£333,060	£93,257
Total	£1,791,004	£1,399,222	£391,782

Consultation

22. This contract covers the supply of gas to central boilers supplying housing estates. A Notice of Intention has been served to leaseholders to comply with Section 20 of the Landlord and Tenant Act, informing them of the intention to tender for this contract. The Home Ownership section has applied to the Leasehold Valuation Tribunal for dispensation due to the fact that a response to tenders is required within the day.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Communities, Law & Governance

23. This report seeks approval to use the Buying Solutions consortium agreement, which will enable the Council to enter into gas supply contracts with Corona Energy (the approved supplier) until 30 September 2009, and the newly appointed supplier from 1 October 2009 until 31 March 2011. The provision of gas supplies at this value is subject to the full tendering requirements of the EU procurement Regulations, and ordinarily the Council would need to have undertaken a tendering exercise for these supplies in accordance with those requirements.

24. However suppliers under the Buying Solutions agreement have been procured in accordance with the EU Regulations, and therefore no further competition is required. Contract Standing Order 2.3 requires that no steps may be taken to award a contract unless the expenditure involved has been included in approved estimates, or has been otherwise approved by the Council. Paragraphs 19-21 confirm the financial implications.

Finance Director (FIN0501 SO'B)

25. Current gas market indications are that there will be an average 28% increase compared with the previous contract prices. Based on current consumption levels, the predicted annual costs for both estates are shown in table 1. As outlined in this report, any resulting liability from the increase in annual cost will be recharged to tenants and leaseholders. To cover such cost fluctuations for gas, a heating reserve of £1.1 million exists within the HRA for 2009-10. Any increase in contract cost beyond the heating reserve will require offsetting resources within the HRA to be found.

Head of Procurement

26. This is a gateway two report seeking approval to award two contracts for the supply of gas via the Buying Solutions framework as detailed. The report confirms that approval to use the consortium agreement was given via a gateway one report as required by CSOs.

27. The report advises that unlike most other procurement categories, it is not possible to undertake the tender exercise and then produce a gateway two report as the price acceptance window is a matter of hours. Therefore the prices quoted are best market estimates and the actual figures will be added to the report submitted for final approval to the Finance Director. The report does however acknowledge that there will be an increase in prices, again the actual amount to be confirmed on the price submission day.

28. The report confirms the contract management arrangements that are in place and that a review of service requirements and market options will be undertaken before the end of the twenty month period, whereupon a gateway one or gateway three report will be produced

FOR DELEGATED APPROVAL

Under the powers delegated to me at the Gateway 1 decision, I authorise action in accordance with the recommendation contained in the above report.

Signature: 
Duncan Whitfield

Date: 31.7.09

Designation: Finance Director

BACKGROUND PAPERS

Background Papers	Held At	Contact
Gateway 1 - Procurement Strategy Approval : Supply of gas to the Aylesbury Estate and Blakes Road (North Peckham) boiler house	160 Tooley Street London SE1 2TZ	Bob Fiddik Energy Strategy Manager 0207 525 3804

AUDIT TRAIL

Lead Officer	Gill Davies - Strategic Director of Environment & Housing		
Report Author	Mary Morrissey, Head of Sustainable Services		
Version	Final		
Dated	July 2009		
Key Decision?	Yes	If yes, date appeared on forward plan	July 09
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER			
Officer Title	Comments Sought	Comments included	
Strategic Director of Communities, Law & Governance	Yes	Yes	
Finance Director	Yes	Yes	
Head of Procurement	Yes	Yes	
Date final report sent to Constitutional Officer			27 July 2009