



Reference No: 33-2014

THE POLICE & CRIME COMMISSIONER FOR CLEVELAND

DECISION RECORD FORM

REQUEST: Approve the commitment to the NEPO Gas agreement			
Title: Provision of Gas Supplies			
Executive Summary: The current gas supply contract is due for renewal on the 31st March 2015. Following a NEPO regional Procurement exercise a contract recommendation has been put forward for the supply of electricity to all participating local Authorities from 1 st April 2015. NEPO plan to award a new contract for Gas supplies on the 1 st May 2014 which will allow forward purchasing of energy and continuation of supplies, the actual supply of gas with the new contract will go live on 1 st April 2015.			
Decision: The PCC is asked to approve commitment to the NEPO Gas contract			
Implications:			
Has consideration been taken of the following:	Yes	No	
Financial	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Legal	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Equality & Diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Human Rights	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Sustainability	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Risk	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
(If yes please provide further details below)			

Decision Required – Supporting Information

Financial Implications: (Must include comments of the PCC's CFO where the decision has financial implications)

Cleveland Police currently spends approximately £250,000 per annum on gas supplies. The way that organisations such as NEPO monitor and procure electricity ensures that regular peaks and troughs of gas procurement can be achieved and over the years regular safe savings can be achieved.

Legal Implications: (Must include comments of the Monitoring Officer where the decision has legal implication)

Contract to be awarded under NEPO terms and conditions. There are no legal implications associated with the award of this contract.

Equality and Diversity Implications

All diversity and equality considerations have been taken into account during tender analysis. There are no diversity and equality implications associated with the award of this contract.

Human Rights Implications

There are no Human Rights Act implications associated with the award of this contract.

Sustainability Implications

Sustainability considerations have been taken into account during tender analysis with a strong emphasis on sustainability and energy efficiency. Using the NEPO agreement allows for energy conservation initiatives and direct access to schemes such as smart meters and consumption monitoring software.

Risk Management Implications

Any risk to Cleveland Police using the NEPO contract is low, as risk is regularly monitored at the contract management meetings (EPG Groups).

OFFICER APPROVAL**Chief Executive**

I have been consulted about the decision and confirm that financial, legal, and equalities advice has been taken into account. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner.

Signed: M. Porter Date: 15/4/2014

Police and Crime Commissioner:

The above request HAS / DOES NOT HAVE my approval.

Signed: [Signature] Date: 16/4/2014

Report of the Chief Constable to the Police and Crime Commissioner for Cleveland

Status: For Decision

Procurement Report for the Provision of Gas Supplies

1. Purpose

- 1.1 The purpose of this report is to provide the Police and Crime Commissioner with a summation of the current gas utility market and also a summary of the contractual options available to Cleveland Police on expiry of the current North East Procurement Organisation (NEPO) gas agreement.
- 1.2 The current NEPO agreement for Gas supplies is due to expire on 31st March 2015. NEPO plan to award a new contract for Gas supplies on the 1st May 2014 which will allow forward purchasing of energy and continuation of supplies, the actual supply of gas with the new contract will go live on 1st April 2015.

2. Recommendations

- 2.1 That the Police and Crime Commissioner reviews the options appraisal below and approves entering into a new agreement with NEPO from 1st May 2014.

3. Reasons

- 3.1 As previously reported, the Force currently purchases its gas and electricity supplies through a central purchasing body, NEPO.
- 3.2 NEPO manages a flexible framework agreement for gas and electricity supplies on behalf of approximately twenty six local authorities within the North East region. The overall annual value of the gas contract across the region is approximately £31,000,000.
- 3.3 It is widely recognised that one of the most cost effective ways for public sector organisations to buy energy is to use recommended frameworks through a central purchasing body (CPB) that have aggregated volumes, can offer flexible purchasing and enable best practice risk management.
- 3.4 The current NEPO agreement for gas supplies is due to expire on 31st March 2015. NEPO started the re-tendering process during December 2013, with plans to award a new contract on 1st May 2014.

- 3.5 The award of a new contract approximately 12 months before the expiry of the existing agreement allows for forward purchasing of energy and continuation of supplies, it also enables best practice risk management in a very complex and volatile market.
- 3.6 In order to ensure that the NEPO gas utility agreement still offers value for money for Cleveland Police, Procurement has concluded a market options appraisal highlighting potential purchasing opportunities regarding the future provision of gas supplies.

4. Options Appraisal

- 4.1 Option A – Move to Government Procurement Service (GPS) agreement
GPS currently procure over 100 million therms of gas by contracting direct with Corona Energy; their purchasing strategy is similar to NEPO in that it provides market flexibility when purchasing.
- 4.2 Although the purchasing strategy is similar to NEPO, the purchasing window to procure therms of gas is only available to the energy team at GPS from April to September each year.
- 4.3 The risk with the GPS purchasing strategy is that therms of gas will be procured well in advance of any actual consumption so any potential savings to be gained by a falling market price will not be able to be realised.
- 4.4 The GPS agreement requires a minimum 12 month commitment from any potential customer, any pricing and benchmarking data cannot be obtained until a firm commitment is made regarding joining the contract.
- 4.5 Option B – Tendering own contract
The option of Cleveland Police tendering solely for the provision of gas supplies would go against National best practice guidance and would inevitably cost more during the life of the contract.
- 4.6 Any contract awarded directly by Cleveland Police would not provide the advantages that being part of a framework agreement provides; an example of these advantages is as follows:
- Benefit arising from larger volumes of energy spread across the portfolio, which in turn attracts lower supplier margins.
 - An effective risk strategy which is monitored and updated regularly by energy procurement specialists.
 - Access to wholesale utility markets and multiple purchasing strategies.
- 4.7 At a time when collaboration is being encouraged at a regional and national level, any decision to solely tender for the requirement of gas supplies would more than likely be questioned at a national level by the Home Office and sub working groups such as Estates Procurement Working Group (EPWG).

- 4.8 Due to the current annual spend on gas which is circa £250,000 per annum, the decision to solely tender would result in a full EU procurement process with all its associated cost and strain on resource.
- 4.9 Option C – Commit to new NEPO agreement
One of the most resourceful methods for public sector organisations to procure energy supplies is to use recommended frameworks through a central purchasing body that have aggregated volumes, can offer flexible purchasing and enable best practice risk management.
- 4.10 As previously highlighted, NEPO manage the current gas contract on behalf of all NEPO members. The option of entering into a new agreement would be a continuation of the current arrangements.
- 4.11 NEPO have the added flexibility to buy energy at any point throughout the year, therefore savings in a falling energy market can be realised and energy purchased in advance in a rising energy market.
- 4.12 The annual price to Cleveland Police is fixed (with an element of price cushioning) for 6 to 12 months, but at the year end a balancing exercise is conducted and rebates paid to all member authorities.
- 4.13 The NEPO purchasing strategy and expertise within the energy market has presented Cleveland Police with year on year cashable savings from its energy budgets, in 2009/2010 there was a direct cashable saving registered of £363,000 as a result of Cleveland Police being part of the NEPO energy agreements.
- 4.14 It must be recognised that any move away from the NEPO gas agreement would not be beneficial for Cleveland Police with regard to collaborative working and the use of several other key NEPO agreements such as Electricity and car hire.
- 4.15 Option D – Move to another CPB framework agreement
Cleveland Police have the option of using another CPB agreement, for example Eastern Shires Procurement Organisation (ESPO); however they would be joining a contract very similar to the existing NEPO agreement in terms of a flexible purchasing strategy managed by a central energy buying team.
- 4.16 ESPO is a major energy purchaser, representing a significant number of local authorities, public and charitable sector customers accounting for an annual expenditure on energy of over £80,000,000.
- 4.17 The customer base that ESPO represents is broadly the East of England and the Midlands, therefore if Cleveland Police were to move to another agreement such as the ESPO contract it would be a move away from regional collaborative working within the North East.
- 4.18 The only difference with any of the CPB energy framework agreements is the balance between who has the superior energy management team in terms of staff expertise and skills.

5. Options Summary

- 5.1 Option A – Move to Government Procurement Service (GPS) agreement
- Purchasing not as flexible as NEPO, therefore saving opportunities may not be realised in a falling market.
 - Minimum 12 month commitment from Cleveland Police despite no pricing being available to benchmark.
 - Significant spend throughout the GPS portfolio, may lead to lead to greater price efficiencies with energy provider.
- 5.2 Option B – Tendering own contract
- No direct access to wholesale energy market and flexible purchasing options.
 - Poor cost leverage due to sole purchasing volume, likely to result in a standard business tariff being offered by energy providers.
 - Move away from National best practice guidance regarding energy procurement.
 - Limited technical expertise and a dedicated energy manager in house to provide tender/specification advice and final contract management.
- 5.3 Option C – Commit to new NEPO agreement
- Fully managed service offering best practice energy procurement in accordance with national guidelines.
 - Added benefit of regional collaborative working as well as direct access to various other NEPO agreements.
 - Direct access to the Energy Procurement Group (EPG) regional working committee which promotes further collaborative working, sharing knowledge, best practice and efficiencies.
- 5.4 Option D – Move to another CPB framework agreement
- Agreement is very similar to Cleveland Polices current contract arrangements with NEPO albeit in a different region.
 - Element of risk with any energy purchase, organisations that use any CPB framework agreement are fully dependant on the skills of the energy buyers making the final purchase.
 - Access to working groups such as YPO (Yorkshire), ESPO (Midlands) and LASER (Kent), this would be a move away from the NEPO working group which is made up of 26 North East local authorities.

6. Implications

- 6.1 Financial
Cleveland Police currently spend approximately £250,000 per annum on gas supplies across the estate portfolio.
- 6.2 The way that organisations such as NEPO monitor and procure Gas supplies ensures that regular peaks and troughs of the energy market can be avoided as the purchasing strategy ensures flexibility to buy energy at any point throughout the year.
- 6.3 Therefore, savings in a falling market can be realised and energy purchased early in

a rising market, this strategy ensures that over the years regular cost avoidance savings can be achieved.

- 6.4 As an example of the current savings that the NEPO agreement provides, the below table shows the average price per therm measured against the standard business rate per therm.

2013/2014	BASE
NEPO Average market price	£66.96 per therm
Average market price	£78.75 per therm
Saving %	15%
Saving £/PPT	£11.79 per therm
Saving on Volume (Avg NEPO price measured against average market price)	£37,140.75 per annum

- 6.5 Appendix 1 below shows pence per therm data on the UK wholesale gas market from 2004 to 2013, the graph highlights how volatile and unpredictable the wholesale gas market can be. The flexible purchasing strategy used by NEPO ensures that this is the most cost effective and risk averse method of procuring gas supplies.

6.6 Diversity & Equal Opportunities

There are no diversity and equal opportunity implications arising from the content of this report.

6.7 Human Rights Act

There are no Human Rights Act implications arising from the content of this report.

6.8 Sustainability

All Sustainability considerations have been taken into account during tender analysis with a strong emphasis on sustainability and energy efficiency. Using the NEPO agreement allows for energy conservation initiatives and direct access to schemes such as smart meters and consumption monitoring software.

6.9 Risk

Any risk to Cleveland Police using the NEPO Contract is low, as risk is regularly monitored at the contract management meetings (EPG groups).

7. Conclusions

- 7.1 It is recommended that in order to achieve best value and extend regional collaborative working practices, Cleveland Police commits to the new 5 year NEPO gas agreement from 1st May 2014.

- 7.2 As previously highlighted, the use of the NEPO utility agreements offer regular annual savings when compared against standard customer business rates.

7.3 The NEPO evaluation team are fully confident that the procurement process has achieved best value and the new contract will provide an efficient and cost effective service to Cleveland Police.

Jacqui Cheer
Chief Constable

Evaluation Team:
Representatives of the NEPO Energy Procurement Group

Appendix 1 – UK wholesale natural Gas Price 2004 – 2013

UK Wholesale Natural Gas Prices



