

REPORT OF THE CABINET MEMBER FOR FINANCE AND PROPERTY

ENERGY COSTS AND PROCUREMENT – BIENNIAL UPDATE

Purpose of the Report

1. The purpose of the report is to:
 - update Cabinet with regard to the procurement of energy for the Council's buildings and street lighting
 - update on projected costs of energy for this financial year and advise on the estimated fuel costs for the 2012-13 financial year, and
 - report on Council's carbon emissions and costs associated with mandatory participation in the Carbon Reduction Commitment Energy Efficiency Scheme
 - provide a brief update on current energy cost saving measures.

Information and Advice

2. On the 14 September 2011 Cabinet received a report, as part of its request for biennial reporting on energy procurement approved in September 2009, setting out progress on the procurement of electricity and gas under new contractual arrangements. This report also advised on estimated gas and electricity costs for the 2011-12 financial year and gave an update on the potential financial implications of the Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES).

Procurement of energy

3. For electricity and gas for council buildings and street lighting, Members will recall that some of the Council's supplies (covering about 70% of its consumption) are purchased under a flexible, variable procurement model, whereby energy is purchased in advance of and during the supply period, with the costs based on reference prices set at the beginning of April. The costs are then later reconciled against the reference prices. For such supplies, covering electricity for larger buildings, most street lighting and all gas, the majority of supply has now been purchased and indications are that eventual costs following reconciliation will be much as predicted in the report to Cabinet in September.
4. Procurement of gas and electricity supplies for 2012-13, through the Council's appointed central purchasing body, Government Procurement Service (GPS - formerly known as Buying Solutions), has begun, with 20% of Non Half Hourly (NHH) electricity, 30% of street lighting and Half Hourly electricity, and 20% of gas now purchased. The remaining NHH electricity and that for traffic signals will be purchased before the end of March, whilst the remainder falls under the flexible, variable procurement model described above. Consideration should

be given to the relatively low amounts of energy purchased so far for 2012-13 when noting the predicted energy costs in the following section.

5. Members may also be interested to note that the Council has awarded a new 2 year contract to supply wood pellets, with an option to extend for a further 2 years, to Forever Fuels Ltd, following an OJEU tender process and e-auction exercise. The Council currently has over 60 sites, mostly schools, which use wood pellets as their primary heating fuel. Last year these sites consumed nearly 3,000 tonnes of pellets, reducing the Council's carbon emissions by over 5,000 tonnes. This is a framework contract available to any public sector organisation within the County. The average price impact of the new contract based on current consumption represents a 3.7% increase to each site, although larger sites could see a saving due to new pricing bands based on total annual consumption, introduced as part of the tender exercise. This is the first price increase in wood pellets for 2.5 years and all future increases during the contract period are limited to a maximum of the prevailing rate of the Consumer Price Index.
6. The new wood pellet contract brings additional benefits to its users through guaranteed quality standards; new, purpose-built delivery vehicles, which will reduce the amount of dust released during deliveries; and the potential to utilise automated fuel store level indicators at no extra cost.

Energy costs

7. Table 1, below, shows the predicted energy costs (electricity and gas) for this and next financial year.

	2011-12	2012-13	Difference	Change
Street lighting	£ 3,771,047	£ 3,570,005	£ 201,042	-5.3%
Traffic Signals	£ 307,426	£ 308,870	£ 1,444	0.5%
Schools	£ 8,920,902	£ 9,270,694	£ 349,793	3.9%
Corporate	£ 3,110,740	£ 3,216,134	£ 105,395	3.4%
Total	£16,110,114	£16,365,704	£ 255,590	1.6%

Table 1. Summary of predicted electricity and gas costs for 2011-12 and 2012-13

Overall, predictions for next financial year show a slight increase in costs, but it should be noted that these are very much best estimate figures based on current consumption and the limited amount of energy purchased in advance, with many variable factors that can influence actual figures. The best way to reduce energy costs is to use less. For example, the predicted decrease in cost for street lighting is due to the dimming and part night lighting project reducing consumption; without this the increase in cost would be around 0.7%. (It should be noted that the 2011-12 figure for street lighting does not include the backdated Climate Change Levy charge mentioned in September's Cabinet report). It is unknown at this point whether there will be any change to the fixed energy costs (standing charges) from April and the predicted figures are based on assuming these will be subject to a 5% increase. It is worth noting that the Carbon Trust currently recommends using a figure of 5.8% for the annual increase in energy prices, so broadly speaking the annual reduction in consumption needs to match this to keep actual costs from rising.

Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES)

8. Nottinghamshire County Council reported a figure of 78,579 tonnes of carbon dioxide for its first annual report under the CRCEES, covering 2010-11. This covers 90% of its emissions from buildings, the minimum amount of coverage required by the scheme, and excludes that from street lighting, which amounts to 24,619 tonnes, and those from other sources such as fleet transport. Annual carbon emissions are also reported as part of the Council's local greenhouse gas emissions report (a Government requirement) and as a measure against the Council's strategic plan target to reduce carbon emissions from its own estate and operations.
9. Based on this emissions figure, and the 2011/12 price of £12 per tonne, the estimated cost to the County Council for purchasing allowances to cover its emission under the CRCEES is £942,984, as shown in Table 2, below. This is to be accrued from the current financial year, for payment in 2012-13. It can be seen from this table that emissions from schools, for which the Council is statutorily responsible for reporting, account for 71% of the reported emissions. Under changes made by the Department for Education the Council is now able to recharge the costs of schools' emissions to the central schools budget. A paper stating the Council's intention to do this as of 2012-13 was presented to and agreed by the Schools Forum in November 2011.

	2010-11 emissions (tonnes CO2)	%	Potential cost @ £12 per tonne for 2011-12
Schools	55,791	71%	£669,492
Corporate Buildings	22,788	29%	£273,456
Total	78,579	100%	£942,984

Table 2. Reported emissions for 2010-11 and estimated costs for 2011-12

10. The first Performance League Table for the CRCEES was published in November last year. Positions in the table are somewhat meaningless in terms of carbon reduction, as they are solely based on so-called early action metrics, which relate to coverage of Automatic Meter Reading (AMR) for an organisation's electricity and gas supplies and achievement of the Carbon Trust Standard, which recognises year on year reductions in absolute carbon emissions. The County Council comes in at bottom position in this table, a position shared with approximately one third of all Scheme participants.
11. There are no financial implications related to position in the league table. The concept of performance related costs was removed in the 2010 Government Spending Review, when the Scheme effectively became a tax. More interesting, and positive, is to compare the Council's performance with neighbouring authorities when using the best benchmark available through the Scheme, which is tonnes of carbon dioxide emitted per £m revenue

turnover. Using this metric the Council was the best amongst East Midlands County Councils with a figure of 64.11tCO₂ per £million.

12. The cost of allowances is fixed until 2013/14, and will then be set by the Treasury as part of the annual budget process. From the Council's perspective, reductions in the number of corporate properties and the benefits of energy use reduction projects should see the amount of carbon dioxide emitted by the Council reduce, in support of the strategic plan objective, with resultant energy and carbon cost savings. This may be offset however by increased costs due to rate increases.

Energy cost saving measures

13. A range of energy cost saving measures is underway across the Council's portfolio, many of which are funded through the Council's energy investment recycling fund. This Local Authority Energy Fund (LAEF), which is 50% funded through the Carbon Trust, has to date invested £1.4million across the Council's property portfolio, giving estimated energy cost savings in excess of £270,000 p.a. and a further £19,512 p.a. in carbon cost savings (at £12 per tonne), with projects typically paying for themselves in 3 to 4 years. Going forward, the intention is to focus further investment on rolling out appropriate measures across the Council's corporate estate, whilst still providing a service to schools.
14. In particular, the Ways of Working office refurbishment project will see a number of energy saving measures incorporated into works at County Hall and Trent Bridge House, and funded by the LAEF scheme, including insulation, low energy lighting, building energy management systems and boiler plant room modifications.
15. During last summer and autumn the Council has introduced Automatic Meter Reading (AMR) for many of its larger gas and NHH electricity supplies. Though not directly an energy cost saving measure, part of the rationale for AMR installation was the expected contribution to identifying energy saving opportunities. Installation has been undertaken as part of the new electricity and gas contract arrangements, primarily in order to provide more accurate billing and better consumption data to assist with energy monitoring and targeting and participation in the CRCEES. The costs of installation are included within the affected sites' billing. AMR is already proving its worth with many examples of energy saving opportunities being identified through analysis of consumption profiles and other uses of the data through the Council's energy management system. This system also allows Council sites, including schools, to explore their own consumption data through a web-enabled connection.
16. The four-year street lighting energy saving programme is now well under way. The energy saving measures installed to date have been the conversion of selected lighting to part-night operation. In addition, some street lighting sites have been identified for dimming and these will be implemented following the results of dimming trials. Progress on this programme is reported regularly to Full Council by the Cabinet Member for Transport and Highways.

Statutory and Policy Implications

17. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such

implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

It is recommended that Cabinet note the contents of this report.

Councillor Reg Adair
Cabinet Member for Finance and Property

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Constitutional Comments

Because this report is for noting only, no constitutional comments are required.

Financial Comments (MA 17/01/12)

As noted in the report, the 2012/13 estimated costs are based upon relatively low levels of purchases to date and estimates of the prices anticipated under the flexible, variable procurement model, and as such they will be subject to variation. The individual portfolio budgets will be prepared largely based upon the 2011/12 allocations, together with proposed additions to deal with budget pressures, most notably in Street Lighting. The final budgets will be approved at Full Council on 23 February, and individual portfolios will need to contain energy costs within their overall budgets. The costs associated with the CRCEES will also need to be contained within the approved budget.

Background Papers

- 1) Energy Procurement – Biannual Update Report to cabinet on 14 September 2011
- 2) Delegated Decision Report ER/2011/00035, Award of Framework Agreement for the Supply of Wood Pellets to Education and Corporate Sites, 24 June 2011.
- 3) Nottinghamshire County Council's local greenhouse gas emissions report at:
www.nottinghamshire.gov.uk/home/environment/greenissues/carbonmanagementplan.htm

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

Electoral Division(s) and Member(s) Affected

All