

To: Cabinet
Date: 22 January 2020
Report of: Tim Sadler, Transition Director
Title of Report: Becoming a net zero council in terms of greenhouse gas emissions - Energy & Water Supply Procurement 2020 to 2024

Summary and recommendations

Purpose of report: To approve parameters and approach for the procurement of energy and water for the period 1 October 2020 to 30 September 2024 with a view to Oxford City Council becoming a net zero carbon council in terms of energy usage.

Key decision: Yes

Cabinet Member: Councillor Tom Hayes, Zero Carbon Oxford

Corporate Priority: A Clean Green Oxford

Policy Framework: Corporate Plan 2016-2020

Recommendations: That Cabinet resolves to:

1. **Approve** the procurement strategy of seeking the purchase of certified renewable electricity and renewable gas supplies;
2. **Authorise** officers to explore options to better stimulate investment in new local renewable energy generation through a corporate Power Purchase Agreement (PPA) approach for the council's energy supplies;
3. **Approve** (subject to 2 above) the use of the Kent County Council energy procurement framework via its trading arm LASER (the specialist public sector energy buying organisation) for up to a further four years (2020-2024) to procure the Council's energy and water contracts from October 2020;
4. **Approve** the continuation of the energy purchasing approach - a flexible contract for larger electricity and gas supplies, and a fixed term fixed price contract for smaller energy consuming sites and water supplies;
5. **Approve** the purchase of appropriate offset products to mitigate the impact of vehicle fuel purchase;
6. **Note** the continuing impact of the Council's Carbon Reduction Programme in reducing the need for offsetting in the future and the overall energy and fuel requirements to support the council's operation; and
7. **Note** that with the combination of the procurement of renewable energy, certified and verifiable offsetting of fuel impacts and a programme to reduce energy consumption in place the Council can rightly claim to be Net Zero in terms of Green House gases associated with its operations.

Appendices	
Appendix 1	LASER performance data
Appendix 2	Risk Register

Introduction

1. The Report “Initial response to Report on Citizens’ Assembly on Climate Change”, (Cabinet 19 December) amongst a number of steps sets out a proposed initial response to the climate emergency and the citizens’ assembly, sets the ambition of the Council of becoming a net zero carbon organisation in terms of energy and fuel purchase in 2020. This report sets out the practical steps and procurement strategy to achieve that ambition.
2. Each year the council purchases electricity and gas for its operational buildings and fuel for the vehicle fleet. The impact of these purchases in terms of greenhouse gas emissions is demonstrated in the table below taken from the Council’s Greenhouse Gas Emissions Report.
- 3.

Table 7: Renewable energy purchase and tCO₂e emissions

tCO ₂ e	2014/15	2015/16	2016/17	2017/18	2018/19	% reduction since 2014/15
Total gross emissions	9,703	9,286	8,955	8,572	7,741	20.2%
Renewable energy purchase (REGO)	-	-	-	1,922	1,997	
Total net emissions	9,703	9,286	8,955	6,650	5,744	40.8%

4. The Council’s current policy is to purchase renewable energy where the premium for doing so is no more than 2%. In recent years this has been possible for electricity with the significant reduction in greenhouse gas impact as set out in the table of 40.8% over the past 5 years.
5. With the passing of the resolution by Council of the Climate Emergency consideration has been given to how this approach could be built on to enable the Council to be net zero in terms of greenhouse gas emissions.

6. It is now possible to purchase renewable gas, ie gas produced by the anaerobic digestion of farm products, which would have a significant impact on greenhouse emissions.
7. That would leave vehicle fuel as the main component of the council's greenhouse gas emissions. Whilst there are plans to electrify the council's fleet over the mid-term, steps could be taken now by accredited offsetting to mitigate those gases enabling the council to be net zero for its operations.
8. Such an approach, in isolation, could open the council up to criticism that it is simply buying its way to net zero. However, combined with the council's well established fleet management and building energy reduction plans this is believed to be a robust approach that is recommended for adoption.
9. This report also identifies the opportunity to enter into Power Purchase Agreements directly with the owners of renewable energy assets. Where this could be achieved locally it would provide a local closed loop of energy production, supply and consumption with the benefits remaining with the local economy and communities
10. There are undoubted environmental benefits from the approach set out in this report, it will assist in stimulating markets in renewables and demonstrate leadership that whilst climate change is a huge complex subject there are practical, proportionate steps that organizations can take. There are parallels with the council's stand in respect of the Oxford living Wage where the Council having taken the lead builds a growing band of support for a new or innovative approach to solving seemingly intractable problems.

Procurement policy and proposal.

11. The value of the contract to supply the Council with energy over a typical 4 year supply period is £7m. Therefore careful thought has to be given to procurement to ensure that it delivers value for money and is compliant with the public procurement regulations. Therefore a significant part of this report covers those aspects.
12. Since gas and electricity markets opened to competition in the 1990's, the energy market has become a highly specialised field of procurement. The complexity of the procurement options can create a risk if not appropriately managed. It can be time consuming and therefore costly due to the potential number of suppliers and types of contract available.
13. Several buying organisations, both private and public sector, can secure such contracts on the Council's behalf. Public sector buying organisations (PBOs) are favoured because they focus more on public sector needs rather than trying to match the potentially competing objectives and requirements of private and public sector organisations. In addition, these groups have long experience of acting on behalf of the public sector and are therefore well versed in their requirements and processes

14. The Council's current energy purchasing arrangements - using the Public Buying Organisation (PBO) LASER (Local Authority South East Region) as a specialist energy purchasing agent - were agreed by the then City Executive Board in February 2016. This covered the period 1 October 2016 to 30 September 2020. LASER established in 1989, has been managing public sector energy procurement for 25 years and it launched its first Flexible Procurement framework in 2008 Appendix 1 examines the performance of the laser arrangements and the structure of contracts that best suits the needs of the council. This concludes that the council should continue to utilize the LASER approach to energy and water procurement with a similar contract structure as at present. The significant change however, is that certified renewable sources of both electricity and gas are required.

Offsetting

15. Whilst offsetting is legitimate and helpful step where there is no other means of reducing emissions the approach is criticised where it is used as a means of not taking action to reduce emissions.

16. The council's current carbon management plan requires a 5% per annum reduction in carbon emissions by installed measures. This has been met in recent years through a combination of improvements to buildings and fleet utilising the Salix, and Salix Plus revolving loan funds, the capital programme to improve buildings and external grants.

17. In light of the climate emergency the council will consider whether this pace is sufficient. The pieces of work set out in the report on the initial response to the citizens' assembly will inform the prioritisation and costs of acceleration.

18. Plans are in place to conclude the transfer of the first 23% of the council's fleet, operated by ODSL, to electric and the ODSL business plan provides for further transitions.

19. Therefore over time the reliance on offsetting will reduce.

20. In terms of the nature and type of offsetting it is important that this is done to recognised international standards. It is widely held that the preferred form of offsetting is that which is close to the source being offset and that the purchasing body has control over the offsetting asset. It is therefore proposed that going forward the council explores with partners the possibility for a local offsetting scheme that at the same time enhances the biodiversity of the area, maximises natural capital resources and provides a safe and healthy environment for citizens to enjoy.

21. The additional cost of offsetting the council's current fuel requirements, have been included in the draft budget proposals included elsewhere on the agenda.

Options appraisal

22. In seeking to review and renew the Council's energy contracts the following options are presented:
- **Do nothing**
 - **Run a procurement process in-house**
 - **Use a public (professional) buying organisation (PBO) or third party intermediary (TPI) buying organisation.**
 - **One of the above options with or without offsetting**
23. In summary, doing nothing is not an option in terms of cost as this would mean that the council would slip into expensive deemed rates/out of contract pricing arrangements with its energy suppliers without an energy contract in place.
24. In terms of climate change impact renewable energy gas is now available at a modest premium and should be considered as part of the council's overall response to the climate emergency.
25. For energy, with a procurement value of the order of c.£1.7m per annum, running a procurement process in-house would both be time-consuming and expensive requiring specialist energy purchasing expertise and having to run as an Official Journal of the European Union (OJEU) tendered process. The Council also does not have the large scale of purchasing volume to warrant setting up its own energy contracts via a flexible purchasing arrangement. It would also not have the buying power that a PBO or similar purchasing consortia would offer.
26. Procuring energy through a PBO is regarded as a best practice approach to mitigate energy price risk in an increasingly volatile and complex energy market and is the recommended option for the Council to pursue. PBOs are also not-for-profit organisations geared for working with public sector organisations and the constraints they have to operate in. They also present a low-risk OJEU compliant procurement route to market.

Preferred option and benefits for procurement

27. It is recommended to continue using the services of a PBO to procure the Council's energy. Given its good track record and level of service provided to the Council over the past four framework periods (16 years), development of the energy/water purchase offering via a new access agreement with additional flexibility in terms of contract length and services available, it is recommended to continue using LASER (a not-for-profit PBO) to purchase energy and water on behalf of the Council. Market testing has found prices with another similar PBO to be on a par with LASER – prices have also been sought from an independent supplier direct and again were found to be on a par with LASER's offering.
28. It is proposed to purchase from LASER on a procurement-only basis as the Council's energy team has now established the expertise to validate and make payment of energy and water bills in-house using the Sigma Energy software.

29. It is also recommended that renewable electricity and gas is made a requirement of the procurement.

Corporate PPAs to stimulate investment in local renewable energy generation

30. Corporate power purchase agreements (corporate PPAs) are longer-term energy contracts in which the user agrees to purchase electricity directly from an energy generator rather than the traditional approach of simply buying electricity from licensed electricity suppliers. Agreement terms are usually 10 to 25 years - but are often set at a fixed rate linked to some form of indexation. Structured arrangements like this provide financial certainty for the utility companies and the developers, removing the obstacle to financing and building new renewable energy facilities.

31. PPAs help support the delivery of more renewable energy on the grid and are arguably the next greenest option other than to develop on-site generation on the Council's own land and buildings. It is proposed to explore the possibility of sign up to a corporate PPA with a renewable energy generator via LASER's access agreement. This would mean that the council is more directly investing and supporting the development of renewable energy capacity beyond which is mandated by government towards reducing the carbon intensity of the national energy mix.

32. This also aligns with the council's aspirations to go further and faster than the legal target for the UK to reach net-zero carbon emissions by 2050 with the council effectively investing in much larger scale renewable energy projects than it would be able to achieve on its own buildings and assets. It also provides price certainty on supplies fixed over a longer term than has traditionally been purchased. Whilst the PPA option has advantages in terms of supporting new, possibly local, renewable energy it does tie the council into long term contracts, rather than the revolving four year terms that have served it well in recent years. If the possibility of an attractive PPA does emerge it is proposed that a further report to Cabinet setting out the risks and benefits would be made.

Legal issues

33. Kent County Council (KCC) is the 'Contracting Authority' for the flexible energy supply contracts operated by LASER. The energy supply contracts are procured through OJEU compliant tender processes. KCC is a 'Central Purchasing Body' ('CPB'), a contracting authority which provides centralised purchasing activities as specified in the Public Contract Regulations 2015. As such, other public sector bodies are able to use the energy supply contracts without having to run separate OJEU tender processes for either the appointment of energy suppliers or LASER's contract management services.

34. An 'Open Procedure' procurement process, in accordance with , the legal framework for utilities procurement in the UK as set out in the [Directive 2014/25/EU of the European Parliament and of the Council of 26 February 2014 on procurement by entities operating in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC](#) (Utilities Directive 2014) will be utilised for the tender and award of flexible energy supply contracts for the period October 2020 – September 2024. Officers are exploring the possibility of "sleeving" a PPA into the

LASER contract, which is an established mechanism in the market to fix one component within a broader supply agreement.

35. Under s111 of the Local Government Act 1972 the Council as a local authority has power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions. In this instance the Council is purchasing energy (gas and electricity) to facilitate the discharge of its functions.

Financial Issues

36. Whilst it is proposed to continue initially with purchasing via the Purchase in Advance basket option, alternative basket options (PWP and FSAR) will be continued to be reviewed throughout the year ahead of the annual decision date with LASER.

37. A decision on which purchasing basket to use needs to be made by 31 March each year ahead of the contract start date (1 October).

38. The option to require certified renewable gas supply is estimated to be c.£64k per annum, c.£5k per annum for certified renewable electricity.

39. The amount to offset fuel purchase at current levels is estimated to be c.£30k per annum.

40. These sums have been included in the draft budget.

Environmental Impact

41. Oxford City Council has reduced its own carbon emissions by more than 900 tonnes in the last year. This reduction is the equivalent amount of CO₂ produced by a single car driving 2.9 million miles. These latest figures show the council has reduced carbon emissions by 10% in a single year and over 40% in the last four years. Since 2015, the Council has reduced its annual emissions by the equivalent amount of CO₂ produced by a single car driving 12.6 million miles every year. The Council is committed to building on recent success and show further leadership.

41. The council currently purchases 100% certified renewable electricity supplies but has to remain on brown/conventional gas supplies until the contract end point of 30 September 2020. For the October 2020 to September 2024 period, renewable energy supplies are available in the entire LASER portfolio for the flexibly purchased supplies for the duration of the new frameworks through to 30 September 2024. There is no guarantee of 100% availability and buying entirely clean supplies would incur an additional premium for electricity (of ca0.06p/kWh, ca equivalent of £4,800/year or 0.4% additional electricity spend) and green gas (of ca0.4p/kWh, ca equivalent of £64,000/year or 13.5% additional gas spend). This represents an overall on-cost for electricity and gas of c.5% based on current consumption.

43. In light of the Council's Climate Emergency Declaration and aspiration to become net zero carbon, encouraged by Oxford's Citizens' Assembly on Climate Change, it is proposed that the Council will seek to obtain 100% of its electricity and gas supplies from clean, fully traceable renewable energy in the energy supply contracts.

44. Transparency and accountability are critical. Traceability of renewable energy supply will be available through provision of Renewable Electricity Guarantees of Origin (REGO) certificates for electricity and Renewable Gas Guarantees of Origin (RGGO) certificates. This will be beneficial for providing greater transparency for Oxford City Council's Carbon and Sustainability reporting as well as furthering the Council's aspirations to become net zero carbon as quickly as possible. Buying certified renewable gas and electricity can make a c.70% contribution towards Oxford City Council becoming net zero carbon.

45. This does not mean that ongoing efforts to continue to reduce electricity and gas consumption will be scaled back. The financial case for demand reduction is in fact strengthened with the purchase of renewable energy supplies. It is also proposed to explore opportunities to purchase 'greener' electricity through a corporate PPA directly with a renewable energy generator on a longer term arrangement.

46. For the remaining supplies on the *fixed term fixed price* contracts certified renewable energy sources of gas and electricity will be secured where possible.

Level of Risk

47. A risk register is appended with this report (Appendix 2). Using a PBO to procure the Energy contracts is a recommended best practice approach in the volatile and complex energy sector. Purchasing energy on flexible contracts through a PBO is also an aggregated, flexible and risk-managed way of securing energy contracts as recommended by the Pan-Government Energy Project.

48. The highest risk to the council is to not have energy contracts in place and slip in to deemed/out of contract rates for its energy supplies which are significantly more expensive than contracted rates (of the order of 50% or higher compared to arranged contract rates). The purpose of securing contracts through a PBO is to avoid this happening and also to give the best chance of securing most competitive energy (and water) contract prices.

Equalities Impact

49. There are no equalities impact issues with this decision.

Report author	Paul Spencer/Paul Robinson
Job title	Energy & Carbon Manager/Team Manager, Energy& Natural Resources team
Service area or department	Environmental Sustainability
Telephone	01865 252238/ 01865 252541
e-mail	pspencer@oxford.gov.uk/ probinson@oxford.gov.uk
Background Papers: None	

This page is intentionally left blank