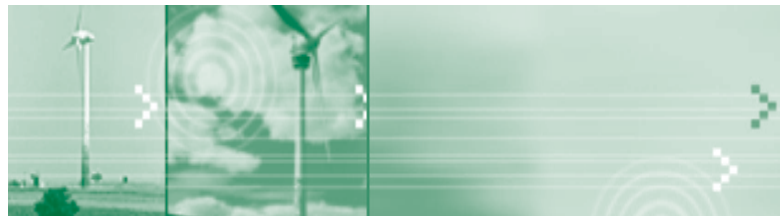




energy matters



Number 24 • February 2011

AND THE WINNER IS...

ESPO's David Kwiatek was one of the representatives of the team which won two top awards at a ceremony held in the Investiture Room at Buckingham Palace in November.

The Pan-Government Energy Project collected the Procurement AND the Cabinet Secretary's 'best of the best' trophies at the fifth annual Civil Service Awards. Both were presented by Sir Gus O'Donnell, Cabinet Secretary and Head of the Home Civil Service, who led the ceremony.

As reported in previous issues of *Energy Matters*, the Pan-Government Energy Project comprises the PRO5 procurement consortium, of which ESPO is a founder member, along with the MOD, OGC, Buying Solutions, DWP, DECC, The Energy Consortium, Procurement Scotland, Value Wales and the London Energy Project. Its achievement was to introduce contracting strategies for electricity and gas that adopt best practice in energy purchasing throughout central government and the wider public sector.

The Pan-Government Energy Project had been



Left to right, representatives of the winning team: Charles Redshaw (OGC), Claire Manning (Buying Solutions), David Kwiatek (ESPO) and Paul Eastel (MoD), with Gus O'Donnell (Cabinet Secretary and Head of the Civil Service) and a representative from the sponsors, Barclaycard.

shortlisted for the procurement award along with the Welsh Assembly Government and HM Revenue and Customs. During the presentation, Sir Gus joked that the winners were 'by far the biggest team', a testimony to the genuinely collaborative nature of the project, encompassing as it does the whole of the public sector, and praised the excellent communications which were an essential part of the project.

As well as teams from the organisations shortlisted for the sixteen award categories, guests included Nick Clegg (who opened the ceremony), Theresa May, Francis Maude, Dragon's Den judge Peter Jones, John Collington (who has just been appointed head of procurement in the Government's Efficiency and Reform Group), sponsors and other politicians.

At the reception which followed, David was presented to the Queen and the Duke of Edinburgh. He said: "They spent about five minutes chatting to us and we explained how collaborative procurement led to better value for the taxpayer. After they moved on, members of the Royal Household came through and we had very interesting conversations with the Air Marshall, the Duke's archivist and the Master of the Royal Household, Michael Jephson.

"The awards ceremony was just like the Oscars, with the winners' names being drawn out of an envelope. It was fascinating to be involved in this event at such a prestigious venue.

"I was delighted to be one of the four people chosen to represent the project team and naturally thrilled that the work of everyone involved was recognised in this way."

MARKET OVERVIEW POINTS TO CONTINUING PRICE RISES

2010 ended with the coldest December in a hundred years, with an average temperature for the month of -1°C, compared to a seasonal norm of 4.2°C.

This inevitably had an impact on the energy markets as demand for gas for heating reached record daily demand levels. Whilst the supply system coped well, two gas balancing alerts were issued – requiring

industrial consumers on 'interruptible' contracts to go without – and the amount of gas taken from the UK's long term storage facility, Rough, was so high that, after a week of intensively pumping gas back in, the volume in storage was still 28% less than normal for mid January.

Over the same period the price of oil was driven up, by a

combination of lower than normal inventory levels in the US, cold weather in the northern hemisphere and a weakening dollar, to almost \$100 per barrel, which some economists warn will have an adverse impact on the economy.

In the short term, low gas storage levels and resultant

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MARKET OVERVIEW

From page one

uncertainty over supply for the remainder of the winter period are supporting wholesale gas prices. Gas (at 45%) and coal (35%) are the dominant fuels for electricity generation and, as coal prices have also increased significantly following the floods in Queensland, there has been a significant impact on electricity prices.

Inevitably, with gas prices peaking at almost 30% and electricity at 16% higher than a year ago, consumers will face increases at the next price change (April for gas, October for electricity). However, ESPO's price risk hedging strategy will provide some shelter from the worst of the recent wholesale price increases. Guidance on prices and energy costs for the next financial year (from April 2011) has been circulated to local authorities participating in the contracts and should have been cascaded down through each authority. If you require further details, please contact your local finance officer responsible for authority wide budgets in the first instance.

Looking ahead, changes announced by the Government will start to bite. For example, the level of support provided to electricity Feed in Tariffs (FITs) for small scale generation will be scaled back, reducing the cost of the scheme by 10% in 2014/15.

A fundamental reform of the electricity market, announced at the end of 2010, prompted several commentators to forecast increased costs, particularly in the industrial and commercial markets. The DECC and the Treasury are issuing consultations covering a number of proposals. These include: new Climate Change Levy carbon price options intended to increase the cost of fossil fuel generation, thereby making other forms of generation more attractive; the replacement of the Renewables Obligation with a new Feed in Tariff; a new Low Carbon Obligation for suppliers; and the introduction of Capacity Payments to incentivise construction of flexible reserve generation – which can be brought into action as required to ensure supply continues to meet demand (as the Government believes leaving this to the market is not sufficient).

In the gas market the regime for interruptible supplies changes from October 2011, resulting in a significant reduction in the number of organisations able to shut off consumption to assist with gas balancing at times of high demand or pressure on specific areas of the distribution network. Given the limited gas storage capacity in the UK and the country's dependence on imports, Ofgem has begun a 'Significant Code Review of Gas Security of Supply'.

The costs of installing the new infrastructure required to support the increase in renewable electricity generation capacity, and to replace or upgrade existing infrastructure for both gas and electricity transmission and distribution, have resulted in higher distribution charges effective from April. Consumers in the East Midlands are facing a 12% increase for using the electricity distribution network for example.

The medium and long term prospects for energy prices, therefore, appear to be upwards. Against this background, the importance of a long term price hedging strategy, cost transparency and price management is more important than ever.



THE unusually early onset of winter, with temperatures at sub zero levels from late November to mid January, brought delivery problems for suppliers needing to move fuel from refineries to distribution terminals and make deliveries to organisations and households. At the same time, of course, demand for heating oil surged as the country struggled to stay warm.

Domestic consumers also faced rocketing prices as the average cost of oil leapt from 46p per litre in mid November to 71p a month later. This prompted the Office of Fair Trading to start monitoring allegations of price fixing among suppliers but ESPO's customers were shielded from a similar fate as their contract price is linked to an international oil market price index which was not affected by relatively localised events.

EARLY BIRDS GET REWARDS

TO try and ensure that customers' tanks were topped up before the winter set in, one of ESPO's fuel suppliers, Pace Fuelcare, ran an incentivised 'order early' campaign. A mail shot went to all their domestic customers and schools, encouraging them to place their orders in good time for the winter rush; if they received their delivery before the end of November, they were entered in a prize draw for a chance to win heating oil or a boiler service.

Pace Fuelcare's National Account Manager, Jeremy Holt, said: "With one of the coldest winters for approximately a hundred years, November and December proved to be testing times for us. Fuel orders were two to three times the seasonal norm and, although all our vehicles and drivers were being fully utilised trying to get deliveries out to customers, at times we struggled.

"Overall the response to our campaign from the domestic sector was very good. Unfortunately, on the commercial side, the uptake was disappointing.

"As a result, in common with many in the industry, we were receiving orders during the worst winter weather from schools that were in danger of their tanks running dry. These situations would have been reduced if orders had been placed in September or October,

CRISIS OVER CHRISTMAS



when prices are also typically lower in the world heating oils market.

"We know the weather is unpredictable and the recommendation from Pace Fuelcare is to err on the side of caution and ensure that oil tanks are topped up before the winter (once the winter grade fuel is available)."

Those who benefited from the campaign this year were Hemblington Primary School in Norwich, which won the first prize of 1,000 litres of heating oil, St Michael's Primary School in Ascot (second with 500 litres) and Tacolneston Primary School in Norwich, which will get a free boiler service.

Pace Fuelcare intends to run the 'order early' campaign again next autumn, hoping that a gentle reminder early on will help customers avoid disappointment later.

ENERGY FRAMEWORKS STEP UP TO THE MARK

A NEW collaborative procurement mark has been launched as a visual and easy way to identify agreements, guidance and best practice that supports the Government's savings-driven procurement programme.

The CP mark, developed by the Office of Government Commerce, demonstrates how central government and public sector organisations have worked together to deliver greater value for money. It is a signpost which public sector procurement officers can use to find framework agreements and contracts, guidance and best practice; the CP branding means they can easily recognise the material and be confident that they are supporting the procurement programme,

which is delivering savings from its collective spend.

The CP mark can be applied to:

- Collaborative frameworks and contracts which are endorsed by their Collective Category Board (which reports directly to the Government) and deliver benefit to the collaborative category strategy
- Category-specific marketing literature, produced by a participating organisation on behalf of the programme

ESPO's energy contracts have been awarded the CP mark after being successfully assessed against best practice criteria for energy procurement by



the Pan Government Energy Project. ESPO's contracts for gas, electricity and liquid fuels are recommended for use by local authorities and other public sector bodies by the OGC.

ESPO is one of six accredited providers recommended by OGC, and one of only four providers offering a full range of accredited energy solutions (gas, electricity and fuels).

ESPO SETS UP GOVERNANCE PANEL

AS PART of its strategy to involve customers in the buying process, ESPO established a governance panel to support the operation of 'flexible' gas and electricity contracts. It meets three times a year and comprises representatives of the participating councils and other bodies.

Energy team leader David Kwiatek explains how it came about: "The nature of energy buying means that decisions are instantaneous, with no time for consultation, making it impossible to involve customers in every purchase transaction. We were very conscious this would be a case of saying 'I'm a buyer, trust me', but we didn't want to be working in isolation and we saw the involvement of customer representatives as crucial to the success of our framework agreements."

The governance panel's meetings coincide with key budgetary management milestones and are attended generally, but not exclusively, by senior finance personnel with authority-wide responsibility for budgets.

The panel is responsible for approving ESPO's price risk strategy and any proposed modifications, reviewing the effectiveness of the strategy in meeting its aims and objectives and assessing purchase price performance. It also serves as a conduit for disseminating and cascading information, particularly relating to budgets, to customers.

For example, at its meeting in October 2010, the panel discussed price performance for the financial year 2009/10. This included an independent analysis carried out by OGC which confirmed that the prices achieved by ESPO were consistently in the lower quartile for the period when compared to the lowest, highest and average market prices



available. Since then, performance data has been circulated to each individual local authority participating in the contracts, with quantified cost

benefits identified, based on invoiced consumption.

The estimated annual value of the frameworks at 2010 prices is £28m for gas and £48m for electricity per annum. This includes wholesale energy, all regulated and industry charges and supplier margins, but excludes Climate Change Levy and VAT. Aggregating the requirements of all ESPO's customers in single supplier arrangements resulted in economies of scale through reduced supplier margins and elimination of premiums, amounting to around £1.75m in the financial year 2009/10. These calculations, which have been independently verified by OGC, are in

addition to the much greater potential costs avoided through flexible purchasing, by avoiding fixing prices at higher than necessary market prices.

BEWARE HIDDEN COMMISSION FEES

A LEADING energy expert has warned businesses and other large organisations that they could unknowingly be paying huge amounts in commission to unscrupulous energy brokers.

Following a series of customer audits which revealed the extent of this practice, Richard Southgate of Bergen Energi UK is calling for a review of the legislation and tighter regulation of the energy consultancy market. He says: "Our audits show that many companies have been paying hidden fees for many years, equating to millions of pounds in lost capital. Businesses need better pricing information on which to base

their procurement decisions."

Around 80% of energy consultants receive their fees directly from suppliers but, unless a customer specifically asks for a breakdown, those amounts remain undisclosed.

ESPO, as a 'not for profit' purchasing consortium owned and operated by local authorities for local authorities and other public sector organisations, provides complete price transparency for its energy services and encourages customers to engage with suppliers in order to build firm, long term relationships.



IF THE CAP 'FiTS'

SINCE the introduction of the Feed in Tariff Scheme in the UK, the number of small scale renewable energy installations has doubled and diversified – including 38 hydro systems and one micro-combined heat and power system.



ESPO continues to field many calls about this subject and questions about how FiTS works. Energy team leader David Kwiatek says: "Although they don't fall within the energy team remit, as we concentrate solely on energy supply markets rather than equipment or services, ESPO has a number of contracts in place to directly help organisations that want to generate wind or solar power or require other sustainable products. These frameworks are being strengthened this year through collaboration with our PRO5 partners to provide access to a wide range of goods and services with sustainability at their core.

not economically attractive, you just need to be absolutely sure what it means, whether it really suits you and represents value for money. In particular, check the small print carefully to see whether the supplier reserves the right to change the tariff at any time, who owns the installation, who is responsible for repairs and maintenance, what happens if the roof requires repair or maintenance (when the panels may have to be temporarily removed). Remember that anything that looks too good to be true almost certainly is.

"Our immediate response to those enquiring about FiTS is to ensure they understand the contract which is being offered. There is a range of financing options, many being presented as 'free' – in many cases you may be asked to pay nothing, or just a small proportion of the capital cost for the installation, in return for signing over to the provider the revenue from the Feed in Tariff for up to 25 years.

"It's unlikely that any installation will make a site completely self-sufficient and therefore a conventional electricity supply will still be required. At times of low on-site demand the installation may generate more than is required locally and this excess can be exported, although this is often overstated in business cases.

"The best advice we can give to anyone considering an installation is to seek professional, independent advice such as that available from the local authority specialists on sustainability, financing, etc."

"That doesn't mean such a contract is

BIOFUELS UPDATE

SUPPLIERS ARE STRUGGLING . . .

NOT a single UK fuel supplier has so far met all three targets of the Renewable Transport Fuel Obligation (RTFO) scheme. Only three have managed partial compliance.

The targets, which are higher than in the previous reporting period, are:

- 90% (up from 70%) of the data regarding the biofuels supplied to the market should be reported to the RTFO
- Biofuels supplied should meet a minimum 50% (up from 35%) greenhouse gas savings compared with fossil fuels
- 80% (up from 50%) of the biofuels supplied should meet the RTFO's environmental standards

Whilst some companies are making real efforts to secure supplies of sustainable biofuels, the majority are failing to get anywhere near the mandatory requirements of the EU Renewable Energy Directive, which came into force on 5 December.

. . . BUT UK CONSUMPTION IS UP

By July, the use of biofuels had exceeded the Government's targets. Sales of almost 1.6bn litres accounted for 3.3% of the UK's road transport fuel, beating the 3.25% target and making a 51% carbon saving compared to petrol and diesel. That reduction, according to the Renewable Fuels Agency, equates to taking half a million vehicles off the road.

CERTIFICATION RATIFIED

THE European Commission has specified what industry, governments and non-government organisations (NGOs) must do to establish certification schemes for biofuels.

The objective is to ensure that biofuels (including those imported from outside the EU) deliver a substantial reduction in greenhouse gas emissions and that they do not originate from forests, wetlands or nature protection areas.

NO DIFFERENCE

THERE is no longer any differentiation between 'ordinary diesel' and 'biodiesel'. All diesel supplied in the UK is a biodiesel blend.

RENEWABLES & SUSTAINABLES

BEGINNING TO DELIVER?

DURING a 24-hour period in September 2010, Britain produced 10% of its electricity from wind farms and 4% from hydro schemes, according to the National Grid. Although this is an all time high, not an average, it does show that renewables are on the way to becoming an important part of the power mix.

During the whole of 2009, renewable schemes generated 6.7% of the UK's electricity, up from 5.6% in 2008. However, output from renewables fell to 6.2% in the first quarter of 2010; the Department of Energy and Climate Change blamed the dry winter (which reduced power from water turbines) and low wind speeds. The Government's target for renewable energy remains at 33% by 2020.

OLYMPIAN EXPECTATIONS

DENMARK's Dong Energy has secured a loan of £250m from the European Investment Bank to part finance the building of the London Array, which will become the world's largest offshore wind farm.

The first phase of 630 MW is expected to be in service by 2012, in time to provide renewable energy for the London Olympics. Capacity is scheduled to rise to 3,000 MW by 2020, using 340 turbines.

The London Array will knock the Thanet offshore wind farm off the top slot. This development's hundred turbines off the Kent coast began generating enough power (about 300MW) in September 2010 for 200,000 homes.

MORE WIND

RENEWABLE Energy Generation has received planning permission to construct a 4MW wind farm near Peterborough, after the MoD withdrew its objections with regard to possible radar interference. However, the development will not commence until REG has satisfied the planners that any impact on two nearby RAF bases would be minimal, which could mean a delay of up to four years.



How the Wheel Jane solar park may look

Plans for a £150m offshore wind farm near Aberdeen have been approved by the Crown Estate. The controversial scheme (Donald Trump threatened to scrap plans for a nearby golf resort and the Aberdeen Harbour Board was concerned about safety for helicopters and shipping) should be operational by 2012.

Construction work will begin in 2011 on another large offshore wind farm; Gwynt y Mor will have 160 turbines off the north Wales coast near Colwyn Bay, producing electricity for up to 400,000 homes, and is due to be complete in 2014.

LINKING LINCS TO THE GRID

SIEMENS has been selected to connect the Lincs UK offshore wind farm to the electricity grid, enabling the supply of power to around 200,000 homes in eastern England. The company is also supplying 75 turbines and an offshore substation platform for the development. Construction, led by Centrica, has just begun and the wind farm should be generating electricity in 2012.

UK'S FIRST SOLAR PARK

A DISUSED tin mine in Cornwall is set to become the site of the UK's first solar park. Around 5,000 photovoltaic panels will be installed at Wheel Jane, near Truro, capable of generating enough electricity for 300 households.

Stephen McCabe, managing director of the site's developer, 35 Degrees, says: "This is the first major milestone for the UK in directly harvesting the inexhaustible energy of the sun. It is also the first building block in bringing a new growth industry to Cornwall."

FIRST SEWAGE-TO-GAS PROJECT COMES ON STREAM

A LANDMARK project at Didcot, Oxfordshire, is producing renewable energy from an unlikely source. The sewage works there is producing enough biomethane gas from human waste for cooking and heating in 200 homes. It's hoped that this joint venture, between Thames Water, British Gas and Scotia Gas Networks, will be the first of many.

GO-AHEAD FOR NUCLEAR

EIGHT 'potentially suitable' locations have been named as sites for a new generation of nuclear power stations.

All of them are existing nuclear plants: Bradwell in Essex, Hartlepool, Heysham in Lancashire, Hinkley Point in Somerset, Oldbury in South Gloucestershire, Sellafield in Cumbria, Sizewell in Suffolk and Wylfa on Anglesey, Wales.

Energy and Climate Change Secretary Chris

Huhne ruled out two greenfield sites in Cumbria and confirmed that Dungeness, Kent, would be excluded.

He also said there would be no public enquiry into the justification for the new nuclear plants, which will constitute one of the biggest programmes of private infrastructure investment the UK has ever seen.

The first site is scheduled to open in 2018.

FUELS GET GREENER

SINCE 1 January 2011, the majority of gasoil supplied in the UK contains no more than 10 milligrams of sulphur per kilogram of fuel (effectively making it sulphur free), following an EU Directive designed to help reduce greenhouse gas emissions across member states. The previous maximum level was 1000 milligrams of sulphur per kilogram of fuel.

Additionally, from 1 April 2011, the Renewable Transport Fuels Obligation (RTFO) requires all road fuels to contain a minimum of 4% of renewable fuels. This figure will rise to a minimum of 4.5% a year later and to 5% by April 2013.

NEW CONTRACT PROVES A HIT FOR EAST STAFFS

SINCE joining ESPO's framework contracts for gas and electricity in April last year, East Staffs Borough Council has already seen its energy bills reduced by an estimated £20,000.

The Council has 70 sites in total, and all were previously on separate contracts. ESPO now has around twenty of them – including leisure centres, a market hall, a crematorium and the main town hall building in Burton on Trent – on the frameworks.

Julia Baker, Corporate Officer (Projects and Community Engagement) at East Staffs BC explains: "We decided it was high time to look at consolidating all these different sites and called ESPO's energy team in to see what could be done. Although it's taking a little longer than we hoped to extricate ourselves from our old contracts, the idea is that each site is added to the framework as it comes up for renewal.

"One of the greatest benefits for us is that we now have much more control. Previously different people were dealing with different suppliers and it was very difficult to keep track or decide where savings could be made. It's still early days to quantify but the framework has definitely been a financial success too.

"Our next step will be to get smart meters installed

on all of our larger sites, as well as moving the remaining 50-odd sites onto the frameworks."

ESPO's Martin Stuart says: "We are delighted with the success of this contract. We spent six months or so talking to East Staffs and working out the best way forward. This was also our first customer to take consolidated bills for gas and there have been no issues at all."



Burton-on-Trent Town Hall

ENERGY CONTRACTS CONTINUE TO PULL IN NEW CUSTOMERS

IN *Energy Matters* 23, we welcomed four new councils to the ESPO frameworks and we are delighted that from December 2010

Nottingham City Council went live on ESPO's gas and electricity frameworks. After a detailed evaluation by NCC of the services offered by several public authority buying consortia, along with their own existing arrangements, ESPO was appointed as its procurement service provider.

Derby City Council also joined ESPO's electricity contracts from 1 October following an assessment of its energy procurement requirements.

Similarly we have been working with a number of Nottinghamshire District and Borough Councils to assess whether ESPO energy contracts could meet their requirements when their existing arrangements come to an end in

March 2011. **Broxtowe Borough Council, Gedling Borough Council and Mansfield District Council** have all opted to join ESPO's energy framework contract from 1 April 2011.

We have spent time with **Warwick District Council** over the last year, detailing the benefits and services that ESPO is able to offer and this resulted in the Council agreeing to join both the gas and electricity contracts from 1 October 2010. The Council's sites are now live after a smooth transition from its previous arrangements.

We are extremely pleased that **Erewash Borough Council**, which already participates in the electricity contracts, has agreed to join the gas contract from 1 April 2011 as well.

Birmingham City Council engaged ESPO to undertake its liquid fuels procurement, resulting in contracts being awarded on its behalf using the PRO5 framework. We are now at the final stage of consultation with a number of Lincolnshire organisations after tendering for their liquid fuel requirements.

ESPO extends a warm welcome to all these new participants and looks forward to working closely with both new and existing members. In the meantime, discussions continue with several other councils that are reviewing their current arrangements in the light of the well documented pressures affecting all local authorities.

CENTRICA GAS STORAGE: ONE THUMB UP, TWO THUMBS DOWN

PLANNING permission has been granted for the onshore element of a project to build Britain's second largest undersea gas storage facility.

The joint venture between Centrica and Perenco UK will provide capacity for 81bn cubic feet of gas to be stored under the North Sea. The gas would be pumped to the grid from a new terminal at Bacton.

As the UK becomes more reliant on imported gas supplies, additional storage capacity will ensure that extra gas can be made available at a moment's notice, at

times of peak demand. Provided that the Government approves the offshore part of the project, Centrica and Perenco hope to open the facility in 2013.

At the same time, Britain is increasingly importing liquefied natural gas (LNG), which has affected the profitability of long term storage facilities and caused Centrica to shelve two other projects, one in the North Sea and one in the Irish Sea. Although the Government has pledged to improve the UK's gas security, the economic situation makes investment in costly storage facilities hard to justify.

COUNCILS SET TO EARN INCOME FROM POWER GENERATION

NEW legislation announced in August means that local authorities can now sell any excess electricity they generate, overturning a 34-year ban on supplying electricity from small scale 'green' schemes. They will also be able to benefit from the Feed in Tariff on schemes of all sizes, not just those smaller than 5Mw as previously.

The move is intended to encourage councils to make the best use of their buildings and land by hosting projects that generate wind, solar and water power. Currently only 0.01% of electricity in England is generated by council-owned renewables, compared with around 1% in Germany.

According to some estimates, solar panels fitted to an average town hall could raise £10,000 a year, while a large stand alone wind turbine could generate electricity worth hundreds of thousands of pounds. However it is not clear whether these figures take account of on-site energy requirements – whilst there are clearly general revenue and savings benefits, these need to be identified for each scheme as part of a robust business case.

Energy Secretary Chris Huhne, who announced the plan, said that the scheme could provide local authorities across England and Wales with a total income of up to £100m a year, helping to maintain frontline services and keep council

tax down. He said: "For too long, Whitehall's dogmatic reliance on 'big' energy has stood in the way of the vast potential role of local authorities in the UK's green energy revolution.

"My desire is to give local authorities the freedom to innovate and to benefit from taking a leading role in the low carbon revolution."

At around the same time, the Government published the carbon footprint of every council in England for the first time. East Cambridgeshire and East Northamptonshire were amongst the lowest in the table.

FARMERS HOPE TO GAIN FROM SOLAR POWER

ACROSS the UK, farmers are seriously considering investing in solar panels and small wind farms in order to boost their hard-hit income.

The Feed in Tariff Scheme is providing attractive to people like Michael Eavis, the farmer who hosts the Glastonbury Festival. He has started work on a £550,000 project using 1,100 solar panels on a barn roof – the largest such project in the country. Other less high profile farmers are going in for smaller schemes but still expect their installations to start turning a healthy profit after about ten years.

CONTRACTS DUE FOR RENEWAL

GAS AND ELECTRICITY

The current framework contracts for gas and electricity, with British Gas Business and Scottish & Southern Energy respectively, which were awarded following competitive tendering in 2008, are due to expire in 2012 (gas on 31 March and electricity on 30 September). The contracts are based on the aggregated requirements of all ESPO's customers.

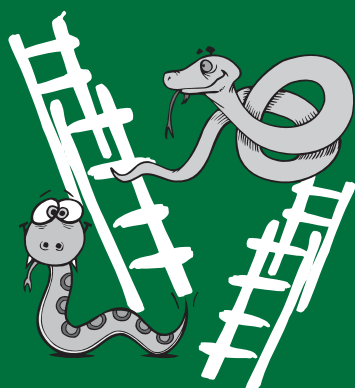
The renewal of these contracts is being undertaken in collaboration with Laser, a local authority consortium based in SE England, and one of ESPO's PRO5 partners. The combined portfolio amounts to 5.0 TWH of electricity and 3.5 TWH of gas and covers the requirements of around a third of the local authorities in England. Tenders have been undergoing evaluation since October.

Local authority and other customers will be contacted shortly regarding the renewal of ESPO's procurement service agreements, and will be briefed on the outcome of the tender evaluation process.

LIQUID FUELS

The PRO5 liquid fuels framework is due to terminate on 30 September 2011 and ESPO is acting as lead in managing the market engagement to renew the framework. The initial consultation on governance and project scope is now complete; the tender specification and invitation to tender (ITT) are currently being drafted with the aim of issuing the ITT during February.

MOVERS & SHAKERS



TOTAL UK WITHDRAWAL

MAJOR French oil company Total is selling all its UK petrol stations as part of a corporate restructuring programme.

Total has a market share of 9%, with 480 owned petrol stations and supply agreements with another 300 forecourts. The company's Lindsey refinery went on the market in March 2010.

Rumours abound that Russian giant Gazprom is a potential buyer, as is the private Russian oil firm Lukoil.

Industry experts believe this could be the start of a 'downstream divestment' trend, with oil majors deciding in future to concentrate on higher margin activities such as exploration and production. Total's departure comes in the wake of competition from supermarkets and an underperforming economy.

In brief



GAS CARS ON TRIAL

THIRTY hydrogen-fuelled cars are being trialled in Leicester, following an agreement between the City Council and Riversimple, the company which has developed the lightweight two-seater vehicle.

Pictured above at the launch of the trial are Hugo Spowers, Riversimple's founder, with Leicester City Councillors Neville Stork (who was Head of Environment and Sustainability) and Abdul Osman (Cabinet Member for Regeneration and Transport).

BARRAGE SWEEPED AWAY

ENERGY Matters has reported several times on the proposed barrage across the tidal River Severn, which could have provided 5% of the UK's electricity within 14 years. However, the Government is abandoning the scheme after an independent report concluded that 'it was not a good use of taxpayers' money'.

FREE SOLAR PANELS FOR SCHOOLS

BRITISH Gas has notified the schools that will benefit from the first phase of MySolar School, a £15m scheme to donate and install solar panels, enabling schools in the UK to cut as much as 20% off their electricity bills. The first phase of the programme has closed and schools who are keen to register their interest in the next phase of the competition should visit www.mysolarschool.co.uk.

STRIKING THE RIGHT BALANCE

IN the light of cuts to local authority budgets resulting from the Government's Comprehensive Spending Review, ESPO is asking whether some customers might now accept a small increase in risk in order to achieve potentially better final energy prices.

Energy team leader David Kwiatek says: "Clearly, any financial benefit we can bring to customers, by reducing or avoiding costs, will help them in terms of controlling and cutting expenditure.

"Whilst we can't directly influence energy prices, we can help customers with an effective purchasing strategy, cost avoidance through economies of scale and by smoothing prices from one year to the next. Increased cost transparency also enables us to drill down and validate prices, giving us more opportunity to identify and eliminate incorrect charges arising from discrepancies in the industry data used to calculate the charges."

ESPO's current risk strategy was designed to



achieve a balance between budgetary certainty and cost avoidance and, at its last meeting, the governance panel (see page 3) concluded the strategy had succeeded. Of course nothing stands still and, with the benefit of three years experience, the panel is likely to debate future strategy in February, particularly in the context of the Comprehensive Spending Review and subsequent announcements on local authority budgets.

The panel feels that some customers may now be more willing to accept price risk whilst others may be more risk averse as a result of the cuts. ESPO's objective is to provide a risk strategy that meets the requirements of its customers, including an appropriate degree of choice, so it may over time become a dual approach.

Whilst the finite detail of the strategy may evolve, the overall objective will still be to provide a balance between cost certainty and cost avoidance. The difference will be where that balance is struck.

GOOD NEWS AND BAD NEWS ON CRC SCHEME

WIDELY criticised for being too complex, the Carbon Reduction Commitment Energy Efficiency scheme is set to be simplified following a report by the UK's Committee on Climate Change.

CRC affects some 25,000 UK businesses and public sector organisations using more than 6,000 MW of electricity organisations. Following warnings during the summer, up to 90% of them missed the registration deadline of 30 September.

The good news is that those who failed to register will avoid paying penalties whilst the scheme, intended to cut business carbon emissions, is

reviewed and the rules simplified. Under the original plan, failure to register in time would have incurred an initial £5,000 fine, rising to a maximum of £45,000. The simplified scheme is also expected to be less complex, although critics argue it remains administratively burdensome.

The bad news is that some significant changes are proposed, with potentially costly consequences. Although the first allowance sales will be deferred from 2011 to 2012, revenue raised will go to the Treasury (to support national spending on the environment) rather than being recycled to participants, as originally planned. The main impact of this is likely to be an overall higher cost – estimated by the London Energy Project at £350,000 per annum for an average sized London borough council. At the moment, councils are unable to pass any of this cost onto schools; they may only recover losses due to inaccurate data or penalties incurred due to poor performance in energy reduction.

ESPO's energy team leader David Kwiatek comments: "There is a suggestion that the threshold for capture by CRC may come down in future, which will place this burden on even more organisations."

Energy Matters is a customer newsletter published by



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