

Contracts for the Supply of Energy to Multiple Sites

Finance and Resources Committee

27 January 2009

1 Purpose of report

To advise members of the continuing monitoring of energy prices in regards to contracts for the supply of energy to multiple sites.

2 Summary

- 2.1 Members will be aware that energy prices continue to be subject to significant fluctuations. Continuous monitoring of prices is therefore essential to mitigate financial risks associated with fluctuating prices.

3 Main report

- 3.1 The Finance and Resources Committee has previously considered reports on energy supply contracts, including the supply of gas to multiple sites at its meeting on 16 October 2007 and electricity at its meeting on 9 September 2008. Current contracts for gas and electricity are as follows:

Description	Annual Amounts	Renewal Date
Contract for the supply of gas to multiple sites	£3.9m	1 June 2009
Extension to the contract for the supply of electricity	£23m	1 August 2010

It is the Council's intention to consider participation in Procurement Scotland's electricity contact once this is operational.

- 3.2 Energy costs continue to be subject to significant fluctuations and therefore represent significant risk to the Council. It is essential that the Council continuously monitors prices to determine whether there are opportunities to take advantage of more favourable terms.
- 3.3 Undertaking such a review will ensure that the Council minimises the risks inherent in the budget process relating to increases in energy costs.
- 3.4 Members will be aware that the revenue budget report to the Policy and Strategy Committee in December 2008 identified that £7.977m had initially been included in departmental resource totals for inflation associated with energy costs, although this has subsequently been revised down by £1.94m, reflecting updated information on both gas and electricity prices.

- 3.5 The Council is reviewing wholesale gas prices with a view to extending the existing contract or entering into a new contract, as the existing gas contract terminates on 31 May, to achieve savings on the budget provision and to provide price certainty at an affordable level.
- 3.6 Fixing a new contract for a period of a year would allow participation in future Procurement Scotland arrangements for gas to be considered once these are operational.

4 Financial Implications

- 4.1 There are potentially significant savings on budget provision, dependent on movement in wholesale prices. Negotiation of a gas contract in advance of the renewal date will reduce the risks inherent in the current energy markets.

5 Environmental Impact

- 5.1 There are no adverse environmental impacts arising from this report

6 Conclusions

- 6.1 To mitigate risks associated with fluctuating energy costs, it is essential to monitor changes in market prices on a continuous basis. Delegated authority to the Director of Finance could enable the Council to make budget savings and remove the Council's risk in relation to fluctuations in gas costs, if appropriate opportunities arise.

7 Recommendations

- 7.1 The Finance and Resources Committee is asked to:
- (i) note the contents of this report;
 - (ii) delegate authority to the Director of Finance to extend / revise the gas contracts for a period of up to one year;
 - (iii) note that any action taken will be reported back to Committee in due course.


D. McGougan,
Director of Finance.
16th January 2009.

Appendices	None
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Wards affected	All
Single Outcome Agreement	None
Background Papers	None