

**REPORT TO: POLICY & RESOURCES COMMITTEE - 18TH APRIL 2005**  
**REPORT ON: ELECTRICITY & GAS CONTRACTS - RENEWAL RATES**  
**REPORT BY: DIRECTOR OF ECONOMIC DEVELOPMENT DEPARTMENT**  
**REPORT NO.: 219-2005**

**1 PURPOSE OF REPORT**

- 1.1 To report on renewal prices for electricity and gas contracts, with effect from 1st April 2005 and financial implications for Dundee City Council.

**2 RECOMMENDATIONS**

- 2.1 It is recommended that the Committee note the renewal rates for electricity and gas contracts negotiated with existing suppliers, Scottish and Southern plc and Corona Energy Ltd respectively.

**3 FINANCIAL IMPLICATIONS**

- 3.1 The renewal contract rates represent increases over the 2003 rates of 34% for electricity and 47% for gas. For General Fund Services the annual revenue costs will increase by £637,591 for electricity and by £462,937 for gas.
- 3.2 The energy costs for the Housing Revenue Account will increase by £54,416 for electricity and by £2,261 for gas. The Housing Revenue Account increases apply only to the "permanent" HRA properties within the 2003 energy contracts.
- 3.3 The above increases in energy costs will require to be contained within approved departmental Revenue Budgets for 2005-6 and will be reflected in future years' budgets.
- 3.4 The increases have been calculated on similar patterns of consumption and take into account the Government Climate Change Levy of 0.43p/kWh for electricity and 0.15p/kWh for gas, which has not been increased since its introduction on 1st April 2001.
- 3.5 Under the Service Level Agreement applying to the 3 Councils within the Tayside Energy Consortium, a one-off fee of up to £2,500 would be chargeable to Dundee City Council for legal work carried out by Perth & Kinross Council associated with contract negotiations and market testing.
- 3.6 Under the agreed Corporate targets outlined in the Council's existing Energy Policy, Council departments should be targeting for 2% annual reductions in energy usage.
- 3.7 There is also scope for further reductions in energy consumption once energy efficiency projects are implemented, funded through the Scottish Executive Energy Efficiency Scheme. Funding of £456,000 over 2 years has already been awarded to Dundee City Council, to be utilised on a "revolving" basis to maintain the Fund and to be administered by Finance Department. Eligible projects will require to meet a 5 year simple payback period or better.

**4 LOCAL AGENDA 21 IMPLICATIONS**

- 4.1 S&SE as before, still supply the Council with 30% of our load as electricity derived from renewable sources. This represents about 11,000,000 kWh/annum and is exempt from the Climate Change Levy.
- 4.2 The environmental benefit of being supplied by this quantity of "green" electricity is equivalent to a carbon dioxide emission reduction of approximately 10,450 tonnes.
- Sites receiving such "Green" electricity supplies are:-  
Tayside House  
Olympia Leisure Centre  
Caird Hall / Offices  
Baldragon Academy  
Happyhillock Housing Office
- 4.3 In addition to the benefit to the environment of this reduction in carbon dioxide emissions of 10,450 tonnes, the CCL exemption is equivalent to an annual revenue saving of £23,000.

## 5 **EQUAL OPPORTUNITIES IMPLICATIONS**

5.1 None.

## 6 **REPORT**

6.1 The original 5 year energy contracts were agreed from 1st April 2003 with S&SE for electricity and Corona Energy Ltd (previously named V-is-on Gas) by our Tayside Energy Consortium with prices fixed for years 1 and 2 and subject to re-negotiation for years 3, 4 and 5 - see Committee Report No 281 -2003.

6.2 Since 2003, there have been large rises in energy prices for commercial and industrial customers for various reasons including the rise in oil prices, mainly due to the political situation in Iraq and increasing reliance on imported gas from Russia as North Sea gas supplies slowly become depleted. The generation of electricity is also more dependent on natural gas as a feedstock. As gas and electricity are now traded, as oil, as spot market commodities, the price of energy varies on an hourly basis and is influenced by the factors mentioned above as well as the more expected drivers such as the weather (not just in the UK) and the availability of pipelines/transmission systems.

6.3 The decision to negotiate fixed energy prices for 2 years from 1st April 2003 has proved beneficial because up until April 2005, the Council's energy costs have been lower than the true market rate for energy. As a consequence of those contract rates expiring the Council is now exposed to the prevailing market prices. Other organisations such as the EIC (Energy Information Centre) predict energy prices will continue to rise in future years.

6.4 The Tayside Energy Consortium has been closely monitoring spot market energy prices since late September 2004 and, following market testing against other suppliers agreement was reached with our current contract energy suppliers to "lock-in" renewal rates during February 2005. The new rates will become effective from 1st April 2005 and, as before, will be on a fixed rate basis for a further 2 year period to facilitate future budgeting.

6.5 The electricity and gas contract terms and conditions remain as originally agreed from 1st April 2003 including termination clauses allowing any Consortium member to give 3 months written notice of termination prior to the contract anniversary date. This clause thus allows Consortium members to "sign-up" with other energy suppliers if market testing prior to the contract anniversary dates indicates any financial benefit, subject to discussions within the Consortium.

6.6 It should also be noted that the above contracts relate only to metered supplies of energy. The Council also purchases quantities of unmetered electricity but such supplies are negotiated under separate Agreements, through separate Consortium arrangements under Planning & Transportation Department and this contract is due for renewal in June 2005.

## 7 **CONSULTATIONS**

7.1 The Tayside Energy Consortium members have met on a regular basis over the 6 month period prior to the contract anniversary date to arrange energy market testing, receive presentations from energy suppliers and to discuss advice taken from the EIC and other Local Authorities.

7.2 The Chief Executive and other departmental Directors/Chief Officers have been continually advised on these matters throughout the process by the Council Energy Efficiency Officer.

7.3 Discussions have also been held with the Central Scotland ABC energy buying consortium to explore the feasibility of co-joining this particular consortium. However, the ABC consortium are currently tendering for renewal of their own energy contracts to start from 1st April 2005. This situation will be kept under review and liaison maintained with the ABC Consortium management Team.

## 8 **BACKGROUND PAPERS**

None.

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**DATE: 6TH APRIL 2005**