

Report To: Cabinet

Date of Meeting: Monday, 7 March 2022

Report Title: Energy Procurement - Electricity

Report By: Peter Grace – Chief Finance Officer, and Victoria Conheady – Assistant Director Regeneration and Culture

Key Decision: N/A

Classification:

Purpose of Report

To agree the procurement route for the electricity supplied to the Council's owned and operated buildings.

Recommendation(s)

- 1. Agree to purchase electricity through the Laser Fixed Term Fixed Price Framework 2019-2023 Ecotricity option, to continue the Council's Green Electricity purchase plans.**
- 2. To delegate authority to the Chief Finance Officer in consultation with the Finance Portfolio Lead Member, to finalise the agreements.**

Reasons for Recommendations

1. The Council's Constitution, Part 9 Financial Rules Section 3, requires Cabinet approval for expenditure exceeding £200,000.
2. The Council's electricity contract with the Laser purchasing group ends October 2022. A decision needs to be made about procurement options by March 2022 to ensure a new supplier can secure the Council's energy needs from the energy market, six months in advance of the new supplier commencing.
3. Officers have engaged with the Procurement Hub and investigated three procurement options to buy the Council's electricity from October 2022 and met with three alternative providers.
4. All three suppliers offer a slightly different approach to procuring the energy, the Laser Framework is the lower risk option offering a fully green electricity supplier (rather than a REGO backed supply).

Introduction

1. The period for purchasing electricity through Laser is coming to an end. Due to the volatility in the energy market a full examination has been carried out with other potential suppliers who offer energy procurement services to the public sector. Working with the Procurement Hub, officers have met and reviewed the service and process on offer from Laser, CCS, and Beond Group. A summary of each company and their proposal is provided below.
2. The current procurement route through Laser is the Fixed Term Fixed Price Framework that runs until December 2023. A full review of our procured electricity will need to be implemented following any announcement from Laser on their Framework from 2023 onwards. This review is likely to take place during Q4 of financial year 2022/23.
3. Our requirement has changed slightly from previous years' energy procurement due to the introduction of 24 domestic premises into our assets. We also currently have 62 non-domestic assets.

Current Situation

4. In Financial Year 2020-2021 the Council used 855,702 kWh of electricity in the non-domestic assets, which cost £213,885, with a further £16,515 being added from Social Lettings. Our total electricity bill was £230,400.
5. The non-domestic assets recorded a 25% drop in electricity used compared to the financial year 2019-2020, however part of this is attributed to the COVID pandemic and reduced usage of our operational buildings. For reference, 2019-2020 saw a drop of 11% compared to our baseline year of 2018-2019.
6. The Council is undertaking an asset review that will identify areas where the energy efficiency of the buildings can be improved, which will result in lower energy usage and therefore lower emissions from existing buildings, however any buildings added to the asset register will increase overall energy usage and emissions.
7. At the end of 2021 there was an energy price crisis which significantly raised both wholesale gas and electricity prices and caused a significant number of energy supply companies to cease trading.
8. This fuel price crisis has also caused uncertainty over energy supply company resilience, especially those outside of the 'big six' energy firms.
9. Wholesale energy costs have risen sharply from mid-2021, for example the wholesale cost of electricity in February 2020 was £40/MWh, in February 2022 the wholesale cost of electricity is £236/MWh. This is predicted to drop to £172/MWh across the summer of 2022, so the p/kWh rate we pay has the potential to increase by around 60%, which could increase our annual bills by 50%.
10. Due to this significant price rise, comparisons of energy prices previously available from the three procurement companies are not a reliable tool at present, however each company has offered similar prices per kWh over the last year.
11. Each company charges a fee for using their procurement service, whilst these fees do vary, they make up a small portion of the overall spend on electricity.

12. The Council also has several Unmetered Supplies that are mostly with British Gas and on varying contracts. We will aim to bring these in line with the metered supplies as and when their existing terms come to an end.

Energy Procurement Companies and their Procurement Routes

13. Below is a summary of each company and their proposal.

Laser

14. Established in 1989 and wholly owned by Kent County Council. Laser have been our energy procurement provider for a number of years and continue to hold the gas procurement contract until September 2024. They currently manage contracts for over 200 public sector bodies.
15. Currently we purchase 100% renewable energy through Ecotricity on a fixed term price contract, this fixed term price is set between three and six months prior to contract start. This price is based on wholesale market rates at the time of the tender.
16. Ecotricity are the only 100% renewable provider on the Laser framework.
17. Currently ourselves and Rother District Council use Laser.

Crown Commercial Services (CCS)

18. CCS have been trading since 2001 and are the 7th largest energy procurer in the UK and with 7% of the entire Industrial & Commercial market they are the biggest buyer outside the industry itself (they buy more than every other Public Buying Organisation combined). To put this into context, CCS buy enough gas to heat more than 2 million homes and enough power for almost 8 million homes for an entire year.
19. With CCS the total volumes from all their customers are aggregated together, allowing more buying opportunities and for customers to benefit from being part of an aggregated portfolio.
20. The procurement of the energy takes place over 6 months prior to the contract start date, it is done in tranches and therefore smooths out the peaks and troughs of the wholesale price market.
21. CCS Currently only procure electricity from EDF. EDF do offer a green tariff which is based on the provision of Renewable Energy Guarantee of Origin (REGO) certificate for the total amount of electricity used by the Council.
22. Whilst these REGO certificates do guarantee the energy used has been matched by generation from renewable sources, they can be traded outside of the supply of electricity and so therefore could not ensure that the charges will go into providing new renewable energy (which is more transparent when using a supplier like Ecotricity).
23. Currently East Sussex County Council use CCS.

Beond Group

24. Established in 1999 to offer an alternative approach to energy procurement.
25. Beond use a reverse auction approach for tendering energy where the full amount of energy required is tendered in one day and needs signing off on the same day. The exact day the auction is carried out can be set by us.
26. A reverse auction works by the volume of energy required by a customer (us) is presented to the market and energy supply companies have the opportunity to bid for the contract, with the lowest supply offer winning the tender.
27. The wholesale price market has peaks and troughs daily in wholesale prices; therefore, this approach requires fast initiating when the price market is in a trough. This requires the market to be constantly monitored to ensure best point of entry. Without consistent viewing of the market the risk of tendering at a high wholesale price is considerably increased.
28. Currently Wealden District Council use Beond.

Public Exemption

29. None.

Risk Management

30. The risk associated with procuring energy include wholesale price volatility and energy supply company stability. By using an expert procurement service, we will reduce these risks as the procurement is carried over a six-month window so the stability should be ensured. The use of Beond and a reverse auction could leave the Council exposed to having to buy energy on a day when the prices are higher than the average obtainable.

Environmental Issues & Climate Change

31. By continuing our approach to only using green electricity we ensure our Scope 2 emissions for electricity use remains zero (however Transmission and Distribution emissions still apply), and therefore continue to support the Climate Emergency.
32. Likewise, it is vital that the use of energy continues to be decreased in all Council properties, wherever practical in order to meet the Council's commitments but also to reduce the increasing costs the Council is now facing.

Economic/Financial Implications

33. Whilst the Council has been protected from recent price increases, and will continue to be partially protected until October 2022, energy procurement costs are expected to increase significantly for the Council.
34. Whilst it is impossible to predict the wholesale market rates at the time of tendering, the fact that it is procured flexibly and potentially bundled together with other local authorities should ensure a lower potential cost compared to procuring individually.

Organisation Consequences

35. As the recommendation is to maintain with our current supplier for another year there should be minimal disruption or extra work required in the set up and ongoing paperwork.

Legal

The legal department will need to review the contract with Laser.

Timetable of Next Steps

36. The next steps are as follows:

Action	Key milestone	Due date (provisional)	Responsible
Instigate procurement route	Inform Laser of our desire to join their framework	17 March 2022	Chief Finance Officer
Sign Agreements	Complete all contracts with Laser	30 September 2022 (latest)	Chief Finance Officer in Consultation with lead Councillor

Wards Affected - None

Policy Implications

Reading Ease Score:

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	N
Crime and Fear of Crime (Section 17)	N
Risk Management	Y
Environmental Issues & Climate Change	Y
Economic/Financial Implications	Y
Organisation Consequences	Y
Legal	Y
Human Rights Act	N
Local People's Views	N
Anti-Poverty	N

Additional Information

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