

Report to:	EXECUTIVE CABINET
Date:	26 October 2022
Executive Member:	Councillor Jacqueline North, First Deputy (Finance, Resources & Transformation)
Reporting Officer:	Julian Jackson, Director of Place
Subject:	ELECTRICITY AND ANCILLARY SERVICES - CONTRACT RENEWAL
Report Summary:	<p>The electricity contract is due for renewal on 1 April 2023. Tameside Council currently utilises Yorkshire Purchasing Organisation framework for electricity supplies. A new arrangement is required after 31 March 2023.</p> <p>The purpose of this report is to seek a delegated approval to the Corporate Director of Place and Director of Finance in consultation with Executive Member for Environmental Services and Executive Member for Finance and Governance to enter into new utility contracts for electricity from April 2023.</p>
Recommendations:	<p>The Executive Cabinet is recommended:</p> <ul style="list-style-type: none"> (i) To approve the procurement of an electricity provider, with the aim to minimise energy rate increases from 1 April 2023; and (ii) delegate authority to the Director of Place and Director of Finance in consultation with First Deputy and the Executive Member for Climate Emergency & Environmental Services to enter into contract for electricity from April 2023 subject to the due diligence on the options available to the Council, including the consideration of the green energy tariff charges. (iii) Note that the current arrangements under the gas contract with Crown Commercial Services means we must provide notice in the September of each year if we are to leave the following April therefore we are to remain on this framework for gas for 2023/24 so this is not included in this report and a review of these arrangements will be undertaken separate review during April to June of 2023 to ensure any revised contract arrangements are in place from 1 April 2024 to ensure that the Council achieves vfm at the end of the existing arrangements.
Corporate Plan:	All streams of the Corporate Plan are supported as this decision will secure the best allocation of valuable funds – ensuring as best as is reasonably practicable, that Council budgets are not pressured elsewhere in the organisation.
Policy Implications:	There are no policy implications
Financial Implications: (Authorised by the statutory Section 151 Officer)	The report sets out details of the Council's current contract arrangements for the supply of electricity and gas and the existing contract expiry dates. The existing contract arrangements for the supply of gas with Crown Commercial Services will continue for the 2023/24 financial year due to the expiry of the contract

termination notice period. This contract will be subject to a separate review during April to June of 2023 to ensure any revised contract arrangements are in place from 1 April 2024.

However, contract arrangements for the supply of electricity from 1 April 2023 need to be determined. At present there is further due diligence required on the options available to the Council prior to the award of a new contract from this date. It is essential that the Council is able to evidence that it will be ensuring value for money is realised during these unprecedented economic conditions that the energy market is exposed to.

Table 1 (section 1.2) summarises the current gas and electricity forecast adverse variance on the Council's budget in 2022/23 (£3,232,000) due to the significant contract price increases from 1 April 2022 and also estimated increases in levels of consumption across the Council estate. It is also envisaged that the cost of both utility supplies will continue to increase significantly from 1 April 2023. However, the actual level of future price increases is not currently known.

The Council will need to implement urgent consumption reduction measures to minimise the impact of the current and forecast future year cost increases. These measures will be subject to separate Member decisions. The financial implications of the proposed new electricity contract arrangements will be included in the subsequent decision report as stated in the recommendations.

**Legal Implications:
(Authorised by the Borough
Solicitor)**

The expiry of the council's current contract comes at a time of unprecedented prices rises and volatility in the energy market and requires the council to be especially determined to obtain the best rates possible for the energy supply whilst also ensuring consistent delivery.

The due diligence being undertaken by STaR will be critical to this procurement exercise. It is important that a full scoping exercise is undertaken of the whole market in order that a safe and informed decision as possible (under current market conditions) can be made by the council.

Currently the due diligence work is on going with STaR and officers in order that an informed decision in relation to both price and delivery can ultimately be made. That due diligence will be detailed in the future report to enter into a contract.

Risk Management:

There are risks associated with not making a swift and expedient decision about the electricity contract renewal. eEnergy and Npower have advised that they need to know as 'soon as possible' whether we are to utilise their frameworks and ideally by the end of October. This is so they can start buying energy when they deem fit in advance of commencing the contract at the start of April to secure prices when they see dips in the market.

Background Information:

The background papers relating to this report can be inspected by contacting Lindsay Johnson, Head of Asset Strategy,



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1. INTRODUCTION

- 1.1 Energy prices have increased significantly over the last year, by approximately 100% from the previous year (2021/22) under existing contractual arrangements. The energy market has become extremely volatile due to a number of global political and economic forces – including supply chain disruption following the invasion of Ukraine by Russia.
- 1.1 The Council's electricity and gas consumption represents a significant but necessary cost to the Council. The volume of energy procured on behalf of Tameside is significant and in the current financial year costs are forecast to double when compared to 2021/22. Under current arrangements, energy is purchased in advance, which sets the prices we receive from Npower from April of each year. Table 1 provides a summary of the forecast significant additional cost on the Council budget in 2022/23. Table 1 includes details for Council premises and street lighting. Schools and a small number of Active Tameside sites are excluded from the summary. However it should be noted that their energy consumption is included on the Council contract but is not financed by the Council's revenue budget. Cost increase predictions for subsequent years are not known at present but it is envisaged that they will continue to significantly increase.

Table 1

	22/23 Council Budget	22/23 Outturn Forecast	Forecast Variance
	£'000	£'000	£'000
Electricity	2,245	4,916	(2,671)
Gas	386	947	(561)
Total	2,631	5,863	(3,232)

- 1.2 The current arrangements under the gas contract with Crown Commercial Services means we must provide notice in the September of each year if we are to leave the following April. Therefore the Council will remain on this framework for the 2023/24 financial year and the re-procurement of gas is not included in this report. A review of these arrangements is to be undertaken in the future to ensure they are still suitable. At this stage, Crown Commercial Services are unable to advise what the estimated price increase will be from 1 April 2023.
- 1.3 However, the Council needs to consider options for the supply of electricity from 1 April 2023.
- 1.4 The Council's electricity contract is due to terminate on 31 March 2023 and therefore needs to consider options for the period from 1 April 2023. Under current arrangements, the Council procures electricity via the Yorkshire Purchasing Organisation framework with Npower as our provider. Yorkshire Purchasing Organisation procure energy in advance of requirements, in order to mitigate the risk of price spikes.
- 1.5 Yorkshire Purchasing Organisation have procured a new electricity supply contract, which is to commence on the 1 April 2023 and run until the 31 March 2027 (with two additional two-year extension options to extend for a further 4 years to 2031). As wholesale electricity prices are currently at the highest ever entering into a longer-term contractual arrangement, will allow for Yorkshire Purchasing Organisation to operate enhanced trading strategies that reflect the changing world economic climate. Npower will continue to supply electricity under this arrangement.
- 1.6 Yorkshire Purchasing Organisation have been asked for their price prediction for electricity from 1 April 23 but at the time of writing, they are not able to provide that information. They advised that it will depend on the trading position, i.e. their closed volume position, market price and the eventual number of customers who return signed contracts to enter into the

new framework but have suggested it could be a further 100% increase based on current electricity rates. Yorkshire Purchasing Organisation have confirmed that they have authority to trade one third of the forecast volume without having customer contracts in place for 1 April 2023 to 31 March 2024. All existing customers will benefit from this as the volumes, in place will be available across the whole electricity basket.

- 1.7 Yorkshire Purchasing Organisation have advised that the purchase of 100% renewable energy is again available under the new framework, however the tariffs will cost more than brown energy tariffs (brown tariffs do still have a percentage of green energy built into them as more of the grid decarbonises each year).
- 1.8 The Pan Government Energy Project's recommended approach is to use a Public Sector Buying Organisation to purchase electricity. A Public Sector Buying Organisation (or Central Purchasing Body in EU terminology) is defined as 'a contracting authority which provides centralised purchasing activities, and which may also provide ancillary purchasing activities'. PBOs often set up and operate framework agreements which are accessible to contracting authorities such as the council. Yorkshire Purchasing Organisation and Crown Commercial Services are both examples of Public Sector Buying Organisation's with frameworks in place for the supply of electricity and gas. The use of Public Sector Buying Organisation's presents a safe, tried and tested procurement option.
- 1.9 It is essential that we strategically position ourselves in readiness for our current electricity contract ending. As most contracts take advantage of procuring energy in advance, it is imperative that the Council is in a position to enter into an agreement with a new provider well in advance of the 31 March 2023 end date. The sooner the Council is able to enter into a new agreement, the larger the procurement window for purchasing energy. The nearer to 1 April 2023 we sign a new contract, the greater risk of entering a new contract at higher rates. Whatever re-procurement route is chosen it is likely costs will remain high given the current market conditions.
- 1.10 STaR have recommended an alternative approach to re-procurement using an organisation called eEnergy. STaR are recommending a collaborative route to re-procurement under this option with the other STaR authorities - Stockport, Trafford and Rochdale. Procurement under this route is via a dynamic purchasing system operated by Gwynedd Council with eEnergy an intermediary and energy risk management expert who brokers the energy for its customers. eEnergy is not a private owned business, it is a public limited company, which requires them to be 100% transparent in their operations and finances.
- 1.11 Under this option, a reverse auction is carried out across 17 registered suppliers that is focused on ensuring supplier costs are competitively priced at the time of the auction. What is not known is how many suppliers are likely to bid in for the contract given the current market conditions. Npower (one of the big 6) have already advised that they are not taking on any new customers so are unlikely to bid under this arrangement. A recent procurement exercise undertaken by Stockport Council using the e-Energy framework saw only a few suppliers out of the 17 bid in.
- 1.12 eEnergy offer a fully flex procurement strategy utilising energy specialists as an alternative way to purchase energy that allows organisations to take advantage of the ups and downs of the wholesale market. It involves ongoing tracking of the wholesale market and purchasing smaller chunks of energy throughout the length of a contract. The aim is to buy during price dips and avoid purchasing during price spikes or when adverse market events are shorter term. A benefit of this approach could be that any high costs in energy are not locked in for a full year if the prices were to drop when market conditions settle, however rates can go up as well as down so this is also a possibility.
- 1.13 eEnergy will facilitate a workshop with senior managers from participating councils to understand, develop and agree on a risk strategy to purchasing energy. eEnergy will create

a flexible strategy that is tailored to the councils. They can offer fully fixed and flexible options with a price cap if the energy market hits a certain level. Contracts can be fixed at any point during the contract. Yorkshire Purchasing Organisation / ESPO / Crown Commercial Services do not conduct a risk workshop and if entering a flexible contract, their strategy is pre-set.

- 1.14 STaR have provided a briefing note (Appendix 1) of the proposed option which states that under normal market conditions multiple frameworks are engaged to provide prices around six to nine months, prior to finalising prices closer to the contract end date (March 2023). Unfortunately, over the last three months this has not been possible due to the severe market conditions. STaR have requested a decision on the Council's preferred route by the end of October 2022. It is unknown at this point whether the date is flexible beyond this date.

2. CONCLUSION

- 2.1 At the time of writing this report STaR have not provided the necessary options report that forms the required due diligence to proceed with the eEnergy option. A late report has since been provided by STaR and is attached as (**Appendix 2**). eEnergy is not an organisation we have previously entered into an agreement with, so there are potential unknowns with this option.
- 2.2 Yorkshire Purchasing Organisation appears to present a reliable (tried and tested) procurement option, in the current turbulent energy market, but do not appear to offer the same procurement options of the fully fixed and flexible approaches and a risk strategy that is individually designed following a risk workshop.

3. RECOMMENDATIONS

- 3.1 As stated on the report cover