

OPTIONS APPRAISAL

Procurement Options Appraisal for Electricity supply for Non Half-Hourly (NHH), Half-Hourly (HH) and Street Lighting

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For: Tameside Council

1. Current Situation and Outline of Proposed Requirement

This options appraisal is to outline potential routes to market for Tameside Council; and to join the STAR collaborative procurement exercise 2023.

- Streetlighting, NHH and HH

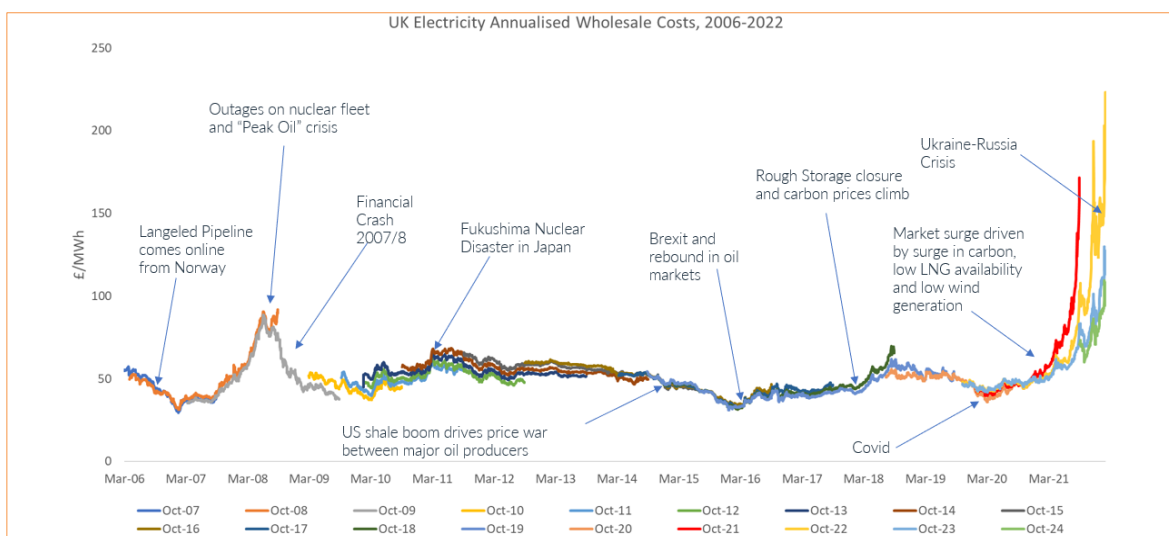
Following an audit recommendation, STAR has aligned the above contracts for Tameside with the other STAR authorities, with a collective expiry date of 31/03/2022.

STAR has identified eEnergy as the proposed route to market to deliver the collaborative 2023 re-procurement. STAR has developed this options appraisal to highlight advantages and disadvantages to each option.

2. Current Position of the Energy Market

Since early 2021, the UK wholesale energy market has experienced the highest price surges in history. Over the last 16 years, a typical Megawatt Hour (the unit in which electricity is traded in) will fluctuate from £35 on a good day, to £65 on a bad day. Since the start of the energy crisis in 2021, prices have increased to a peak of £782 p/MWh and have fluctuated on average between £200-500 p/MWh over the course of 2022. This has led to many hundreds of % increases in the cost of electricity and gas.

The below chart documents wholesale energy market prices since March 2006 and shows the significant difference in price between the average price and the spike in early 2021.



The re-opening of the global economy post-Covid is the first catalyst for this. Gas demands are very high, and supply is slow to keep up. There are wide-ranging reasons for this, but the main reasons are:

- A colder Spring in Asia resulted in the re-direction of gas (LNG) to those markets
- Lower flows of Russian gas and the delays in new pipeline commissioning
- Continued low levels of gas storage during the 2021 summer/autumn across Europe
- Carbon prices reached an all-time high in Q3 2021
- An interconnector fire which caused the loss of 1,000MW of capacity

Therefore, even before the Ukraine War, the world was already in an energy crisis.

In March 2022, Russia invaded Ukraine. This pushed wholesale market prices back up, as can be seen in the chart below. At the start of the war, gas flows from Russia were still running as usual. However, the initial March spike in the chart below is seen as sentiment-driven due to fears over the uncertainty of gas supply meeting demand.



In late August, Russia announced that it has suspended the Nord Stream 1 gas flows for unplanned maintenance. This is the major pipeline connecting Russia to Western Europe. This was initially scheduled for three days starting September 1st, however, Russia have since announced that there is an indefinite suspension. This has resulted in another significant price spike in early September which can be seen in the chart above.

Across the last six-month period the energy market has been very difficult with most suppliers not providing prices for new business. This has affected STARs ability to carry out an in depth analysis of different options. Prices are highly volatile and therefore there is no future indication of prices, hence not being able to provide accurate price comparisons of framework

Whilst the options appraisal provides dis-advantage and advantages of different frameworks, in reality the only options available to Tameside currently are; to continue with the incumbent providers CCS-Total Gas and Energy, and YPO – Npower; or to use the eEnergy framework.

There are still risks with any option as recently Stockport Council were unable to obtain twelve months prices from their incumbent provider YPO – Npower. Fortunately, they successfully receive multiple bids via the eEnergy framework and now have a contract in place. The size one business from four councils is much more likely to attract bids from energy provider, one of the reasons for collaborating.

3. Identification of Options

Option Number	Description of Option	Process/Suppliers
1	Framework Agreement - Yorkshire Purchasing Organisation (YPO)	Direct Award/1 Supplier (Npower)
2	Framework Agreement - Eastern Shires Purchasing Organisation (ESPO)	Direct Award/1 Supplier (Total Gas & Power)
3	Framework Agreement - Crown Commercial Services (CCS)	Direct Award/1 Supplier (EDF Energy Limited)
4	Dynamic Purchasing System (DPS) - eEnergy	Reverse Auction/17 Suppliers (AvantiGas, British Gas, Bryt Energy, Corona Energy, Drax, Ecotricity, EDF Energy, E.ON Energy, SEFE, Good Energy, nPower, Opus Energy, Scottish Power, Shell Energy, Smartest Energy, SSE, Total Gas & Power)

4. Assessment (including Risk)

Option Title	Advantages	Disadvantages
1 - YPO	<ul style="list-style-type: none"> - Fixed and flexible contract procurement capability. - Pre-Agreed Terms and Conditions. - No change of supplier. - Direct history excellent customer service. - Pre-determined risk strategy - Rebate scheme 	<ul style="list-style-type: none"> - Single supplier framework, therefore a further competition process cannot take place. - Risk of single supplier not providing prices for new business. - Do not conduct a risk workshop and if entering a flexible contract, their strategy of flex baskets is to be adhered too (12-month fixed prices). - No dedicated online portal. - No ability to apply a price cap. - No flexibility to fix flexible contracts at any point. - Inefficiency in procurement activity, running separate procurement exercises
2 - ESPO	<ul style="list-style-type: none"> - Fixed and flexible contract procurement capability. - Pre-Agreed Terms and Conditions. - Set pre-determined risk strategy 	<ul style="list-style-type: none"> - Single supplier framework, therefore a further competition process cannot take place.

		<ul style="list-style-type: none"> - Risk of single supplier not providing prices for new business. - Do not conduct a risk workshop and if entering a flexible contract, their strategy of flex baskets is to be adhered too (12-month fixed prices). - No ability to apply a price cap. - No flexibility to fixed flexible contracts at any point. - Inefficiency in procurement activity, running separate procurement exercises
3 - CCS	<ul style="list-style-type: none"> - Fixed and flexible contract procurement capability. - Pre-Agreed Terms and Conditions. - Set pre-determined risk strategy 	<ul style="list-style-type: none"> - Single supplier framework, therefore a further competition process cannot take place. - Risk of single supplier not providing prices for new business. - Do not conduct a risk workshop and if entering a flexible contract, their strategy of flex baskets is to be adhered too (12-month fixed prices). - No ability to apply a price cap. - No flexibility to fixed flexible contracts at any point. - Inefficiency in procurement activity, running separate procurement exercises
4 – eEnergy	<ul style="list-style-type: none"> - 17 approved suppliers are on the DPS to ensure maximum competitiveness through a PCR-15 compliant tender. This is done through a live reverse auction and provides current benchmarking to ensure value for money. - Procurement efficiencies in running one exercise for all STAR councils - Ability to apply a price cap if the energy market hits a certain level. - Fixed and flexible contract procurement capability. - Risk workshop will be held with all participating councils to understand, develop and agree on a strategy. - Creation of flexible hedging strategies that is tailored specifically to the councils. - Energy volume management will be conducted by eEnergy via volume reforecasting and will protect the councils against volume fluctuations throughout the contract. This is 	<ul style="list-style-type: none"> - Tender period for the reverse auction. - Does not allow for a direct award. - Possibility of requiring to change supplier, implementation process required - Not directly contracted with eEnergy previously - Requires additional resource initially to decide on risk strategy / profile

- critical over the first 12 months of the new contracts as councils (including schools and leisure facilities) may have to take extreme actions to reduce consumption, alongside with the councils decarbonisation projects (net zero carbon 2038).
- Contracts can be fixed at any point.
 - Full access to eEnergy dedicated online portal for immediate access to your own data plus performance and market numerous reports.
 - Data Risk Management which creates a meter level asset database to keep all meters on contracts, and remove any disposed sites/meters in a timely fashion to ensure each council only pays for what they use.
 - Pre-Agreed Terms and Conditions.
 - eEnergy provide a fully managed service that covers;
 - o Maintaining records of all energy suppliers, MPANs/MPRs and energy contracts.
 - o Bill validation and dispute resolution with monthly reporting to manage debt.
 - o Assigned a highly experience and fully dedicated Account Director who is supported by a team of consultants and analysts. The Account Director will be the designated point of contact.
 - o Hosting periodic calls/review meeting to review performance of the hedging strategy
 - o New meter connections and disconnections
 - o For any meter addition or meter removal request, eEnergy will follow the change of tenancy (COT) procedure up with the energy supplier
 - o Ensuring terminations are issued for both group contracts and all meter additions
 - o Current reports to be included (see below table).

Report	Description	Included / Excluded
Wholesale energy market monthly reports	Wholesale energy market reports, market intelligence and ad-hoc compliance updates.	Included
Annual consumption and emissions report	Report the office/commercial buildings utilities usage and carbon emissions annually.	Included
Budget Cost Report (Annual)	Creating the meter-level cost forecast for each calendar month for all meters in Appendix A and months included in the duration of this agreement	Included
Bill validation	Follow up incorrect bills with the supplier and claiming back credits where appropriate.	Included
Periodic maximum demand versus ASC reports	Comparing actual electricity usage versus agreed supply capacity (between the client and the distribution network operator)	Included

Procurement C
Lighting

Half-Hourly (NHH), Half-Hourly (HH) and Street

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5. Fee Structures and Services

None of the frameworks charge the councils directly for services, however the suppliers are charged for being part of the framework agreement. The fees funds the frameworks costs and the charging structures are different for each option

YPO - 0.12p per KW/h of usage

eEnergy – 0.75% of the contract value

ESPO – Charges per meter (HH - £149.65 per annum and NHH - £40.15 per annum)

CCS – Unknown – have not responded to communication

Annual charges per framework are shown below. There is the assumption that the cost of the framework will be included in the price of the tendered contract prices.

Tameside		
Framework	Electricity	Gas
YPO	£20,452.41	£23,983.61
ESPO	£13,917.45	NA
eEnergy	£57,225.00	£20,325.00
CCS	Unknown	Unknown

YPO have a rebate scheme which is around approximately 0.01% each year, equating to £2500 per annum if both electricity and gas contracts were awarded via YPO.

To compared YPO and eEnergy directly the eEnergy framework charges suppliers an additional £33,114.

eEnergy are providing a higher level of service outlined below

- Bespoke flexible hedging strategy managed by a risk and trading team
- Complete portfolio management including meter additions and removals, change of tenancies, supplier relationship management and general day to day management.
- Bill validation including
 - o Every meter will be on the automated bill validation system
 - o Access to the Head of Bureau, added layer of support
 - o Dedicated bill validation platform via an online portal, and
 - o Follow up incorrect bills with suppliers and claim back credits
- Bureau management, each council will receive market condition reports and intelligence, with expert advice and support for future contract renewals
- eEnergy are a market leading sustainable partner with a huge commitment to achieving net zero designed to help councils reduce consumption

6. Recommendation

STAR recommends that option 4 (eEnergy) offers best value for Tameside Council and collaborate with the other STAR authorities in the 2023 re-procurement exercise.

Reasons for Selection of Preferred Option:

The reasons for selection of Option 4 are:

- Reverse auction which demonstrates a competitive process
- Ability to apply a price cap
- Access to a dedicated online portal
- Review calls/meetings as often as necessary to review the hedging strategy
- Creation of flexible hedging strategies that is tailored specifically to the councils.
- Energy volume management which is key towards working with the councils volume reduction strategy.
- Assigned a highly experience and fully dedicated Account Director who is supported by a team of consultants and analysts.