

CABINET – 17TH NOVEMBER 2022

Report of the Strategic Director – Commercial and Economic Development Lead Member: Cllr Tom Barkley

Part A

AUTHORITY TO ENTER INTO AN ELECTRICITY SUPPLY CONTRACT

Purpose of Report

This report requests approval and delegated authority to enter into an electricity supply contract with the Eastern Shires Purchasing Organisation (ESPO) for the period September 2024 to September 2028.

Recommendations

1. That Cabinet approve entry into an Electricity Supply Contract with ESPO for the period of October 2024 to September 2028.
2. That authority be delegated to the Strategic Director – Commercial and Economic Development to finalise the agreement and formally enter the Council into Contract.

Reasons

1. To continue to obtain favourable pricing for electricity supply for the Council's estate in light of a volatile energy market.
2. To allow for the timely completion of contract to avoid contract lapse.

Policy Justification and Previous Decisions

The Council requires energy supply (i.e. electricity and gas supply) to deliver services to residents of the Borough. This decision relates to the continuation of that supply under a complaint framework procurement.

The Council has a duty to obtain best value in all financial related matters as well as to purchase goods and services in a manner compliant with Procurement Regulations in effect at the time that any procurement is undertaken.

The Council has been in energy supply contracts with ESPO, a professional buying organisation (PBO) for many years prior to this decision. This is an extension of a contract under a UK procurement regulation complaint framework.

The Council's gas supply contract with ESPO was renewed on 24 February 2022 for the period 1 April 2022 to 31 March 2027 by delegated decision under special urgency provisions taken by the Strategic Director – Commercial Development, Assets and Leisure (DD029 2022 reported to full Council on 25 April 2022).

Implementation Timetable including Future Decisions and Scrutiny

The decision will come into effect immediately (subject to Call-in).

Report Implications

The following implications have been identified for this report.

Financial Implications

The exact financial implications cannot be stated at this time. The future price of energy is currently unpredictable, given the state of global events and the uncertainty of supply as a result of the conflict in the Ukraine. However, the forward purchasing methodology used by ESPO allows future energy supplies to be purchased at a price advantageous point and fixed to avoid large price fluctuations in the market. This, in turn, minimises impact and smooths pricing to allow for consistent budgeting.

The current budgeted impact of electricity costs for financial year 2022/2023 is £840,000.

Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

Risk Identified	Likelihood	Impact	Overall Risk	Risk Management Actions Planned
Best value is not achieved	Unlikely (2)	Low (1)	Low (2)	The nature of forward purchasing allows ESPO to forward purchase when supply costs are low and then pass those savings onto member Councils. This approach has protected the Council from the current energy price risks currently facing client buyers without such an agreement.

Equality and Diversity

No implications

Crime and Disorder

No implications

Sustainability

Electricity purchased under contract in this agreement will be from renewable sources.

Key Decision:	Yes – while the entire value of the contract cannot yet be defined, it is certain that it will exceed the key decision threshold of £150,000 over the life of the contract.
Background Papers:	None
Officer to contact	Justin Henry Strategic Director – Commercial and Economic Development justin.henry@charnwood.gov.uk

Part B

Background

1. Eastern Shires Purchasing Organisation (ESPO) is a public sector owned professional buying organisation (PBO), specialising in providing a wide range of goods and services to the public sector, one of which is energy supply.
2. The Council have been largely protected from the turmoil in the UK energy markets over the last 12 months by virtue of its existing gas and electricity supply contracts with ESPO, who forward purchased large quantities of the gas & electricity on behalf of customers.
6. Despite the inevitable increases in energy costs, the evidence to date shows the value of contracting energy supply via ESPOs energy forward purchasing framework in helping dampen the fluctuations in market pricing and avoiding some of the peaks in charges currently faced by households and businesses.
7. ESPO are able to mitigate price shocks due to the way that it purchases energy, i.e. in advance when market prices are favourable and by negotiating fixed profit levels on purchases from the nominated supplier. ESPO along with others PBOs are currently cooperating in analysis of the energy market fluctuation and in the forward purchase of energy with all PBOs achieving largely the same price levels for customers.
3. The current gas rates are approximately 75% cheaper than the current wholesale market rates and are valid until 31 March 2023 (*The Council's gas consumption in the 2021 calendar year was £145,231.18*).
4. The Council will experience a 200% increase in gas billing charges from 1st April 2023 (forecasted to be billed at 7.49 pence per kilowatt hour but subject to some market variability). These rates are less than the price rises affecting the household market and those business not in forward purchasing agreements.
5. The Council's gas supply contract was renewed on 24 February 2022 for the period 1 April 2022 to 31 March 2027 by delegated decision under special urgency provisions taken by the Strategic Director – Commercial Development, Assets and Leisure (DD029 2022 reported to full Council on 25 April 2022). This decision has protected the Council from the worst of gas price fluctuations to date and will continue to soften the extreme pricing movements in wholesale markets in the future. Prices over the life of the contract are not fixed and can both rise and fall.

Current situation

6. The Council's current electricity rates have doubled since 1 October 2022 for electricity (forecasted to be billed at 20.31 pence per kilowatt hour but subject to

market fluctuations). This increase is far less than the price rises affecting the household market and those business not in forward purchasing agreements. As part of the forward purchasing strategy, ESPO have already purchased much of the energy the Council will use in the following 12 month periods to further protect our budgets.

7. The decision to which this paper relates is to enter into a forward purchase agreement for electricity for the period of October 2024 to September 2028. As with the renewal of gas contracts in February 2022, this is a protective measure to secure supplies over the period at better than market rates by purchase in advance via ESPO.
8. Although the Council's current electricity contract does not end until 30 September 2024, ESPO will commence purchasing electricity for the 2024/2025 period from early 2023. ESPO purchases up to 18 months of supply period in advance. Therefore, the agreement means that the Council's volumes will be included in these purchases to enable the Council to continue to benefit from a larger purchasing volume that will leverage more favourable pricing. Failure to renew by 31 January 2023 means that the Council will not be included in the prime basket and as a result will face higher prices than those in the agreement.
9. Electricity purchased from this framework will be from renewable sources