

# West Berkshire Council Central Energy Contract Procurement Strategy

<b>Committee considering report:</b>	Executive
<b>Date of Committee:</b>	9 February 2023
<b>Portfolio Member:</b>	Councillor Steve Ardagh-Walter
<b>Date Portfolio Member agreed report:</b>	11 November 2022
<b>Report Author:</b>	Adrian Slaughter
<b>Forward Plan Ref:</b>	EX4299

## 1 Purpose of the Report

- 1.1 To provide a summary of the Council's current procurement strategy for the Central Energy Contract and put forward recommendations for changes that would improve the management of risks associated with the current volatile wholesale market and rising energy costs.

## 2 Recommendation

- 2.1 That the Executive grants authority for the Council to switch from its existing L6 trading basket to the L12 trading basket by informing CCS before the identified 15<sup>th</sup> March 2023 notification deadline.

## 3 Implications and Impact Assessment

Implication	Commentary
<b>Financial:</b>	<p>The total annual value of the central energy contract in 2021/22 was circa £2.4million.</p> <p>Based on historical energy consumption and the delivered energy prices achieved, it has been estimated that this value will increase to circa £3.6million for 2022/23</p> <p>As a result of continued rising wholesale energy costs, this value is expected to continue increasing in the short to medium term.</p>

<b>Human Resource:</b>	N/A			
<b>Legal:</b>	It is our understanding that the proposed change of basket within the CCS framework is permitted under the terms of the framework agreement (although we have not at the time of writing reviewed its terms) and is not considered to be a fresh procurement but a permitted amendment to an existing contract. As such the proposed approach is compliant with the PCR 2015 and the Council's constitution. It will be necessary to determine whether any legal documentation is required in order to effect this change which Legal will undertake in consultation with the commissioning team.			
<b>Risk Management:</b>	The proposal and recommendation in the report have been produced as a way of managing the risk associated with the current energy market conditions and therefore the Council's financial exposure to increasing wholesale costs.			
<b>Property:</b>	The recommendation within this report will influence future operational energy costs and therefore energy budgets within the Council's portfolio (including schools) for those sites that are part of the central energy contract.			
<b>Policy:</b>	N/A			
	<b>Positive</b>	<b>Neutral</b>	<b>Negative</b>	<b>Commentary</b>
<b>Equalities Impact:</b>				
<b>A</b> Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		Stage1 EQIA undertaken and determined no impact

<b>B</b> Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		No
<b>Environmental Impact:</b>		X		
<b>Health Impact:</b>		X		
<b>ICT Impact:</b>		X		
<b>Digital Services Impact:</b>		X		
<b>Council Strategy Priorities:</b>		X		
<b>Core Business:</b>		X		N/A
<b>Data Impact:</b>		x		N/A
<b>Consultation and Engagement:</b>	Jon Winstanley – Service Director Environment Jonathan Martin – Finance Manager Jenny Graham – Environment Delivery Manager Sarah Wood – Category Manager Agency & Energy Sarah Passow – Environment Delivery Officer Dawn Bond – Solicitor (Contracts)			

## 4 Executive Summary

- 4.1 The Council currently offers a non-mandatory 'central energy contract' service for the supply of electricity and gas to its corporate sites and schools. Schools can opt-in to this contract to be part of the Council's portfolio.

- 4.2 The contract is let via the Crown Commercial Services framework agreement Reference RM6011: Lot 1. The current contract is a rolling framework agreement which ends on 01/10/2023 but which will be replaced by CCS in a similar framework.
- 4.3 Given current market conditions and rising energy costs, the Energy & Carbon Team, working with our energy suppliers and the Category Manager for Energy, have looked at the existing procurement strategy to see if any changes could be easily made that would improve the management of future financial risk.
- 4.4 Whilst staying with the existing RM6011 framework there is the option to change the Council's existing trading basket (L6) to either L12, L24 or V30. Please refer to 5.7 to 5.10 for further explanation of these baskets. (NB, 'Basket' is CCS terminology for the type of energy product and associated procurement strategy that they offer)
- 4.5 The relative merits and disadvantages of the different trading baskets are discussed in greater detail within the body of the report. In summary, with the existing L6 Basket, the risk and governance controls adopted by CCS means that they are required to buy a minimum amount of energy for their customers each month during the 6 month procurement window. This is to reduce the risk that they have to buy a larger portion of the customer's energy requirements towards the end of the 6 month window when Market prices may have risen. The specialist buyers at CCS also have discretion based on their experience and energy market forecast to buy more than the minimum each month so that they can buy at the most advantageous time for their customers. If the Council was to switch to the L12 basket, we would be effectively increasing the window of opportunity for the specialist buying team to enter the market and get the best possible price for the Council.
- 4.6 It is the view of officers that switching to the L12 basket offers the best balance of budget certainty, whilst reducing exposure the volatile wholesale market. At the same time the L12 basket offers the shortest notice period (24 months) should the council wish to make any other long term changes to its procurement strategy.
- 4.7 It is therefore recommended that the Executive give authority to switch to the L12 trading basket before the identified notification deadline of 15<sup>th</sup> March 2023. The contract delivery would then start from 1<sup>st</sup> April 2024.

## 5 Supporting Information

### Introduction

- 5.1 The Council currently offers a non-mandatory 'central energy contract' service for the supply of electricity and gas to its corporate sites and schools. Given current energy market conditions, the Energy & Carbon Team, working with the framework suppliers and the Council's Category Manager for Energy, have undertaken a mini review of the trading baskets, examining if the Council would be better to switch to any of the other trading baskets offered by the framework.
- 5.2 Whilst this report contains claims as to the overall performance of the Framework, taken from existing Crown Commercial Services (CCS) customer reports that are independently audited, this report is **not** a VFM exercise looking more generally at the

Energy Market and available frameworks or other available procurement methods for securing the Council's energy supply contracts.

## **Background**

- 5.3 The Council currently uses a framework created by Crown Commercial Services (CCS) in order to provide a 'non-mandatory' central energy supply contract for electricity and gas to its corporate and school portfolio.
- 5.4 CCS have been purchasing energy commodities on the wholesale market for over 24 years. Its current annual electricity spend is approximately £1billion per annum (comprising 1,100 customers and 50,156 meters across central government and the wider public sector for England and Wales). The annual gas spend is approximately £360million per annum (comprising 885 customers and 30,000 meters across central government and the wider public sector in England and Wales).
- 5.5 CCS is therefore one of the largest buyers of energy in the UK and the scale allows for fully resourced, specialist energy trading and risk management teams.
- 5.6 Within the framework, customers can choose from a number of different trading baskets that are based on whether it provides a 'fixed' or 'variable' price during the annual contract delivery period, and the amount of time that is afforded to the CCS energy trading team to secure its customers energy requirements from the wholesale market.
- 5.7 West Berkshire Council currently use the 'L6' trading basket offered by CCS. This is a 'fixed' price annual contract (1<sup>st</sup> April to 31<sup>st</sup> March) where the price remains the same throughout the contract delivery period. There is a 6 month purchase window immediately prior to the delivery period, starting 1<sup>st</sup> October, where the CCS Energy Trading team will enter the market multiple times and all procurement is completed before the delivery period starts.
- 5.8 CCS also offer an 'L12', more recently an 'L24', and a 'V30' trading basket.
- 5.9 Both the 'L12' and 'L24' baskets operate in the same way as the 'L6' basket during the annual contract delivery period in that they provide a 'fixed' commodity (p/kWh) price. The main difference between the 'L' baskets is the length of purchase window in advance of the annual contract delivery period. The 'L12' has a 10 month window initiated 12 months before the annual contract delivery period and therefore ending two months before the start. The 'L24' has a 22 month purchase window initiated before the annual contract delivery period, e.g. for financial year 2025/26 the purchase window will open 1<sup>st</sup> April 2023.
- 5.10 The 'V30' trading basket has a 42 month purchasing window that is initiated 30 months before the annual contract delivery period, and continues throughout this period. The biggest difference with the 'V30' basket is that the commodity price (p/kWh) will change on a monthly basis. It is worth noting that Government requires all its departments to use the 'V30' trading basket.
- 5.11 The longer the purchase window then the longer the notice period should the Council wish to move between baskets or cease using the CCS framework. The table below outlines the request change, trading start dates and notice periods for the next 3 years.

Current Trading Basket	New Trading Basket	Request change deadline	CCS Trading start date	CCS Supply start date	Notice Period for new basket
L6	L6	15 <sup>th</sup> September 2023	1 <sup>st</sup> October 2023	1 <sup>st</sup> April 2024	12 months
L6	L12	15 <sup>th</sup> March 2023	1 <sup>st</sup> April 2023	1 <sup>st</sup> April 2024	24 months
L6	L24	15 <sup>th</sup> March 2023	1 <sup>st</sup> April 2023	1 <sup>st</sup> April 2025	36 months
L6	V30	14 <sup>th</sup> September 2023	1 <sup>st</sup> October 2023	1 <sup>st</sup> April 2026	42 months

5.12 The UK is now experiencing a lengthy period of energy market volatility and rising energy prices that started in December 2021 and significantly increased with the invasion of Ukraine by Russia in February 2022. Due to the way in which the 'L6' trading basket operates, with CCS purchasing the L6 customer energy requirements from October 2021, the Council was largely protected from the very large energy price increases that have been seen in financial year 2022/23.

5.13 Despite this, there was still an 80% increase in the average unit price (p/kWh) for the Council's non-half hourly electricity and 220% for gas in 2021/22 to 22/23.

5.14 CCS have very recently started offering a review of baskets and forecasting of energy costs at an individual customer level. Before now, all forecasts were based on the overall portfolio across all of the frameworks customers. The Energy & Carbon Team subsequently requested this be undertaken for West Berkshire Council. The timings of the review and the notice periods for each trading basket mean that the Council is already committed to the L6 trading basket for financial year 2023/24.

5.15 The results of the review estimate that, based on current market predictions and historical Council energy consumption, the Council's overall financial liability across its portfolio of corporate buildings and schools will increase from approximately £3.6million in 2022/23 to approximately £7.7million in 2023/24.

5.16 With the recent government announcements regarding shortening the time the Energy Bill Relief Scheme will be available it is currently unknown what, if any, targeted government relief will be available to Local Authorities from April 2023 onwards. As it stands, the majority of Council and school sites are considered unlikely to benefit from

the existing Energy Bill Relief Scheme in 2022/23 as CCS has managed to procure the majority of its customer's energy requirements below the wholesale threshold price at which the scheme kicks in. Should an individual meter within the Council's portfolio qualify then this will automatically be applied by the Council's Energy Suppliers (EDF for electricity and Total for gas).

## **Proposals**

- 5.17 Whilst awaiting further information from government regarding potential support for future energy costs, an action that can potentially be taken by the Council is to change its trading basket from 'L6' to one of the other trading baskets being offered by CCS for financial year 2024/25.
- 5.18 With this in mind, the obvious choice would be to switch to the 'L12' trading basket as this still provides the security of a 'fixed' commodity price (p/kWh) during the contract delivery period and increases the length of the purchasing window in which CCS Energy Traders have to secure the energy requirements for the Council. They would therefore have more flexibility as to when to buy from the wholesale market and avoid periods of increased costs.
- 5.19 The 24 month notice period that the Council would have to give in order to change from the L12 basket or stop using the framework is recognised as restrictive but is shorter than the other potential baskets.

## **6 Other options considered**

- 6.1 Do nothing and remain within the 'L6' basket was considered as an option but quickly discounted due to the rigidity of the shortest purchasing window. With current energy market volatility and the continuing upward trend on energy costs, the 'L6' basket is likely to closely reflect these conditions. This risk outweighing the 'flexibility to change' benefit of the shortest notice period.
- 6.2 Switch from the L6 basket direct to L24 was also considered but this would potentially mean having to commit to one more additional financial year (2024/25) with the L6 basket as the annual contract delivery period for the next L24 basket does not start until 1<sup>st</sup> April 2025. The L24 basket is also a relatively new offering from CCS and as such there is no supporting evidence as to how it would perform in terms of providing VFM.
- 6.3 Switch from L6 to L12 as an interim for 2024/25 but at the same time also notify CCS of the intention to then switch to L24 for 2025/26. The biggest drawback to this approach is the length of notice period (36 months) required in order to change from the L24 basket or stop using the framework. In order to provide the minimum 36 month notice period the Council would potentially be committing itself to the L24 basket until the end of 31<sup>st</sup> March 2028 rendering any further recommended changes to the procurement strategy difficult to quickly achieve.
- 6.4 Switching from L6 to V30 would provide an even longer purchasing window prior to the start of the contract delivery period (30 months) and this continues throughout the contract (12 months). This improves the opportunity for the CCS trading team to buy from the market at periods of low cost and therefore provide lower unit prices for the customer. However, as a result of energy still being bought during the contract period,

the unit price will change on a monthly basis throughout the contract delivery period which reduces budget certainty. As a direct result, the V30 basket has the longest notice period of 42 months should the Council wish to change baskets or leave the framework. The current timings also mean that the next opportunity to switch is not until September 2023, with the actual contract delivery period starting financial year 2026/27.

## 7 Conclusion

- 7.1 For the reasons outlined in 5.17 to 6.4, it is believed that switching from the L6 trading basket to an L12 gives the Council the best balance of a fixed price (budget certainty) and reduces exposure to a volatile wholesale market (longer 10 month purchasing window).
- 7.2 The relatively short notice period (24 months) in comparison to the other options means that, in the future, should the Council wish to alter its procurement strategy again as a result of any further review, then it is not tied into a lengthy contract before it can implement any changes.

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### Subject to Call-In:

Yes: ☐ No: ☒

The item is due to be referred to Council for final approval	<input type="checkbox"/>
Delays in implementation could have serious financial implications for the Council	<input checked="" type="checkbox"/>
Delays in implementation could compromise the Council's position	<input type="checkbox"/>
Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months	<input type="checkbox"/>
Item is Urgent Key Decision	<input type="checkbox"/>
Report is to note only	<input type="checkbox"/>

### Officer details:

Name: Adrian Slaughter  
Job Title: Energy & Carbon Manager  
Tel No: 01635 503265  
E-mail: Adrian.slaughter@westberks.gov.uk

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