

# Cabinet

## Gas Contract Renewal

25<sup>th</sup> November 2021

### 1. Recommendation

- 1.1 That Cabinet agrees to the Council entering a framework contract for the purchase of gas through ESPO's Gas Framework, for the period April 2023 – March 2027 on terms and conditions considered acceptable to the Strategic Director for Resources, in consultation with the Portfolio Holder for Finance and Property.

### 2. Executive Summary

- 2.1 The Council has since 2012 purchased the gas supply that it needs for Council owned premises through the ESPO Framework. The gas purchased through this arrangement is used on 84 properties within the Council's portfolio and covers a range of different building types (including fire stations, libraries, highways depots, offices). A number of Local Authorities also use this route. The current gas Framework contract in place with ESPO ceases on 31<sup>st</sup> March 2023.
- 2.2 The purchase of energy requires specific experience and knowledge which is a further reason why the Council has purchased its energy through the ESPO framework. The Council does not have the in-house expertise or resources to monitor the gas (or electricity) markets to identify best value options for energy purchase.
- 2.3 The Council has used ESPO to purchase both gas and electricity since 2012 and this would be a continuation of that arrangement in relation to gas purchase. The electricity contract is also due for renewal during 2023 however is running to a different timeframe and will be subject to a separate report in due course.
- 2.4 Entering a framework contract allows ESPO, on our behalf, flexibility in setting the price of energy within a long-term hedging strategy. Flexible contracts of this nature require very large volumes to operate effectively. By aggregating these volumes into a single supply with one supplier, significant economies of scale are achieved resulting in reduced suppliers' margins and minimisation of avoidable costs.

- 2.5 Getting the most cost-effective price for the delivery of energy has always been a priority, however never more so important than in recent months as we have seen energy prices reach a new global high.
- 2.6 ESPO will shortly be opening negotiations on bulk gas purchasing for the period from 1st April 2023 to 31<sup>st</sup> March 2027 and therefore require a decision from participating authorities, including Warwickshire County Council, to commit to the framework.

### **3. Financial Implications**

- 3.1 The spend over the duration of the contract based on a like for like purchase will likely be between £4 million and £5 million based on current market conditions. This is a 30% increase by 2023/24 on current spend, due to the increased global prices for energy we are seeing in the market.
- 3.2 Smoothing this impact over the duration of the contract will allow the Council better control and management of its budget over the period. Further details of how this operates are at paragraph 5.2 below.
- 3.3 The ESPO framework includes a green tariff. Adopting the green tariff would result in a 30% increase in the standard tariff of gas purchased (circa £1.2m on a £4m contract). A key role for the Environment and Energy Team over the next 6-12 months will be to explore other ways to move towards more cost-effective green energy (i.e., tariffs and funding options) and reduce our reliance over the mid to longer term on gas to heat our buildings. However, making such a shift is likely to take some time to implement and will need to be considered from a financial perspective as well as a practical perspective as for some of our buildings it would be more challenging to implement alternative energy provision. This means that gas supplied via the ESPO framework will still be required until such time as we can confidently make the shift to viable alternative, and newer technologies for our energy sources. We would expect to have made significant progress on this by the time of the next gas contract renewal.

### **4. Environmental Implications**

- 4.1 The Council is committed to reducing its environmental impact and becoming net zero by 2030. However, continuity of heating and power for buildings will be required until renewable sources / lower carbon initiatives are identified and installed. Currently the Council emits an estimated 2,000 tonnes of CO<sub>2</sub> a year, from gas consumption in its corporate portfolio. As outline at paragraph 3.3 we would expect to see a reduction in this number over the course of the contract period.
- 4.2 A lower carbon buildings strategy is also being developed and will support a move away from fossil fuel usage. The Strategy has a target date of approval

for Spring / Summer 2022 and will be supported by a delivery plan, which will identify actions, and impact on, the Council's gas (and electricity) consumption and thus carbon emissions. As part of this work, we will review and learn lessons from good practice across local government and other sectors. This Strategy is a key part of the wider work that the Council is undertaking in relation to Climate Change (see report on this Cabinet Agenda, requesting approval to develop an updated plan for WCC to be net zero by 2030 and the county to be net zero by 2050).

- 4.3 As such we will continue to explore all options robustly, however, it should be noted that not all buildings will be suitable for installation of newer technologies.

## **5. Supporting Information**

- 5.1 ESPO is a major purchaser with over 35 years' experience of purchasing energy, including gas and electricity. ESPO is also active in influencing the energy supply chain both through direct contact with the various industry regulators, Government Departments, Parliamentary Committees, and key organisations such as National Grid, OFGEM, and through participation in consumer groups.
- 5.2 In flexible energy buying the onus is on managing the risk, rather than the actual price, and by spreading the risk over a longer period (e.g., 18-24 months) there is a smoothing effect on annual costs avoiding the extreme variations experienced currently. The period over which the energy is purchased provides increased budgetary certainty and earlier information about future costs.
- 5.3 There are no volume commitments in the Framework, therefore the Council will not be penalised for any changes in its consumption (e.g., due to sales / acquisitions of premises and reductions in usage due to building improvements, implementation of new energy efficient technology and/or agile working).
- 5.4 ESPO has carried out a full tender process and identified Total Energies Gas and Power as the successful bidder.
- 5.5 ESPO has not yet begun purchasing gas for the period 2023-24, however their Trading Team expects a (caveated) increase of 20% during 2022-23 and an additional increase of 10% in 2023-24, based on 2020-21 figures. Therefore, we can expect a 30% increase on 2020-21 costs, by the time the contract commences.

## **6. Timescales associated with the decision and next steps**

- 6.1 Confirmation to ESPO to continue to be part of the Framework, early December 2021.

- 6.2 Confirmation to budget holders of ongoing commitment in the 2023-2027 period, early December 2021.
- 6.3 Regular updates to budget holders and site contacts of pricing reviews, during the contract term.

## Appendices

- 1. None

## Background Papers

- 1. None

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The report was circulated to the following members prior to publication:  
The Chair and Party Spokes of the Resources and Fire and Rescue Overview and Scrutiny Committee

Local Member(s): N/a  
Other members: