

Cabinet

16 March 2023

Electricity Contract Renewal

Recommendations

That Cabinet

1. Agrees to the Council entering a framework agreement (the (Electricity Procurement Service Agreement) for the purchase of electricity for council owned buildings with ESPO (East Shires Purchasing Organisation) for the period Oct 2024 - Sept 2028.
2. Authorises the Strategic Director for Resources, in consultation with the Portfolio Holder for Finance and Property, to enter all required agreements to implement the recommendations in this report on terms and conditions considered acceptable to him.

1. Executive Summary

- 1.1 Since 2008, the Council has purchased electricity, for a proportion of Council owned sites, through the ESPO electricity agreement framework contract. The proposal in this report to renew the electricity agreement with ESPO represents a continuation of this arrangement. The electricity purchased through this arrangement is currently used in over 100 properties (139 meter points) within the Council's portfolio and covers a range of different building types (including fire stations, libraries, highways depots and offices). The current electricity framework agreement in place with ESPO ceases on 30th September 2024.
- 1.2 The purchase of energy requires specific experience and knowledge to monitor the electricity (and gas) markets in order to identify best value options for energy purchase. The Council does not have the in-house expertise or resources for this work, and instead chooses to purchase electricity (and gas) through framework agreements. The Council's chosen supplier is ESPO and a number of other Local Authorities also use the same purchasing route.
- 1.3 Entering a framework contract allows ESPO, on our behalf, flexibility to set the price of energy within a longer-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, economies of scale can be achieved resulting in reduced suppliers' margins and minimisation of avoidable costs.

- 1.4 ESPO are to begin forward purchasing of electricity for this agreement on 1st April 2023 and therefore require a decision from participating authorities, including Warwickshire County Council, to commit to the agreement.
- 1.5 The County Council's Energy Strategy (which will focus primarily on the energy efficiency of Council owned buildings) will be considered for approval by Cabinet in June 23, supporting the delivery of the Sustainable Futures Strategy. Procurement of energy and energy efficiency will be major strands of this work as the Council identifies ways to move towards more cost-effective green energy (tariffs and funding options) and reduce reliance over the mid to longer term on electricity (and gas) to heat and power our buildings. As part of this work, we will review and learn lessons from good practice across local government and other sectors. The Energy Strategy will be supported by a delivery plan, which will identify actions, and impact on, the Council's electricity (and gas) consumption and thus carbon emissions.

2. Financial Implications

- 2.1 Prices fluctuate annually under the agreement and in the past two years total costs of electricity have increased by 120% (compared to a 295% wholesale price increase).
- 2.2 Council spend on the ESPO electricity agreement in the last full financial year (21/22) was £1.2 million. (As a comparison, the total Council spend on electricity over the same period was £5 million. Not all the Council's electricity is sourced through the ESPO agreement, e.g. Service managed buildings and primary schools are not currently all included). In the 22/23 period (October 2022) there was a 100% increase in electricity prices however, in the first three quarters of the current financial year (April 2022 to January 2023) actual spend on the ESPO electricity agreement was a comparable £0.9 million. The increase in prices may not have been realised due to a number of reasons (e.g. building closures, asset rationalisation, Government's Energy Bill Relief Scheme, and increased awareness of the price of energy generally leading to a reduced consumption).
- 2.3 In the final year of the current agreement (i.e. Oct 2023 to Sep 2024) electricity prices are expected to rise by a further 30-35%; a conservative assumption of the annual cost would £1.54 million. Therefore, over the life of the new agreement (Oct 2024 - Sept 2028), given current prices, contract value could be expected to be in the region of £6.2 million.
- 2.4 Smoothing this impact over the duration of the contract will allow the Council better control and management of its budget over the 4-year period (further details of how this operates are at paragraph 4.2 below). Based on current expectations about price increases, increased costs for the electricity sourced through the ESPO contract, can be managed from within the budget provision at least over the next three years. After that period the MTFS impact will need to be considered when long term trends become clearer.

- 2.5 The ESPO electric agreement includes the option of a 'Pure Green' electricity tariff that the Council has purchased since 2020. This electricity is from '100% renewable sources (solar, wind and hydro/wave)'. This electricity can be matched to the ofgem administered Renewable Energy Guarantees of Origin (REGO's), supporting the Council's Sustainable Futures Strategy and net zero ambitions. In the last year of the current agreement (Oct 23- Sept 24) the green tariff will represent an increased spend of 2.1% (increased from 1.8%, in the Oct 22-Sept 23 period) over the standard tariff.
- 2.6 The ESPO electricity agreement also includes the option of a bill validation service. This service costs 25p per meter per day i.e. an additional £12k per annum on the electricity contract. The Council currently uses this service for gas bill validation and aligning the electricity agreement to this means that we would expect timely information to support future decision-making, greater clarity on costs, reduced periods to recover funds and reduced demand on internal and stakeholder resource. (ESPO's Bureau Team run all supplier invoices though their specialist software to identify anomalies and then query them with the supplier so payment is not made until any issues are resolved. The software checks 15 different bill elements, including consecutive meter reads and makes comparisons with the previous year to identify any issues). Adopting this billing option is therefore recommended to provide assurance that the Council is being charged the correct amount for the energy it uses.
- 2.7 The current agreement (2020-2024) has been taken up by Council primary schools, business centres, fire stations and household waste sites as well as Council owned offices. As part of the new agreement, Officers will review the scope to ensure the Council maximise value and potential savings by extending the coverage of the contract where able and where it is cost effective to do so.
- 2.8 We would expect to see a reduction in electricity usage over the course of this contract period however, continuity of heating and power for buildings will be required until renewable sources / lower carbon initiatives are identified and installed. Making any large-scale 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 (e.g., for some of our buildings it would be more challenging to implement alternative energy provision than maintain the status quo).

3. Environmental Implications

- 3.1 As part of the Sustainable Futures Strategy, the Council is committed to reducing its environmental impact and becoming net zero by 2030. The Energy Strategy, to be delivered in June 2023, is a supportive strategy, sitting under the umbrella of the Sustainable Futures Strategy and will set out the approach to carbon reduction in Council owned and occupied buildings.

- 3.2 Currently the Council emits approximately 1,000 tonnes of CO₂ a year, from electricity consumption in its owned portfolio. We would expect to see a reduction in this number over the course of this contract period. As such we will continue to explore all options robustly, however, continuity of heating and power for buildings will be required until renewable sources / lower carbon initiatives are identified and installed. It should be noted that not all buildings will be suitable for installation of newer technologies.

4. Supporting Information

- 4.1 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.
- 4.2 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 or longer) 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.
- 4.3 There are no volume commitments in the framework agreement, 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).
- 4.4 ESPO has carried out a full tender process and identified Total Energies Gas and Power as the successful bidder.
- 4.5 ESPO has not yet begun purchasing electricity for the period 2024-2028, however their Trading Team expects a (caveated) 0% to -5% shift in purchase price compared to 2023/24 prices.

5. Timescales associated with the decision and next steps

- 5.1 Confirmation to ESPO to continue to be part of the Framework, March 2023.
- 5.2 Confirmation to budget holders of ongoing commitment in the 2024-2028 period, April 2023.
- 5.3 Regular updates to budget holders and site contacts of pricing reviews, during the contract term.

Appendices

None

Background Papers

None

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The report was circulated to the following members prior to publication:

Local Member(s): N/A county wide paper

Other members: Councillors John Holland, Jerry Roodhouse, Jonathan Chilvers, Adrian Warwick, Parminder Singh Birdi, Sarah Boad, Caroline Phillips, and Will Roberts