

TRAFFORD COUNCIL

Report to: Executive
Date: 19 September 2022
Report for: Decision
Report of: Executive Member for Economy and Regeneration

Report Title

Utility Contract Renewal – Gas and Electricity

Summary

The purpose of this report is to seek a delegated approval to enter into new utility contracts for electricity and gas from April 2023

Recommendation(s)

The Executive is recommended:

1. To approve the route to market to procure lower energy rates into the next financial year 2023/24;
1. Approve the use of e-energy consultants as described in Section 2 of the report;
2. Delegate authority to the Corporate Director of Place, in consultation with the Director of Finance and Systems and the Executive Member for Economy and Regeneration to enter into respective contracts for gas and electricity from April 2023.

Contact person for access to background papers and further information:

Name: Sharon Walls
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Background Papers: None.

Implications:

Relationship to Policy Framework/Corporate Priorities	Value for Money
Relationship to GM Policy or Strategy Framework	GM
Financial	The ability to track the market and secure the most efficient energy prices is a key factor for the Council in planning its finances in both the short and medium term.
Legal Implications:	None arising out of this report.
Equality/Diversity Implications	n/a
Sustainability Implications	The ability to secure and manage energy costs will aid the Council in its environmental sustainability objectives
Resource Implications e.g., Staffing / ICT / Assets	STAR procurement are assisting the Council with this process
Risk Management Implications	Risks of not securing energy prices in a volatile market will put financial pressures on the councils budgets going forward
Health & Wellbeing Implications	The proposed energy costs if not managed could impact on the ability to deliver council services
Health and Safety Implications	n/a
Carbon Reduction	Supply and award of energy provision will be reviewed to take account of the carbon agenda. The council will be looking to utilise green tariffs to support the climate emergency

1.0 Background

- 1.2 Gas and electricity bills are becoming more expensive, with both commodity and non-commodity prices increasing. The non-commodity charges which are primarily fixed costs for providing the system and managing the network by providers are now around 60% of an electricity bill and 45% of gas bills. The commodity costs which are the raw material supply costs including cost of coal, oil, gas and electricity is now the only part of a bill that can be reduced by procuring energy at a lower rate and decreasing consumption.
- 1.3 The energy market is currently volatile with the prices are increasing significantly and more recently exponentially with expected large increases in the coming months. It will therefore be a challenge to procure a low unit rate through traditional tender processes that give fixed costs, which is leaving the consumer and businesses with higher energy bills.
- 1.4 Reducing consumption is the most effective way of lowering energy bills and the council has been working on decarbonisation of the public estate via the Public Sector Decarbonisation Fund, where measures have been installed to move away from gas boilers, for example Air Source Heat Pumps. These new measures will reduce gas consumption and help to achieve the wider target to be carbon neutral by 2038, however the pumps use electricity and hence conversions will put pressure on the electricity consumption. Decarbonisation of the Estate will take a number of years however, it is a positive step forward in overall energy consumption.
- 1.5 Ofgem have introduced a new way of charging Transmission and Distribution charges, which is reflected in the increases in the price cap on energy. This is now being charged through the standing charges. Ofgem has made this change to make

it fairer for all consumers, but it can cause an increase in the bills and consumers have no control over these increases hence this makes it more important to reduce consumption and take advantage of drops in energy prices where possible.

- 1.6 Trafford Council's current energy contracts are procured through the Yorkshire Purchasing Organisation (YPO) that purchases best price fixed tariff options annually on our behalf. Currently Trafford use NPower for Electricity and Corona Energy for Gas that are due to expire by April 2023. Fixed price annual contracts have their benefits which we have seen in our gas contracts annually in recent years but due to market volatility future purchasing of energy needs to be more flexible to take advantage of drop offs in the pricing in any given year.
- 1.7 Gas prices have until 2022/23 remained relatively stable at 2.15p/KWh, however from April 2022 the price of gas increased to 10.85p/KWh. Fixed price contracts therefore are not seen as a cost-effective way to manage energy going forward as Council's can be tied into a high price based on the volatility of the market when purchasing energy.
- 1.8 The electricity energy market is still extremely volatile with prices over £100 MWh, which is much higher than £50 MWh in early 2021. Independent energy reports have stated prices will remain above £100 MWh until 2030. The market, however, often has drop offs and the council are hoping to take advantage of these and procure lower than the current rates with support from STAR and energy consultants.
- 1.9 Trafford's energy bills for 2022/23 have increased significantly with energy costs predicted to be as follows across the Estates portfolio in comparison to the previous financial year
 - Gas 2020/2021 - £210k
 - Gas 2021/2022 - £233k
 - Gas 2022/2023 - £736k

 - Electricity 2020/2021 - £323k
 - Electricity 2021/2022 - £377k
 - Electricity 2022/2023 - £500k
- 1.10 Additionally street lighting energy costs have also increased from circa £800k to an expected £1.6m which is a significant pressure.
- 1.11 Overall energy costs are currently expected to exceed budgets by £1.2m in 2022/23 with further pressure to be included in the Medium Term Financial Plan for 2023/24 onwards.
- 1.12 The energy market is extremely volatile and is likely to remain so in the coming years therefore entering into an agreement to track the market prior to the start date in April 2023 will allow the Council together with STAR and energy consultants to monitor the market and purchase the energy at the most favourable time.

2.0 Proposed Contract Procurement

- 2.1 Advice from energy consultants via STAR is that all local authorities and large consuming businesses are recommended to enter into a fully flex procurement strategy. Utilising the services of an energy consultant will be needed as this will play

an important role in enticing energy suppliers to participate and bid competitively in order to win energy contracts. This could deliver up to 5% reduction to standard tariffs, which would represent a cost reduction of many thousands of pounds due to the large portfolio size.

- 2.2 A fully flex procurement strategy utilising energy specialists is an alternative way to purchase energy that allows organisations to take advantage of the ups and downs of the wholesale market. It involves ongoing tracking of the wholesale market and purchasing smaller chunks of energy throughout the length of a contract. The aim is to buy during price dips and avoid purchasing during price spikes or when adverse market events are shorter term.
- 2.3 To ensure the best prices going forward, STAR and energy consultants e-energy will baseline all Local Authority partners ahead of the 2023 renewals by running a fixed price tender and using a live reverse auction software. The software is designed to procure the cheapest energy contracts on the market on any given day by forcing suppliers to competitively bid for the supply contracts. This process can be undertaken daily to track pricing.
- 2.4 An options report will be produced by STAR and e-energy at regular intervals prior to April 2023 that will provide up to date market information and options available at those times for the new energy contract options from 2023. The fixed prices will be presented as an option, as well as fully flex agreements to allow decisions to be made to opt for the most cost effective contract option under delegation at any agreed time during the next 6 months.
- 2.5 If the Council opted for a fully flex approach for purchasing its energy we will be agreeing to purchase energy within a range of likely tariffs throughout the year in chunks rather than on one fixed tariff for the duration of the year.
- 2.6 Suppliers are motivated to supply and bid for large volume contracts, so the more volume means the more encouraged they are to take a hit on their margins and commit to a cheaper price. Our energy contracts have therefore been aligned with other STAR LA's to maximise the volume and other partner LA's are seeking approvals to procure their energy using this same strategy.
- 2.7 Members are asked therefore to support delegated approval that allows Trafford to explore the options available to procure energy using fully flex strategy as an option that includes entering into a supply agreement that has been agreed by all STAR partners which will allow for the market to be tracked to secure more favourable rates from April 2023.
- 2.8 The delegated authority will ensure the Council its STAR partners can track the market in the coming months prior to expiry of the contracts and hence don't miss out on competitive prices and dips in the market that will be available for energy and can therefore make informed decisions quickly at those times.

Other Options

- The Council could enter into a fixed price tender procurement option. This would potentially result in 30% higher costs in any given year and reduces overall buying power by not aligning our strategy with other STAR authority contracts.

Consultation

Consultation with executive members and finance will be ongoing during the tracking and procurement process to ensure best prices are secured for gas and electricity going forward.

Reasons for Recommendation

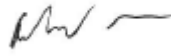
Approval is sought to delegate energy procurement and tracking of the markets to ensure Trafford can take advantage of lower energy costs and sign up to the most favourable contract for purchasing energy as they arise during the next 6 months.

Aligning with other STAR partners with this strategy will result in larger volumes and will drive down energy costs.

Entering into a flexible contract could deliver up to 5% in savings, due to the size of the combined portfolio.

Key Decision (as defined in the Constitution): YES
If Key Decision, has 28-day notice been given? YES

Finance Officer Clearance (type in initials)...PC.....
Legal Officer Clearance (type in initials)...TR.....

[CORPORATE] DIRECTOR'S SIGNATURE (electronic) 
To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.