

CABINET	AGENDA ITEM No. 6
13 FEBRUARY 2023	PUBLIC REPORT

Report of:	Cecilie Booth, Executive Director of Corporate Services and S151 Officer	
Cabinet Member(s) responsible:	Councillor Andy Coles, Cabinet Member for Finance and Corporate Governance.	
Contact Officer(s):	Chris Yates – Acting Head of Finance (Corporate Services)	Tel. 01733 384552

ELECTRICITY CONTRACT RENEWAL: 1 OCTOBER 2024 – 30 SEPTEMBER 2028

RECOMMENDATIONS	
FROM: <i>Cecilie Booth, Executive Director of Corporate Services and S151 Officer</i>	Deadline date: <i>March 2023</i>
<p>It is recommended that Cabinet:</p> <p>1. Approve the new contractual arrangements for the Council’s supply of electricity and authorise the contract award to Total Energies Gas and Power Ltd via the ESPO Framework 191_24 for a maximum value of £21,691,780, relating to the period 1 October 2024 to 30 September 2028.</p>	

1. ORIGIN OF REPORT

1.1 This report is submitted to Cabinet following referral from the Corporate Leadership Team (CLT) on 25th January 2023.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is for Cabinet to approve the new contractual arrangements for the Council’s supply of electricity under the ESPO framework.

2.2 This report is for Cabinet to consider under its Terms of Reference No. 3.2.5, *‘To make decisions on actions relating to the awarding, assigning and termination of contracts over £500k, and waiving or granting exemptions to Contract Regulations where contracts are over £500k, with the exception any time-critical, operational, or routine decision, which may be determined by the relevant portfolio holder.’*

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	N/A
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4. BACKGROUND AND KEY ISSUES

4.1 The Council’s current electricity supply has been with Total Energies Gas and Power (TG&P) via ESPO Frameworks since 1 April 2020. The previous Cabinet Member Decision Notice (CMDN) reference is **AUG20/CMDN/25**.

The Council's current agreement with ESPO doesn't expire until the 30 September 2024, but to ensure that the Council secures the best possible future pricing, the new agreement needs finalising and confirming now to allow effective trading of future electricity volumes. ESPO advise that the sooner new agreements are signed the more effective they can be at securing best pricing for the Council.

Whilst the last few years have seen some of the most challenging market conditions in the last twenty years, ESPO's low risk Energy trading strategy has provided considerably below the average market prices.

ESPO have recently announced that they have awarded their new Electricity framework, running from October 2024 to September 2028, to Total Energies Gas & Power who have been successful following a UK compliant tender process.

The new Framework Contract Reference is:

- Electricity 191_24

It should be noted that as the recommendation is for the Council to continue purchasing through an ESPO framework agreement, it is expected that this will contribute to the Council's volume-based profit share at the end of each financial year as an owner of the company.

4.2 Over the last 12 months events such as the conflict in Ukraine and its subsequent impact on European energy supplies have led to a rapid increase in wholesale energy costs. As a result, in recent months we have regularly seen costs that are more than 300% higher than they were a year ago. Wholesale cost for electricity this winter peaked at circa £800/MWh with annual fixed prices in excess of 70p/kWh.

This has created challenging trading conditions. ESPO were able to utilise their risk managed flexible purchasing strategy to forward purchase electricity across numerous trades. This approach reduced the risk of being exposed to extreme prices, which can occur when securing all energy requirements at a single point in highly volatile and unpredictable market conditions.

In addition to wholesale energy costs increasing, the next stage in reforms of how electricity transmission and distribution costs are calculated means that most customers will see an increase in daily charges. These changes are part of the Targeted Charging Review (TCR) and moved charges to cover some network costs from the unit rate to the daily charge. This is an industry level change that all suppliers need to adopt, and the extent of the increase will be dependent on level of electricity usage by the site.

The impact of inflation on the cost of maintaining the electricity network has also pushed up costs and the higher cost of wholesale energy has increased the value of non-commodity costs imbedded in the unit rate. The key area for this is electricity distribution and transmission losses, which used to be a very small part of the energy price, but as they are calculated in relation to wholesale costs, are now adding around 2-3p/kWh to unit rates.

Increases in wholesale electricity and non-commodity charges since last year mean that across the ESPO portfolio, rates have increased by around 100% on previous prices. The forward purchasing undertaken via the flexible framework means these rates are significantly below those currently available on the market.

The government's Energy Bill Relief Scheme provides some additional discounts for the months of October 2022 to March 2023. Market reports currently indicate that these discounts vary from month to month in accordance with the terms of the scheme. The exact discounts are yet to be confirmed, but our estimations are that they will be in the region of the below:

Month	EBRS Discount
Oct-22	0.55 p/kWh
Nov-22	6.32 p/kWh

Dec-22	4.84 p/kWh
Jan-23	4.63 p/kWh
Feb-23	4.44 p/kWh
Mar-23	1.25 p/kWh

Current market intelligence suggests that previous predictions of continuing increases are unlikely to be accurate. Current information suggests that prices are likely to continue to increase in Q1 of 2023, although not by as much as previously anticipated, before stabilising and reducing towards the end of Q3 of 2023. Therefore, at this time, no accurate prediction can be given of what pricing may look like in 2024 and beyond.

For the purpose of clarity, pricing is made available on an annual basis and will not be known until September of each contract year. Therefore, prices will be at the best market rate at that point in time. Signing this contract allows ESPO to forward predict the basket volume and forward purchase when the market indicates it is the best time. This is how the council has benefitted from historically lower than average costs.

- 4.3 For reference, the expected Electricity spend for Oct 22 to Sept 23 is £4,929,950 based on the fixed pricing for this period. Should market prices remain at current level this would represent a total contract value of £19,719,803. This is based on estimated volumes and pricing remaining static. It is difficult to estimate with total certainty exactly what the Council's likely electricity consumption will be going forward. There is a possibility that consumption could be lower than expected. However, should Council's consumption increase by 10% more than the estimate, it should be noted that the full financial commitment over the contract term would be £21,691,780.

5. CORPORATE PRIORITIES

- 5.1 Agreeing the basis for a new 4-year contract for electricity supply is critical to the functioning of the Council's property/ asset portfolio and supports the following of the Council's Corporate Priorities:

1. Sustainable Future City Council

- How we Work
- How we Serve
- How we Enable

2. Economy and Inclusive Growth

A green electricity tariff is available with Total Energies Gas and Power Ltd. The Council may choose to purchase electricity through a green electricity tariff or a standard tariff.

In 2020/21, the purchase of a green electricity tariff reduced the net carbon footprint of the council by 2,713 tonnes CO₂e to 5,983 tonnes CO₂e. The 5,983 tonnes CO₂e figure excludes the emissions from the materials and subcontracted services purchased through the highways services, as the council does not have similar data for other contracts. Should the council decide to purchase electricity from this supplier without Renewable Energy Guarantees of Origin (i.e. not using a green electricity tariff), the carbon footprint of the council would increase the council's footprint significantly. Any future decrease in carbon emissions would be limited by the decarbonisation of the national grid, which is expected to reduce by 9% and 57% in comparison to 2020 levels by 2024 and 2028 respectively. Should the council commit to approving the contract and wished to continue to purchase green electricity, the uplift for green electricity would rise from 0.075p per kWh to 0.56p per kWh which represents a significant cost. Market research indicates that increased pricing is industry wide due to the volume of businesses requiring green electricity and the limited availability, and therefore the decision to award the contract to this supplier is unlikely to significantly impact costs of the green electricity uplift.

Further information on the Council's Priorities can be found here - [Link to Corporate Strategy and Priorities Webpage](#)

- 5.2 Although the cost of the Council's future electricity consumption is likely to be significant due to prevailing energy market conditions, the Council is working proactively to mitigate this impact. This is through reviewing measures that reduce consumption, as well as focusing on schemes to decarbonise both its own portfolio as well as that of the wider city area.

The Local Area Energy Plan (LAEP) has considered the current and future energy demands of the city and outlined a series of proposals intended to decarbonise Peterborough. These focus on areas including managing heating needs, retrofitting buildings for energy efficiency and meeting the demand for electric vehicle charging. The LAEP, which covers 70% of all emissions generated in Peterborough, will feature prominently in a city-wide climate change action plan which is currently under development. The climate change action plan will also consider areas such as land use and transport emissions.

Meeting a net zero target of 2040 is expected to require investment of £8.8 billion into Peterborough. This would most likely come from private investment, residential home upgrades and government grants. The LAEP has considered all options before selecting the most cost-effective pathway to net zero carbon, although no final decision on which projects to progress have been made at this stage.

The LAEP was funded by the Government, which chose Peterborough as one of the first cities to develop its own plan. It was produced by experts Energy Systems Catapult in collaboration with council officers and staff from local energy supply operators, and since then a workshop has been held with stakeholders to discuss its findings, the solutions to any barriers which may exist and to explore potential projects.

As part of the LAEP, the Peterborough Integrated Renewables Infrastructure (PIRI) project is an innovative energy scheme that will connect Council buildings and help reduce energy costs. Whereas most low-carbon energy schemes focus only on single energy requirements i.e. heating, power, or mobility, PIRI seeks to identify opportunities to bring forward all of these simultaneously. This means achieving complimentary benefits that may not be realised if these interventions were developed as individual projects. The aim of the scheme is to provide lower priced, locally generated energy and reduce carbon emissions by up to 95% for connected buildings.

In addition, the Council have been supported by the Department for Business, Energy & Industrial Strategy (BEIS) to develop Heat Decarbonisation Plans for a number of its buildings, including those that will be connected to the PIRI network. This will compliment PIRI by addressing the fabric of the building, making it more efficient and helping to reduce costs further.

Further to the schemes mentioned above, ongoing work on the Council's estate include several projects where we will be reducing utility demand. This is mainly via a review of the Council's property portfolio (Locality Assets review), where we are expecting to see several sites becoming surplus to requirements. In addition, further investment is being explored in terms of:

- solar panels and LED lighting for certain buildings;
- potential funding for an energy efficiency officer who will be able to identify opportunities to lower energy use and/or install energy efficient technology;
- heat decarbonisation plans in development for several buildings. We will use these plans to develop business cases for items such as insulation; and
- general energy saving practices.

For further information on the above, the LAEP can be viewed here:

<https://democracy.peterborough.gov.uk/documents/s48275/8.%20Local%20Area%20Energy%20Plan.pdf>

6. CONSULTATION

6.1 Consultation has taken place between relevant Council Officers and the Executive Director of Corporate Services and S151 Officer, as well as the Council's Legal service and Procurement function to provide the relevant information for this report.

6.2 This report has been considered at CLT.

7. ANTICIPATED OUTCOMES OR IMPACT

7.1 It is anticipated that Cabinet will approve the new contractual arrangements for the supply of Electricity to the Council's estate, via the ESPO framework. This will provide full governance for the procurement process which ensures future energy supply to the Council's property portfolio.

8. REASON FOR THE RECOMMENDATION

8.1 Renewal of the Electricity Contract with ESPO is the recommended option due to current market conditions. ESPO framework supplies electricity for non-half hourly, half hourly metered and unmetered supplies whereby ESPO act as an intermediary to buy electricity in the wholesale market on behalf of PCC via Total Energies Gas and Power Ltd. Moving to CCS Framework would not deliver any benefit at the current time due to market conditions. ESPO has a clearer and more transparent framework, and it is therefore in the best interest of the Council to renew at this time as to move to CCS would mean that we had a short period of paying off-contract flexible pricing which would be more expensive.

9. ALTERNATIVE OPTIONS CONSIDERED

9.1 Other options considered:

- Full Compliant Tender process – this was discounted as PCC volume would be insufficient to achieve best value for money in the market.
- Award via CCS Framework – This was discounted as in the current climate moving away from ESPO would see increases to pricing in the short/ long term.
- Do Nothing – this was discounted as we would be off-contract and pricing would be at the market rate and this would not be beneficial to PCC

10. IMPLICATIONS

Financial Implications

10.1 Financial implications have been included within this report.

Legal Implications

10.2 The Council is part of the Eastern Shires Purchasing Consortium and is able to call-off contracts under this framework.

Equalities Implications

10.3 There are no equalities implications arising from the recommendation.

11. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

11.1 None.

12. APPENDICES

12.1 None.

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