

HOUSING COMMITTEE
TUESDAY, 28TH SEPTEMBER, 2021 AT 7.30 PM

Supplementary Agenda

To all members of Housing Committee: The following papers, which were not available for dispatch with the agenda, are attached. Please bring them with you to the meeting:-

Agenda No Item

- 13. Gas and electricity contracts - confirmation of decision taken under urgency powers (SO 35) (Pages 3 - 24)**

Yours faithfully,

David Ford

Chief Executive

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Update on the procurement of contracts for the supply of gas and electricity

Housing Committee Tuesday, 28 September 2021

Report of: Executive Head of Communities

Purpose: For information and decision

Publication status: Open

Wards affected: All

Executive summary:

Following a recent procurement exercise, a three year contract for the supply of gas has been awarded to Gazprom and an 18 month contract for the supply of electricity to Drax Energy (formally Haven Power). Permission for the Executive Head of Communities to award the contracts was agreed by Chief Executive Urgency Decision report following consultation with Group Leaders and the Chair / Vice Chair of the Housing Committee.

Due to the energy market's specialist and volatile nature, the Council engaged the energy consultancy Inspired Energy to undertake the procurement exercise on its behalf. Inspired Energy have been the Council's energy consultant since 2018.

Gas markets are currently experiencing 17 year highs. As such, Inspired Energy recommended entering into a 36 month gas contract. The high market prices for the 36 month agreements only affect Winter 21 and Summer 22. The market is backwardated meaning the rates priced for years 2 and 3 of the contract reflect normal market levels.

Electricity markets have seen a very significant increase in prices. In order to try and achieve the best prices possible for future years, the Council's energy consultant recommended entering into an 18 month contract with Drax Energy followed by a flexible framework.

Green energy quotes were sought for both gas and electricity contracts in line with the Council's climate change agenda. For the electricity contracts we were able to go with 100% renewable energy, however due to the considerably higher cost of Green Gas than Brown, this was rejected on budgetary grounds.

This report supports the Council's priority of:

Building a better Council – making the Council financially sustainable and providing residents with the best possible services.

Contact officer Nikki Tagg Projects Specialist
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 John McGeown Procurement Specialist
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Recommendation to Committee:

That the Committee:

- notes the outcome of the recent exercise to procure new contracts for the supply of gas and electricity; and
- agrees to appoint Insight Energy to procure a flexible electricity contract for the period beyond April 2023.

Reason for recommendation:

The current utility contracts expire on 30/09/2021 and 11/10/2021 and so a decision needed to be taken on the future contracts before this Housing Committee could agree any action.

Group Leaders and the Chair and Vice Chair of Housing Committee were asked to comment before a Chief Executive Urgency Decision report was signed giving permission to:

- Procure new gas and electricity contracts via a compliant framework
- Use the Council's appointed energy consultant to carry out the procurement exercise
- Delegate authority to the Executive Head of Communities to award the contracts based on the recommendations of the external consultant

Although a report requesting permission from the Housing Committee to procure the new contracts should have been brought to Committee in June, this delay did not impact the timing of the procurement exercise which was always scheduled to take place in mid-late September.

Introduction and background

- 1 The advice from Government is that all public sector organisations should buy their energy through an aggregated, flexible, risk-managed framework.
- 2 Prior to 2012 the Council used LASER, a subsidiary of Kent County Council, as the central purchasing body to procure and manage its electricity and gas supplies. The Council were unhappy with their lack of transparency, pricing structure and other practices and so in 2012 entered into a 3 year agreement with British Independent Utilities (BIU), an energy consultancy, to procure our gas and electricity via a University of Lincoln framework. This contract was subsequently renewed.
- 3 In 2018, the Council changed its energy consultancy to Inspired Energy, following a competitive tender exercise and three year contracts were entered into with Opus for both gas and electricity. Inspired Energy currently also carry out an outsourced bureau service for the Council. As part of this service they provide invoice validation, reconciliation and allocation for all utility invoices.
- 4 The current contracts with Opus are due to expire on 11/10/21 (gas) and 30/09/21 (electricity).
- 5 The spend for the past three years has been¹:

Gas	2018/2019	£87,222
	2019/2020	£77,576
	2020/2021	£97,359
Electricity	2018/2019	£260,201
	2019/2020	£261,212
	2020/2021	£272,576

- 6 Approximately 60% of the electricity spend and 75% of the gas spend is paid from the Housing Revenue Account (HRA) for landlord supplies such as lighting in corridors and stairwells. Gas is also supplied to some sheltered housing schemes where there is a single boiler house.
- 7 Where appropriate, the actual HRA costs incurred are recharged as part of the annual service charge review. There may be implications for other strands of income, for example rent charges, as guidance from Central Government puts a cap on total charges to tenants.

¹ The figures used by Inspired Energy are slightly different than the ones highlighted in the table below. This reflects timing issues.

Procurement

- 8 As agreed in the Chief Executive Urgency Decision report, the Council's contracted energy consultant were appointed to undertake a procurement exercise using their recommended University of Lincoln (ULT) Framework and were asked to make recommendations on the most suitable contracts.
- 9 The energy consultant was asked to seek quotes for both 'brown' and 'green' energy as part of the tender exercise, with green energy being considered where there was adequate budget provision. The multi supplier ULT framework offers a number of 100% renewable only suppliers and brown mix suppliers that also offer green contracts.
- 10 Due to the volatile nature of the energy markets, contracts need to be signed on the same-day as the procurement exercise is undertaken. Energy prices have increased dramatically recently, and it was anticipated that the new contract prices would be significantly higher than the current contract.

Gas Contract

- 11 For the gas contract, exercises were run on the 15th and 16th September. The gas markets were lower on the 16th and we were advised that the prices were competitive in the current market and that we should sign contracts that day.
- 12 Seven companies were asked to quote with only Gazprom and Ecotricity choosing to quote. Inspired Energy recommended that we entered into a 36 month agreement with Gazprom for brown energy. The supplier made the most economically advantageous offer and were also able to meet the Council's payment term requirements.
- 13 Gazprom also offered a green gas option, but this represented a 42.44% increase on the current spend and so was rejected on budget grounds.

Electricity Contract

- 14 Mini competitions for the electricity contract were run on the 16th, 20th and 23rd September. Nine companies were invited to quote. No electricity suppliers responded on the 16th. On the 20th offers were received from only Drax Energy. EDF also provided quotes on 23rd September.
- 15 The quotes received showed a very large percentage increase on current spend ranging from an increase of 59% to 104% on current figures. Due to the high costs, our energy consultant recommended contracting with Drax Energy for 18 months and then entering into a flexible contract to begin trading energy for the period from April 2023. The aim of this approach is to achieve the best prices for future years of the contract.

- 16 If the Council did nothing, it would revert to default rates. These are included below, but given the rate increase of over 100% it was disregarded as being financially unviable.

Annual quantity kWh	1,713,608
Current costs	£258,331
Default costs	£604,666
Expected default costs ²	£706,978

- 17 The Council have accepted the recommendation from their energy consultant and have entered into an agreement with Drax Energy for 18 months. With Committee approval, we will immediately appoint Inspired Energy to sign the Council up to a flexible contract via Inspired Energy's compliant single supplier framework to allow trading from Q1 2022.
- 18 The future electricity contract is 100% renewable.

Key implications

Comments of the Chief Finance Officer

The field of purchasing energy contracts is complex which is why the Council employs the service of energy consultants to guide us through the process and recommend the best strategies for the Council to obtain the most advantageous prices.

The backwardated nature of the gas market means that although we will be exposed to high prices for the first year of the contract more normal market rates are achieved for years 2 and 3. This offers the Council a level of protection if prices remain persistently high and do not normalise and is better than falling back to the default price. The shorter 18-month contract for electricity will allow us to go back to the market sooner to re-procure when supply issues such as the damaged UK-France electrical subsea cable are fixed and electricity prices are likely to have fallen back from their current high.

The Council was overspent on its gas and electricity budgets for 2020/21 and budgets were revised upwards for 2021/22 to accommodate increased spend. Further growth will need to be added to the budgets for 2022/23 to allow for the increased expenditure. The actual level of spend will depend on the amount of usage which is tied to the winter weather condition. This growth should be easier to accommodate within the HRA, where transfers to reserves can be reduced, than the General Fund where offsetting savings in other areas will need to be found.

² Supplier is due to release new default rates imminently. This figures provides a forecast.

Comments of the Head of Legal Services

The nature and estimated value of this procurement is such that the procurement process is subject to the full application of the Public Contracts Regulations 2015 as amended which succeeds the EU Regulations. The report advises that the Council used Inspired Energy who in turn operate a framework for the supply of gas and electricity and any procurement would have been in compliance with the statutory requirements. Since the Council is eligible to use such a framework it will not have to carry out its own tendering process.

The Council's Constitution provides for a report to be submitted to the relevant Committee following the usage of urgency provisions contained within the Constitution. In particular, Standing Order 35 permits the Chief Executive to make decisions as a matter of urgency in consultation with Group Leaders and Chair of the respective Committee. Such decisions must then be reported to the next available meeting of the Committee, together with the reasons for urgency.

There are no other corporate implications.

Equality

There are no equality implications associated with this report.

Climate change

Green energy quotes for gas were sought, but due to the considerably higher cost they were rejected on the grounds of inadequate budget. Given the current financial situation facing the Council, the award needed to be made to the most economically advantageous tender. It was also important to achieve low costs as in some cases these are recharged to tenants.

We were able to go with 100% renewable electricity.

Appendices

Appendix A - Gas procurement recommendation

Appendix B – Electricity procurement recommendation

Appendix C – Urgency decision notice

Background papers

None

----- end of report -----

Recommendation Report for Gas Procurement for Tandridge District Council

Report Date: 16/09/2021

Introduction

This contract and price review report has been prepared to inform Tandridge District Council of the available options and offers for the supply of Gas from October 2021.

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Current Provision

Tandridge District Council currently procure Gas on a fixed contract basis from Opus Energy under a 36 month term ending 30/09/2021

Energy Market Overview

The energy market is currently experiencing 17 year highs following a bullish summer led by a dramatically under supplied storage system following a cold spring season and minimal storage injections due to a stronger Asian LNG market, post COVID demand returning to normal levels and delays to Nordstream2 project which is the new gas pipeline from Russia to the continent.

Results and Contract Selection Recommendation

Gas

Contract Term 1- 12 Months

Current Gas Costs	£ 89,727
Annual Quantity kWh	2,467,673

12 Mth Offers	Total Cost		Annual	%	Notes
Gazprom Brown	£ 148,101.74	Increase	£ 58,374.33	65.06	AMR and data access. 21 Days DD
OSSE					Declined
Gazprom Green Gas					No Offer for 12mth due to workload
Gazprom Carbon Offset					No offer product being reviewed currently
Ecotricity	£ 142,736.69	Increase	£ 53,009.28	59.08	No AMR. 14days DD Only. 96% of volume is carbon offset and 4% green as standard
Opus					Declined- withdrawing from sector
Corona					Withdrew from competition
CNG					No repsonse
TGP					Declined

Contract Term 2- 24mths

Current Gas Costs	£ 89,727
Annual Quantity kWh	2,467,673

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24 Month Offers	Total Cost		Annual	%	Notes
Gazprom Brown					No Offer for 24mth due to workload
SSE					Declined
Gazprom Green Gas					No Offer for 24mth due to workload
Gazprom Carbon Offset					No Offer product has been withdrawn for review
Ecotricity	£ 121, 843.25	Increase	£ 32,115. 84	35.79	No AMR. 14days DD Only. 96% of volume is carbon offset and 4% green as standard
Opus					Declined- withdrawing from sector
Corona					Withdrew from Competition after 2 nd round due to workload commitments
CNG					No response
TGP					Declined

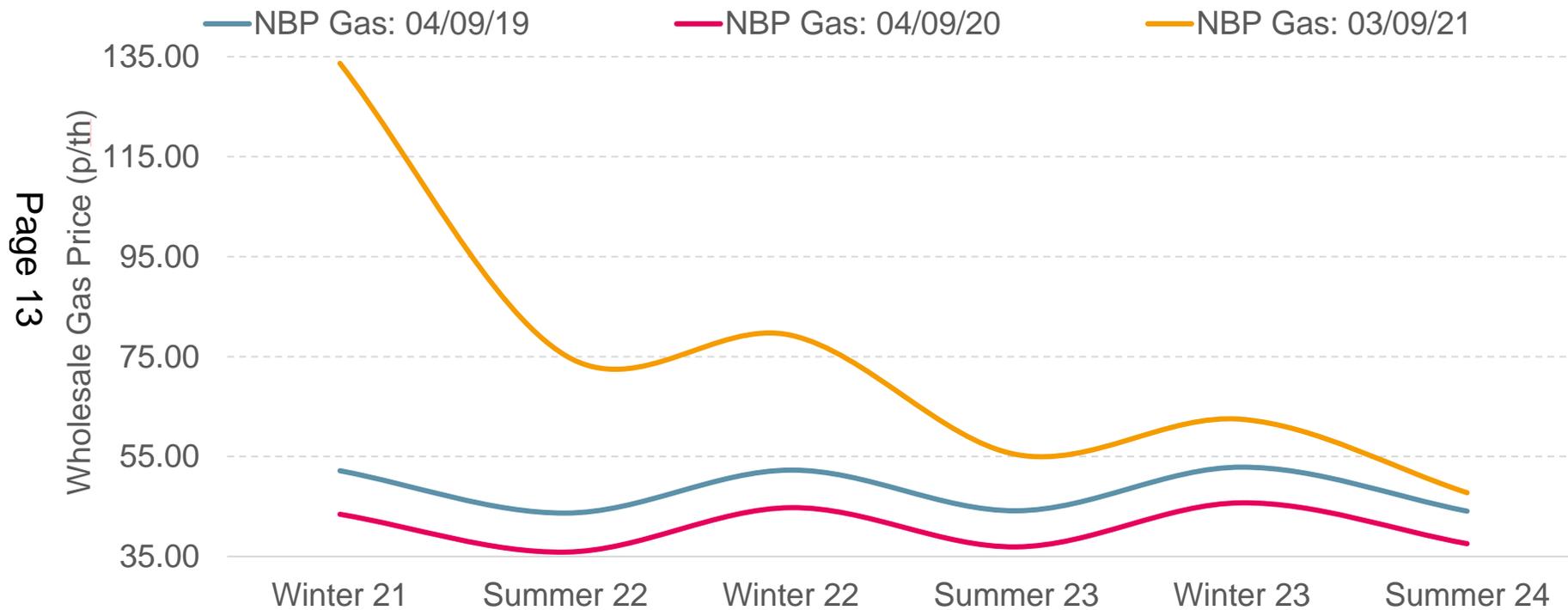
Contract Term 3- 36 Months

36 Mth Offers	Total Cost		Annual	%	Notes
Gazprom Brown	£ 106,342. 43	Increase	£ 16, 615. 03	18.52	AMR and data access. 21 Days DD
SSE					Declined
Gazprom Green Gas	£ 127,804. 43	Increase	£ 38, 077. 03	42.44	AMR and data access. 21 Days DD
Gazprom Carbon Offset					No Offer product has been withdrawn for review
Electricity	£ 106,679. 82	Increase	£ 16, 952. 41	18.89	No AMR. 14days DD Only. 96% of volume is carbon offset and 4% green as standard
Plus					Declined- withdrawing from sector
Corona					Withdrew from Competition after 2 nd round due to workload commitments
CNG					No response
TGP					Declined

Our recommendation is to contract with Gazprom Energy as the supplier with the most competitively advantageous offer. Gazprom can meet the payment term requirement of 21 Days DD and will also provide a free of charge gas AMR metering rollout with access to the Half hourly data.

The recommendation is to enter a 36mth agreement. Although the gas market prices are high currently this is only affecting Winter 21 and Summer 22. The market is backwardated which means that the energy rates priced for the 2nd and 3rd years of the contract offers are at what is considered market normal levels. The costs are also lower for the extended term.

If a 24mth contract was entered into a second procurement exercise would need to be carried out for the period of Oct 2023 – Sept 2024 with the risk of the market prices for this period increasing from the current market normal we are witnessing for these seasons. The below graph highlights this backwardation with the yellow line showing that currently the price is almost as low for this period as seen in 2019 when we were experiencing normal market conditions.



**Recommendation Report for Electricity Procurement for
Tandridge District Council**

Report Date: 20/09/2021

Introduction

This contract and price review report has been prepared to inform Tandridge District Council of the available options and offers for the supply of Electricity from October 2021.

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Current Provision

Tandridge District Council currently procure both Gas and Electricity on a fixed contract basis from Opus Energy under a 36 month term ending 30/09/2021

Energy Market Overview

The energy market is currently experiencing 17 year highs following a bullish summer led by a dramatically under supplied storage system following a cold spring season and minimal storage injections due to a stronger Asian LNG market, post COVID demand returning to normal levels and delays to Nordstream2 project which is the new gas pipeline from Russia to the continent.

Results and Contract Selection Recommendation

Electricity

Current Costs	£ 258,331
Annual Quantity kWh	1,713,608

Default Costs	£ 604,666.00
Expected Default Costs **	£ 706,978.00
Annual Quantity kWh	1,713,608

***Supplier due to release new default rates these are the forecasts of these charges*

Contract Term 1- 12mths

12 Mth Offers	Total Cost		Annual	%	Notes
SSE					Declined
EDF	£ 527,287.00	Increase	£ 268,955.85	104.11	21 Days DD. 100% Renewable.
Bryt Energy					Partial bid
Corona					Declined
Ecotricity					Only quoted Gas
Haven Power	£ 479,194.50	Increase	£ 220,863.34	85.50	21 Days DD. 100% Renewable.
Total Gas & Power					Declined
Smartest Energy					Declined
Opus					Withdrawing from Sector

Contract Term 2- 18mths

18 Mth Offers	Total Cost		Annual	%	Notes
SSE					Declined
EDF	£ 495,837.00	Increase	£ 237,505.85	91.94	21 Days DD. 100% Renewable.
Bryt Energy					Partial bid
Corona					Declined
Ecotricity					Only quoted Gas
Drax Energy (Haven)	£ 444,580.55	Increase	£ 186,249.40	72.10	21 Days DD. 100% Renewable.
Total Gas & Power					Declined
Smartest Energy					Declined
Opus					Withdrawing from Sector

Contract Term 3- 24 Months

24 Mth Offers	Total Cost		Annual	%	Notes
SSE					Declined
EDF					Didnt offer 24mths
Bryt Energy					Partial bid
Corona					Declined
Ecotricity					Only quoted Gas
Haven Power	£ 432,318.77	Increase	£ 173,987.61	67.35	21 Days DD. 100% Renewable.
Total Gas & Power					Declined
Smartest Energy					Declined
Opus					Withdrawing from Sector

Contract Term 4- 36 Months

36 Mth Offers	Total Cost		Annual	%	Notes
SSE					Declined
EDF	£ 448,189.00	Increase	£ 189,857.85	73.49	21 Days DD. 100% Renewable.
Bryt Energy					Partial bid
Corona					Declined
Ecotricity					Only quoted Gas
Haven Power	£ 412,103.54	Increase	£ 153,772.38	59.53	21 Days DD. 100% Renewable.
Total Gas & Power					Declined

Smartest Energy					Declined
Opus					Withdrawing from Sector

Our recommendation based on the results of this tender would be to contract with Drax Energy for 18mths and then enter into a flexible contract via Inspired Energy’s compliant Single supplier framework sponsored by the Countess of Chester NHS in order for Inspired to begin trading energy for the period from April 2023 as the market is showing backwardation allowing opportunity to secure good future pricing.

Drax meet all the required criteria. They will provide monthly invoicing, fully renewable power, the required billing terms of 21 days DD and they will upgrade the NHH ‘dumb metering’ within the portfolio to AMR without additional charge.

However if the council don’t believe that mobilisation into the flexible framework can be commenced in the immediate future then the recommendation would be to secure the 36mths fixed contract with Drax as in order to get the benefit out of a flexible contract in order to try and achieve the best prices possible for the future years the new contract would need to be in place with enough time to allow Inspired to begin trading ideally from Q1 2022.

The 36mth option is a good offer as a second recommendation because the market is still showing backwardation which means that the energy rates priced for the 2nd and 3rd years of the contract offers are at what is considered nearer to usual market normal levels. The market is in a particularly volatile position and the upside risk is now considered to be greater than the downside meaning that although it is possible for the market prices for Winter 22 to Summer 24 to come down it is very unclear as to whether they would come down enough to warrant the increased costs of the 12mth contract compared to the 36mth and would certainly expose the council to a degree of risk if the 12mth contract was agreed and the procurement of the electricity contracts for the period October 2022- Sept 2024 was postponed.

Furthermore 55% of the energy unit rate is made up on non energy industry charges which increase year on year. By contracting for 36 months Tandridge can protect budget by fixing these charges now and the unit costs for the extended duration are lower than for the 24mth term.

Chief Executive Urgency Decision

This form is to be used for the purposes of recording the Chief Executive's agreement to proceed with an urgency decision. The form should be signed by the Monitoring Officer or other Chief Officer prior to submission to the Chief Executive.

Your Name	Nikki Tagg
Job Title	Projects Specialist
Brief description of the matter	<p>This paper is seeking a decision to procure new Gas & Electricity supply contracts. The current contracts expire on 11 October 2021 and 30 September 2021 respectively, and there is no time for agreement at Committee as the next Housing Committee is scheduled for 28th September.</p> <p>Procurement of the new Gas and Electricity contracts are to be procured via a compliant framework.</p> <p>Inspired Energy are the Council's energy partner and were appointed in 2018 on a 3-year term which was renewed as of 1 October 2021 for a further 3 years, as approved by the Corporate Procurement Board. Inspired Energy provide 2 services:</p> <p>Bureau Service. This is an outsourced service providing invoice validation, reconciliation and allocation for all utility invoices, Electricity, Gas and Water. This service was outsourced in 2018 as there was no resource internally to undertake the work.</p> <p>Procurement Service. To procure the Gas & Electricity contracts. This is in line with the advice from central government that public sector organisations should procure energy contracts through an aggregated, flexible, risk-managed framework.</p> <p>The current 3-year contracts for Gas & Electricity were procured in 2018 via the University of Lincoln (ULT) framework and are due to expire on 11/10/21 and 30/9/21 respectively.</p> <p>The contracts were awarded to: Gas - Opus Electricity - Opus</p> <p>The spend for 2020/2021 was: Gas = £97,359 Electric = £272,576</p> <p>The spend for 2019/2020 was: Gas = £77,576 Electric = £261,212</p>

	<p>Approximately 60% of the gas spend and 75% of electric spend is paid from the Housing Revenue Account.</p> <p>It is proposed that Inspired Energy procure the new Gas and Electricity supply contracts via the compliant framework the current contracts were procured through.</p> <p>Given the volatility of the energy markets, contracts need to be signed on the same-day as the provided quotes. If agreed, permission will be granted to the Executive Head of Communities to make the decision on which energy quote to accept based on the specialist advice provided by Inspired Energy.</p> <p>The multi supplier ULT framework offers a number of 100% renewable only suppliers and also brown mix suppliers that offer also green contracts.</p> <p>If agreed, a full report will be taken to the next Housing Committee on 28 September 2021.</p>
Lessons Learnt	A paper seeking agreement from Members should have been taken to the June Housing Committee. Due to lack of resources, this did not happen.
Comments from Head of Legal / Monitoring Officer	
Is the matter urgent? If so, why.	The matter is urgent as the current contracts expire on 11/10/21 and 30/9/21 respectively.
Authority	<p>The Council's constitution contains the following urgency provision:</p> <p style="text-align: center;">No. 33</p> <p style="text-align: center;">GENERAL URGENCY PROVISION</p> <p><i>"The Chief Executive and other Chief Officers shall be authorised to take decisions on the grounds or urgency regarding matters which would otherwise be reserved for determination by a Committee or the Council. A matter can be deemed urgent if, in the reasonable opinion of the Chief Officer concerned, a delay would seriously prejudice the interest of the Council or of the public and it is not practicable to convene a quorate meeting of the relevant decision-making body in sufficient time to take the decision."</i></p> <p>The Chief Officer concerned shall also:</p> <ul style="list-style-type: none"> • advise and seek the views of the Political Group Leaders and the Chair of the appropriate Committee at the earliest opportunity; and • report the matter to next scheduled meeting of the appropriate Committee.

<p>Are there any key risk factors for example organisation reputation, financial or political interest?</p>	<ul style="list-style-type: none"> • There is an obligation to procure energy through an aggregated, flexible, risk-managed framework and the appointment of a managing agent through which we will access a framework, will fulfil this obligation. • Energy markets are volatile and it is not uncommon to see prices move by as much as 10% in one week. By collectively buying via a framework, we are able to use the group energy spend to secure the best possible supplier energy price. • Not using an agent could see energy prices increasing • There is no capacity within the Council to carry out an internal bureau service
<p>Any additional information.</p>	<p>Responsibility is with the Housing Committee as the majority of the energy spend is used by Council-owned housing and is funded from the Housing Revenue Account.</p>
<p>Signed by the Executive Head of Communities</p>	
<p>Date</p>	
<p>Signed by the Chief Executive</p>	
<p>Date</p>	

Alison Boote

14 September 2021

Alison Boote

Lidia Harrison

14 September 2021

Lidia Harrison

David Ford

14 September 2021

David Ford
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