

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.

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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

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