



EAST STAFFORDSHIRE BOROUGH COUNCIL

REPORT COVER SHEET

Title of Report:	Appointment of a Contractor to Provide Gas and Electricity to the Council	To be marked with an 'X' by Democratic Services after report has been presented
Meeting of:	Corporate Management Team – 14 th December 2022	X
	Leader and Deputy Leaders – 19 th December 2022	X
	Leader's / Leader of the Opposition's Advisory Group – 5 th January 2023	X
	Cabinet – 17 th January 2023	



Is this an Executive Decision:	NO	Is this a Key Decision:	YES
Is this in the Forward Plan:	NO	Is the Report Confidential: If so, please state relevant paragraph from Schedule 12A LGA 1972:	NO N/A

Essential Signatories:

ALL REPORTS MUST BE IN THE NAME OF A HEAD OF SERVICE

Monitoring Officer: **John Teasdale**

Date Signature

Chief Finance Officer: **Sal Khan**

Date Signature

EAST STAFFORDSHIRE BOROUGH COUNCIL

Report to Cabinet

Date: 17th January 2023

REPORT TITLE: Appointment of a Contractor to Provide Gas and Electricity to the Council

PORTFOLIO: Finance and Treasury Management

HEAD OF SERVICE: Sal Khan

CONTACT OFFICER: Daniel Arnold Ext. No. x1626

WARD(S) AFFECTED: All

1. Purpose of the Report

- 1.1. The report has been compiled with the purposes of appointing Total Energies as its electricity and gas supplier via an ESPO¹ Framework.
- 1.2. The report details the benefits of the ESPO Framework including the option to choose brown or green energy prior to the commencement of each contract year.

2. Background

- 2.1. The current global situation has had an impact on energy supplies and costs with the European energy market continuing to carry a great deal of uncertainty as it enters the winter period. There remain significant risks to energy, where gas supplies in particular, are extremely tight. The markets need to react quickly on any hint of further disruptions to supplies causing prices to fluctuate greatly.
- 2.2. East Staffordshire Borough Council's current gas contract expires 31st March 2023. An executive decision was recently taken to commit the Council to a 12 month fixed price contract with Total Energies via an ESPO Framework.

¹ ESPO is a public sector owned professional buying organisation, specialising in providing a wide range of goods and services to the public sector. ESPO provide free access to over 120 framework solutions, providing a compliant mechanism for public sector procurement.

- 2.3. The Council's current electricity contract is also with Total Energies via an ESPO Framework. This is due to expire on 30th September 2024.
- 2.4. For the Council to join ESPO's Flexible Basket arrangement for the supply of electricity from October 2024, the Council is required to commit to renewing its contracts by 31st January 2023 to allow ESPO to trade our future electricity consumption volumes.
- 2.5. For the Council to join ESPO's Flexible Basket arrangement for the supply of gas from April 2024, the Council is required to commit to renewing its contracts in early 2023 (date to be confirmed) to allow ESPO to trade our future gas consumption volumes.
- 2.6. A framework agreement is a contract procured in accordance with relevant procurement regulations by an independent purchasing organisation that local authorities can access. Utilising frameworks is compliant with the Council's Contract Procedure Rules.

3. Contribution to Corporate Priorities

- 3.1. This report will indirectly contribute to the Value for Money Council priority by providing detail on the cost saving measures available to the Council through access to the ESPO Flexible Basket.

4. Appointment of a Contractor to Provide Gas and Electricity to the Council

- 4.1. The Council's current gas and electricity contracts are with Total Energies, procured via an ESPO Framework.
- 4.2. The current gas contract expires on the 31st March 2023, however the Council has secured a 12 month fixed price contract with Total Energies, via an ESPO Framework, for gas supply from 1st April 2023 to 31st March 2024.
- 4.3. The Council's electricity contract is also with Total Energies. This is due to expire on 30th September 2024.
- 4.4. Throughout the current contract periods, the Council has benefited from ESPO's Flexible Basket purchasing approach which aggregates baskets with many other Public Sector customers providing cheaper rates than fixed price contracts.
- 4.5. However the European energy market has carried a great deal of uncertainty over recent months and uncertainty is likely to continue. The war in Ukraine, the sanctions on Russia, the supply issues with Nord Stream 1 and 2 and other global issues have created significant risk to gas supplies in Europe and have therefore impacted on costs.

4.6. As a result of this volatility in the market, it is important for the Council to consider its utility contracts as soon as possible to maximise value for money as far as possible. Being part of the ESPO Flexible Basket will be beneficial to the Council as set out below.

4.7. Benefits of a Flexible Basket

4.7.1. The Pan Government Energy Project team detailed how customers can evaluate the savings achieved by using a flexible contract. The figures used to measure success were derived by extensive research into the effectiveness of being part of aggregated basket with many other Public Sector customers.

4.7.2. The team assessed information from many suppliers to ascertain the possible savings that were achieved by bringing the requirements of multiple Public Sector customer portfolios into a single procurement exercise which incentivises suppliers to offer lower margins to service the whole of the aggregated portfolio. Based upon the minimum volumes of 500 million kWh's for buying electricity on the wholesale market, and 20 million therms for gas they calculated the average aggregation saving was as follows.

- Electricity – 0.185p/kWh
- Gas – 0.059p/kWh

4.7.3. The team also assessed information from suppliers to calculate the average risk premium that was added to Fixed Price / Fixed Term quotations to allow for within day market movements and in most cases allow quotations to remain valid within the day they were quoted. These additional risk premiums were calculated as follows.

- Electricity – 0.0657p/kWh
- Gas – 0.01675p/kWh

4.7.4. Commodity purchase savings are calculated by comparing the average wholesale price available during the Trading Period compared to the wholesale cost achieved by the ESPO Trading and Risk Management team for the actual supply period. This gives a transparent comparison of the prices available during the period the commodity is being purchased.

4.7.5. Analysis shows the Council has saved £15,779.35 on electricity and £40,558.67 on gas since 2016 by being included in the Flexible Basket arrangement.

4.7.6. Appendix 1 summarises the savings the Council has made by being within a Flexible Basket since 2016.

4.7.7. Looking forward, aggregation and fixed to flexible savings will remain throughout the new framework period. The supplier margin will remain fixed for the full duration of the framework despite the recent large increases in inflation.

4.7.8. The commodity purchasing saving is more difficult to quantify in future years as no one can predict the future wholesale costs of energy however ESPO's dedicated In House Trading & Risk Management Team will continue to utilise their risk strategy approach.

4.8. Supply of Gas and Electricity

4.8.1. ESPO has renewed their electricity and gas framework and the supplier appointed is Total Energies. The renewal of these frameworks gives the Council the opportunity to re-join ESPO's Flexible Basket arrangement for the supply of electricity and gas where we will continue to receive the benefits described above.

4.8.2. In addition to the Flexible Basket benefits, the Council would also have a dedicated account and billing manager, comprehensive support encompassing supply point administration, portfolio management and price validation, general queries and advice related to the contract and supply, plus access to expert market intelligence.

4.8.3. The supply of gas would be for three years from April 2024 to March 2027 and electricity for four years from October 2024 to September 2028.

4.9. Green Energy

4.9.1. In East Staffordshire, the Council declared a 'Climate Emergency' in August 2020 and set an aspiration to make the borough carbon neutral by 2050.

4.9.2. Following the declaration, a comprehensive Climate Change Action Plan was developed. The Plan covers several themes including energy generation and use.

4.9.3. While it is not being specifically proposed the Council procures Green energy at this time of volatility in the market, joining the ESPO Flexible Basket would give the Council the ability to choose which type of energy it utilises in the coming years (e.g. green/brown), allowing for flexibility, not committing the Council to using one type of energy supply and supporting the Council's climate change priorities. Prior to each contract year, ESPO can provide an uplift price for green energy six months prior to supply and an indicative price for brown based on the percentage ESPO has already purchased up to that point.

4.9.4. Total Energies ensure any renewable energy we are supplied is backed by certificates from renewable-generated sources. Their certificates

come from UK-based renewable generation, ranging from solar and wind turbines to anaerobic digestion and biomass plants.

4.9.5. In order to evidence the supply is renewable-sourced, Total Energies use Renewable Energy Guarantee of Origin (REGO) certificates administered by Ofgem and Guarantee of Origin (GoO) certificates from the EU. For gas, they use Renewable Gas Guarantee of Origin (RGGO) certificates issued by the Green Gas Certification Scheme (GGCS).

4.10. Summary

4.10.1. The Council's next gas contract expires on 31st March 2024 and its electricity contract expires on 30th September 2024.

4.10.2. In order for the Council to gain the benefits of ESPO's Flexible Basket, the Council is required to commit to joining these by January 31st 2023.

4.10.3. Joining the Flexible Baskets allow ESPO to include the Council's aggregated consumption volumes in their procurement of these utilities to yield economies of scale. The rates for each contract year will be confirmed once the volumes have been procured via the framework, but are likely to be beneficial compared to those the Council could access itself on the open market or via a fixed price arrangement.

4.10.4. Therefore the recommendations of the report are to commit the Council to joining the ESPO Flexible Basket and appoint Total Energies for its gas and electricity supply via the ESPO Framework for:

4.10.4.1. The supply of gas for the three year period 1st April 2024 to 31st March 2027.

4.10.4.2. The supply of electricity for the four year period 1st October 2024 to 30th September 2028.

5. Financial Considerations

This section has been approved by the following member of the Financial Management Unit: Lisa Turner

5.1. The main financial issues arising from this Report are as follows:

5.1.1. In committing to the ESPO framework the Council would secure an energy provider and associated support for the period 2024 onwards at a time of significant volatility in the market and therefore financial risk.

5.1.2. Whilst it is not possible to quantify future costs associated with this arrangement, paragraph 4.7.5 within the main body of the report outlines the financial savings made from being part of the ESPO flexi basket since 2016.

5.1.3. The procurement approach is compliant with the relevant procurement regulations and benefits from economies of scale. When combined with ESPO's flexi basket approach which supports the mitigation of the risks associated with this highly volatile market it represents an approach which secures overall value for money for the Council.

6. Risk Assessment and Management

6.1. The main risks to this Report and the Council achieving its objectives are as follows:

6.2. **Positive** (Opportunities/Benefits):

6.2.1. The Council will benefit from ESPO's Flexible Basket purchasing approach. Energy is purchased throughout the year, rather than at a single point in time, reducing the impact of market volatility.

6.2.2. If required, access to green energy uplift costs six months before the start of the each contract year.

6.2.3. The option of selecting green energy supplies could help support the Council's climate change and environmental priorities.

6.2.4. ESPO will provide a dedicated Account Manager to the contract with comprehensive support, supply point administration, portfolio management and price validation.

6.3. **Negative** (Threats):

6.3.1. The future trajectory of wholesale energy prices remains uncertain due to the dramatic effects on European energy prices as a result of the removal of Russian Gas in electricity generation mix within European countries.

6.4. The corporate risk register highlights wider economic and geo-political circumstances. Any financial implications to mitigate against these risks are considered above.

7. Legal Considerations

*This section has been approved by the following member of the Legal Team:
John Teasdale*

7.1. The key implications were highlighted in the associated Executive Decision Record which has addressed the process and authorisations required in order to undertake an urgent decision in this regard.

8. Equalities and Health

- 8.1. **Equality impacts:** The subject of this Report is not a policy, strategy, function or service that is new or being revised. An equality and health impact assessment is not required.
- 8.2. **Health impacts:** The outcome of the health screening question does not require a full Health Impact Assessment to be completed. An equality and health impact assessment is not required.

9. Data Protection Implications – Data Protection Impact Assessment (DPIA)

- 10.1. A DPIA must be completed where there are plans to:
- use systematic and extensive profiling with significant effects;
 - process special category or criminal offence data on a large scale; or
 - systematically monitor publicly accessible places on a large scale
 - use new technologies;
 - use profiling or special category data to decide on access to services;
 - profile individuals on a large scale;
 - process biometric data;
 - process genetic data;
 - match data or combine datasets from different sources;
 - collect personal data from a source other than the individual without providing them with a privacy notice ('invisible processing');
 - track individuals' location or behaviour;
 - profile children or target marketing or online services at them; or
 - process data that might endanger the individual's physical health or safety in the event of a security breach
- 10.2 Following consideration of the above, there are no Data Protection implications arising from this report which would require a DPIA

10. Human Rights

- 10.1. There are no Human Rights issues arising from this Report.

11. Sustainability (including climate change and change adaptation measures)

- 11.1. Does the proposal result in an overall positive effect in terms of sustainability (including climate change and change adaptation measures) - **Yes**
- 11.2. Please detail any positive/negative aspects:
- 11.2.1. Opportunity to consider choosing green energy supplies on a year to year basis, supporting the council's climate change priorities.

12. Recommendation(s)

- 12.1. To confirm to ESPO the Council will join their Flexible Basket for gas and enter a contract with Total Energies via the ESPO Framework for gas supply for the three year period 1st April 2024 to 31st March 2027.
- 12.2. To confirm to ESPO the Council will join their Flexible Basket for electricity and to enter a contract with Total Energies via the ESPO Framework for electricity supply for the four year period 1st October 2024 to 30th September 2028.
- 12.3. To note the Council will choose whether its gas and/or electricity supply is green or brown ahead of a contract year as per paragraph 4.9.3.

13. Background Papers

- 13.1. EDR 517/22 - Twelve month fixed price gas contract

14. Appendices

- 14.1. Appendix 1: Benefits of the Flexible Basket