Growing a place of opportunity and ambition

Date of issue: 27th July 2022

MEETING:	**CABINET URGENCY PROCEDURE - LEADER'S ACTION**
DATE AND TIME:	**WEDNESDAY, 27TH JULY, 2022 AT 2.00 PM**
VENUE:	**OBSERVATORY HOUSE**
DEMOCRATIC SERVICES OFFICER:	**NICHOLAS PONTONE**
(for all enquiries)	**01753 875120**

Decision to be taken under section 2.11 (Urgency procedure - Leader's Action) of Part 4.4 (Executive Procedure Rules) of the Council's Constitution, when an urgent decision needs to be taken in circumstances where to wait until the next scheduled meeting of the Executive would be prejudicial to the best interests of the Council:

AGENDA ITEM	**REPORT TITLE**	**PAGE**	**WARD**
1.	Declarations of Interest	-	-
2.	Corporate Energy Purchase Contracts (August 2022 - March 2025)	1 - 12	All

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SLOUGH BOROUGH COUNCIL

REPORT TO:	**Cabinet - Urgency procedure - Leader's Action**
DATE:	27th July 2022
SUBJECT:	Corporate Energy Purchase Contracts (August 2022 – March 2025)
CHIEF OFFICER:	**Richard West**
CONTACT OFFICER:	**Jason Newman/Savio DeCruz**
WARD(S):	All
PORTFOLIO:	**Cllr James Swindlehurst**
KEY DECISION:	**Yes**
EXEMPT:	**No**
DECISION SUBJECT TO CALL IN:	**No**

APPENDICES

A: Appendix A - RMS - Power and Gas 2022-25_Strategy

1 Summary and Recommendations

This report outlines the extraordinary state of the wholesale energy market, and the options for purchasing energy volume under our two new commercial contracts:

- Corona Gas (commercial gas contract)
- EDF electricity (commercial electricity contract)

The report recommends the approval of a new risk management strategy (RMS) to 'purchase in advance' all our commercial energy volume for the remainder of 2022/23. This strategy is following the Council's brokers advice to limit our significant exposure to ever increasing Winter wholesale energy prices. Following this decision, the strategy will be to then review the market for financial years 2023/24 and 2024/25 based on energy volume and price.

The change in approach has come through the commodity market being extremely volatile following the war in Ukraine and with no certainty over what will happen next in the market. Officers are recommending that with this approval, the mitigation plan to reduce energy consumption is also adopted to further reduce the impact on the budget.

Officers have had discussions with the three PFI schools to notify them of the proposed decision. The expectation is that the schools will remain with the Council for 22/23 but either way the Council's general fund will not be exposed to their decision.

Recommendations:

Cabinet is recommended to:

1.1

i. Approve a change to the purchasing strategy to manage the risk of price volatility;

ii. Note that a report will be presented to Cabinet in Autumn 2022 on an energy volume reduction strategy.

Commissioner Review

"Commissioners are happy to support the report."

2 **Report**

2.1 **Energy Contracts**

2.2 Slough Borough Council procured 7 new energy contracts in early April 2022. The 7 contracts covered housing, PFI schools, corporate assets and highways assets (Street lighting). These contracts have allowed the Council to still spot purchase to reduce some of the exposure to the Council.

2.3 The Non-Half Hourly (NHH) Commercial, NHH Housing, Gas Housing, Half Hourly (HH) Housing and Unmetered Service (UMS) portfolios have been locked in to fixed priced contracts. The Unit rates and standing charges are fixed for full contract duration. Only HMRC taxes CCL & VAT are passed through at cost.

2.4 The exposure to the General Fund for all contracts HH, NHH, Commercial and Unmetered Supplies is forecast at £3.4m. A further £1.4m is to be recharged to the PFI schools and £1.2m to social housing**.**

2.5 The General Fund base budget for energy in 2022/23 financial year is £2.4m. The on-going fluctuation in the market now means that there is an in-year pressure of £1m.

2.6 To further limit the exposure to all funds, officers are now recommending with advice from the Council's brokers eEnergy, that the remaining energy is purchased for August 2022 to the end of the financial year.

2.6 Once the energy price has been fixed there are proposals to reduce consumption across our street lighting, through changing street lighting lux levels, and NHH commercial assets (through asset disposal).

Energy Contracts and Stakeholders

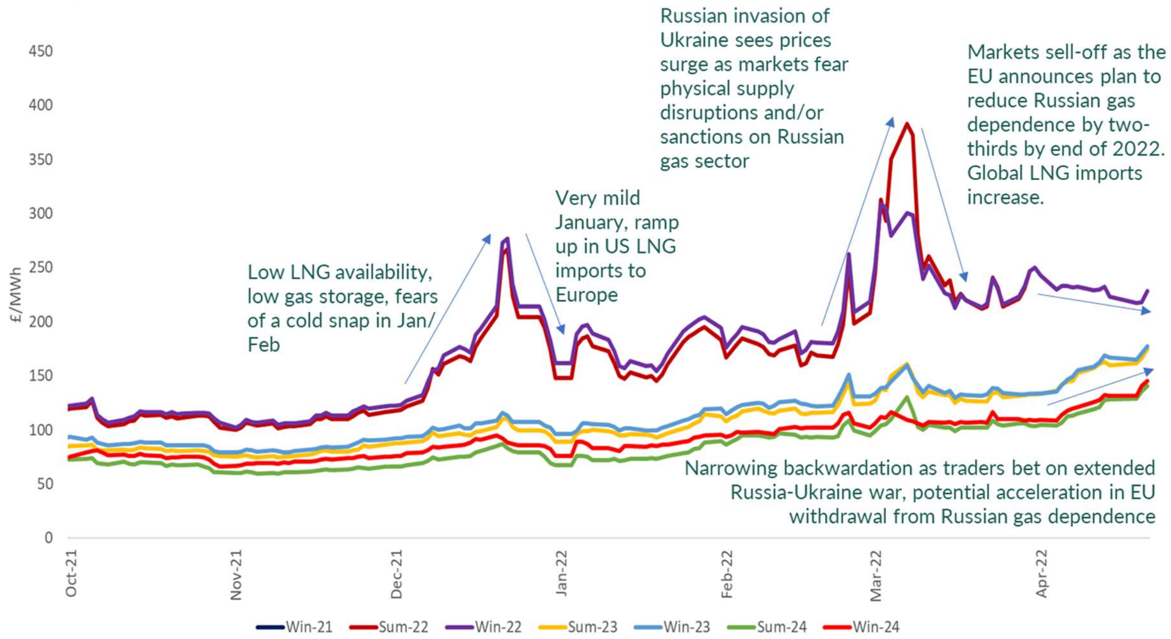
2.19 In summary we have awarded new energy supply contracts across our wide asset portfolio and have some legacy issues and costs still to resolve from our previous suppliers. Table 5 summaries the energy contracts, key stakeholders, and forecast energy in contract costs for 22/23.

2.20 **Table 5 Slough Energy Contracts, forecast costs, and Stakeholders**

Contract & Type	**Forecast Consumption 22/23 (kWh)**	**Forecast Spend 22/23 (£000)**
Housing – HRA Funded		
HH Housing (Fixed)	95,400	47
NHH Housing (Fixed)	1,382,232	754
Gas Housing (Fixed)	2,992,981	410
Total		**1,211**
PFI Schools		
Gas Commercial (Flex)	4,265,293	635
HH (Flex)	1,847,448	777
Total		**1,412**
General Fund		
Unmetered supplies (Fixed)	2,657,814	887
NHH Commercial (Fixed)	740,250	275
Gas Commercial (Flex)	4,353,995	668
HH (Flex)	3,492,923	1,528
Total		**3,358**
Total Energy cost		**5,981**

Market Prices and volatility

2.21 The graph overleaf clearly illustrates the significant instability and peaking of the energy markets over the past 6 months and the impact on the current and forward season pricing.



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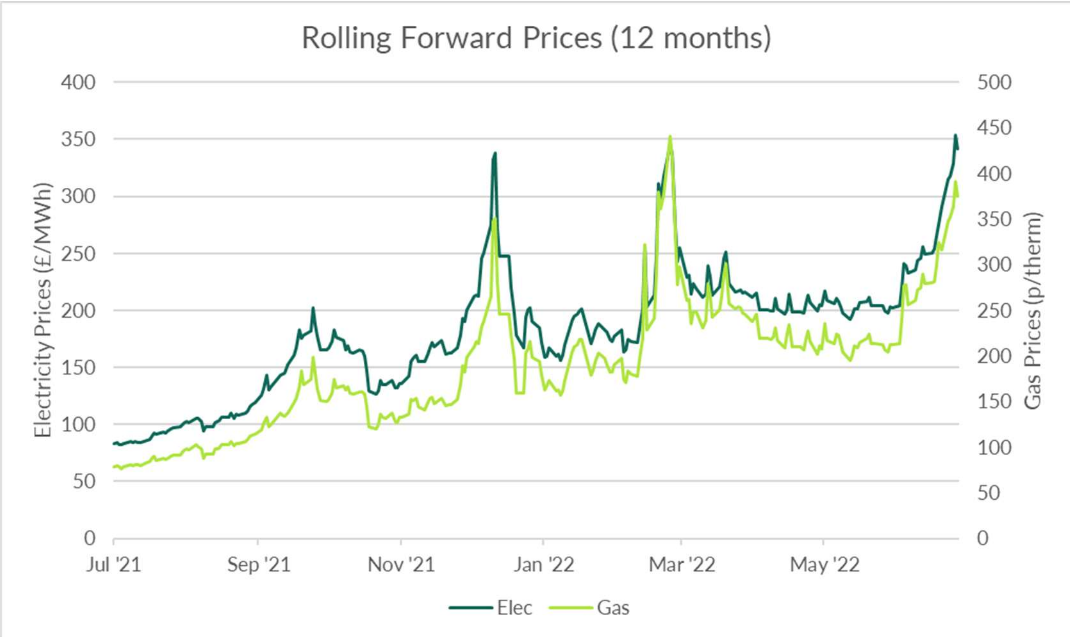
2.23 UK wholesale power prices are now a multiple of the long-term average (£53/MWh = 5.3p/kWh). In February 2021 we procured energy on a fixed price 1 year contract at approx. wholesale rate of £50/MWh and 55p/therm. In 2021/22 the Council spent approx. £2.1m on energy across its entire portfolio. We are now buying our energy at around £200/MWh and 150p/therm (average cost over April, May, June and July).

2.24 The 17 January '22 cabinet report referenced the wholesale price increase in gas and electricity during December 21, at the time considered the biggest hike in 20 years, an unprecedented event and forecast Slough energy spend to increase to £3.5m across its entire portfolio for 2022/23. Following the Russian invasion of Ukraine in February this has led to an even larger peak and as a result the market forecast is now £6m in 2022/23 for the entire portfolio.



Risk Management Strategy - Purchase Options

2.29 We have three purchase options outlined by our brokers (eEnergy) and a recommendation as outlined in Appendix A within the Risk Management Strategy.

a) 'Purchase in Advance' is where 100% of the next 12 months of commodity requirement is purchased, 12 months ahead of delivery. eEnergy are advising we adopt this strategy to purchase the remaining volume for the next 8 months (22/23) to avoid potential for increasing winter prices **(recommended)**.

b) 'Purchase within period' this is where we purchase a percentage of the future commodity requirement ahead of delivery and purchase the remainder on time-based triggers, as well as setting price sensitive caps. This is the approach eEnergy initially recommended we adopt but given the escalating forward winter price costs, **this approach is not recommended for 22/23 purchases**. Officers will continue to review the market for 23/24 and 24/25.

c) 'Purchase Opportunistically' this relates to purchasing the commodity requirement much closer to the day of delivery. This approach is also based on time-based triggers usually a month or quarter ahead of delivery, it can also incorporate price caps. This approach is high risk but when the markets are stable and prices are trending down offers significant potential for reducing energy costs. As there is a clear upward trend coming into Winter it is **not recommended** to continue with opportunistic purchase at this time.

3. Financial implications

3.1 The general fund budget for 2022/23 is £2.4m. A forecast of pressures for the next two financial years related to energy consumption and price fluctuations have also been identified and these will be reviewed in light of the asset disposal programme and the mitigation package.

3.2 As a result of further fluctuations in the market the budget needs to increase by £1m to £3.4m to manage the increased in-year pressure.

3.3 The Energy budget for the three PFI schools is £290k, this needs to increase by £1.122m to £1.412m and the HRA energy budget is £345k, this budget needs to increase by £866k to £1.211m. These costs will be passed on to the relevant areas and will not form part of the general fund pressures.

3.4 This report is designed to minimise cost overspend against budget and as the Council has no accounts since 2017/18 and thus no stable baseline, it is £307m overdrawn to 31/3/23 and cannot yet reasonably show it can balance in isolation 2022/23 it is not possible to undertake a meaningful virement. This proposal is designed to achieve cost overspend minimisation as opposed to what it would cost if the Council does not do this thus the recommendations are made

4. Legal implications

4.1 Under section 2.11 (Urgency procedure - Leader's Action) of Part 4.4 (Executive Procedure Rules) of the Council's Constitution, when an urgent decision needs to be taken in circumstances where to wait until the next scheduled meeting of the Executive would be prejudicial to the best interests of the Council, then;

- The Leader (or in his absence, the Deputy Leader) may, after consultation with the relevant Lead Member, take the decision.

- Before taking a Key Decision, the Leader (or Deputy Leader) must first consider whether the importance of the matter warrants the calling of a special meeting of the Executive.

- The decision must be taken in a way that fully complies with the Access to Information Rules and in particular, if relevant, with the rules relating to "key decisions".

- A copy of the minutes of the decision must be published within two clear working days of the decision and published on the Council's website with electronic notification given.

- It should be noted that where a decision is deemed to be urgent, and where the Access to Information Procedure Rules has been followed, that decision will not be subject to the call-in procedure provided the Chair of Overview and Scrutiny Committee agrees.

5. Risk management implications

5.1 Risks

The risk of energy procurement and forecasted increase in energy prices for 2022/23 have been identified on the directorate risk register.

There are several key risks relating to this corporate energy procurement strategy

Risk	Rating	Mitigation	Residual Risk
Further increases in the market	Very High	Adopt a cost avoidance based corporate procurement strategy to mitigate the risk – there will be a residual risk and pressure on revenue budgets	High
Monthly price goes down	High	Asset Disposal Strategy will be essential in mitigating this risk further by reducing the council corporate asset base and hence revenue costs, including energy costs. This will not reduce the impact of the monthly price but will lessen the burden on the budget.	Low

6. Environmental implications

6.1 The council is unlikely to be able to purchase all of its green energy without some form of additional tariff, and under the financial directives this is unlikely to be considered essential expenditure. As such the impact on our carbon emissions are likely to increase initially through the procurement of new energy contracts. The disposal of assets will result in a reduction in energy consumption which in turn will reduce the Councils carbon emissions over the period of the contract. This can be quantified through an energy and carbon audit.

7. Equality implications

7.1 There are no impacts on any group as a result of this decision from the general fund perspective. However, the wider impact on tenants in social housing (HRA) will be felt. This is not a service change impact but the market dictating the financial implications whereby the Council is not able to mitigate against the rising costs. The Council buying energy for social housing tenants is the most cost-effective way to limit fees charges and bulk buying powers.

8. Procurement implications

8.1 The Council has adhered to its Contract Procedure Rules and the Public Contracts Regulations by submitting and obtaining procurement approval for the Gas and Electricity contracts.

9. Workforce implications

9.1 There are no workforce implications relating to this report.

10 Property implications

10.1 There are no direct property implications relating to this report, but the procurement strategy does align with the asset disposal strategy to maximise cost avoidance.

11. Background Papers

None

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Slough Borough Council – Risk Management Strategy

Background

Slough Borough Council ("Slough") currently spend £1.4m per year on its Commercial HH electricity and gas, across both services. Due to unprecedented energy market price rises, Slough are looking at a potential £1.6m increase on their April 2022 renewals, as summarised by the below table

Entity / Fuel	Current estimated annual spend	Forecasted estimated annual spend	Variance £	Variance %
Commercial Electricity (HH)	£1,118,000	£2,291,713	£1,173,713	105%
Commercial Gas	£287,500	£752,495	£464,995	162%
TOTAL	£1,405,500	£3,044,208	£1,638,708	117%

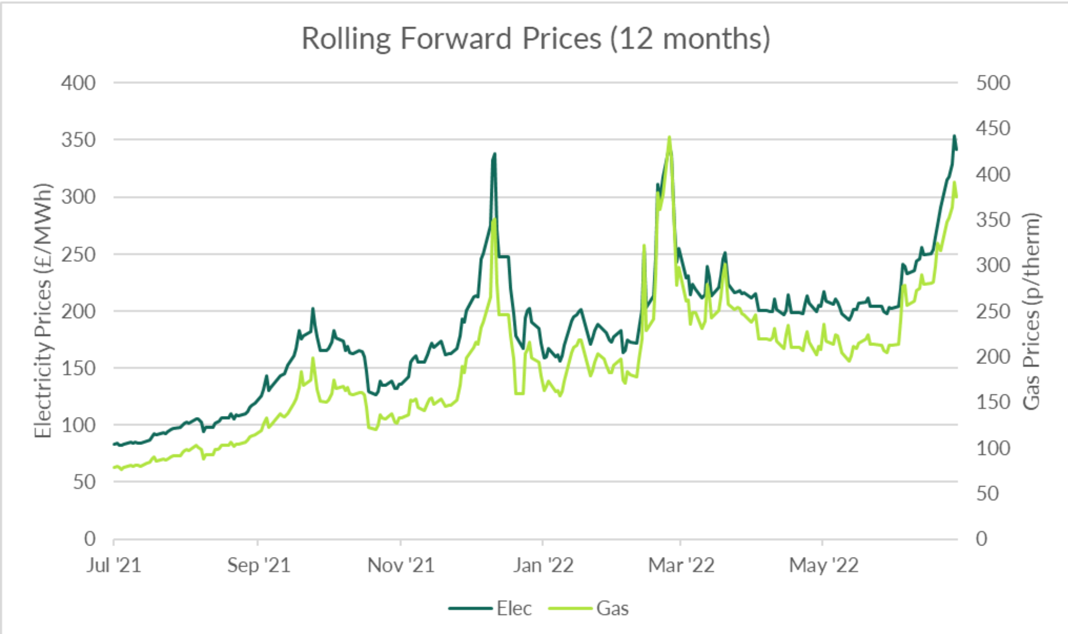
**Forecast accurate as of 1st July 2022*

Slough has therefore reviewed alternative purchasing strategies to help mitigate against this price increase, and has implemented a flexible supply contract.

A flexible energy supply contract enables Slough to purchase some, but not all of their forecasted energy consumption in advance, as opposed to fixing all of the energy volume upfront. Slough is then able to make multiple purchases of their remaining energy volume at later dates, with the aim of taking advantage of dips in the market. By making multiple purchases over a longer period of time, rather than one (fixed price) purchase ahead of the contract start date, Slough increase the chance of obtaining a cheaper price over the duration of the supply contract, and as such mitigating against the current fixed price cost forecast.

eEnergy's procurement strategy is based on using the functionality of flexible energy supply contracts to develop a cost avoidance strategy, in a risk averse manner.

Russia's war with Ukraine has created a huge amount of uncertainty in energy markets over whether Europe will have enough gas and electricity during winter to meet peak demand when temperatures are low. There is a high likelihood of prices rising until the end of 2022, before settling down next year.



eEnergy has recommended deploying a hybrid strategy due to the unprecedented market conditions, retaining a risk averse approach while remaining opportunistic in order to take advantage of any favourable market dips. The hybrid strategy includes

- An upfront purchase for the remainder of Year 1 to secure some budget certainty
- Regular forward pur chases spread through the year to track the wholesale market
- Caps to protect you from higher prices
- Opportunistic Purchases to capture lower prices and savings if possible

Strategy for Year 1 (Apr-22 to Mar-23)

100% of the volume for the first 4 months of energy has already been purchased, month-ahead.

Month	Purchase Instructions
Apr-22	Already purchased 100% of volume month-ahead, during last week of March
May-22	Already purchased 100% of volume month-ahead, during last week of April
Jun-22	Already purchased 100% of volume month-ahead, during last week of May
Jul-22	Already purchased 100% of volume month-ahead, during last week of June

The remaining 8 months of the contract year have not yet been purchased. But wholesale prices have been rising and we expect this to continue until the end of 2022. As a result we recommend purchasing 100% of the volume for Aug-22 to Mar-23 immediately on approval of this Risk Management Strategy.

Month	Purchase Instructions
Aug-22	Purchase 100% of volume immediately on approval of Risk Management Strategy
Sep-22	Purchase 100% of volume immediately on approval of Risk Management Strategy
Aug-22	Purchase 100% of volume immediately on approval of Risk Management Strategy
Nov-22	Purchase 100% of volume immediately on approval of Risk Management Strategy
Dec-22	Purchase 100% of volume immediately on approval of Risk Management Strategy
Jan-23	Purchase 100% of volume immediately on approval of Risk Management Strategy
Feb-23	Purchase 100% of volume immediately on approval of Risk Management Strategy
Mar-23	Purchase 100% of volume immediately on approval of Risk Management Strategy

Strategy for Year 2 and Year 3 (Apr-23 to Mar-25)

There is a good chance that energy prices for future months will fall during 2023, so we recommend purchasing this energy closer to delivery. We will also split the purchases into 4 tranches to spread the risk. We will:

a) Purchase the first 25% of your forecasted volume 12 months ahead of delivery
b) Purchase the second 25% of your forecasted volume 6 months ahead of delivery
c) Purchase the third 25% of your forecasted volume 3 months ahead of delivery
d) Purchase fourth and final 25% of your forecasted volume 1 month ahead of delivery

These purchases are cumulative and once all 4 purchases have been completed, 100% of the volume for a given period will have been secured.
The below table highlights the purchasing strategy time triggers for each month of year 2 (Apr 23 - Mar 24), with the colours representing purchases related to a specific Trigger date.

Month	Purchase first 25% of volume 12 months in advance	Purchase second 25% of volume 6 months in advance	Purchase third 25% of volume3 months in advance	Purchase fourth 25% of volume 1 month in advance
Apr-23	On RMS approval	w/c 24 Oct 22	w/c 19 Dec 22	w/c 27 Mar 23
May-23	On RMS approval	w/c 24 Oct 22	w/c 19 Dec 22	w/c 24 Apr 23
Jun-23	On RMS approval	w/c 24 Oct 22	w/c 19 Dec 22	w/c 22 May 23
Jul-23	On RMS approval	w/c 24 Oct 22	w/c 26 Jun 23	w/c 26 Jun 23
Aug-23	On RMS approval	w/c 24 Oct 22	w/c 26 Jun 23	w/c 24 Jul 23
Sep-23	On RMS approval	w/c 24 Oct 22	w/c 26 Jun 23	w/c 21 Aug 23
Oct-23	w/c 26 Sep 22	w/c 27 Mar 23	w/c 25 Sep 23	w/c 25 Sep 23
Nov-23	w/c 26 Sep 22	w/c 27 Mar 23	w/c 25 Sep 23	w/c 23 Oct 23
Dec-23	w/c 26 Sep 22	w/c 27 Mar 23	w/c 25 Sep 23	w/c 20 Nov 23
Jan-24	w/c 26 Sep 22	w/c 27 Mar 23	w/c 25 Dec 23	w/c 25 Dec 23
Feb-24	w/c 26 Sep 22	w/c 27 Mar 23	w/c 25 Dec 23	w/c 22 Jan 24
Mar-24	w/c 26 Sep 22	w/c 27 Mar 23	w/c 25 Dec 23	w/c 26 Feb 24

The purchasing strategy for year 3 would follow the table above, one year later.

In addition to the above strategy we will continuously track market prices and retain authority to make purchases earlier than stated if:

e) A **Price Cap** is breached
f) Slough provide specific approval to purchase volume earlier via an **Opportunistic Purchasing Decision**.

Price Caps

For Years 2 and 3, eEnergy will set +15% Price Caps above the wholesale electricity price.

- The +15% cap for contract Year 2 (Apr 23 - Mar 24), will be calculated on 1 October 22 and will apply from that date.
- The +15% cap for contract Year 3 (Apr 24 - Mar 25), will be calculated on 1 October 23 and will apply from that date.

If the market price rises above +15% of this reference price, additional volume will be purchased so that 75% of the total for that year has been purchased.

- These purchases will replace the 12, 6 & 3 month in advance deadline-based purchases detailed above to avoid duplications of purchases.
- The final 25% will remain open to reflect Slough's volume/asset disposal uncertainty. Unless a reforecast occurs, the remaining 25% will be purchased month-ahead.

Health warning: if the market rises instantaneously/very suddenly (called "gapping") then we may not be able to purchase at the +15% cap and the cost we purchase at may be greater.

Opportunistic Purchasing Decision (OPD)

eEnergy will review the markets on a daily basis with the view of maintaining an opportunistic position. Where eEnergy see material value to procure energy outside of the parameters of above purchasing strategy, eEnergy will submit a 1 page business case with justification for the OPD for review by Slough, and where appropriate, a meeting would be arranged with the relevant stakeholders to talk through the risk/rewards of eEnergy's OPD. The proposed OPD will be accepted or rejected by Slough, and where the proposal is accepted, the purchasing strategy would adapt accordingly.

Summary

This Risk Management Strategy (RMS) governs the wholesale purchasing for flexible Electricity and Gas supply contracts covering the period 1st April 2022 to 31st March 2025. The RMS can be amended at any time by written agreement of both eEnergy and Slough. If for any reason eEnergy believes it would benefit Slough to update the RMS, eEnergy will contact Slough to discuss.

Slough Borough Council Signature

Signature ________________________________ Date _______________________________

Print Name ______________________________ Role ________________________________

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