

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 purchases 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:

- Purchase the first 25% of your forecasted volume 12 months ahead of delivery
- Purchase the second 25% of your forecasted volume 6 months ahead of delivery
- Purchase the third 25% of your forecasted volume 3 months ahead of delivery
- 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 volume 3 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:

- A **Price Cap** is breached
- 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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