Slough Borough Council

REPORT TO:	**Cabinet**
DATE:	**27th February 2023**
SUBJECT:	**Energy Flex Purchases 23/24 (Purchase Strategy)**
PORTFOLIO:	**Cllr Rob Anderson (Finance Oversight and Assets)**
CHIEF OFFICER:	**Richard West**
CONTACT OFFICER:	**Jason Newman**
WARD(S):	**All**
KEY DECISION:	**Yes**
EXEMPT:	**No**
DECISION SUBJECT TO CALL IN:	**Yes**

APPENDICES

A: Flex Energy Contracts Assets 23/24
B: Sensitivity Analysis Wholesale prices 23/24 Floor and ceiling

1 Summary and Recommendations

The wholesale energy markets remain extremely volatile and the cost of energy to the consumer has tripled over the past year. To limit the Council's exposure to further energy price increases, and to provide opportunity to obtain additional value should energy prices continue to fall, Cabinet is requested to delegate authority to the Executive Director of Place and Community in consultation with the S151 officer and Lead Member.

The Council has two flex energy commercial contracts that allows it to spread out wholesale purchases throughout the term of these 3-year contracts, rather than fixing 100% of the wholesale cost at one time in a traditional fixed contract:

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

The Purchase strategy proposes to purchase **50% of the forecast volume for Summer 23 and Winter 23 following Cabinet Approval**. We are recommending purchasing 50% of the total 23/24 volume because the market forward prices are currently relatively low. 50% advance purchases of volume provides both a high level of budget certainty and reasonable value, following cabinet approval we will buy this volume between 28th Feb 23 and 31st March 23 to secure the best market price in that period for summer 23 and winter 23.
The remaining energy volume will be purchased when/if the wholesale market **forward prices** fall below £150/MWh (power) and 150p/therm (gas), we call this the **floor price** the

Council will reserve the right to hold back volume purchases to obtain best value i.e., buying volume well below the **floor price**.

The strategy also recommends setting a **price cap** at wholesale prices at £250/MWh (power) and 300p/therm (gas) to protect against significant energy cost exposure to the Council and PFI schools. If the wholesale prices start to approach the **price cap** then the Council will purchase the remaining volume to protect itself against spiralling costs, otherwise the Council will **default** to purchasing the remaining volume on a month by month basis, the **spot price**. This provides a balance of risk and reward and allows the Council to obtain favourable spot prices whilst capping against spiralling energy markets as a safeguard.

1 Recommendations:

1.1 Cabinet is recommended to:

i. Adopt the following purchase strategy:
   a. Approve the purchase of 50% of the ‘23/24’ energy volume for Summer 23 and Winter 23.
   b. Approve the purchase of the remaining energy volume if the wholesale price for that forward period falls below £150/MWh (power) and 150p/therm (gas), **the floor price** and where feasible well below the floor price.
   c. Approve the **default position** to purchase energy volume (power) on a month ahead, and gas on a day ahead (**spot price**) should wholesale prices for forward period remain above £150/MWh (power) and 150p/therm (gas).
   d. Set a wholesale energy market **price cap** for the month ahead and Winter 23 of £250/MWh (power) and 300p/therm (gas) and if markets increase such that the cap is expected to be exceeded, or is exceeded, then Cabinet approves the purchase of the remaining energy volume for 23/24 to limit further cost exposure.

ii. Delegate authority to the Executive Director of Place & Communities, in consultation with the Executive Director of Finance and Commercial (the S151 officer) and the Lead Member (Finance Oversight and Assets) to purchase energy in line with the above guidelines.

iii. Require officers to report back to Cabinet by February 2024 on the current state of energy markets and any proposed changes to purchasing strategy of future energy volume in the final year of the flex energy contracts 24/25.

Reason: To achieve the best value for energy costs and maintain budgetary control.

Commissioner Review

The commissioners are content with this report. However, they would expect a report to be made to Cabinet providing an update on the outcome of the future purchasing of energy made under delegated powers, as and when these are used.

2 Report

Slough Borough Energy Contracts

2.1 Slough Borough Council procured 8 new energy contracts in early April 2022. These energy contracts cover the Council's housing assets (communal lighting and heating), 3 PFI schools, all corporate operational assets and highways assets (i.e. Street lighting, traffic lights).

2.2 Six of these contracts are fixed price contracts. The unit rates and standing charges are fixed for the full contract duration (3 years). Only HMRC taxes CCL & VAT are passed through at cost. As the unit price is fixed the cost of energy is dictated **by energy consumption or Government Energy Bill Relief Schemes (EBRS)**, thus measures to reduce consumption will reduce the cost of energy. These fixed costs are shown below in Table 1 without the EBRS and total approximately £2.43m per year over the next 3 years.

Table 1 SBC Fixed Energy Contracts (no EBRS)

Fixed Energy Contract	Covers	Annual Cost of Contract
Non half hourly (NHH) Commercial Contract	Mostly corporate operational assets, some housing	£275,000
Non half hourly (NHH) Housing Contract	Communal Lighting and power HRA assets	£754,000
Half-Hourly (HH) Housing Contract	Pendeen Court, Brook House	£47,000
Gas (Housing)	Housing communal heating	£410,000
Unmetered Supply (UMS) Housing	TV Aerials	£1,300
Unmetered Supply (UMS) Contract	Street Lighting, Traffic lights, CCTV, bollards	£952,000
		£2.43m

2.3 The two flex energy contracts Slough have is outlined in Table 2 and these contracts allow the Council to purchase its energy volume in advance of supply and over various forward periods that cover their duration to extract value from the energy market. The volatility of the energy markets over this past year, has made this impossible. The strategy proposed for 23/24 considers a risk/reward approach that caps energy costs to a maximum level (ceiling price) but also aims at trying to reduce energy cost exposure through purchasing volume at lower market prices (below floor price). The reality is the cost of energy is unlikely to ever return to pre-invasion/pandemic market levels when it averaged at **55p/therm (gas)** and **£55/MWh** over (20/21). In the past year (22/23) the energy market has averaged at over **300p/therm (gas)** and **£220/MWh**. Table 2 shows the 22/23 annual costs without EBRS. The strategy is focussed on the flex contracts. Details of the assets covered by these flex energy contracts is covered in Appendix A.

Table 2 SBC Flex Energy Contracts (no EBRS)

Flex Energy Contract	Covers	22/23 Forecast Costs
Half Hourly (HH) Commercial Contract	Corporate operational assets and 3 PFIs	£2.38m
Gas Commercial Contract	Corporate operational assets and 3 PFIs	£1.43m
		£3.81m

<u>Energy Bill Relief Scheme</u> (EBRS)

2.4 Due to the spiralling cost of energy on all consumers the Government announced in September 2022 the Energy Bill Relief Scheme (EBRS) to provide bill relief for non-domestic customers in Great Britain and Northern Ireland. The scheme applied discounts to energy usage between the 1st October 2022 and 31st March 2023. The discount is applied automatically to the supply bill. The scheme covers public sector organisations (schools and local authorities), businesses and charities. The supported price was set at:

- Electricity - £211/MWh (21.1p/KWh)
- Gas - £75/MWh (7.5p/KWh) (equivalent to 219p/therm gas is bought in p/therm)

2.5 The Council and PFI schools have benefited from this scheme as the Council purchased its remaining (22/23) volume above these price thresholds. It is forecast that the impact of the EBRS on the Council's energy costs in 22/23 is over £700k lower than forecasted in the July Cabinet paper. **The forecast cost of energy for 22/23 is now £5.22m. The breakdown is shown in Table 3 below:**

Table 3 – Energy Forecast 22/23 with and without EBRS

Contract & Type	**Forecast Energy Spend 22/23 Cabinet July 22 (no EBRS)**	**Forecast Spend 22/23 with EBRS Implemented on 1st October**
	£000s	**£000s**
Housing – HRA Funded		
HH Housing (Fixed)	47	46
NHH Housing (Fixed)	754	739
Gas Housing (Fixed)	410	382
Total	**1,211**	**1,167**
PFI Schools		
Gas Commercial	635	430

(Flex)		
HH (Flex)	777	576
Total	**1,412**	**1,006**
General Fund		
Unmetered supplies (Fixed)*	887	921
NHH Commercial (Fixed)	275	268
Gas Commercial (Flex)	668	637
HH (Flex)	1,528	1,216
Total	**3,358**	**3,042**
Total Energy cost	**5,981**	**5,215**

- Additional Consumption under contract

2.6 The Government has recently announced its review into the EBRS and confirms it is amending the scheme from 1st April 2023, calling it the Energy Bills Discount Scheme (EBDS).

The key headlines are:

- The EBDS will run from 1st April 2023 to 31st March 2024
- All non-domestic consumers in Great Britain and Northern Ireland will receive the discount including businesses, voluntary sector organisations, such as charities public sector and organisations such as schools, hospitals, and care homes
- **Energy Intensive businesses will receive a greater discount**
- The government has set a threshold price for the period of 1st April 2023 to 31st March 2024
    - The threshold price for electricity is £302/MWh (30.2p/kWh)
    - The threshold price for gas is £107/MWh (10.7p/kWh)
- This means that any business that has purchased electricity at or above £321.61/MWh (32.161p/kWh) or purchased gas at or above £113.97/MWh (11.397p/kWh), equivalent to (333p/therm) on the gas market, will not receive any further discounts above these levels
- Energy suppliers will automatically apply the discount to your bills.

Based on our energy purchase strategy proposed of floor and ceiling prices, no discounts will apply on any of the corporate energy contracts we have secured as they will fall below the new threshold prices.

<u>Energy Contracts and Stakeholders (PFI schools)</u>

2.7 The PFI schools are our largest stakeholder across our flex energy contracts, the supply contracts cover the electricity and gas for Beechwood School, Penn Wood School and Arbour Vale School. These schools make up 43% of our flex gas contract and 35% of our flex electricity contract.

2.8 We have engaged with the Heads of the PFI schools and obtained their support for this purchase strategy, based on the shared objective of achieving best value, and minimising energy cost exposure.

Purchasing Strategy Options:

2.9 The Council has three options:

- Option 1 – Do nothing and allow the market to dictate, and our supplier buys at spot prices for 23/24. Energy will need to be procured under the contract, such that if the Council does not buy it in advance, the strategy will revert to **'default'** purchasing whereby the supplier will purchase the energy on the market the day before delivery for gas and a month before delivery for electricity. The Council would be at the mercy of the markets which may be lower or high at the time of purchase each day/month. This option is not recommended it is considered too risky and provides no budget certainty.

- Option 2 **–** Purchase all the **energy in advance** for 23/24. This option is worth considering if the energy market prices are favourable and below the **floor price** proposed in the strategy. The cost of energy is dependent on the energy market price at the time of purchase, if it is high, the Council will pay more for its energy. Various scenarios are shown for different market prices in the appendix B. This option is not recommended unless the market is below the floor price of 150p/therm and £150/MWh for sum-23 and win-23.

- **Option 3 –** Purchase 23/24 energy using a floor/ceiling strategy, whereby the Council secures 50% of its summer and winter volume following Cabinet approval, based on the lowest market prices up to 31st March 2023 and then purchases the remainder of its energy on a **'default'** spot price basis, but only subject to it being within a range of between the power **floor price** of £150/MWh and **ceiling price** £250/MWh and gas **floor price** of 150p/therm and **ceiling price** 300p/therm. This option is recommended it strikes a balance between risk and reward and sets a cap. Under this option:

    - Cabinet delegates the purchasing of the remaining energy to the Executive Director of Place & Communities who purchases energy if the wholesale price falls below the **floor price** to obtain best value or rises towards the **ceiling price** to limit cost exposure.
    - The Executive Director of Place & Communities agrees with the broker to secure the best market price possible if the floor or ceiling prices are breached.
    - This approach requires a flexible range of energy costs set between £5.2m and £6.2m to cover the range of wholesale prices between floor and ceiling prices.

Forecast Energy Costs 23/24

2.10 Forecast Energy costs for 23/24 are based on purchasing 100% of the volume at the floor price and at the ceiling price see Table 4. These are also reported in Appendix B along with various cost scenarios. By reporting the floor and ceiling price we can demonstrate the potential range of energy costs in 23/24 which is more useful than presenting one spot price forecast that is rendered out of date as soon at its reported.

Table 4 Slough portfolio forecast energy costs (no mitigation)

Year	Fixed Contracts	Flex Contracts Floor Price	Flex Contracts Ceiling Price	Total Forecast Energy Cost
2 (2023/24)	£2.43m	£2.76m	£3.75m	**£5.19m - £6.18m**

2.11 The objective is to buy our energy volume well below the floor price, but we cannot guarantee the wholesale price at the time of reporting and approval, thereby by reporting as a range between the floor and ceiling prices, Members will be aware of the potential energy costs the Council will be incurring in 23/24. Additionally, no further mitigation is assumed in these calculations specifically no reduction in the energy consumption of assets, no disposals and no transfers. Clearly, any measures taken to reduce consumption will be most effective in reducing cost. Energy optimisation, efficiency and consumption programmes will be reported separately to Cabinet for their approval along with their associated energy cost reduction forecasts.

2.12 Table 5 below shows the breakdown of these forecast costs for 23/24 between General Fund, HRA and PFI for the proposed floor and ceiling market price against the 22/23 forecast with the Governments Energy Bill Relief Scheme (EBRS).

Table 5 Forecast Cost Portfolio breakdown (no mitigation)

Portfolio	(2022/23) (EBRS)	(2023/24) Floor Price	(2023/24) Ceiling Price
General Fund	£3.0m	£3.1m	£3.7m
HRA	£1.2m	£1.2m	£1.2m
PFI	£1.0m	£0.9m	£1.3m
Total Forecast	**£5.2m**	**£5.2m**	**£6.2m**

Budgets and Pressure (23/24)

2.13 The cost exposure to the **General Fund for 2023/24** based on the purchase strategy proposed is between **£3.1m and £3.7m**. The cost exposure for the PFI schools is significant, between **£0.9m and £1.3m.** The cost exposure for the HRA assets is considered to remain relatively unchanged at £1.2m as these energy contracts are procured on a fixed term and cost basis. They will only reduce if energy efficiency schemes are incorporated within the communal heating and lighting.

2.14 There has been no adjustment to the 22/23 budget following the urgency paper to Cabinet on 27th July, however £1m has been noted as a pressure to be addressed in the Capitalisation Direction (CD) calculations. Budgets will need to be amended to reflect the expected cost of energy and it is proposed these are set at a median point between the floor and ceiling forecast cost equivalent to **£200/MWh** and **225p/therm**, see Table 6 below. The £1m additional cost to the General Fund is therefore covered by the CD, with a further potential risk of £0.3m if the full expected volume were to be bought at the ceiling price.

Table 6 Energy Budgets 2023/24 (no EBRS)

Portfolio	**Energy Budget (22/23)**	**Budget Amendment**	**New Energy Budget (23/24)**
General Fund	£2.4m	£1.0m	£3.4m
HRA	£0.35m	£0.85m	£1.2m
PFI	£0.3m	£0.8m	£1.1m
Total Forecast	**£3.05m**	**£2.65m**	**£5.7m**

3. Financial implications

3.1 The general fund energy budget is to be increased by £1.0m to £3.4m to accommodate the energy costs for 23/24. A forecast of energy cost 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 other mitigation packages (i.e. energy optimisation, reduction and efficiency programmes) that will be coming forward in 23/24 and 24/25. It is not possible to mitigate the entire pressure as energy prices will not recover to pre-crisis levels, the cost of energy will remain high, but budgets can be readjusted in 24/25 taking account of these programmes and the energy market costs that prevail at that time.

3.2 The Energy budget for the three PFI schools needs to substantially increase from £0.3m to meet the forecasted energy costs in 23/24 an increase of £0.8m is required. Any programmes or energy saving actions the PFI schools can take to control energy consumption can be considered in the evaluation of the budgets for 24/25 energy costs.

3.3 The HRA energy budget of £0.35m for 2022/23 need to increase by £0.85m to £1.2m to meet the forecast energy costs for communal lighting and heating for 23/24. These costs may be passed to tenants/leaseholders and do not form part of the general fund pressures, but HRA reserves may need to absorb some of these on-costs if they are not passed on at 100% to residents. An energy efficiency programme focussed on communal heating and lighting will help mitigate these costs in future years.

3.4 The medium term financial plan for 2023/24 and beyond will be amended to reflect further energy pressures on the budget, with a pressure being added into 2023/24 (up to circa £1.0m on the General Fund.

4. Legal implications

4.1 On 17 January 2022 cabinet delegated authority to the Executive Director of Place and Community to:

i. access the Dynamic Purchasing System (DPS) established by Gwynedd Council for the procurement of electricity and gas and award call-off contracts under the DPS; and

ii. to enter into a consultancy agreement with Beyond (eEnergy) to facilitate the management of energy contracts under the DPS as required by the access agreement to that DPS.

The Gwynedd DPS was procured in compliance with public procurement rules and the Council is identified as a call off party. Therefore the Council's appointment of eEnergy and subsequent purchase of its energy requirements under these arrangements is fully compliant with the Public Contracts Regulations 2015 and the Council's Contract Procedure Rules.

5. Risk management implications

5.1 Risks

The risks of energy procurement and forecasted increase in energy prices for 2023/24 have been identified on the corporate risk register.

There are three key risks relating to this corporate energy purchase strategy and the cost of energy going forward.

Risk	**Rating**	**Mitigation**	**Residual Risk**
Further price increases in the energy market	Very High	Adopt a floor/ceiling flex energy corporate purchase strategy to mitigate the risk – to control the range of costs, costs will remain high.	High
Budget Pressure due to high energy costs	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.	Medium
High Energy costs for remaining assets	Medium	Implement an energy optimisation and efficiency programme aimed at reducing consumption, carbon and financial costs	Low

6. Environmental implications

6.1 The disposal of assets will result in a reduction in energy consumption which in turn will reduce the Council's carbon emissions over the period of the contract. This can be quantified through an energy and carbon audit. The dramatic increase in energy prices acts as an imperative for the Council to find ways to reduce consumption both for its own activities and those where it passes the cost of energy onto its residents and customers. However this report focuses on the setting of the purchase price, not consumption of energy.

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 as communal lighting and heating costs are passed through to tenants and leaseholder, the Council may use some of the HRA reserve to absorb some of this additional cost. The Council buys communal energy for social housing tenants to limit fees and other charges associated within this collective purchasing process.

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 purchase strategy does align with the asset disposal strategy to maximise cost avoidance.

11. Background Papers

Corporate Energy Procurement Strategy and Contracts (April 2022 - March 2025)

Cabinet - Urgency procedure - Leader's Action - 27 July 2022