


Agenda Item No:	10	
Committee:	Cabinet/Investment Board	
Date:	20 February 2023	
Report Title:	Procurement of Electricity 2024 to 2028	

Cover sheet:

1 Purpose / Summary

- 1.1 Forward Procurement of Electricity for the period 2024 to 2028.
- 1.2 The Council's current contract with the Eastern Shires Purchasing Organisation (ESPO) using Total Energies Gas and Power expires on 30th September 2024.
- 1.3 To ensure that the best prices are achieved a new procurement is required as soon as possible to allow effective trading of our future electricity volumes.
- 1.4 The deadline we have been given to sign a new agreement is 28th February 2023.

2 Key Issues

- 2.1 To ensure compliance of contract guidelines and achieve a compliant procurement process
- 2.2 To enable the council to join a buying consortium, Eastern Shires Purchasing Organisation (ESPO). This will enable the council to join other authorities to gain economies of scale.
- 2.3 The failure to bulk our purchases together could result in a higher electricity cost in future as our volumes are too low to procure competitively on our own.
- 2.4 Anticipated spend per annum circa £300K.
- 2.5 Service agreement to participate needed by 28th February 2023.

3 Recommendations

- 3.1 It is recommended that FDC enter in a renewal agreement with ESPO to continue with the current arrangement to allow them to make prudent purchases on our behalf for the period 2024-2028 and if agreed, to determine whether it should be specified that the electricity supplied comes from a zero-carbon source at an estimated additional annual cost of £12,600 per annum.

Wards Affected	<i>All Wards</i>
Forward Plan Reference	KEY/27/JAN23/01
Portfolio Holder(s)	Cllr Boden – Portfolio Holder for Finance
Report Originator(s)	Shaun Beales (Procurement), Andrew Dunning (Facilities)
Contact Officer(s)	As above
Background Papers	Document attached

Report:

1 BACKGROUND AND INTENDED OUTCOMES

- 1.1 ESPO is a public sector owned professional buying organisation (PBO), specialising in providing a wide range of goods and services to the public sector for over 40 years. All with free support and advice available from their expert teams.
- 1.2 Whilst the last few years have seen some of the most challenging market conditions in the last twenty years, the ESPO's low risk Energy trading strategy and the expertise of their in-house team have provided FDC with considerably below the market average prices
- 1.3 Being 100% owned by the public sector with both Cambridgeshire County Council and Peterborough City Council being part owners. Remaining within this framework will best support the purchasing of energy over the next 4-year contract period 2024-2028.
- 1.4 The council has successfully used the (PBO) for all its energy requirements for considerably number of years and has benefitted from the economies of scale resulting in significantly below market average prices.

2 REASONS FOR RECOMMENDATIONS

- 2.1 To support the council financial plan and give accurate budgeting information. To safeguard the council against future energy market volatility. To provide a compliant procurement route to market following the Public Contract Regulations and the councils code of procurement.

3 CONSULTATION

N/A

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 In arriving at the recommendation made within this report the member organisations considered the consideration of three Options.

4.2 Option 1

4.3 ESPO framework (framework reference 191_24) for supply during 2024 to 2028. ESPO is a public buying organisation owned by six member councils, including Cambridgeshire County Council. The framework complies with the Public Contract Regulations 2015 (PCR2015) and the councils code of procurement.

4.4 ESPO offers a flexible procurement solution, which incorporates a low risk purchasing strategy, in which ESPO purchase gas and electricity between 12 to 18 months prior to the physical supply period. ESPO have an in-house trading team who constantly monitor the markets and make considered purchases on customers' behalf when markets are conducive to do so. The aim is to provide customers with a below average market price and smooth out extremes in forward market prices. Customers using their flexible procurement solution will have their prices fixed for each 12-month term and these will be changed on the anniversary of each term, which for electricity is the 1st of October. Customers joining the Flexible solution will have their volumes aggregated with many thousands of other customers' requirements, enabling the ESPO trading team to operate the risk strategy effectively and make small, multiple purchases over a period of time to flatten the risk curve.

4.5 The ESPO team manage the procurement and each framework term is for 4 years. ESPO has already procured a supplier for the 2024-28 period, and have awarded the contract to Total Energies, who also have the current 2020-24 contract.

4.6 Total Energies is a French multinational publicly-traded oil and gas company, whose businesses cover the entire oil and gas chain, from exploration and production to power generation, transportation, refining, marketing and trading. They employ over 100,000 people (2,353 in the UK) and had annual revenues of over US\$184 billion in 2021. Total Energies state on their website that their aim is to reduce their share of petroleum products and "increase natural gas, as a transition fuel, and renewable electricity". (Natural gas is lower carbon than oil but is still a fossil fuel.) In 2021, 44% of Total Energies' sales were from petroleum products (down from 65% in 2015) and 48% were from natural gas (up from 33% in 2015).

4.7 The current ESPO framework (2020-24) is currently used by all six of the member local authorities of ESPO, as well as a large number of other local authorities and other public sector organisations, totalling around 28,000 sites.

4.8 The arrangement with ESPO provides Fenland District Council with a wide range of services including:

- Review of price risk strategy;
- Data collation and validation if required;

- Invitation to tender, supplier evaluation, selection and appointment on our behalf
- Contract award;
- Supply point transfers;
- Support with disputes and queries;
- Contract performance monitoring;
- Provision of market intelligence information;
- Trading team expertise: purchase required energy volumes in line with agreed price risk strategy.

4.9 Contract renewal deadlines. ESPO initially asked Fenland Council to confirm by 31 January 2023 whether or not we wish to renew our contract from October 2024 but have provisionally agreed to extend the deadline for signing contracts to February 28th 2023. The early deadline is to enable ESPO's trading team to commence purchasing of electricity up to 18 months in advance of the supply period.

4.10 **Option 2**

4.11 Other purchasing organisations such as Crown Commercial Services or YPO offer similar services to those of ESPO. However, there would be likely to be no advantage in using these over ESPO. There are also other energy brokers in the market, however these may not have much experience dealing with large local authorities with numerous sites and complex supply requirements. Most energy brokers tend to deal more with SMEs (Small Medium Size Enterprises) and domestic properties.

4.12 **Option 3**

4.13 An alternative to buying through an organisation such as ESPO or an energy broker would be to run a procurement ourselves to contract with a supplier directly. The advantage of that approach would be that we could define the contract scope ourselves and would have full control over the specification. However, this would necessitate running a full compliant procurement process in-house, which would require significant in-house expertise, not only in procurement but also in the energy markets, and would be time and resource-intensive. It is vital to get the scope and specification of such a contract right, which would have to consider energy markets, trading strategies, metering, Automated Meter Reading, Meter Operator services, site works, data provision, billing platform and more. (A Meter Operator agreement is a legal requirement for all half-hourly electricity supplied meters.) We do not currently have the expertise in-house to trade on wholesale energy markets directly, and a fixed price contract is likely to be significantly higher cost. The high cost, high risk and difficulty of running such an exercise is currently unlikely to be worth pursuing, when compared with the alternative options. Not only that, but the Council would be more likely to incur higher electricity prices when trading directly, when compared to the higher purchasing power of being part of a larger group of customers. This option would also require more resource

to manage, including a much greater ongoing contract management capability than is currently in place.

- 4.14 Comparison of options. In selecting an option, the Council must consider a number of factors including financial cost, environmental impact, quality of service, level of risk and practicality of contract management / administration. None of the available options would provide fixed price tariffs, so the exact costs would remain unknown until the beginning of the supply year.
- Option 1 (ESPO framework with Total Energies) is the best known and lowest risk option. ESPO have an established track record of providing good quality service and good prices. Total Energies offer a 100% renewable electricity tariff, although they are primarily an oil and gas company.
 - Option 2 (Other buying organisations) offers no advantages over option 1 so is not recommended.
 - Option 3 (in-house procurement) is the most difficult, costly and highest risk, Energy brokers, alternative frameworks, or going straight to the market are all possible alternatives. However, the nature of the market dictates that price comparisons are almost impossible and pursuing one of these options comes with significant risk.

5 IMPLICATIONS

5.1 Legal Implications

- 5.2 The Public Contract Regulations 2015 (PCR2015) require the council to run a compliant procurement exercise for services valued at £213,477.00 or greater over a contract period. In this instance the council's own Code of Procurement allows the use of approved frameworks such as ESPO which have already been tendered under the PCR 2015 regulations. The legal implications of complying with the Council's local and PCR2015 Regulations have therefore been appropriately met in proceeding with the recommended approach.

5.3 Financial Implications

- 5.4 Electricity prices have increased significantly over the past year and increased provision has been included in the Council's budget. For 2023/24 and the medium term, provision of around £530k has been included in the budget being presented to Cabinet and Council at today's meeting.
- 5.5 Regular monitoring of energy costs takes place during the year and any significant variance to the budget will be reported to members.

5.6 Equality Implications

- 5.7 None

5.8 Other Issues

- 5.9 The opportunity now exists within the tender process to specify that all electricity supplied should come from a zero-carbon source such as wind, solar or hydroelectric sources.
- 5.10 The cost of specifying this source of energy is estimated at £0.0085 per KWh (based on current pricing and subject to change). Based on current usage this would result in an increased cost of £12,600pa over the cost of non-renewable energy but would satisfy a number of CO2 emission reduction targets both a local and national standing
- 5.11 Based on our current projected electricity consumption of using 1,769,910 kwh per annum, it is estimated that a move to a renewable source for the electricity would achieve a saving in the region of 412 tonnes of CO2 each year

6 SCHEDULES

None