



Cabinet

16th April 2024

Report of Councillor Richard Cleaver,
Deputy Leader of the Council and
Cabinet Member for Property and
Public Engagement

Electricity Fixed Price Contract

Report Author

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Purpose of Report

The purpose of the report is to seek approval to enter into a contract for the supply of electricity for Council operated assets.

Recommendations

That Cabinet approves up to a four-year contract to Total Energies Gas and Power Ltd incorporating a fixed 12 month tariff utilising the ESPO Framework for the supply of electricity commencing on 30th September 2024.

Decision Information	
Is this a Key Decision?	Key
Does the report contain any exempt or confidential information not for publication?	N/a
What are the relevant corporate priorities?	Connecting communities Sustainable South Kesteven Enabling economic opportunities Housing Effective council
Which wards are impacted?	All Wards

1. Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance

- 1.1 The four-year contract will enable the Council to procure its electricity supply on a rolling 12-month period based on a fixed price. At each 12-month interval, the following 12-month period will be established on a fixed price thereby given a level of financial certainty for that period.

Completed by: Richard Wyles, Deputy Chief Executive and s151 Officer

Procurement

- 1.2 This has been compliantly procured and has been supported by Juan Lui (Procurement assistant)

Completed by: Helen Baldwin (Procurement Lead)

Legal and Governance

- 1.3 As detailed in paragraph 1.2 above, the Council has run a compliant procurement exercise and there are no other legal implications identified.

Completed by: Mandy Braithwaite, Legal Executive

2. Background to the Report

- 2.1 The Council currently takes its supply for mains gas through ESPO Framework Contract 192_23 - Mains Gas, which is a compliant procurement route. The Council also takes its electricity supply through an ESPO Framework which operates on a similar basis. This report is focussed on the opportunity to secure a recurring 12-month fixed unit price electricity supply over a four-year contract. At the anniversary of the 12-month period, the fixed unit price will be revised to reflect new rates.
- 2.2 The current contract for the supply of electricity is due to terminate on the 30th September 2024 and therefore needs to be renewed. The current ESPO Framework 192_24 - Electricity runs for a period from the 1st April 2024 to the 30th September 2028. The existing energy provider under the Framework is Total Energies Gas and Power Ltd, who are instructed via direct award.
- 2.3 This therefore presents the Council with an opportunity to gain a higher degree of financial certainty for the price it pays for the electricity supply over a period of up to four-years at the most advantageous rates available to the authority. The Framework operates on a 12 or 24-month fixed price rolling period which enables the Council to secure the price for the following period. A market comparison has been undertaken of current rates available within the market at this time, however actual tariff rates will not be known until September 2024 when the contract commences.
- 2.4 A procurement strategy has been compiled and this compared the proposed Framework and that of other available Frameworks and the strong conclusion was that the ESPO Framework provided the most financially advantageous position for the Council.
- 2.5 Failure to enter into an agreement for the supply of electricity for Council operated buildings would result in increased variable tariff prices once the current contract expires and the risk of disconnection.
- 2.6 The ESPO Framework provides the Council with the following benefits: -
 - a) That local authorities can benefit from the economies of scale that can be obtained by combining multiple accounts.
 - b) Fixing prices for a sustained period will give the Council protection from any sudden adverse changes in the electricity market.
 - c) The use of a Framework for purchasing utilities is in line with the advice from the Cabinet Office on best practice of how to procure energy within the public sector.
 - d) ESPO regularly benchmark our purchasing performance against the average prices available in the wholesale market.

Bidder	Estimated Annual Usage (kWh)	Estimated Annual Price based on average consumption	Contract type
ESPO	2717275.9	£673,823.43	12-month fixed
Bidder 2	2717275.9	£1,198,857.64	12-month fixed

2.7 The Framework also ensures the Council is taking advantage of sustainability and social values as set out in the Framework itself.

2.8 A comparison has been undertaken which identified that purchasing for the 12-month period is financially advantageous when compared to a 24-month period. Therefore, the recommendation is to approve a 12 month fixed price period.

3. Key Considerations

3.1 The key considerations are set out in the report. The report sets out the proposals for the procurement of the Council's electricity supply for up to the next 4 years, entering into a fixed price contract on a 12 month rolling basis. SKDC are able to leave the framework at the end of a 12 month fixed price contract period should they wish to do so.

4. Other Options Considered

4.1 The report confirms that alternative frameworks have been considered but none offered the Council the most economically advantageous solution that meets the Council's requirements. Council could choose not to enter into a 12 month contract but this would leave the Council financially exposed to price uncertainty during the period.

5. Reasons for the Recommendations

5.1 The Framework consists of a single supplier (Total Energies) with proven and successful track record of delivering electricity, for various public sector organisations including SKDC.

5.2 As well as the supply of electricity, this framework provides a number of key features including:

- Automated Meter Reading (AMR);
- New meter connection, changes to existing connections/disconnections and upgrades; and
- A dedicated account manager for ESPO Customers.

5.3 Additionally, ESPO also provides comprehensive support encompassing:

- Account management;
- Supply point administration;
- Portfolio management
- Price validation
- General queries and advice related to the contract and supply and market intelligence.

5.4 The framework is based on fully transparent pricing, with the supplier margin fixed for the full duration of the framework. Individual customer rates will however change based on changes to 'Regulated Charges' and the 'Wholesale commodity price', typically on an annual basis from the 1st October. Customers are notified in advance of any price changes.

5.5 As the price of energy is extremely volatile, ESPO have adopted a flexible, aggregated risk management approach to energy procurement. The two 'Price Risk Strategies' currently used by ESPO under the flexible procurement option are:

5.6 Pricing in Advance (PIA) – in which 100% of the total forecast volume requirement is purchased before commencement of the supply period for electricity (October to the following September).

5.7 Pricing within Period (PWP) – in which an agreed portion of the total forecast volume requirement for the supply period (April to March) is purchased before the commencement of the supply period, with the balance purchased closer to the point of consumption, but before it is required.

5.8 These strategies allow the price risk to be spread over an extended period of time, rather than purchasing 100% of the volume on a single day.

5.9 The principle behind the two options is that with PIA the price is known before the supply period commences, whilst the PWP price is only partially fixed before supply period and is not completely known until supply period ends.

5.10 The PWP option therefore represents a higher risk as a proportion of the cost is subject to fluctuation, depending on market price movement during the supply period, with reward partly based on the premise that the risk premium inherent in market prices reduces as the point of purchase and consumption becomes closer.

5.11 Flexible contracts of this kind require large volumes to access the pricing mechanism used for an effective Risk Strategy. By combining all ESPO customer volumes into a single supply with Total Energies, an economy of scale is achieved which reduces the suppliers margin. Additional benefits are also seen

via the elimination of risk premiums applied by suppliers to fixed price contracts, where prices are held on the day, compared to real time wholesale market purchasing.

- 5.12 The emphasis on flexible energy purchasing is to manage risk and spread risk over a period of time, which evens out annual cost avoiding price fluctuations and causing budgeting uncertainty. Purchasing via this strategy provides increased budgetary certainty and provides earlier information on future costs.
- 5.13 ESPO will liaise closely with and fully support SKDC through the process of deciding on the appropriate risk option, both on joining the framework for the first time and for periodic intervals thereafter.
- 5.14 Total Energies understand that being one of the world's largest energy suppliers brings with it enormous environmental, social and cultural responsibilities. They take their obligations very seriously, and invest considerable time, energy and resources implementing action plans and assessing our performance so that we continuously improve. Industrial safety, supporting local development, securing the future of energy, environmental stewardship, and combatting climate change are all critical challenges that Total Energies is committed to meeting.