

CABINET

Electricity Contract Renewal 25th October 2022

Report of Director for Economic Growth and Regeneration

PURPOSE OF REPORT				
To outline a proposal for the Council's electricity contract for the next 4 yrs.				
Key Decision	<input checked="" type="checkbox"/>	Non-Key Decision	<input type="checkbox"/>	Referral from Cabinet Member
Date of notice of forthcoming key decision	05/10/2022			
This report is public				

RECOMMENDATIONS OF Cllr Hamilton Cox

- (1) To renew the contract with Npower, via YPO, for four years.
- (2) To pay the additional rate for the Renewable Energy Guarantees of Origin (REGO) backed tariff in order to support the Council's decision to be net zero-carbon by 2030

1.0 Introduction

- 1.1 The Council's electricity contract is due to expire on March 31st 2023. For the reasons outlined in this report it is recommended we renew this contract. For four years. The contract covers all the non-Council housing property portfolio, as well as some Council Housing properties.

2.0 Proposal Details

- 2.1 The council currently procures gas and electric through the Yorkshire Procurement Organisation (YPO) ; a Public Sector Procurement consortia whose energy contract is one of the country's largest collaborative agreements incorporating multiple other organisations. The YPO purchase energy in advance when the market conditions are optimal, and then set the rates for the full financial year thereby ensuring that we benefit from the best available prices. YPO have completed a tender exercise and the preferred supplier for the next four years is Npower; the council's current electricity provider.
- 2.2 The reasons to recommend the use of YPO are :
 1. YPO have provided excellent service (e.g. energy advice and contract

issue resolution)

2. Approximately 120 councils currently use the YPO energy framework
3. YPO have provided consistently good contract administration
4. The Council does not have the skills, capacity or scale to procure bulk competitive electricity and gas tariffs

Current Market Conditions

- 2.3 Energy prices has featured prominently in the news in recent months. The associated costs for the council have risen significantly. The rates the council pay are fixed for each financial year which mitigates against sudden, sharp increases and allows for better financial planning.
- 2.4 During the 2021/22 financial year, the total payments made by the council for electricity were £873K. For the 2022/23 these are anticipated to rise to £1.9M (assuming current levels of usage) which will create further budget pressures on the general fund. The YPO and Npower are not able to provide the precise rates for the 2023/24 financial year but have cautioned that they are likely to rise significantly. However, based on current market conditions Npower have advised that the costs for the council could be as much as £3.2M per annum. These figures are estimated based on previous years consumption, and whilst significant improvements in our energy consumption have been made with the recent decarbonisation programme, these estimates are considered to be a fair reflection on likely costs.
- 2.5 We are advised that due to dramatic fluctuations in the energy market completed contracts should be returned before the end of October so that they are best placed to take advantage of optimal prices when/if they arise. If the decision is made to proceed with Npower, then this needs to be completed as soon as possible to ensure that opportunities are not missed.

Renewable Energy Guarantees of Origin (REGO)

- 2.6 The Renewable Energy Guarantees of Origin (REGO) scheme provides transparency to consumers about the proportion of electricity that suppliers source from renewable generation. This supports the council's Climate Emergency and allows us, for example, to claim that Salt Ayre Leisure Centre is a carbon zero site. However, the REGO backed tariffs include a premium which is currently estimated to be an additional £73K per annum.
- 2.7 Should the option for the REGO backed scheme be required the following information is important to note. When we buy REGO backed electricity we don't physically get the electricity, rather it is fed into the network and mixed with all the other electricity. However, the REGO provides us with a certificate which states how much of our electricity consumption was produced from renewable sources and confirms we are the sole beneficiary of the electricity (or the only person who can claim the associated carbon benefits for that electricity). With that certificate we can then calculate our CO2 emissions using the conversion factors for the type of electricity we have "received" rather than the conversion factor for standard electricity.

3.0 Details of Consultation

3.1 Consultation has taken place with relevant officers

4.0 Options and Options Analysis (including risk assessment)

	Option 1: Remain with current provider (Npower) for a short contract period whilst the Council investigates other supplier options.	Option 2: Renew the electricity contract via the YPO and go with a standard electricity tariff	Option 3: Renew the electricity contract via the YPO and go with a REGO backed electricity tariff
Advantages	<p>The Council will have completed its' own tender process and have contractor control</p> <p>Will allow the council the opportunity to identify if there are alternative suppliers who offer preferable rates/service</p>	<p>YPO have already completed an evaluation of various suppliers before opting for Npower.</p> <p>We will have continued support from YPO to help us address and solve any issues should they arise.</p> <p>The YPO will provide annual fixed rates costs which will allow the council to budget accordingly.</p>	<p>As Option 2</p> <p>Additional REGO considerations:</p> <p>Contributes to the council's Carbon Zero agenda</p> <p>Provides a guarantee electricity is from renewable energy sources e.g. wind farms.</p> <p>Removes approx. 900 tCO2e (~20%) of the council's Scope 1 and 2 carbon emissions</p>
Disadvantages	<p>Additional resource will be needed within the Council to carry out this work as current staffing levels and expertise in energy markets are not sufficient to do this.</p> <p>The costs during the short period (likely one year) could increase above current rates if market conditions deteriorate further</p>	<p>There hasn't been an investigation into other options that might be available to us, i.e. other agents that may offer the same service as YPO.</p>	<p>As Option 2</p> <p>Additional REGO considerations:</p> <p>There is an additional cost associated with the REGO. Costs will be confirmed once Npower have gone to market but current estimates are iro £73K per annum</p>

Risks	<p>This option has not been fully investigated so other advantages and disadvantages will be prevalent.</p> <p>The council could fail to find a better provider and incur higher energy costs</p>	<p>Other suppliers may offer preferable rates</p> <p>Energy rates for the next financial year have yet to be confirmed</p>	<p>As Option 2</p> <p>Additional costs for the REGO have yet to be confirmed</p>
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5.0 Officer Preferred Option (and comments)

5.1 The officer preferred option is Option 3.

6.0 Conclusion

6.1 Renewing the current approach to managing our electricity contracts provides a degree of confidence that would not otherwise be possible without incurring additional time and expense. This will also provide the maximum available security during a period of volatility in the energy market and allow for the council to continue towards its Zero Carbon agenda.

RELATIONSHIP TO POLICY FRAMEWORK

This report contributes to the council's priorities most notably those associated with the Climate Emergency

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)

As discussed in the report

LEGAL IMPLICATIONS

Contract is with Legal Services for review

FINANCIAL IMPLICATIONS

Energy prices is extremely topical in the current financial climate and significant increases are expected from previous years.

With regard to estimating budgets for future years, the latest pricing information has been used to produce draft budgets and the current latest projections for options 2 and 3 are outlined in the table below :

	21/22 Actual	22/23 Estimate	23/24 Estimate
General Fund	789	1,723	2,841
Housing Revenue Account	84	192	316
Total Option 2	873	1,915	3,157
add REGO Tariff		73	73
Total Option 3	873	1,988	3,230

Note that an element of the costs above are subject to recharging to tenants/customers via service charging. For 2022/23, this is estimated at £233K for the General Fund and £190K for the Housing Revenue Account.

Option 1 is difficult to substantiate at this point in time as the financial impact of moving on to a short-term tariff are not known and also whether or not another provider can be found with a cheaper price.

OTHER RESOURCE IMPLICATIONS

Human Resources:

No implications at this time

Information Services:

No implications at this time

Property:

As discussed in the report

Open Spaces:

No implications at this time

SECTION 151 OFFICER'S COMMENTS

The agreement of a long-term energy contract with Npower, via the YPO procurement framework should provide benefit to the Council through the collaborative nature and involvement of other parties. In addition, the 4-year timeframe affords a degree of certainty within our financial forecasts, in what is currently a very volatile area of significant expense to the Council.

The additional cost in relation to Renewable Energy Guarantees of Origin (REGO) will need to be considered against the current financial pressures the Council faces and if agreed will need to be addressed as part of the OBR process with monies potentially redirected from other areas. It is hoped the Asset Management Strategy will start to bring forward opportunities for the Council to address its level of energy consumption across its current asset base.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments to add

BACKGROUND PAPERS

None

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