

CORPORATE AND COMMUNITIES OVERVIEW AND SCRUTINY PANEL 17 JANUARY 2022

ANNUAL UPDATE ON THE COUNCIL'S ENERGY PURCHASING ARRANGEMENT VIA THE WEST MERCIA ENERGY JOINT COMMITTEE

Summary

1. At its September 2021 meeting, the Overview and Scrutiny Performance Board agreed to delegate the annual update on the Council's energy purchasing arrangements via the West Mercia Energy (WME) Joint Committee, including the Business Plan, to the Corporate and Communities Overview and Scrutiny Panel.
2. A Scrutiny Review of the Council's energy purchasing arrangements was concluded in January 2021, an outcome of which was agreement by the Cabinet Member with Responsibility to provide an annual update to Scrutiny. A link to the Scrutiny Review and its discussion at Cabinet is included in the background papers to this report.
3. The Cabinet Member with Responsibility for Corporate Services and Communication and Strategic Director for Commercial and Change have been invited to attend the meeting.

West Mercia Energy

4. WME is a publicly owned energy brokerage operating as a Public Buying Organisation (PBO) and is part owned by Worcestershire County Council.
5. In all, there are four Member Authorities (MA) comprising Worcestershire County Council, Shropshire Council (Lead Authority and Host), Herefordshire Council, and Telford and Wrekin Borough Council.
6. WME is managed via a Joint Committee, which maintains strategic oversight over the running of WME. Each MA is represented in the Joint Committee by Executive Elected Members and is responsible for approving WME's Business Plan. For Worcestershire County Council, the representatives are Councillor Adrian Hardman, and Councillor Adam Kent. Further to the scrutiny recommendations of January 2021, it has been agreed that one of the two representatives will always be the Cabinet Member for Corporate Services and Communication (previously Corporate and Communities).
7. The objectives of the Joint Committee shall be to maintain effective, efficient and economic arrangements for the purchase and supply of energy at the request of, and to the satisfaction of, the Member Authorities, as well as to other public bodies where it is permitted by law and is to the benefit of Member Authorities to do so.

Commercial operations

8. WME provides brokerage services to both the Member Authorities, and wider public sector clients. Requirements of the wider public sector are managed via a Total trading desk for metered supply, and via E.ON for the unmetered supply and operate similar to those of YPO (Yorkshire Purchasing Organisation), NEPO (North East Procurement Organisation), and CCS (Crown Commercial Services). A vast majority of the public sector buy energy via a PBO rather than directly, with 65% buying via the Crown Commercial Services Frameworks alone.

9. Customers of WME include South Gloucestershire Council, West Mercia Police, Warwickshire Police, Cheshire East Council and Cheshire Police Authority, with the City of Birmingham Council having WME as one of its energy procurement route options.

10. WME manage day to day energy price movements through the Total trading desk and measure effectiveness on beating market price inflation as an alternative to benchmarking against prices available from buying from the wider market. The difference between the annual price and actual market prices paid by WME is put towards offsetting WME overhead.

11. WME distributes a portion of trading surpluses between the Member Authorities as a proportion of each MA's total spend with WME.

12. Worcestershire County Council's day to day management of the WME arrangement is undertaken by the Council's Commercial Team. It is worth noting that the Category Manager responsible for Energy and Utilities has recently departed, with agreed departures of further roles in coming weeks/months.

Current Contracts Summary

13. Worcestershire County Council has three separate arrangements in place with WME. These are:

- Metered supply (Council and Maintained Schools)
 - o Contract Start Date: 1/4/20 (contract approved by WME Joint Committee)
 - o Contract End Date: 1/4/24
 - o Annual Value: £3m (approximately)
 - o Nature of the Agreement: Variable to be hedged by WME
- Unmetered supply (Street Lighting)
 - o Contract Start Date: 1/4/20
 - o Contract End Date: 31/3/22
 - o Annual Value: £2.05m
 - o Nature of the Agreement: Fixed Rate
- Gas
 - o Contract Start Date: 1/4/22 (contract approved by JC Sept 19)
 - o Contract End Date: 1/4/26
 - o Annual Value: (£850,000 approx)
 - o Nature of the Agreement: Variable to be hedged by WME

Unmetered Street Lighting

14. Current energy supply for street lighting is provided under a fixed-rate contract from E.ON, brokered by WME. This contract was agreed in February 2020, and came into effect on 1 April 2020, ending on 31 March 2022. Following this, energy rates will move to Eon's default tariff. Usage for 2020/2021 was 16,874,249kWh. This will decrease as streetlights are converted to LED (circa 70% reduction per streetlight converted)

15. Given that this agreement is shortly to come to the end of its fixed rate period, the Council is considering its purchasing strategy for the future procurement of energy, particularly in respect of fixed price and variable rate electricity. In addition, to mitigate potential price increases, consideration is being given to how the LED streetlight programme may be accelerated.

Market Analysis

16. Energy wholesale markets continue to see unprecedented increases with pricing rarely before being as volatile as we have seen in the past 12 months. Since the fixed rate was agreed in February 2020, there have been a number of significant developments in the energy market, and in particular, since January 2021, many of these have coalesced to create a "perfect storm" of pressures, driving costs ever higher. Some of these factors include:

- An unusually cold Winter 2020/2021 and Spring 2021 depleted gas storage around the UK, Europe and Asia (gas is used for approx. 23% of UK energy). While this storage was restored in the UK in November, it has since decreased to 96% as of 8 December 2021, and further to 93% as of 23 December 2021, with other western European countries seeing storage between 54%-76% as of 8 December 2021 and decreasing to between 40%-70% by 23 December 2021, with the onset of Winter 2021/2022.
- Global competition for energy has increased, not just from Europe but also from Asia and USA.
- NordStream 2 has been completed but is not yet transmitting gas to Europe. There have been licencing issues (with Gazprom being both supplier and distributor of gas), and geopolitical issues (Russia/Ukraine, Russia/EU, Belarus/EU, and ongoing discussions with, and the threat of sanctions from, the Biden administration in the USA)
- Norwegian gas fields being closed for maintenance, disrupting supply. There have also been sudden outages, such as the Norwegian Troll field, reducing supply.
- French nuclear sites reducing capacity for maintenance during December 2021/January 2022, thereby increasing prices for other sources such as gas.

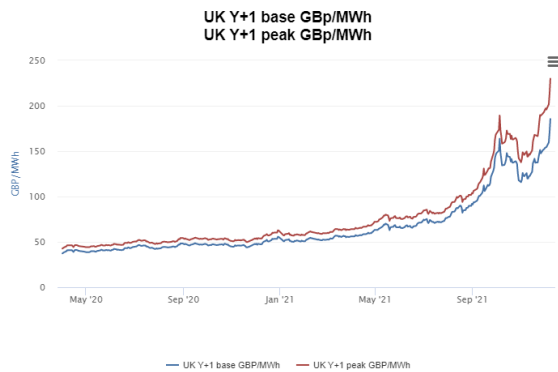
17. The volatility within the market has seen:

- Wholesale energy prices have seen increases of up to 400% (for example, Gas increased from 58p per therm in January 2021 to £4.52 in December 2021, settling back to £3.52 as of January 2022.)
- Contract pricing (total costs) have increased by more than 200% since January 2021.
- Industrial energy suppliers have largely removed fixed price contracts from the market
- 26 suppliers of domestic gas in the UK collapse

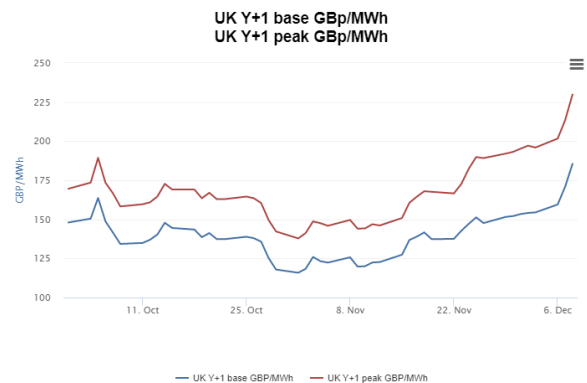
18. The timing of the expiry of the current agreement is also worthy of consideration:

- The current agreement ends on 31 March 2022. Another cold Spring and/or ongoing shortages may maintain high energy and gas prices into April 2022.
- The seasonal Winter peak demand for energy typically comes in January/February:
 - According to UK Government statistics, electricity usage is typically 36% higher in the Winter than in the Summer (Gavin, Claire: Seasonal Variations in Electricity Demand)
 - According to BEIS prices (incl. CCL), average energy prices increase by 10-12% each Winter compared to the previous Summer

Graph 1: Price evolution (£/MWh) from 1st April 2020 to 9th December 2021

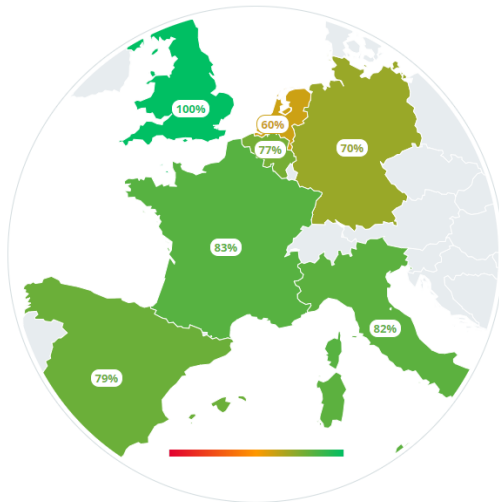


Graph 2: Price evolution (£/MWh) from 1st October 2021 to 9th December 2021

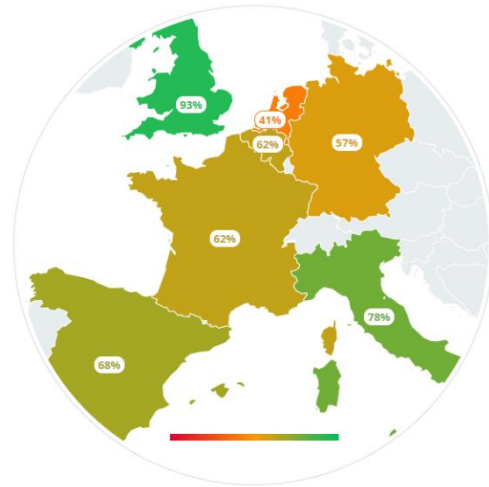


Source: Northern Gas and Power trading prices, northerngasandpower.energymarketprice.com

Western European Energy storage 24th November 2021



Western European Energy storage 23rd December 2021



Source: Total – Daily Market Review – November to December 2021

19. The Council's Commercial function continues to monitor the evolving position and are presently working through the implications and relative merits of the different procurement strategies and contracting models that may be pursued. Mitigating the impact of increasing unit costs through securing the best value for money for the Council, whilst minimising risk and providing ongoing financial assurance continue to be central to the development of that strategy.

Business Plan

20. The Council is awaiting the circulation of the new Business Plan, which is typically published in February, following a review by the joint committee. Once this has been made available, the Plan will be provided to this Panel to review in due course.

Legal, Financial, and HR Implications

21. The report itself has no specific Legal, Financial or HR implications, however it should be noted that the deteriorating energy markets with corresponding increasing unit costs of energy will likely result in a financial pressure to the Authority. The extent of this pressure will be quantified once the procurement strategy has been agreed. This has in part been reflected in the draft budget for 2022/23.

Equality and Diversity Implications

22. None.

Purpose of the Meeting

23. The Corporate and Communities Overview and Scrutiny Panel is asked to:

- Consider the information provided
- Determine any comments the Panel would wish to make to the Cabinet Member with Responsibility for Corporate Services and Communication and/or Communities
- Agree whether any further Scrutiny is required at this stage.

Contact Points

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Background Papers

In the opinion of the proper officer (in this case the Assistant Director for Legal and Governance) the following are the background papers relating to the subject matter of this report:

- Scrutiny Report on the Council's Energy Purchasing Arrangements and the Cabinet Member Response to the recommendations [Agenda and Minutes of Cabinet on 4 February 2021](#)
- Update on Scrutiny Review recommendations pertaining to the Council's energy purchasing arrangements – September 2021 [Agenda and Minutes of Overview and Scrutiny Performance Board on 30 September 2021](#)
- [Agenda of Overview and Scrutiny Performance Board on Wednesday, 6th January, 2021, 10.00 am - Worcestershire County Council \(moderngov.co.uk\)](#)
- Agendas and Minutes of the Corporate and Communities Overview and Scrutiny Panel available on the website here [weblink to Agenda and Minutes](#)