

Title of Report	RENEWAL OF GAS & ELECTRICITY SUPPLY CONTRACTS - 2022/23 INFORMATION REPORT - UPDATE ON CONTRACT APPROVAL	
Key Decision No	None	
For Consideration By	Cabinet Procurement and Insourcing Committee	
Meeting Date	18 July 2022	
Cabinet Member	Cllr Mete Coban Cabinet Member for Energy, Waste, Transport and Public Realm	
Classification	Open with exempt appendix By Virtue of Paragraph(s) 3, Part 1 of schedule 12A of the Local Government Act 1972 the appendix is exempt because it contains Information relating to the financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.	
Ward(s) Affected	All	
Key Decision & Reason	No The report provides the outcome of the procurement strategy agreed in the March 2020 by Cabinet Procurement Committee	Energy is purchased on wholesale markets in advance of the delivery date.

1. CABINET MEMBER'S INTRODUCTION

- 1.1 The London Borough of Hackney, in common with many other local authorities, relies heavily on the supply of gas and electricity from the market to deliver essential services to residents. As part of the Mayor and Council's commitment to rapidly decarbonise the full functions of the local authority, the Council switched to 100% renewable electricity on 1 April 2020. The next step which the Council is actively working towards will see the Council secure 100% renewable electricity through the Power Purchase Agreements (PPA), against this target, we have completed a market survey to understand the route to market. This is a very challenging target but we believe that it will contribute towards reaching our net zero target
- 1.2 In October 2018, the Intergovernmental Panel on Climate Change issued its starkest warning yet, through the Special Report on Global Warming of 1.5C, regarding both the timescales and level of action required to drastically reduce greenhouse gas emissions in order to avert catastrophic warming and subsequent climate change. The report concluded that "limiting warming to 1.5C is possible within the laws of chemistry and physics but doing so would require unprecedented changes" and that "the next few years are probably the most important in our history." The deep decarbonisation programme that Hackney Council is undertaking in respect of its consumption of energy, both on the supply and demand-side, could not be more timely.
- 1.3 In June 2019, the Council further strengthened its commitment to playing a full role in the transformation of the energy system through the agreement of a Climate Emergency motion at Full Council. This motion commits the local authority to a 45% reduction in emissions against 2010 levels by 2030 and net zero emissions by 2040, in-line with the most stretching targets contained within the IPCC 1.5C report.
- 1.4 REGO certificates are a major step forward for the Council in delivering against the 2018 manifesto commitment to transform the way we purchase wholesale energy to increase the generation of renewable energy beyond Hackney's borders by using our corporate spending on gas and electricity to increase investment in sources of clean energy.
- 1.5 The natural next step which the Authority is beginning to take is to explore the potential for a Power Purchase Agreement (PPA) with a specific generation facility. Doing so will provide greater transparency and certainty regarding the provenance of the Council's - and other bodies that procure energy jointly with the Council, such as local

schools - electricity. Securing such an agreement - and exploring ways of reducing the global warming impact of our gas consumption - would demonstrate in a very visible way to the residents of Hackney that our corporate spending on renewables is contributing to the delivery of new sources of clean energy, rather than merely sending a signal to the market that more renewable energy is required, which is the role that the purchase of REGO certificates performs.

2. GROUP DIRECTOR'S INTRODUCTION

- 2.1 This report provides the outcome of this year's purchasing round for energy used within Council offices, Hackney Housing and in Schools, where such Schools are part of the corporate contracting arrangement.
- 2.2 The backdrop to this year's round of energy procurement has been major increases in global prices due to increased demand post pandemic combined with supply disruption from political and military action affecting supplies to the market from Russia. The Council was sheltered from the worst of the energy crisis through its flexible purchasing process which resulted in the majority of the energy being purchased before the end of December 2021.
- 2.3 This year's contract prices show an estimated 66% increase for HH supplies, 43% increase for NHH supplies, 80% increase for UMS and 52% increase for gas prices. Including the increases on standing charges, a 77% overall increase in costs is forecast.

	Year on Year £/kWh Prices		
	20/21	21/22	22/23
HH	£0.1190	£0.1431	£0.237
NHH	£0.1278	£0.1638	£0.235
UMS	£0.1399	£0.1325	£0.239
Gas	£0.0235	£0.0242	£0.0369

*Rates exclude Climate Change Levy

- 2.4 Notwithstanding the level of pricing achieved, the Council and in particular the Energy and Carbon Management Team will continue to work with other departments to pursue the delivery of energy conservation measures, some of which are highlighted in other parts of this report.

3. RECOMMENDATION(S)

Cabinet Procurement and Insourcing Committee is recommended to:

- 3.1.1 **Note the outcome of the purchasing arrangements which have placed Supply contracts with the Energy companies as follows:**
- 3.1.2 **The Half Hourly, Non-Half Hourly and Unmetered Electricity Supply contract is awarded to Total Gas & Power at an estimated value of £12.8m**

- 3.1.3 **The Gas Supply contract is awarded to Total Gas & Power at an estimated value of £4.7m.**
- 3.1.4 **A further £0.9m will be incurred in Climate Change Levy (CCL) payments on the bill.**
- 3.1.5 **Note the indicative aggregate cost impact for Hackney, including Housing and Schools, from these tender awards is a 77% increase against last financial year's projection, the actual impact will be monitored via OFF.**

4. RELATED DECISIONS

- 4.1 Cabinet Procurement Committee approved the Business Case report in its meeting of the 7th September 2020. The report recommended the appointment of LASER as the energy purchasing agent for the Council and also for the Group Director of Finance and Corporate Resources to engage the service provider for future years' purchases

5. REASONS FOR DECISION/OPTIONS APPRAISAL.

- 5.1.1 This report provides the Cabinet Procurement and Insourcing Committee with the results of the "risk managed flexible purchasing" exercise carried out on behalf of the Council by LASER between October 2021 and March 2022 for all gas and electricity supplies to secure a twelve month contract.
- 5.1.2 The current contract prices for all supplies include those large (HH) Half Hourly electricity supplies including Unmetered (UMS) public street lighting, all gas and small (NHH) Non-Half Hourly electricity supplies for the year commencing 1st April 2022 to 31st March 2023 that were presented to the Council during May 2022.
- 5.1.3 For this year's supplies, the electricity contract was procured with 100% of its volume from renewable sources at £0.495ppkWh.
- 5.1.4 The contract for all supplies is for a twelve month period commencing from April 2022 to March 2023.
- 5.1.5 2020 was set to be the low point in the energy price cycle but this was extended by the pandemic with its resultant reduction in demand. As the world economy recovered, energy prices accelerated faster than predicted partly due to the loss of capacity during the extended low cycle of prices. The situation in 2021 was exacerbated by political intervention in the market, particularly by Russia withdrawing capacity, 2022 has been dominated by the impacts of military action in Ukraine and the resultant sanctions which have disrupted supply, a situation that is still unfolding.
- 5.1.6 For the 2022/23 energy supplies contract, the Council has been partially sheltered from the worst energy prices by the flexible purchasing process with 95% of the energy purchased before the end

of 2021. The outturn of the next purchasing round which begins in October 2022 will very much depend on how the geo-political situation develops.

5.1.7 The Council will explore the adoption of PPAs going forward , this will also help with smoothing the price volatility of Electricity. If Electricity is procured via PPAs, the Council will continue with LASER to procure energy for the gas contracts and any residual electricity required.

5.1.8 As work to decarbonise Council buildings, including schools, progresses, this will shift demand from gas into electricity although the total kWh in aggregate will fall.

5.2 ALTERNATIVE OPTIONS (CONSIDERED AND REJECTED)

5.2.1 Previous Business Case reports and in particular the one considered and approved by Cabinet Procurement Committee in September 2020 detailed the options available to the Council for procuring its energy supplies contracts. The risk managed flexible purchasing of energy in advance of contract start date was and is still preferred to other types of purchasing arrangements.

6. PROJECT PROGRESS

6.1 Developments since the Business Case approval.

NONE

6.2 Whole Life Costing/Budgets:

6.2.1 The Council's requirement for gas and electricity has existed for many years and annual budgets are established and maintained. There is central provision to cover unexpected additional costs because of price volatility.

6.2.2 The Council's preferred strategy for managing inflationary cost pressures is that these are managed, wherever possible, from within existing cash limits and thus the budget for energy is not given an annual inflation uplift. However, in recognition of the potential volatility in the energy markets, and due to the fact that in the short term at least, demand is broadly uncontrollable, the Council sets aside a reserve to meet unforeseen changes in price, demand or any potential market volatility.

6.3 Savings

6.3.1 As part of the Council's Accommodation Strategy there is potential for reduced demand for energy as fewer buildings remain in the Civic Estate. This will be reviewed year on year and recurring savings may be able to be taken in future years.

7. SUSTAINABILITY ISSUES

7.1 Procuring Fair Delivery

7.1.1 There are no specific equalities issues in these procurements but a failure to procure would have a profoundly adverse effect on services provided to the residents of the borough.

7.2 Procuring Green

7.2.1 For this year's supplies, the electricity contract was procured with 100% from renewable sources.

7.2.2 The Authority has made a commitment to "achieving net zero carbon across the full range of council functions by 2040". This will require the complete decarbonisation of the electricity supply grid and many suppliers in the market offer "renewable" electricity tariffs, also known as REGOs, choosing to buy these does not necessarily result in additional renewable generation and carbon savings beyond those incentivised by the regulatory mechanisms. The only clear ways to achieve this is to develop local generation (e.g. solar photovoltaics) and procure electricity through Power Purchase Agreements. These routes are also identified as important pathways to decarbonisation in the Council's Net Zero Energy Strategy.

7.2.3 We explored the potential for a Power Purchase Agreement (PPA) by conducting a Soft Market Test and we continue to explore options for securing a deal that is best for the Council. PPAs will provide greater transparency and certainty regarding the provenance of the Council's - and other bodies that procure energy jointly with the Council, such as local schools - electricity. The primary question for the responders was, "is there a market for the Council's appetite for a 50GWh generation and overall ambition to use generation from its assets as part of the arrangement.

7.2.4 The general consensus from the majority of the responders is that a new build asset will be the best route to meeting our needs. The market indicated a preference for long term contracts with a pricing structure linked to CPI increases year on year, providing a lower fixed initial price which will increase over the contract period. Contract length will have a significant impact on final p/kWh as well as any specific contract structure discussions. Competition amongst PPA off-takers like the Council, is high due to an acceleration in actions to future proof increases in energy prices and actions to address climate change targets. It is therefore important that, in line with due process, the Council needs to expedite the process of procuring PPA and award a contract to the developer offering the best value deal. The next step is to develop the business case and ensuing procurement for the Councils PPA, some of the challenges to this will include the long term nature of the contracts, as the supply contracts include a significant portion of the housing accounts; hence leaseholder consultation will be necessary.

- 7.2.5 In addition to PPA, the Council successfully installed Solar PV systems at administrative buildings with potential savings of over 1,000 tonnes of CO₂ savings over the lifetime of these installations. We have increased local solar generation through the installation of solar panels at corporate building, including London Fields Lido, West Reservoir, Haggerston Depot, and community halls: Kingshold, Lea View and Wren Park already installed, with total generated output of 248kWp. More installations are planned to be completed by the end of the calendar year adding extra 264kWp of solar energy output.
- 7.2.6 The Council is actively looking to ensure energy use in its building is as efficient as possible and has engaged with the Re:Fit framework appointing Asset Plus as delivery partner. A portfolio of buildings is being brought forward within an Investment grade Proposal focussed initially on buildings that are expected to qualify for grants in the upcoming PSDS 3b fund. These are buildings that have end of life fossil fuel heating systems and the grant will contribute to low carbon upgrades while the Council will need to fund what the original replacement cost would have been. The portfolio includes 2 schools, 3 leisure centres and Stoke Newington Town Hall. Further measures are proposed where appropriate with insulation, solar thermal and other measures to reduce heat demand being the priority for grant support.
- 7.2.7. The Housing PAM team, under the Asset Management Strategy have a commitment to retrofit housings to EPC C, beyond this, and to respond to the Net Zero Energy Strategy, the team is developing a retrofit programme as well. The Council is also exploring ways to make the most effective use of under-utilised buildings with a view to rationalise its corporate estate. The activities will not only deliver financial savings but will achieve CO₂ reduction
- 7.2.7 For gas supply there are no 'renewable gas' contracts (although there are very small quantities of 'biogas' injected into the public supply network). As gas is consumed across the Council estate for heating, the only route to '100% clean energy' target is to convert to low and zero carbon heating systems. The Hackney Energy Masterplan has identified some of these sources of low carbon supply in the Borough and further work will be needed to develop these. This is recognised in the Net Zero Energy Strategy. Proposals are being developed for heat networks to support both the Woodberry Down and Colville developments and a detailed feasibility has been completed for a Low Carbon Heat Network in Shoreditch to replace the current network that is under performing.

7.3 Procuring Better Society

This contract does not lend itself to the delivery of local labour and other employment benefits as it is a simple supply agreement for the

supply of electricity and gas used in Council buildings and properties. However, the Council is discussing how this aspect can be progressed both with the framework provider, Laser Energy, and the main electricity and gas supplier, Total Energy.

8. TENDER EVALUATION

8.1 Evaluation:

8.1.1 The purchasing of the Council's requirements was carried out over a six-month period using an existing framework agreement that was put in place by LASER. The framework was competitively tendered and fully compliant with EU procurement regulations.

8.1.2 This report provides the outcome of purchases carried out by the suppliers appointed by LASER and contracts prices for all supplies (Non-Half hourly smaller electricity supplies, Half Hourly large electricity supplies, unmetered electricity supplies and all gas supplies) for the period from 1st April 2022 to 31st March 2023 of the contracted year. The contract prices were purchased between the six month period, 1st October 2021 to 31st March 2022, prior to the contract start date.

9. CONTRACT MANAGEMENT ARRANGEMENTS

9.1 Resources and Project Management (Roles and Responsibilities):

9.1.1 Contract management is undertaken by the Carbon and Energy Management Team. Each supplier provides a single contract manager to liaise with the Council.

9.1.2 All operational matters including supply and invoicing issues are dealt with directly between the CEM officers and the energy suppliers, while the LASER handles all strategic matters on behalf of the members of the Consortium. There is also a direct link between the Council and the LASER based on the contract awarded to the organisation to purchase energy on behalf of the Council. Issues that cannot be resolved at operational level are escalated to LASER.

9.1.3 The Council is also a member of the London Energy Project which takes up concerns of common interest to its members with the LASER and suppliers

9.2 Key Performance Indicators: The CEMU approves BACs and Direct Debit batches of invoices for payment and direct recharges to cost centres. Consumption data is collected in the CEM's monitoring database. This data is used to monitor budgets across the organisation and to assemble consumption data.

Category	KPI	Monitoring
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Failed Registrations	Failed Registrations including Notice of Objections and Rejections to be notified to the Customer within two (2) Working Days of receipt.	LBH to hold record of nominations with proposal dates. Supplier to provide all details of objections and rejections to time scale. Record to be maintained by LBH
	Weekly report of any failed Registrations to be sent to the Authority on the first (1st) Working Day of each week.	Supplier to provide emailed spreadsheet. Record to be maintained by LBH
New Sites – Pricing	Interim prices to be provided to the relevant Customer and the Authority within three (3) Working Days for a single Site and within seven (7) Working Days for group Sites.	Supplier to provide emailed spreadsheet. LBH to hold record of nominations with proposal dates. Supplier to provide prices to timetable
Customer Contracts	Electricity Products Customer Contracts to be populated with individual Customer details and Metering Point Information, and issued to Existing Customers prior to the First Supply Start Date. Electricity Products Customer Contracts to be populated with individual Customer details and Metering Point Information, and issued to New Customers prior to the Earliest Supply Start Date for such New Customer.	Supplier to provide emailed spreadsheet. Compliance monitored by LBH.
Customer Queries	Responses to Customer Queries by telephone or letter to be given within two (2) Working Days. If it cannot be resolved within two (2) Working Days, a “holding” response giving the reason why resolution is not possible and a date when full resolution is expected must be provided.	Log of queries raised, held by LBH. Compliance monitored by LBH. Supplier to provide emailed response.
Customer Complaints	Customer Complaints to be given priority treatment and acknowledged by the Supplier to the Customer within one (1) Working Day of receipt. An estimated timescale for resolution	Log of complaints held by LBH. Compliance monitored by LBH.

	must accompany the acknowledgment	
	Customer Complaints to be logged and reported to the Authority within one (1) Working Day of receipt.	Log of complaints raised, held by LBH. Compliance monitored by LBH.
	The Supplier to send a progress report to the Authority and the Customer each Working Day the complaint remains open/unresolved. Where resolution of the Complaint is not achieved within the estimated timescale, or the estimated timescale is not acceptable to the Authority or the Customer, escalation procedures shall be invoked.	Log of complaints raised, held by LBH. Compliance monitored by LBH.
Quotations – Site Works and Installation Services	Quotations to be provided to the Authority within six (6) weeks of receipt of Order.	Log of quotations requested, held by LBH Compliance monitored by LBH.
Completion of work – Site Works and Installation Services	Completion of the work to be within the timeframe stated in the Supplier's quotation and acceptance letter. On completion the new Site is to be priced in accordance with the standard terms of the Electricity Products Customer Contract and arrangements for pricing.	Log of site works held by LBH Compliance monitored by LBH.

10 COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND RESOURCES

10.1 This report provides notification of the procurement of gas and electricity for the Half Hourly and Unmetered Electricity Supply contract, the Non-Half Hourly Electricity Supply and Gas Supply contract for the 2022/23 financial year.

10.2 As mentioned in the recommendations, the aggregate indicative increase on the bottom line is 77%, which for the non schools elements of Hackney's portfolio is as follows:

	General Fund £m	HRA £m	Total £m
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Elec 21/22 outturn	2.5	3.7	6.2
Gas 21/22 outturn	0.4	0.9	1.3
Total 21/22 outturn	2.9	4.6	7.5
22/23 Indicative cost with 77% increase in prices and changes in usage following the pandemic	5.0	8.1	13.1

LB Hackney contracts energy suppliers on behalf of schools, but energy costs are incurred by schools direct. The estimated impact for schools is as follows:

	2021/22	2022/23
Schools energy cost	3.0	5.3 (Indicative)

- 10.3 The indicative energy cost for 2022/23 will result in an £0.5m pressure for the General Fund and will be addressed as part of updating the medium term financial plan.
- 10.4 In respect of the costs falling on the HRA, 75% of the costs of this contract award will be recovered through charges to tenants and leaseholders. The indicative residual cost falling on the HRA for 2022/23 will result in a £1.3m pressure which has been reflected in the first forecast of the year and will be addressed as part of updating the HRA Business Plan.
- 10.5 The increase in schools energy cost will need to be managed from the delegated schools budgets.
- 10.6 The ongoing volatility of the energy markets means it remains difficult to predict year on year changes to prices and particularly given current geo-political events which are driving energy price volatility. Spend will be closely monitored through OFP (excluding schools).

11. COMMENTS OF THE DIRECTOR OF LEGAL, DEMOCRATIC AND ELECTORAL SERVICES

- 11.1 On 7th September 2020 Cabinet Procurement Committee agreed that the Group Director of Finance and Resources be delegated authority to engage a Public Buying Organisation to provide purchasing services to the Council for Natural Gas, Non-Half Hourly electricity, Half Hourly and Unmetered electricity for three annual contracts to commence in April

2022. This Report sets out details of the first of such three annual contracts and covers the period April 2022 - March 2023.

- 11.2 Cabinet Procurement Committee also agreed that retrospective Contract Award reports be presented to Cabinet Procurement Committee (now Cabinet Procurement and Insourcing Committee) by June of each year detailing contract costs and for each year and recommending confirmation to the Group Director of Finance and Corporate Resources to exercise the delegated authority. Therefore this Report is being presented to Cabinet Procurement and Insourcing Committee for approval.

12. COMMENTS OF THE PROCUREMENT CATEGORY LEAD

- 12.1 Cabinet Procurement and Insourcing Committee is recommended to note the outcome of the energy purchasing activity carried out, on behalf of the Council, by LASER for Total Gas and Power to deliver the Council's energy contracts to cover the next 12 months from 1st April 2022 to 31st March 2023.
- 12.2 This procurement is a compliant route to market and adheres to the requirements under the Council Standing Orders and the Public Contract Regulations, as approved by Cabinet Procurement Committee in September 2020.

APPENDICES

EXEMPT

Appendix 1: Summary of Contract Values by Suppliers

By Virtue of Paragraph(s) **(3)** Part 1 of schedule 12A of the Local Government Act 1972 this report and/or appendix is exempt because it contains

Information relating to the financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information

BACKGROUND PAPERS

Exempt appendix 1

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