

## **Procurement of Gas and Electricity Supply**

### **Key Messages**

Forum members are asked to:

- Consider their schools strategy for the procurement of energy
- Make a decision on how their school procures gas and electricity

### **1. Introduction/background**

- 1.1. Current energy markets are extremely volatile and prices are spiralling upwards. Energy prices rose rapidly around the world after pandemic lockdowns were lifted and global economies returned to normal. Many industries, places of work and leisure facilities were then in need of more energy which put unprecedented pressures on suppliers. Russia's invasion of Ukraine in February then led to cuts in gas supplies to Europe, which in turn sent European natural gas prices soaring. At the start of 2021, UK gas was at 38p per therm. This month it has gone as high as 537p per therm.
- 1.2. The Government has announced that it will be providing a support package for commercial energy consumers (including schools) for the period 1<sup>st</sup> October 2022 to 31<sup>st</sup> March 2023. A further review on this support will be undertaken in three months-time. Ministers have stated that rates will be capped at a "government-supported price" of £211 per megawatt hour for electricity and £75 for gas. The detail on the support has yet to be worked through, but should provide some financial relief to schools. It is unclear how long the government will be able to sustain this level of support if energy prices continue to remain high in the long term, so while the relief is welcome it does not remove the need for schools to consider and decide on their energy purchasing strategy moving forward.
- 1.3. The dramatic price rises in both gas and electricity are at a level where they will have a serious impact on schools' budgets. Schools need to consider how they procure their energy in such an unpredictable market. The current expectation is that any increase in costs needs to be managed within available school resources. We will keep this situation under review and will share further updates if any additional funding support is announced.

## 2. Current Situation

- 2.1. 143 schools currently subscribe to the Council’s energy procurement framework. The Council’s Energy Unit manages the contract with our energy suppliers and we have offered the opportunity for schools to ‘piggyback’ onto the Council’s contract for many years and hope that this will continue in the future. In recent years this has been a relatively benign contract, but as the impact of energy costs becomes ever more serious, we feel the time is right to give schools an insight on how the Council purchases its energy and allow schools to make an informed choice on their preferred way forward.
- 2.2. SCC purchases energy through a compliant framework - Crown Commercial Services (CCS). This follows best practice and is in line with public procurement regulations. Central government is mandated to use CCS for procurement of energy; therefore, they have the largest energy spend of all public buying organisations. CCS have a trading team that monitors energy markets and using expertise and experience purchase energy at the most opportune moments. This does not guarantee we will always have the cheapest price, but does allow us access to a professional energy procurement team and helps with managing the risks around energy procurement.
- 2.3. The nominated energy supply companies in the CCSs framework are Total Gas and Power (gas) and EDF (electricity).
- 2.4. CCS offers a number of flexible procurement routes that are underpinned by robust risk management strategies. Volumes are aggregated together and purchased by a specialist and dedicated trading team on the wholesale commodity markets. This allows more buying opportunities and for customers to benefit from being part of an aggregated portfolio. Below are the CCS trading strategies.

### Locked (L6)

- 6 month purchase window prior to the start of delivery
- Enter the market multiple times during this period
- Purchasing is complete before delivery begins
- Monthly commodity price will be set for the entire delivery year

### Locked (L12)

- 10 month purchase window prior to the start of delivery
- Enter the market multiple times during this period
- Purchasing is complete before delivery begins and energy rates delivered in advance of supply year
- Monthly commodity price will be set for the entire delivery year

### Short Term Variable (V6)

- 18 month purchase window; begins 6 months before delivery and continues throughout
- Purchase at day ahead and intra month level
- Enter the market multiple times during this period
- Commodity prices change on a monthly basis

### Long Term Variable (V30)

- 42 month purchase window; begins 30 months before delivery and continues throughout
- Purchase at day ahead and intra month level
- Enter the market multiple times during this period
- Commodity prices change on a monthly basis

Fixed price to help manage budgets

Fixed price to help manage budgets

Access to potentially lower market price

Element of price stability year on year

- 2.5. Historically schools have been on the locked baskets which have a shorter purchasing window, but provide a fixed price on energy at the beginning of the financial year in which the energy is used. Schools on the Councils energy framework are currently on the:
- The L12 basket for gas
  - The L6 basket for electricity
- 2.6. Following a review by the Council's Commercial department and the Facilities Management Energy Team the Council has decided to adopt the long-term purchasing strategy (V30) for both gas and electricity. The V30 basket is the mandated energy procurement option for central government. This will mean that all schools choosing to remain on the framework will move to the V30 procurement option.
- 2.7. The V30 basket:
- Helps to level out any price spikes within the market
  - Helps with medium term forecasting and budgeting
  - Requires a long-term commitment, withdrawing from the V30 basket requires 30 months-notice to be given by September each year.

### **3. What Does This Mean for Schools**

- 3.1 The Council is happy for schools to continue purchasing their energy via the council framework, but are keen to ensure that this is an informed choice made by the school. We believe that committing to the CCS V30 basket provides the best opportunity to manage the risks surrounding energy procurement and would advise schools to adopt the same approach. Schools remaining on the Council's framework will be moved to the V30 basket at the earliest opportunity and will be on the same purchasing strategy as the council as we align school and council purchasing. There will be no alternative procurement strategy available to any school choosing to remain on the council framework.
- 3.2 Schools within PFI 1 do not purchase their energy via the Council. The 10 PFI schools from PFI 2, 3, 4 and 5 on the Council energy procurement agreement should discuss their energy procure at their individual contract administration meeting. In general terms it is thought that PFI schools have the same autonomy as maintained schools to make choices on their energy procurement, but this must be confirmed via your contract administrator.

## 4. Recommendations

Forum members are asked to:

- Make an informed decision on their school's energy purchasing strategy. We believe that opting for the V30 basket will provide better long-term value and help mitigate the risk created by unpredictable markets.
- Schools who do not wish to remain part of the Council framework must provide notice to the Council by the end of January 2023. The Council's default position will be that schools that do not inform us that they wish to leave will stay on the Council framework.
- Schools who choose to leave the Council framework will need to make arrangements for the supply of their gas and electricity for the financial year commencing 1<sup>st</sup> April 2024 onwards.
- Schools who decide to stay with the SCC energy purchasing framework, will move onto the same (V30) package as the Council. Moving to the V30 will mean a longer-term commitment of 42 months. Once schools have agreed to purchase via the V30 basket they will be required to give 30 months-notice by September each year, they will then be free to procure energy from an alternative source 42 months later.

Nb. Attached are energy forecast costs for schools. Please note that the forecast in this report were made prior to the government's announced support. Further communications will be made to schools with regards to energy prices once the effect of the government's measures is known.