

Report to	North Wales Fire and Rescue Authority
Date	17 October 2022
Lead Officer	Helen MacArthur, Assistant Chief Fire Officer
Contact Officer	Helen MacArthur
Subject	Renewal of energy contracts



PURPOSE OF REPORT

- 1 This report is to provide Members with an update on the energy contracts for the supply of gas and electricity across the estate of North Wales Fire and Rescue Authority (the Authority).

EXECUTIVE SUMMARY

- 2 The contracts for the Authority's gas and electricity expired on 30 September 2022. The extreme price increases that have been experienced in the energy market have created a significant financial risk to the Authority.
- 3 The contracts for gas and electricity have been awarded via Gwynedd Council's Energy Procurement Framework. The gas and electricity will be purchased using a dynamic purchasing system which allows purchases to be made over the lifetime of the contract at the prevailing rate at that time.
- 4 The dynamic purchasing arrangement will be subject to an agreed risk strategy which includes the option of purchasing all estimated outstanding gas and electricity should the market continue to increase, providing a safety net which limits the Authority's exposure.
- 5 At the time of writing, the UK Government has announced support measures for businesses up to 31 March 2023. This reduces the cost pressure for the financial year 2022/23 to £0.2m. However, without this support the 2023/24 cost pressure is estimated to be £0.9m due to the extreme price movements in the gas and electricity wholesale markets.

RECOMMENDATION

- 6 Members are asked to note the:
 - (i) contractual arrangements for the purchase of gas and electricity; and
 - (ii) associated risk and cost implications from 1 October 2022.

BACKGROUND

- 7 The Authority is a member of the North Wales Energy Partnership comprising North Wales councils, police and fire. This has enabled members to benefit from collective procurement arrangements via compliant frameworks. Traditionally, energy has been purchased at a fixed tariff which is set on 1 October each year.
- 8 The existing supply contracts for gas and electricity expire on 30 September 2022 and it has been necessary to undertake a procurement exercise for new energy contracts.

INFORMATION

- 9 The Authority has been able to benefit from a procurement framework established by Gwynedd County Council as the lead authority. The Energy Procurement Framework is compliant with public sector procurement regulations.
- 10 The underlying tender process was conducted in accordance with OJEU rules and was undertaken by a market expert, Beond, on behalf of Gwynedd County Council.
- 11 The objective of the tender process was to determine the most economically advantageous tender response from licenced energy suppliers for a 48-month period. There were a range of core objectives within the tender process including supporting the achievement of sustainability goals and moving away from a fixed tariff to a dynamic purchasing system. Although a dynamic purchasing system is the preferred option, it is noted that some suppliers have, in any event, withdrawn from offering fixed rate tariffs due to the market conditions.
- 12 A dynamic purchasing system is a mechanism to provide flexibility for energy to be purchased at different stages of the contract. Under this arrangement some, but not all, of the forecasted energy consumption is purchased at the start of the contract and remaining balance is purchased over the contract period. The aim of this strategy is to make purchases over a longer period of time rather than one fixed price to increase the chance that we can benefit from dips in the market and obtain cheaper prices over the duration of the contract.
- 13 The Authority has an agreed risk strategy which includes the option of purchasing all estimated outstanding gas and electricity should the market continue to increase. This effectively provides a safety net which limits the Authority's exposure.

- 14 The situation is further complicated by the extreme price rises that have been experienced in the energy sector. The cost of gas has increased from approximately 266p per therm in April 2022 to 525p per therm when the contracts were signed and have since seen market highs of 827p per therm.
- 15 The dynamic purchasing system is managed by Beond and the aim is for a risk averse approach which may provide mitigation against the fixed tariff option. The Authority has an agreed risk strategy which includes the option of purchasing all estimated outstanding gas and electricity should the market continue to increase. This effectively provides a safety net which limits the Authority's exposure.
- 16 The contract for electricity has been awarded to Drax, a UK based company that provides the UK's largest source of renewable energy. The company has announced its ambition to be carbon negative by 2030 which supports the Authority in its own environmental objectives.
- 17 The contract for the supply of gas has been awarded to TotalEnergies, a global company that produces and sells fuels including natural gas and electricity. The company is committed to lowering emissions in its natural gas processes to support its green objectives.
- 18 Due to the extreme price increases the risk management strategy was invoked and gas and electricity was fully purchased for the period 1 October 2022 – 30 September 2023. The gas was purchased at a cost of 518p per therm and electricity £546 per megawatt hour (MWh). These prices give rise to a full year cost pressure of £0.9m.
- 19 The UK Government has since announced a range of measures to support UK businesses including the public sector. These measures cap the prices at £211 per MWh for electricity and gas at 220p per therm. This support is available until 31st March 2023 and limits the cost pressure to £0.2m for the 2022/23 financial year. The support available after 31 March 2023 remains uncertain and therefore the planning assumptions for the 2023/24 budget have assumed a full year cost pressure of £0.9m.

IMPLICATIONS

Wellbeing Objectives	This report links to NWFRA's long-term well-being objectives. The purchase of gas and electricity from suppliers committed to carbon reduction supports the long-term sustainability agenda.
Budget	Budget is set annually in accordance with the anticipated cost and associated usage.
Legal	The procurement process is fully compliant with the public sector procurement regulations.
Staffing	None
Equalities/Human Rights/Welsh Language	None
Risks	Members should note that the use of a dynamic purchasing system includes the inherent risk that the cost of gas and electricity will increase above the fixed tariff option. The strategy includes a stop loss arrangement for the Authority to purchase the outstanding balance if costs increase above an agreed level.