

WIRRAL COUNCIL

WIRRAL SCHOOLS FORUM – 18 January 2017

REPORT OF THE DIRECTOR FOR BUSINESS SERVICES

ENERGY PURCHASING FOR SCHOOLS

1. EXECUTIVE SUMMARY

This paper provides a brief update on the procurement of electricity and natural gas on behalf of Schools and describes changes for the 2017/18 financial year.

2. PURCHASING OVERVIEW

The energy supply arrangement many Schools are part of procures Electricity and Natural Gas using a Managed Service provided by Crown Commercial Service (CCS). CCS, as a trading fund and an executive agency of the Cabinet Office, delivers commercial savings for central government and the wider public sector. It is the largest not-for-profit energy buying consortium in the UK which enables it to exert much greater pressure on suppliers than the Council could alone. This managed service type of arrangement was identified as best practice by the Pan-Government Energy Project. The arrangement is compliant with Corporate Procurement and EU Regulations.

The purchasing arrangement includes PFI schools and is available to Academy Schools. A total of 118 schools listed in the Primary and Secondary Education Booklets are part of the managed service. 8 Schools make their own arrangements. The total projected expenditure for all schools in the managed service is approximately £3.28 million.

Electricity and Natural Gas is currently purchased on the wholesale markets on Wirral's behalf by CCS over the six months prior to the start of the supply year. The individual energy suppliers (contracted by CCS under separate framework agreements through an OJEU compliant process) then provide a team to supply and administer a particular contract.

Energy prices change extremely quickly and the risks involved in selecting the right day to switch are huge. Purchasing the energy over a six month period, allows the CCS traders to purchase parts of our total requirement when the markets are low and to avoid periods of high prices.

It should be noted that there are individual tariff structures within the Electricity and Gas contracts are based on operational profiles, transportation and metering costs, meaning that each point of supply is priced individually.

3. BENEFITS OF THIS APPROACH

In 2014/15 the CCS purchasing baskets we were part of were 150 times larger than our total portfolio which includes Schools as well as Council buildings. Aggregation is used as leverage, providing access to the generators. Generators want to sell outputs in a small number of large portions rather than having to make an increased

number of smaller sales. The market price achieved reflects this preference. A small basket reduces market leverage and increases the risk of higher prices.

It has previously been identified that the savings identified by approved Government Benefits Methodologies show that the Wirral Portfolio would have cost approximately 10.4% more than actual spend if the current arrangement with CCS had not been in place.

CCS provides a team of expert traders whose activities are constantly monitored by a separate risk management team and are subject to regular review by central Government. Delegating purchasing to expert traders spreads the risks of purchasing energy on a spot price basis and the final prices we pay are built up from the energy purchased over a six-monthly period.

This proposal supports Pledge Fourteen of the Wirral 2020 Plan by enhancing the Council's ability to keep running costs associated with use of gas and electricity in council buildings to a minimum whilst adhering to purchasing rules.

4. MARKET TRENDS

Up to April 2016 the price of energy had been reducing. This trend has reversed since then. Although we are, to an extent, insulated from market volatility, a sustained rise in prices will eventually work its way through to the prices we pay.

For the remainder of the current Financial Year, projections suggest that no changes to energy budgets are required. This assumes patterns of use do not change significantly. Projections for 2017/18 are not yet available as energy purchasing takes place up to and including 31 March 2017. It is not possible to determine the precise impact on prices at this time with any certainty although an upward trend is likely. When the updated prices are available, the Wirral Schools Forum will be updated at the earliest opportunity

The elements affecting energy markets are varied, but some recent significant influencing factors include: the relative strength of sterling against the Euro and the US Dollar; changes in the price of coal; availability of power from French nuclear generators; availability of gas storage and changes to oil production levels.

5. CHANGE TO PORTFOLIO SCHEDULE

From 1 April 2017, the entire Wirral energy portfolio will synchronise to the financial year. This was necessary as the October renewal baskets were shrinking to the extent that it was not possible to access the most advantageous deals from the generators. The size of the aggregated basket is important for CCS to obtain the best prices on the wholesale futures markets. .

An April price renewal date means that suppliers will apply the OFGEM non-commodity charges that are set for each year rather than having to include a risk premium to cater for anticipated changes.

The electricity supplied by British Gas Business is already on a financial year renewal cycle so there will be no impact for those Users. Schools supplied by EdF and Corona Energy will be affected, but there should be no impact on the administrative burden for Schools.

6. REGULATORY CHANGE: P272

Under the new 'P272' Regulations electricity meters that fall into the Code 05 to Code 08 category must be settled on the Half Hourly market from 1 April 2017. For the 9 schools with these types of meters, the supplier will change from British Gas Business to Electricité de France (EdF). The changes required by the new regulations have been made by CCS under the terms of the framework agreement. The Regulator maintains that the increase in accuracy of half-hourly billing will outweigh any additional metering costs.

7. BILLING VERIFICATION

Up to now, the Sustainability Unit has no direct involvement in the payments process. We are in the process of developing a verification procedure for all CCS framework energy accounts that will identify billing errors when the summary and consumption files are received. This will allow us to raise queries concerning any errors that can then be referred back to the supplier and the School as appropriate. Items that will be checked include, but are not limited to: continuity of meter readings and dates; significant changes in consumption and correct tariff charges.

8. ROLE OF THE SUSTAINABILITY UNIT

The role of the Sustainability Unit is to administer the purchasing contract on a day-to-day basis and to provide assistance and support when problems arise with the Framework Suppliers.

We are able to provide an enhanced service through the Energy and Water Support Service which includes the provision of: mandatory Display Energy Certificates (DEC's) & Advisory Reports. Energy & Sustainability Awareness, Advice and Support (including the Eco Schools compulsory energy module); and Training opportunities for key stakeholders (e.g. Bursars, Governors, Caretakers, Teacher-Talks) are available on request but subject to resource constraints.

9. RECOMMENDATIONS

That the forum notes the content of this report and approves the actions taken on behalf of schools.

David Armstrong
Director for Business Services (Assistant Chief Executive)