

WIRRAL COUNCIL

WIRRAL SCHOOLS FORUM – 18 JANUARY 2022

ENERGY PURCHASING FOR SCHOOLS UPDATE

1. EXECUTIVE SUMMARY

This paper provides a brief update on the procurement of electricity and natural gas on behalf of schools and suggests budget changes for the 2022/23 financial year. This follows a period of extreme price volatility that is affecting all energy users. Energy prices have recently risen at unprecedented rates. In the commercial sector energy price rises of 595% have been reported.

2. PURPOSE OF THIS UPDATE

The purpose of this report is to provide schools with information on:

- Changes in natural gas and electricity prices that are anticipated for the 2022/23 financial year based on December 2021 data.
- Unit prices achieved by the Crown Commercial Service (CCS) framework compared with commercial rates.
- Uncertainties in projecting future costs.
- Budget change suggestions to ensure provision for the purchase of electricity and natural gas over the 2022/23 financial year.
- Environment and climate emergency

The content of this report is only applicable to accounts that are part of the CCS framework agreement. The Council holds no information for schools which make their own energy supply arrangements and cannot comment on this area of work.

3. ANTICIPATED 2022/23 PRICE CHANGES BASED ON DECEMBER 2021 DATA

In line with the framework arrangement natural gas and electricity are purchased on our behalf by CCS over a six-month window running from 1 October 2021 to 31 March 2022. Comparison of market rates issued in March 2021 and December 2021 suggests that the price increases set out below will come about if conditions do not change.

Energy type	Percentage cost increases (Mar 2021 vs Dec 2021)	Worst case cost increases for 2022/23 (Mar 2021 vs Dec 2021)
Gas (Supplied by Total)	272 %	294 %
Electricity (Supplied by EdF)	165 %	170 %

NB: Climate Change Levy changes included

Information received in December 2021 suggests there may be further price rises. Contributing factors include the deteriorating diplomatic relationship with Russia and the reduction in French nuclear output. Prior to December a slight easing of markets was reported. The worst-case scenario increases are included owing to ongoing uncertainty.

4. AVERAGE UNIT PRICES ACHIEVED BY CCS

The CCS risk managed approach continues to deliver competitive average unit costs: Commercial energy unit rates reported on the U-switch website on 15 December 2021 suggested the following unit prices:

- Electricity: 14.3 to 14.7 p/kWh (Standing Charges excluded)
- Natural Gas: 4.3 to 4.5 p/kWh (Standing Charges excluded)

The Crown Commercial Service November purchasing update for November 2021 reports the following unit prices:

- Electricity: 11 p/kWh (Standing Charges excluded)
- Natural Gas: 3.66 p/kWh (Standing Charges excluded)

The U-switch site has not been updated since 15 December so a more recent comparison cannot be provided.

It should be noted that non-energy costs made up over 66% of electricity costs and approximately 25% of a typical gas bill in 2021/22. Many of these costs are agreed by the regulator OFGEM with the suppliers. Customers have no influence over these costs which are often updated in the first three months of the calendar year. It cannot be guaranteed that these cost elements remain stable.

Anticipated non-energy costs for gas have doubled rising from 0.33 p/kWh in 2021/22 to 0.61 p/kWh in 2022/23. Climate Change Levy rates for gas are also rising from 0.405 p/kWh in 2021/22 to 0.568 p/kWh in 2022/23. These combined cost elements will be 60% higher in 2022/23.

Currently there is nothing to suggest that there will be significant changes to non-energy costs for electricity. The Climate Change Levy rate for electricity is being held at 0.775 p/kWh for 2022/23 according to the Government website.

5. UNCERTAINTIES IN PROJECTING FUTURE COSTS

There are two issues that make future cost projections uncertain: changing patterns of energy use and ongoing market uncertainty.

We cannot be certain how the pandemic will affect annual energy consumption. Some schools may have seen a reduction in energy use that reduced costs. However, we cannot be certain how energy use patterns will be affected in 2022/23. Increased ventilation rates required to prevent the spread of the virus may affect energy used for heating. The information we have available is insufficient to estimate consumption and cost over the winter period. In normal circumstances it is expected that approximately 78% of energy for heating is used between September and March.

Recent factors that have affected energy prices include:

- Short term power prices increased sharply in December 2021 with high pressure weather systems bringing a drop in temperatures and wind generation. The UK exported more electricity than it usually imports through the interconnectors with France. French nuclear generation has reduced by about 10% which is also restricting supply. The UK electricity balance has been extremely tight with 'day ahead' prices breaking records. National Grid has announced a review into spiralling balancing costs but this alone is unlikely to restrain prices, which reflect the extremely tight balance this winter.

- December has seen the first sustained periods of cold weather this winter following a relatively mild October and November. This, alongside deteriorating supply expectations from Russia, has seen short term prices rocket. Demand is relatively stable despite the high price environment with gas for power generation demand buoyed by low nuclear availability (in France in particular). Gas supply from Russia is significantly below previous years and competition with Asia for LNG (Liquefied Natural Gas) is fierce.

5. CHANGES IN PROVISION FOR GAS & ELECTRICITY EXPENDITURE

The following changes to expenditure are suggested as precautionary provisions to take account of the increased prices anticipated for 2022/23. The suggestions are made using the worst-case scenario due to ongoing market volatility.

- Increase provision for **natural gas** supplied by TGP by 194%
- Increase provision for **electricity** supplied by EdF by 70%

6. ENVIRONMENT AND CLIMATE EMERGENCY

In July 2019 Wirral Council declared an Environment and Climate Emergency. Following the declaration, the Council is seeking to reach net zero carbon emissions by 2030. We will be purchasing electricity from renewable sources for the 2022/23 financial year under the framework agreement to decarbonise our electricity use. The green electricity is backed by REGO (Renewable Energy Guarantees of Origin) scheme. The additional cost will be funded from the Council's Climate Emergency budget.

7. RECOMMENDATIONS

It is recommended that the forum notes the content of this report.