

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 2023/24 financial year. This follows a period of extreme price volatility that is continuing to affect all energy users.

2. PURPOSE OF THIS UPDATE

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

- Energy Market Performance
- Government intervention through the Energy Bill Relief Scheme.
- Department for Education purchasing recommendations.
- Unit prices for natural gas and electricity that are anticipated for the 2023/24 financial year based on December 2022 data.
- 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.
- Support for energy efficiency from the Department for Education
- Environment and climate emergency

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

3. ENERGY MARKETS & GOVERNMENT INTERVENTION

Over the past year energy markets have continued to be extremely volatile and it is probable that the high price levels will be sustained for some time to come. Wholesale energy prices have been rising significantly since late 2021 and rose again following the Russian invasion of Ukraine peaking in August 2022. Markets eased as gas storage was maximised in Europe and as alternative sources of gas were established. In late December 2022 it has been reported that wholesale gas prices have dropped significantly but it is impossible to tell if this trend will be sustained. Changes in gas prices ultimately affect electricity prices as around 40% of the UK's electricity is generated using gas.

The Forum will be aware of the Government's intervention to support commercial customers through the Energy Bill Relief Scheme (EBRS). The scheme covers the period 1 October 2022 to 31 March 2023 and gives support to customers where wholesale energy prices exceed 21.1 p/kWh for electricity and 7.5 p/kWh for gas. It should be noted that the wholesale prices are not the unit prices that appear on invoices which include non-energy costs.

The wholesale prices achieved for framework members by CCS for 2022/23 were significantly below the support thresholds and consequently do not qualify for support. Prices for schools are fixed until 1 April 2023. A small number of accounts transferring into the CCS framework agreement on interim pricing are eligible and receive EBRS

support. The Government rebates are automatically applied by the Suppliers and no action is required from Customers.

Indicative wholesale prices from April 2022 are shown below in p/kWh with the wholesale prices achieved for 2022/23.

	Budget	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Cap
Electricity	14.91	17.08	17.85	19.24	25.36	43.20	38.82	29.27	27.86	27.87	21.10
Gas	5.12	6.36	6.21	6.88	9.60	16.79	16.32	11.57	10.41	10.00	7.50

The Forum may also be aware that the EBRs may be extended to provide support to vulnerable businesses. At present the terms of reference available for the review states: "Public sector organisations will not be eligible for support through the review. The review will however consider private sector firms which are providers of public services and voluntary sector organisations such as charities".

4. DfE PURCHASING RECOMMENDATIONS

For the supply of energy and ancillary services the DfE recommend Crown Commercial Service (CCS) as a potential framework supplier <https://find-dfe-approved-framework.service.gov.uk/list/energy-ancillary>. The framework arrangement accessed via Wirral Council is a CCS product RM6011 'Supply of energy and ancillary services'.

5. ANTICIPATED 2023/24 UNIT PRICES BASED ON NOVEMBER 2022 DATA

In line with the framework arrangement natural gas and electricity are being purchased on our behalf by CCS over a six-month window running from 1 October 2022 to 31 March 2023. The information provided is based on that currently available and may be subject to change.

The CCS risk managed approach continues to deliver competitive average unit costs: The Crown Commercial Service November purchasing update for December 2022 reports the following unit prices will apply assuming conditions do not change.

- Electricity: 43.025 p/kWh (Standing Charges and Climate Change Levy included)
- Natural Gas: 12.772 p/kWh (Standing Charges and Climate Change Levy included)

Commercial energy unit rates reported on the U-switch website on 3 January 2023 suggested the following unit prices:

- Electricity: 78.2 p/kWh (Standing Charges and Climate Change Levy excluded)
- Natural Gas: 28 p/kWh (Standing Charges and Climate Change Levy excluded)

It should be noted that non-energy costs made up over 66% of electricity costs and approximately 25% of a typical gas bill. 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.

Information received in December 2022 suggests there may be further price changes. Contributing factors include recent reductions in the wholesale price of gas but this may be offset by the situation in the Ukraine and the European 'cap' on prices paid for Russian energy or colder weather.

6. UNCERTAINTIES IN PROJECTING FUTURE COSTS

The magnitude and frequency of market fluctuations has led to CCS adopting modified purchasing protocols that were agreed with the Treasury. Previously if market prices reached a certain level above the previous year with little prospect of reducing this would prompt CCS to fill all baskets at the earliest opportunity. The volume traded was sufficient to further inflate prices so for 2023/24 it has been decided that CCS will fulfil its six-monthly purchasing requirements in six equal tranches. On one level this approach reduces the inflationary impact of the large volumes being traded but has the disadvantage of a reduction in flexibility with regard to when purchases are made. It is not possible to tell what impact this arrangement will have on the final prices but we know that within each monthly period the CCS buyers will make every attempt to purchase at the lowest prices possible.

Recent factors that have affected energy market prices include:

Over November and December 2022 market focus has been on weather. Prices rose and fell from day to day as forecasts shifted. There is a clear link between demand and prices for the rest of this winter and those for the following year. This is because of European gas storage as stock levels at the end of the current winter dictate how much gas is needed over the summer to refill storage for the following winter and how challenging it will be to replenish stocks.

During December's cold snap demand for both gas and electricity jumped higher but was below what is considered normal given the weather conditions. In October and November analysis suggested UK electricity demand was approximately 7% lower than 2021 once the weather effects had been considered. For gas the price-responsive demand reduction looks even higher at nearly 14% lower. The CCS analysis of demand during the cold snap shows demand as much as 10% below the levels expected.

On the supply side deliveries of liquified natural gas (LNG) helped meet the higher demand. The delivery outlook in coming weeks looks reasonably healthy. Two factors may change the outlook:

- We could see delays to the return of Freeport (the US LNG export plant closed following a fire last summer) which may limit supply.
- There is potential for LNG demand growth in China to increase following the lifting of Covid restrictions which may increase competition.

The EU has agreed on a price cap for wholesale gas which is due to be implemented in mid-February 2023. This cap could be withdrawn if its operation was preventing market prices from effectively signalling scarcity in the event of a serious security of supply issue. There are widely reported concerns that putting a cap in place could possibly undermine market operation and lead to volatile and chaotic trading conditions.

For electricity markets a key factor remains French nuclear availability. Considerably less nuclear output is expected from France for the rest of the winter than was expected. Given the UK's historic reliance on French imports to help meet peak demand periods disappointing levels of French nuclear output will add to tighter UK conditions during periods of low wind this winter.

7. 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 most recent information available.

- Increase provision for **natural gas** supplied by TGP by 103.29%
- Increase provision for **electricity** supplied by EdF by 61.78%

8. ENERGY EFFICIENCY SUPPORT FROM THE DfE

On 6 December 2022 it was announced by the DfE that schools will receive additional funding for improving energy efficiency. Schools and colleges in England have been allocated a share of £500 million to spend on energy efficiency upgrades to help reduce bills during the winter months and manage energy consumption. The DfE suggest that improvements could include installing better heating controls, insulation to reduce heat loss from pipes or switching to energy efficient lighting. New guidance has also been published to support schools to maximise energy efficiency, reduce carbon emissions and improve sustainability and resilience this winter and beyond. The funding allocations and guidance is available from the DfE website.

8. 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 2023/24 financial year under the framework agreement to decarbonise our electricity use. The green electricity is backed by REGO (Renewable Energy Guarantees of Origin) scheme.

9. RECOMMENDATIONS

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