

WIRRAL COUNCIL

WIRRAL SCHOOLS FORUM – 16 JANUARY 2024

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 2024/25 financial year. The extreme market volatility of the past two years has reduced and we are seeing a reduction in prices but the future remains unpredictable.

2. PURPOSE OF THIS UPDATE

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

- Energy Market Performance
- Department for Education purchasing recommendations.
- Unit prices for natural gas and electricity that are anticipated for the 2024/25 financial year based on December 2023 data.
- Uncertainties in projecting future costs.
- Budget change suggestions to ensure provision for the purchase of electricity and natural gas over the 2024/25 financial year.
- Support for energy efficiency from the Department for Education and the Council
- 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.

The information provided is based on market intelligence covering half of the contracted purchasing period which runs from 1 October 2023 to 31 March 2024. Observations on future prices should therefore be interpreted as indicative.

3. ENERGY MARKETS

The energy markets have calmed over the past year and the extreme volatility has reduced. Although there is currently more stability in the markets this could be undermined by unforeseen events.

Gas and Electricity prices lifted for a short while at the end of November when significantly colder than normal temperatures and low wind pushed up demand from both consumers and power stations.

Since November prices have moved lower as the market increasingly discounted geopolitical risks and focussed more on the comfortable looking balance of supply and demand. Contract prices for delivery in the next financial year (April 24 onwards) have dropped.

Geopolitical concerns have increasingly taken a back seat over the past month. Markets have set aside concerns that the Israel/Hamas war might spill over into a wider regional conflict which could in turn disrupt the seaborne transit of gas. The

impact of recently reported disruption to shipping in the Red Sea emanating from the Yemen will have on prices is not apparent at the time of writing.

Gas demand remains significantly below pre-crisis levels, with lower industrial, residential, commercial, and power station demand contributing to UK demand remaining a good 15% below normal.

On the supply side, Norwegian production has lifted to virtually full capacity and deliveries of Liquefied Natural Gas (LNG) into the UK and Europe have been rising. Panama has seen exceptionally dry weather over the past year resulting in falling water levels in the Panama Canal and restrictions on transits via the canal. With US LNG projects located on the east coast, this is keeping more US LNG in Europe, rather than taking the long way to Asia. With restrictions on the canal due to deepen into the New Year, this trend is only likely to intensify.

Power prices have been tracking gas lower but the improved balance in Europe, due to the return of French nuclear units and higher European hydro levels, plus falling UK carbon prices have seen price drops in some contracts outpace those in gas. Electrical interconnection between the UK and Europe has been strengthened which is expected to further stabilise the international network.

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 RM6251 'Supply of energy 2'.

5. ANTICIPATED 2024/25 UNIT PRICES BASED ON DECEMBER 2023 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 2023 to 31 March 2024. 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 purchasing update for December 2023 suggests the following unit prices will apply assuming conditions do not change.

- Electricity: 24.233 p/kWh (Standing Charges and Climate Change Levy included)
- Natural Gas: 5.485 p/kWh (Standing Charges and Climate Change Levy included)

Indicative commercial energy unit rates reported on the U-switch website on 19 December 2023 suggested the following unit prices for a large user:

- Electricity: 29.0 p/kWh (Standing Charges and Climate Change Levy excluded)
- Natural Gas: 11.2 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.

6. UNCERTAINTIES IN PROJECTING FUTURE COSTS

The magnitude and frequency of market fluctuations over the past three years 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 it has been decided that CCS will fulfil its six-monthly purchasing requirements in six equal tranches.

Energy markets may be affected by a multiplicity of factors that show as increased or decreased prices. The UK is a net importer of energy and our prices are set on international markets. Events across the globe can have a significant impact.

Factors that are expected to affect energy market prices include:

Weather: The weather is an obvious factor that affects both gas and electricity prices. Gas is used to generate electricity so short-term prices are interlinked. The impact of an extended period of cold weather has the potential to push up prices because of increased demand. Similarly milder weather may reduce market prices.

Reduced Demand: Over the past two years of high prices demand for energy has reduced as users have taken steps to reduce their outgoings. Conventional economic theory suggests a lower demand will help to control price rises. Electricity and global gas supply and demand seems relatively well balanced at the time of writing and this will help maintain stability.

Geopolitics: Geopolitical issues may have an impact. The Israeli/Hamas war has had little lasting impact on international energy markets to date, but this may change. The disruption to shipping through the Suez Canal may have an impact on delivery times and costs. Increased demand for LNG from the Far East has the potential to push up prices. Russian gas is still being supplied to Europe and the impact of EC policies is uncertain. The war in Ukraine also has the potential to affect energy markets.

7. CHANGES IN PROVISION FOR GAS & ELECTRICITY EXPENDITURE

The following changes to expenditure are suggested as precautionary provisions to take account of the reduced prices anticipated for 2024/25. The suggestions are made using the most recent information available.

- Reduce provision for **natural gas** supplied by TGP by 34.52%
- Reduce provision for **electricity** supplied by EdF by 32.61%

8. ENERGY EFFICIENCY SUPPORT FROM THE DfE AND WIRRAL COUNCIL

The Department for Education has published extensive targeted advice on improving energy efficiency in schools on their website:

<https://www.gov.uk/government/publications/energy-efficiency-guidance-for-the-school-and-fe-college-estate/energy-efficiency-guidance-for-the-school-and-further-education-college-estate>

The Council is currently developing emissions reporting for schools to aid investment decisions. The reporting will follow the academic reporting year rather than the financial year. The reporting will adhere to guidance on Greenhouse Gas Reporting and use the conversion factors that are updated annually.

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 as its locally determined contribution to the Borough's target of achieving net zero before 2041. The Council will be purchasing electricity from renewable sources for the 2024/25 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.