

MERSEYSIDE FIRE AND RESCUE AUTHORITY

MEETING OF THE:	COMMUNITY SAFETY AND PROTECTION COMMITTEE		
DATE:	1 SEPTEMBER 2022	REPORT NO:	CFO/040/022
PRESENTING OFFICER	CHIEF FIRE OFFICER PHIL GARRIGAN		
RESPONSIBLE OFFICER:	DEB APPLETON	REPORT AUTHOR:	STEWART WOODS
OFFICERS CONSULTED:	IAN CUMMINS, MIKE REA, HYWYN PRITCHARD		
TITLE OF REPORT:	PROCUREMENT OF ELECTRICITY & GAS FROM 2023		

APPENDICES:

Purpose of Report

1. The purpose of this report is to inform Members of the current situation regarding the supply of electricity and gas and recommend the best options for the procurement from April 2023.

Recommendation

2. It is recommended that Members;
 - a. note the contents of the report;
 - b. approve the procurement of electricity and gas through Liverpool City Council (LCC), and enter into contracts for the supply of electricity and gas via the Crown Commercial Services (CCS) framework by 15th September 2022, utilising the CCS L6 purchasing window for the period 1st April 2023 to 31st March 2024 and the L12 purchasing window for the period 1st April 2024 to 31st March 2025.
 - c. approve the procurement of electricity using Renewable Energy Guarantees of Origin (REGOs) and
 - d. approve delegated powers to be given to the CFO and Director of Finance and Procurement in consultation with the Chair of the Authority, to accept a revised energy source to (REGOs) via LCC / CCS if supply issues or financial implications arise with REGO's.

Introduction and Background

3. At the 21st May 2022 Urgency Committee, Members approved report CFO/050/22 agreeing to continue procuring utilities with Liverpool City Council (LCC) via the Crown Commercial Services Framework until 31st March 2023 whilst awaiting the outcome of an independent review of the contract.
4. As referenced in report CFO/050/22 a number of contract management issues had been raised by Liverpool Council over the way the Scottish Power electricity

contract had been managed by officers within LCC. LCC engaged Mazars to complete an investigation into the management of the Scottish Power contract, and the outcome of Mazars report has now been published on the LCC website. A report on the draft management response to the Mazars recommendations was presented to LCC Audit Committee on the 3rd August 2022 and outlined the proposals to be implemented by officers to avoid similar issues in the future.

5. MFRS officers asked LCC Internal Audit to review the Service's internal process for managing contracts devolved to a third party (particularly electricity and gas). Although Internal Audit have yet to complete their review, officers have agreed with Internal Audit that all such contracts must now be included on the MFRS contract register with the appropriate review date and officer responsible, so the Service is involved in ensuring contract negotiations are commenced and new contracts are in place as required.
6. There continues to be an unprecedented volatility in the energy market with increasing uncertainties and insecurities. If the Authority does not enter into a new energy contract it would face a major risk of having unmanaged energy rates/costs in a volatile market and potential interruptions to supply and possible business continuity implications.
7. LCC has undertaken an appraisal of the available energy supply consortia to explore purchasing options for the next 2 years (01/4/2023 – 31/03/2025). Their appraisal demonstrated that smaller organisations may have an increased risk regarding their resilience to market changes and noted that CCS deals with the largest volume of commercial public sector customers lending itself to greater buying power and scored highest in their options appraisal. The cabinet office sponsored CCS trade desk which provides the stability to manage this risk with the requisite skills and expertise of 33 energy buyers scored highest.
8. CCS offer four purchasing windows listed below, only three of which are available for LCC and MFRA.
 - a. Variable (V30) Purchasing window- purchasing begins 30 months before the delivery period and continues throughout the delivery period.
The V30 option is not available for 2024 /2025 as buying needed to have started 30 before the delivery period and the deadline has expired.
 - b. Locked 12 (L12) Purchasing Window – Purchasing begins 12 months before the delivery period and is concluded prior to delivery period.
This option is only available for second year therefore 2024/25.
 - c. Variable 6 (V6) Purchasing Window – purchasing begins 6 months before the delivery period and continues through the delivery period.
 - d. Locked 6 (L6) Purchasing window – Purchasing begins 6 months before the delivery period and is concluded prior to the delivery period.
9. In order to purchase via one of the options above, the CCS framework require a commitment by the 15th September 2022.

10. LCC have considered and approved the use of the CCS L6 purchasing window for both gas and Electricity for 2023/24 and the L12 for gas and electricity for 2024/25 at their Cabinet meeting on the 22nd July (Appendix 1).
11. The L6 purchasing window has been recommended for the delivery period 2023/24 as it allows the CCS trading team to purchase electricity and gas throughout the 6-month period prior to the start of delivery. Purchasing is concluded prior to the delivery period and the monthly commodity price will be set for the entire delivery year 2023/2024 to help manage budgets.
12. The L12 purchasing window (not available for the 2023/24 period) has been recommended for the delivery period 2024/25 as it allows the CCS trading team a longer period to enter the market than the L6, The CCS trading team purchase electricity and gas throughout a 10-month period prior to start of delivery. Purchasing is concluded prior to the delivery period and the monthly commodity price will be set for the entire delivery year 2024/2025 to help manage budgets.
13. The V6 purchasing window is an alternative option which allows the CCS trading team an 18-month period to enter the market as purchasing commence 6 months prior to delivery and continues for the duration of the delivery period. This option means the community price is variable and while it could offer more favourable pricing there is a risk that prices may also increase given the volatility seen in the energy markets recently. Due to the current volatility over prices this option is not being recommended.
14. Since 2015 LCC and MFRA have purchased 100% renewable energy tariffs, the following four energy source options are available from CCS:
 - a. Option 1 – renewable tariff using Renewable Energy Guarantees of Origin (REGOs)
 - b. Option 2 – a zero carbon for business tariff
 - c. Option 3 – a blend of renewable and zero carbon for business tariff
 - d. Option 4 – standard tariff for electricity.
15. The applicable premium for purchasing RGEOs is not known yet and will be presented in advance of the delivery periods. As of today's pricing it would be a 1.3% uplift of the variable price.
16. Members should note that UK customer demand for REGOs has increased due to an increased focus on sustainability and net zero, this has in turn increased the price that customers are willing to pay for renewable energy. Furthermore, 2020 had a very low wind generation which has led to fewer REGOs being available to buy and following Brexit, fewer GOO (European REGO equivalents) certificates are able to be imported into the UK. If supply or financial issues arise pertaining to the supply of REGOs as a result of the market conditions LCC may be required to make a delegated decision regarding the option taken for the energy source. Therefore, Members are asked to approve the recommendation that delegated powers be given to the CFO and Director of Finance and Procurement, in consultation with the Chair of the Authority, to accept a revised energy Source supply (REGOs) from LCC as is required.

17. MFRS officers have reviewed and are in agreement with LCC that the CCS framework offers the greatest resilience to market changes and the largest volume of public sector customers. Officers note the findings of the Mazars report and await further details of the CIPFA report and any further recommendations and action plans. The purchasing of utilities with LCC via the CCS framework is still considered the best option available to MFRA, offering MFRA the greatest buying power and specialist knowledge of both LCC and via the CCS framework.
18. Officers will continue to review the audit reports and closely monitor the performance of the energy contract over the next 12 months to determine a longer-term strategy for energy purchasing from April 2025.

Equality and Diversity Implications

19. No ED&I implications have been Identified

Staff Implications

20. No Staff implication have been identified.

Legal Implications

21. Ensuring good internal processes and governance of contract management as detailed in paragraph 5 will mitigate the Authority's risk and management of its future route to market for these services.
22. Although the contract will be directly between the service provider and LCC, the Authority can still be assured as to the compliance with the Public Contracts Regulations 2015. in accessing the market through the use of a CCS framework
23. The remaining legal implications are contained within the report.

Financial Implications & Value for Money

24. The energy market remains volatile and therefore future energy rates are difficult to predict. Based on the LCC estimates future kWh rates for electricity (£0.375) and gas (£0.055), the non-PFI budget uplift requirement for MFRA would be;
 - a. Electricity +£0.8m, and
 - b. Gas +£0.1m.
25. However, as rates are extremely volatile they will be monitored closely and forecasts reviewed on a regular basis. The December 2022 / January 2023 rates will be used to forecast the required 2023/24 budget proposals and Medium Term Financial Plan forecast.

Risk Management, Health & Safety, and Environmental Implications

26. Not entering into a contract will result in being on a variable unmanaged energy rate in a volatile market increasing the risk of cost increases.

27. CCS being one of the largest public procurement organisations in the UK have a greater collective purchasing power to secure the best commercial deals on behalf of the public sector.

Contribution to Our Vision: *To be the best Fire & Rescue Service in the UK.*

Our Purpose: *Here to serve, Here to protect, Here to keep you safe.*

28. The procuring of energy over the next two years gives stability to the budget planning process and resilience to the supply of energy to operational sites.

BACKGROUND PAPERS

CFO/050/22 Procurement of Utilities

GLOSSARY OF TERMS

MFRA	M erseyside F ire and R escue A uthority is the physical and legal entity. When writing reports MFRA is the “object”.
MFRS	M erseyside F ire and R escue S ervice is the service provided by MFRA. When writing reports MFRS is the “action”
CCS	C rown C ommercial S ervices
LCC	L iverpool C ity C ouncil