



## Mayor and Cabinet

### **Corporate energy contracts: procurement of renewable electricity supplies**

**Date:** 11 March 2020

**Key decision:** No

**Class:** Part 1

**Ward(s) affected:**

**Contributors:** Executive Director Housing, Environment and Regeneration. Head of Law. Head of Finance.

### **Outline and recommendations**

This report updates Mayor and Cabinet on the Council's corporate energy contracts and sets out options to purchase renewable electricity.

Mayor and Cabinet is invited to agree the overall approach set out in this report and the proposal to purchase certificates under the Renewable Energy Guarantees of Origin (REGO) scheme to match the supply of electricity received to corporate sites and schools to renewable generation.

## Timeline of engagement and decision-making

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*List past formal decisions and engagement. See [“Timeline of engagement and decision-making” in the guidance](#) for more information.*

### 1. Summary

- 1.1. Lewisham Council procures electricity and gas contracts through a framework agreement with Crown Commercial Services (CCS). Wholesale energy markets are volatile and suppliers highly risk averse in relation to pricing for business customers. The Council’s current approach seeks to reduce exposure to risk through the supplier purchasing on the wholesale markets over a six month period. This buying period established prices that are then fixed for the following 12 months.
- 1.2. The current buying period is October to March, with prices fixed from April 2020 until March 2021. The next opportunity to make a decision to change our suppliers and adopt a different approach is before the end of September 2020, with a new supply from April 2021.
- 1.3. In February 2019 councillors agreed a motion to declare a ‘Climate Emergency’ and asked Mayor and Cabinet to adopt a new climate change action plan by the end of 2019/20 with the aims of making the borough carbon neutral by 2030. A draft Climate Emergency Action Plan will be presented to Mayor and Cabinet to determine the approach the Council will take in response to the threat of climate change.
- 1.4. The Council’s current energy contracts commit us to the existing suppliers until March 2021. It is not possible to change those contracts without financial penalty but it is possible to match the supply of electricity received through the grid to renewable generation through the Renewable Energy Guarantees of Origin (REGO) administered by Ofgem, the government regulator for gas and electricity markets in Great Britain.
- 1.5. The report assess the options for REGOs and recommends the option of certificates sourced from wind, solar and hydro, with an estimated annual cost of £30,437.
- 1.6. Officers will review the options for future procurement and bring proposals back to Mayor and Cabinet in advance of the next buying period for Lewisham energy contracts.

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## 2. Recommendations

The Mayor and Cabinet is invited to agree

- the overall approach to reviewing the Council's procurement of corporate energy contracts; and
- the proposal to purchase REGO certificates (as set out in section 5 and 6 below) to match the supply received through our electricity contracts for corporate sites, schools and streetlighting to renewable generation.

## 3. Policy Context

- 3.1. Lewisham's Corporate Strategy 2018-22 includes commitments to take better care of our local environment and the planet, including through maximising opportunities for energy efficiency and providing support on energy bills for vulnerable residents. Reducing the Council's exposure to the financial risks of rising energy costs supports delivery of the Corporate Plan as a whole.
- 3.2. In February 2019 councillors approved a motion to declare a 'Climate Emergency' and asked Mayor and Cabinet to adopt a new climate change action plan by the end of 2019/20 with the aims of making the borough carbon neutral by 2030. A draft Climate Emergency Action Plan will be presented to Mayor and Cabinet to determine the approach the Council will take in response to the threat of climate change.
- 3.3. Showing leadership through the Council's own operations is expected to be an important part of the draft Action Plan and switching corporate supplies to renewable energy is one way that commitment can be demonstrated.
- 3.4. A number of schools have demonstrated strong support for action on corporate energy supplies. In summer 2019 a 'Switch Our Schools Campaign', launched by children at Beecroft Garden, Dalmain, Fairlawn, John Stainer, Rathfern and Stillness schools lobbied the Council to switch schools electricity supplies to 100% renewable, clean energy.
- 3.5. Subject to agreement elsewhere on this agenda the Council's Climate Emergency Action Plan will set out plans to accelerate the reduction in carbon emissions and works towards a carbon neutral borough by 2030. Relevant actions in the draft Action Plan include:
  - Reduce carbon emissions from our corporate buildings by 50% by 2025 against the 2017/18 baseline (action 1.2.1);
  - Use the Council's corporate energy procurement to support renewable energy, develop an energy procurement strategy that aligns our Climate Emergency ambitions with the way we procure energy contracts (action 1.5.5);
  - Support efforts by school staff and pupils to take action on climate change (action 1.4.3).

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## 4. Corporate electricity and gas contracts

- 4.1. The Council's electricity and gas contracts for corporate sites, Lewisham Homes' managed sites, streetlighting and schools are purchased jointly with other London boroughs and public sector organisations as a way to use scale to get value for money. Lewisham Council purchases energy through a framework agreement with Crown Commercial Services (CCS) which the Council entered into in 2016.
- 4.2. In 2018/19 total corporate expenditure on electricity and gas supplies through the Council's corporate energy contracts was £4.1 million and £1.7 million respectively. Details are set out in the table below:

2018/19 Corporate Supplies	Electricity	Gas
Corporate sites	£1.3m	£0.6m
Schools	£1.4m	£0.8m
Streetlights/unmetered supplies	£0.3m	
Lewisham Homes managed properties	£1.1m	£0.3m
<b>Total</b>	<b>£4.1m</b>	<b>£1.7m</b>

- 4.3. CCS is the largest non-supplier buyer of electricity and gas, which creates opportunities for economies of scale for its customers. The Council's current energy suppliers through the CCS framework are EDF for electricity and Corona for gas. From April 2020 the Council's CCS gas contracts move to Total Gas & Power (TGP). Suppliers on the CCS framework purchase energy in advance on wholesale markets over a period of 6 months. Purchasing in advance over a period of time reduces the exposure to price volatility in energy markets.
- 4.4. The current buying period is October to March. After that point prices are fixed from April 2020 until March 2021. The next opportunity to make a decision to change our suppliers and adopt a different approach is before the end of September 2020.
- 4.5. Officers will assess options for the Council's approach to energy procurement from April 2021 and develop an energy procurement risk strategy based on an assessment of:
- The relevant frameworks available to public sector organisations;
  - What the market offers including the in terms of renewable energy;
  - Opportunities for added value through ancillary services including metering contracts, submetering and bill validation;
  - Options in relation to fixed/flexible purchasing options, fixed/pass-through non-commodity charges, purchase ahead/throughout delivery period and the length of purchasing window.
- 4.6. Officers will also review the Council's approach to carrying out competitions and awarding energy contracts to ensure that this supports the options available.

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## 5. Renewable energy supplies

- 5.1 Subject to its agreement elsewhere on the agenda for 11 March Mayor and Cabinet, the Council's Climate Emergency Action Plan will set out plans to respond to the declaration of a Climate Emergency and deliver on the ambition of making Lewisham carbon neutral borough by 2030.
- 5.2 Showing leadership through the Council's own operations is expected to be an important part of this work and switching corporate electricity supplies to renewable energy is one way that commitment can be demonstrated. It will also respond to the 2019 'Switch Our Schools Campaign', launched by children at Beecroft Garden, Dalmain, Fairlawn, John Stainer, Rathfern and Stillness schools who lobbied the Council to switch schools electricity supplies to 100% renewable, clean energy.
- 5.3 As described in section 4 above, the Council's existing electricity contract commits the Council to a 6 months' buying period that will fix prices for 12 months from April 2020. In order to enter into a different contract without financial penalty we need to give notice before the buying period starts. The assessment of our approach to energy procurement beyond that point will include an understanding of what the market offers on renewable electricity.
- 5.4 In the interim subject to its agreement elsewhere on the agenda for 11 March Mayor and Cabinet it is possible to align the Council's corporate electricity contract with the approach set out in the Lewisham Climate Emergency Strategi Action Plan through the purchase of Renewable Energy Guarantees of Origin (REGOs) certificates. This is described below. For the reasons set out below, the recommendation in this report is to purchase REGO certificates to match consumption on our corporate, school and strettlights for 2020/21.
- 5.5 In reviewing our strategic approach to procurement options for our corporate energy contracts one option is to consider Power Purchase Agreements (PPA), further detail on this is set out below for information.

## 6. REGOs

- 6.1. Renewable Energy Guarantees of Origin (REGO) certificates are the industry mechanism for matching units of electricity used to units of renewable electricity supplied into the grid. The scheme is administered by Ofgem, the government regulator for gas and electricity markets in Great Britain and is in line with the international Greenhouse Gas (GHG) Protocol.
- 6.2. REGO certificates are used across all supply arrangements, but because of the way the electricity grid works it is an accounting exercise and does not mean an individual supply covered by REGOs is directly from a source of renewable electricity. The only way to achieve this is to have onsite renewable generation or a private wire connection from a nearby renewable generator. In the absence of direct supply from a renewable source REGO certificates are the only way to have an electricity supply matched to a renewable source. Once electricity is generated and enters the grid, it can only be tracked theoretically, and REGO certificates are the way this is done for electricity from a renewable source.
- 6.3. REGO certificates are sold by the UK renewable electricity generators that provide electricity to the National Grid rather than to individual suppliers. The certificate scheme exists to avoid double counting of electricity from renewables.
- 6.4. REGO certificates can be purchased by the final customer from the incumbent electricity supplier and the rates vary year on year depending on the level of availability

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on the market. The Council can opt to purchase REGO certificates with effect from April 2020 while we stay within our existing contract with EDF.

6.5. The table below shows the different options for REGO certificates with cost estimates provided by our electricity supplier EDF. The forecast cost ranges between 0.45%-0.73% of the contract value, which is £21,741 - £34,785.

6.6. REGO calculations summary

	Total ( )	Rate (p/kWh)
REGO Sourced from a range of renewable technologies across the UK and European markets (p/kWh)	£21,741	0.05
REGO Specifically sourced from wind, solar and hydro assets (p/kWh)	£30,437	0.07
REGO Allows customers to request a tailored supply solution to cater for a range of location, technology and generator-specific preferences, if you require this then please get in contact to discuss requirements which will establish a cost (p/kWh)	£34,785	0.08

6.7. The marginal cost of REGO certificates is small compared to the overall cost of electricity. Nevertheless this represents an additional pressure that will need to be met by budgets that are already stretched. Actions within the draft Climate Emergency Action Plan include a range of proposals to improve energy efficiency and reduce reliance on electricity and gas supplies. Delivering on these actions is also likely to require funding but would be expected to reduce our exposure to energy costs.

6.8. Subject to approval of the Climate Emergency Action Plan by Mayor and Cabinet it is recommended that the Council purchase REGOs. It is proposed that officers purchase REGOs specifically sourced from wind, solar and hydro assets. This second option from the table above reflects the concerns raised by schools in relation to nuclear energy that would apply to the first option in the table above. The third option, the 'tailored solution', is not considered appropriate as there is no source of renewable energy large enough that is directly associated with the borough so there is no additional benefit from this option.

6.9. The proposal to purchase REGOs for schools as well as corporate sites was discussed at the School Heads' Leadership Forum on the 11 February 2020.

## 7. Power Purchase Agreements

7.1. Power Purchase Agreements (PPAs) are the way to turn purchasing REGOs into direct additional investment in renewables.

7.2. PPAs are broken down into two types – Direct Wire and Corporate/Synthetic PPAs. Direct wire means being connected directly to the renewable generator, which unfortunately isn't something the Council has access to. This is a common limitation in a city. This leaves Corporate/Synthetic offsite PPAs, which can be agreed between the Council and any generator in the country that is looking for funding to get off the ground. Through such a PPA contract the Council would receive REGOs directly from the generator for the contracted units of electricity consumed and also contribute to decarbonisation of the UK grid. PPAs are highly complex and often based on long-term contracts (10-20 years) and there are complications about matching supply and demand. In the current market, PPA contracts shorter than 10 years will not offer additionality of new generators, as it's not sufficient to recoup the investment.

7.3. Given the long-term nature of the commitment with a PPA contract there may be

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issues in relation to the long term future of Council corporate sites (e.g. Catford Regeneration) and whether schools could be included without creating a potential financial risk for the Council. Any PPA would however only form part of our total electricity supply and so would be part of a wider hedging strategy offering budget certainty for the selected consumption volume. The rest of the electricity consumption will be made up of continuation of the flexible purchasing on the wholesale market and onsite generation.

- 7.4. There are a number of different contractual arrangements for PPAs and a small number of local authorities have now entered the market. Further assessment of the options is needed to reach a conclusion on whether this could be an option for Lewisham, and this will be carried out as part of the wider assessment of procurement options set out above in section 4.

## 8. Financial implications

- 8.1. This reports seeks Mayor and Cabinet approval on the overall approach to procurement of the Council's corporate energy contracts in line with the declaration of a Climate Emergency and the proposal to match the supply of electricity received through the grid to corporate sites and schools to renewable generation through the Renewable Energy Guarantees of Origin (REGO) scheme administered by Ofgem.
- 8.2. In 2018/19 the Council corporate electricity and gas contracts incurred expenditure of £4.1m on electricity supplies and £1.7m on gas supplies under corporate contracts. Utility prices have been increasing in recent years and this is reflected in the current 2019/20 forecast budget pressures, which are in excess of £300k.
- 8.3. The estimated cost of REGO for the Council's electricity contract is £30,437. This would need to be managed by the service and schools within existing budgets.

## 9. Legal implications

- 9.1. The Climate Change Act 2008 establishes a legal framework that underpins the UK's commitment to tackling climate change, including reducing CO2 emissions and addressing climate risks. The provisions of the Act apply at central government level, at least at the moment.
- 9.2. Local authorities can use their own powers to take actions including the wide general power of competence under Section 1 of the Localism Act 2011 which allows local authorities to do anything that individuals generally may do. The existence of the general power is not limited by the existence of any other power of the Council which (to any extent) overlaps the general power.
- 9.3. As stated in the report and in the financial implications, the actions proposed by this report involve incurring a cost. The decision on whether to accept the recommendation will need to balance that cost against the identified benefits and the need to manage the identified cost, as set out in Financial implications, within existing budgets for the service and schools.
- 9.4. The Council has a public sector equality duty (the equality duty or the duty - The Equality Act 2010, or the Act). It covers the following protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation. In summary, the Council must, in the exercise of its functions, have due regard to the need to:
  - eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.

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- advance equality of opportunity between people who share a protected characteristic and those who do not.
- foster good relations between people who share a protected characteristic and those who do not.

9.5 It is not an absolute requirement to eliminate unlawful discrimination, harassment, victimisation or other prohibited conduct, or to promote equality of opportunity or foster good relations between persons who share a protected characteristic and those who do not. It is a duty to have due regard to the need to achieve the goals listed above. The weight to be attached to the duty will be dependent on the nature of the decision and the circumstances in which it is made. This is a matter for the decision maker, bearing in mind the issues of relevance and proportionality. The decision maker must understand the impact or likely impact of the decision on those with protected characteristics who are potentially affected by the decision. The extent of the duty will necessarily vary from case to case and due regard is such regard as is appropriate in all the circumstances.

9.6 The Equality and Human Rights Commission (EHRC) has issued Technical Guidance on the Public Sector Equality Duty and statutory guidance. The Council must have regard to the statutory code in so far as it relates to the duty. The Technical Guidance also covers what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guidance does not have statutory force but nonetheless regard should be had to it, as failure to do so without compelling reason would be of evidential value. The statutory code and the technical guidance can be found on the EHRC website.

9.7 The EHRC has issued five guides for public authorities in England giving advice on the equality duty. The 'Essential' guide provides an overview of the equality duty requirements including the general equality duty, the specific duties and who they apply to. It covers what public authorities should do to meet the duty including steps that are legally required, as well as recommended actions. The other four documents provide more detailed guidance on key areas and advice on good practice.

## **10. Equalities implications**

10.1. There are no specific equalities implications arising directly from this report.

## **11. Climate change and environmental implications**

11.1. A decision to purchase REGOs to match electricity consumption from corporate sites and schools to the supply of renewable energy into the grid is consistent with the Council's aspiration to take action in response to the climate crisis and support the delivery of carbon reductions.

## **12. Crime and disorder implications**

12.1. There are no specific crime and disorder implications arising directly from this report.

## **13. Health and wellbeing implications**

13.1. There are no specific health and wellbeing implications arising directly from this report.

## **14. Report author and contact**

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