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Executive Board, 16th March 2022

Supplementary Information: Agenda Item 6

'Energy Costs & Purchasing Strategy'

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EXECUTIVE BOARD
Addendum to Item 6 on Energy Costs and Purchasing Strategy
16th March 2022

Following the invasion of Ukraine by Russia on 24th February 2022, gas and electricity prices have soared to new highs. Although the UK sources only around 5% of its gas from Russia, pricing is driven at European or global level and so the current political situation is having major impacts on UK energy costs.

Spot market prices reached levels as high as in excess of 600 pence per therm for gas and £460 per megawatt hour for electricity on 7th March 2022. Normal historical prices for these commodities prior to the progressive increases seen over the last year were roughly around 40-50 pence per therm for gas and £45-50 per MWh for electricity. The evolution of these spot market prices over the last 18 months is shown in Figures 1 and 2 below.

Figure 1 – GAS ‘DAY AHEAD’ (SPOT) PRICES

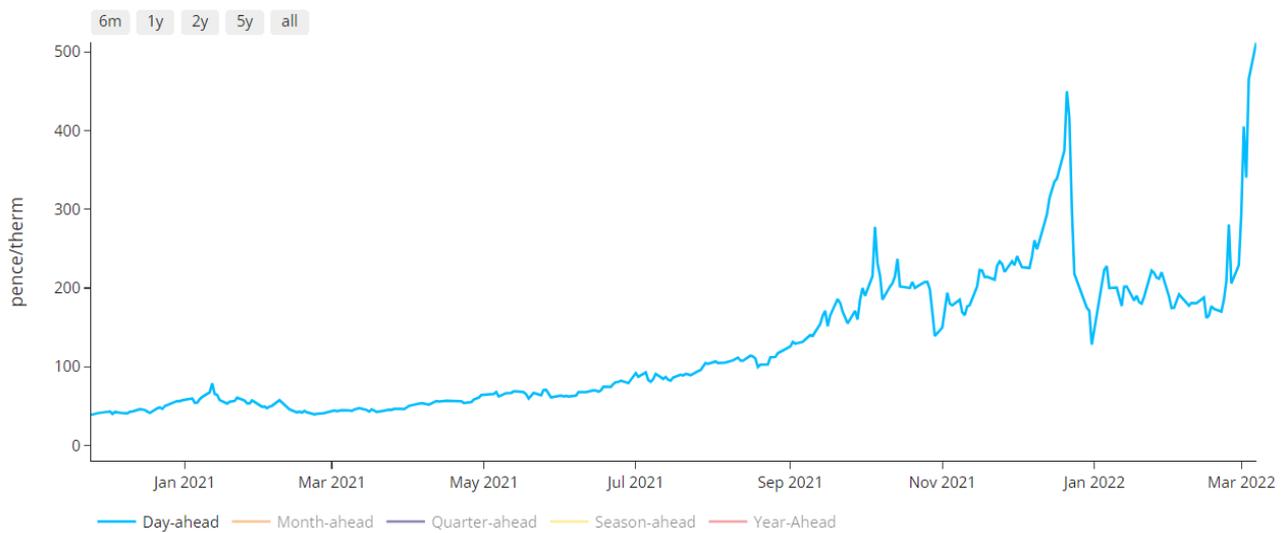
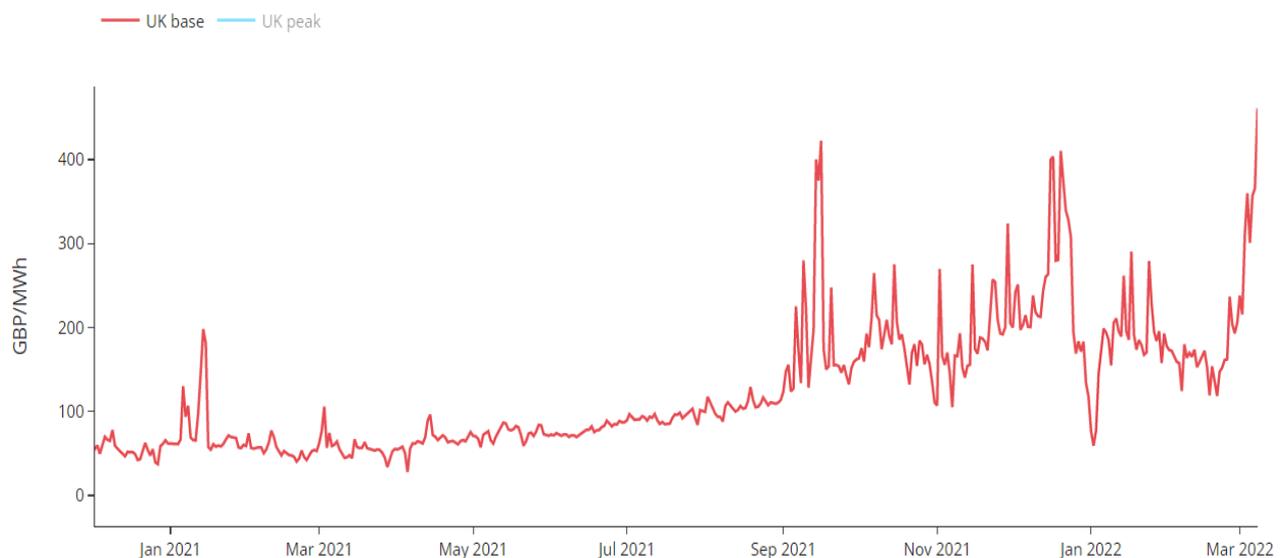


Figure 2 – ELECTRICITY ‘DAY AHEAD’ (SPOT) PRICES



Although the latest spot market prices have reduced to levels much closer to those reported in the main Executive Board report, the huge recent spike in prices shows the UK's potential exposure. These price spikes can often result from speculation in the market or political statements rather than any physical changes in supply. In the event that the gas supply from Russia to Europe is suspended for whatever reason, it is likely that prices for gas (and therefore electricity) will go far higher.

In light of the rapidly evolving situation, and given that modelling of costs for the main Executive Board report was completed prior to 24th February, it was noted in the report that further cost information would be provided to Members as a late addendum.

Table 1 below shows the original cost forecasts for 2022/23 included in the main report alongside updated figures based on the latest market prices available following the Ukraine invasion. This shows a further £0.9m increase in the forecast costs for 2022/23.

Table 1

	2021/22 budget + 5% inflation			Market prices reported as 'currently available' in main Exec Board report)			Latest market prices (at w/e 11 th March 2022)			Very high cost scenario (150% increase on latest commodity prices)		
	Elec	Gas	Total	Elec	Gas	Total	Elec	Gas	Total	Elec	Gas	Total
2022/23	17.2m	4.7m	22.0m	25.0m	7.4m	32.4m	25.2m	8.0m	33.2m	37.6m	14.9m	52.4m

Also costed in the table above is a scenario whereby prices increase significantly further (for example in the event of a wholesale cessation of gas supply from Russia to Europe) so as to show the cost impact.

Figures 3 and 4 below show the evolution of 2022/23 cost forecasts for the Council over recent weeks, but also illustrates what the impact of various levels of further increases in market prices on overall costs to the Council for 2022/23 would be.

Figure 3

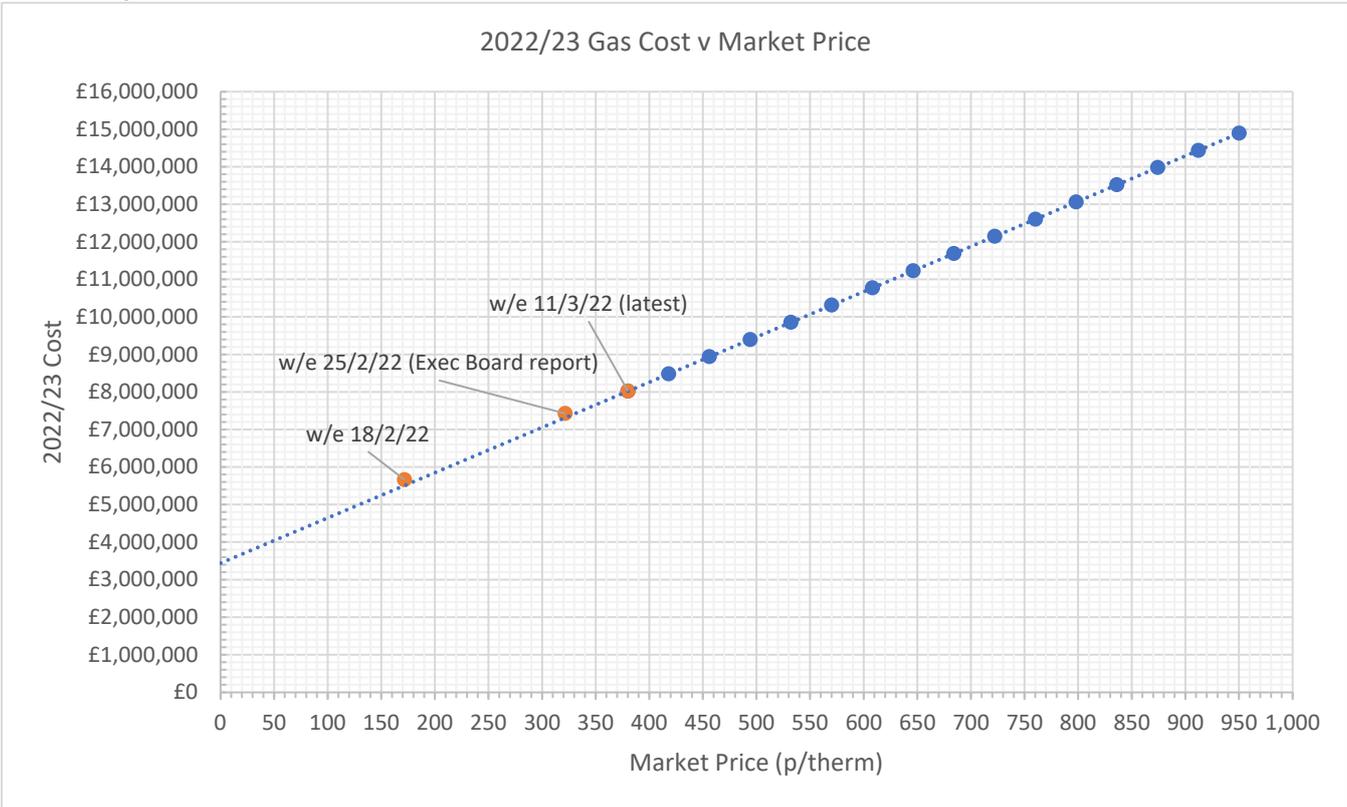


Figure 4

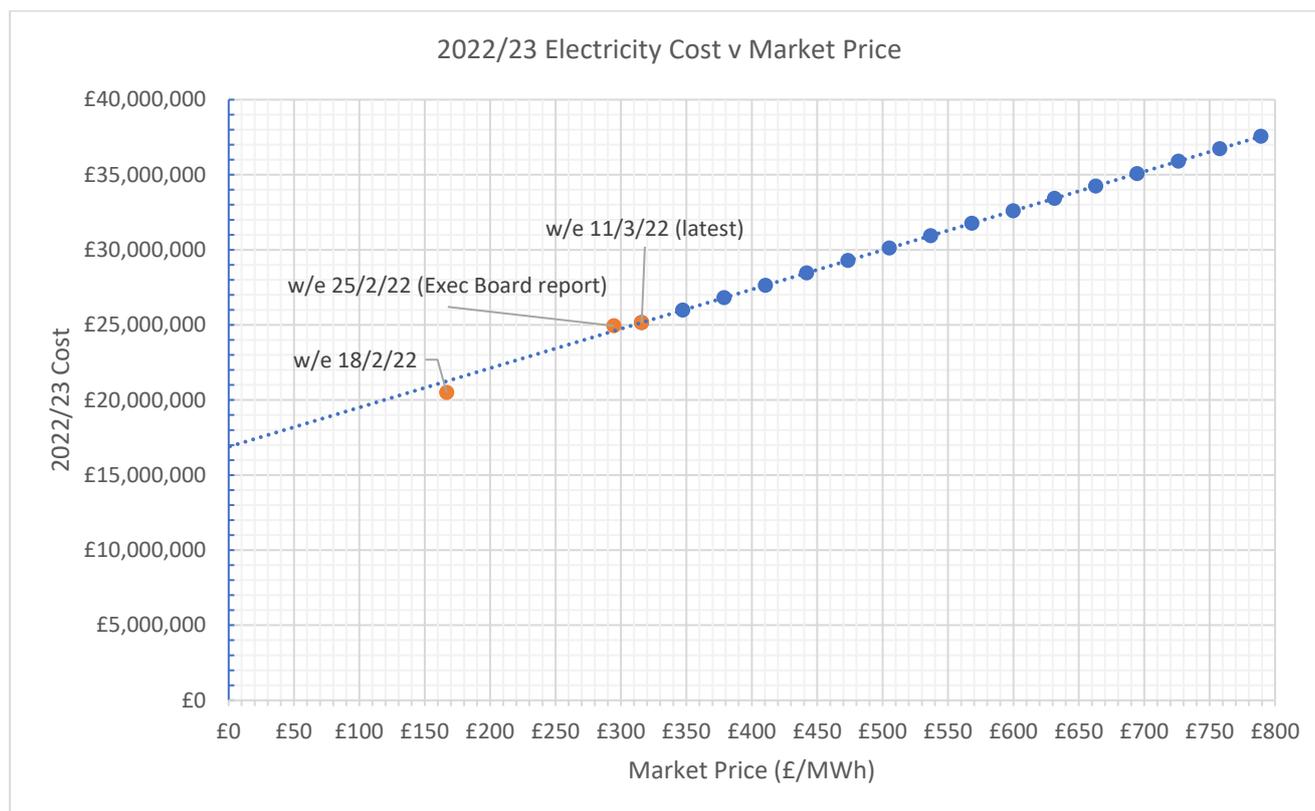


Table 2 below illustrates the impact on 2022/23 costs of progressive % increases in commodity costs above the most recent market prices for the unhedged proportion of the Council's energy.

Table 2

% commodity price increase	Electricity 2022/23	Gas 2022/23	Total 2022/23	% cost increase
0%	£25,154,085	£8,022,890	£33,176,975	100%
10%	£25,980,820	£8,481,002	£34,461,822	104%
20%	£26,807,555	£8,939,113	£35,746,669	108%
30%	£27,634,290	£9,397,225	£37,031,515	112%
40%	£28,461,026	£9,855,337	£38,316,362	115%
50%	£29,287,761	£10,313,448	£39,601,209	119%
60%	£30,114,496	£10,771,560	£40,886,056	123%
70%	£30,941,231	£11,229,671	£42,170,902	127%
80%	£31,767,966	£11,687,783	£43,455,749	131%
90%	£32,594,702	£12,145,894	£44,740,596	135%
100%	£33,421,437	£12,604,006	£46,025,442	139%
110%	£34,248,172	£13,062,117	£47,310,289	143%
120%	£35,074,907	£13,520,229	£48,595,136	146%
130%	£35,901,642	£13,978,340	£49,879,983	150%
140%	£36,728,378	£14,436,452	£51,164,829	154%
150%	£37,555,113	£14,894,563	£52,449,676	158%

*based on prices at week ending 11th March 2022.

It should be noted that the above figures relate to 2022/23 costs, and the Council has already hedged a significant proportion of its energy requirement for this forthcoming financial year. Beyond this time, progressively less is hedged and the Council is increasingly exposed to the prevailing market prices. Table 3 below shows the proportion hedged for each future season over the next 4 years. One of the key purposes of the main report is to increase the level of our forward purchasing to help protect against shocks that are currently being felt in the energy system.

Table 3

Season	Gas %	Electricity %	Combined average %
Summer 22	96%	86%	91%
Winter 22	63%	66%	65%
Summer 23	61%	50%	56%
Winter 23	39%	39%	39%
Summer 24	46%	21%	34%
Winter 24	19%	16%	18%
Summer 25	0%	0%	0%
Winter 25	0%	0%	0%