NWSSP PROCUREMENT SERVICES
CONTRACT RATIFICATION PAPER

Contract:	Supply of Natural Gas **NMD-OJEU-36871** Supply of Electricity **AW3642** (over & sub 100KW Sites)
Contract period (dates):	**Gas:** 1st April 2022 to 31st March 2027 (with 3-year compliant extension option) **Electricity:** 1st April 2015 to 31st March 2025
Value of current contract:	Gas fy 22/23 – £63,662,387* Gas fy 23/24 - £108,915,654** Power fy 22/23 - £57,868,334* Power fy 23/24 - £117,289,618**

*mid-view forecast including EBRS Winter 22 (Oct 22 to Mar 23), provided by BGB 01.12.2022
**mid-view forecast not including EBRS for any period, provided by BGB 17.11.2022

- **Market Overview**

The global energy market has been experiencing unprecedented volatility in recent times, and particularly since mid-2021. Whilst market prices were low during the height of the pandemic (2020), there are numerous influences that have led to the upward trend volatility, which include – but are not limited to – the following contributors:

- Covid recovery last year across global markets.
- Tensions in Ukraine with Russian troop build-up and NS2 project
- Multiple UK supplier failures
- Infrastructure constraints either through outages or planned closures
- Russian Invasion of Ukraine
- Countries across the globe started imposing economic sanctions on Russia, coal and oil included but not gas
- Nordstream 2 cancelled
- EU plan to reduce dependency on Russian commodities (REPowerEU)
- Russia demand for payment for gas in Rubles

More recently, further factors that have contributed to the volatility are:

- Gazprom cut off multiple countries in Ruble payment row
- Nordstream 1 turbine issues
- Russian flows ceased
- US Freeport LNG fire
- Some European countries increased gas emergency warning to level 2
- China Covid-19 lockdowns damping demand

- European ban on Russian coal and oil
- Low French nuclear power generation forecast
- Strong CCGT (gas) generation and UK Elec exports to continent
- BEIS asked National Grid to explore options to bolster winter security
- Strong supplies of LNG to North-West Europe
- European Storage Levels optimised
- Government Interventions

Information source: CCS NHS Wales Energy Presentation Nov 22 and BGB Market Information Nov 22

Market volatility has led to ‘a perfect storm’ whereby uncertainty within the market has led to less liquidity. This in turn has led to fewer participants willing to buy and sell gas/power which led to significant price increase. Price rises have led to credit issues with some suppliers which in turn causes liquidity issues. And so, the cycle continues.

The Industrial & Commercial (I&C) sector has become less attractive with the heightened risk associated. What was an already limited supply market commonly referred to as ‘the big 6’ has seen 2 suppliers make announcements in 2022 regarding supply of the I&C market. Scottish Power announced their withdrawal from the I&C market in March 2022, and BGB advised of their withdrawal from larger I&C customer accounts in August 2022 (although no formal press release has been issued by BGB, see Appendix 1 – formal document received from BGB).

As detailed below, the recent NWSSP gas tender (2021) resulted in only 2 bids being received. Of these 2 bidders, BGB has now withdrawn from the larger customer I&C market – which further validates the concern that a procurement exercise on behalf of NHS Wales would be subject to little or no competition and interest.

- **Contract Overview**

Energy Purchasing Arrangements

NHS Wales currently procures both gas and electricity via a flexible purchasing model that allows NHS Wales to manage its exposure to price fluctuations by securing pricing via live market prices. The process for securing the commodity price is managed through the Energy Price Risk Management Group (EPRMG), which determines the purchasing strategy and provides oversight of the utility’s contracts. The group includes representation from Procurement Services as well as knowledgeable personnel from all participating Health Boards/Trusts (Energy Managers, Finance colleagues etc.).

Gas

NHS Wales current contract for supply of Natural Gas NMD-OJEU-36871 runs from 1st April 2022 until 31st March 2027, including the option for 3-year extension. A restricted procedure under the OJEU was undertaken, with 4 suppliers passing the PQQ stage and subsequently 2 choosing to submit a final tender. Owing to the commodity and non-commodity costs being beyond the control of the contract, the only measurable commercial aspect considered was the management fee charged by the Utility Supplier (it should be noted that the value of this element is extremely low in comparison to the overall contract). Owing to this limited financial scope, combined with concerns re the quality of service on the previous contract, the award criteria & weightings were Quality 70%, Commercial 30%. Following evaluation in accordance with the published award criteria and scoring methodology, the incumbent supplier British Gas Business (BGB) scored higher overall and were therefore awarded the contract.

Gas Forecast Value Breakdown by Organisation

Organisation	Mid View Forecast FY2022/23*	Mid View Forecast FY2023/24**
Cardiff & Vale	£14,051,727	£24,905,831
Cwm Taf Morgannwg UHB	£7,468,019	£13,012,435
Aneurin Bevan	£11,043,097	£18,638,932
Swansea Bay	£7,615,156	£11,612,170
Betsi	£14,084,588	£24,388,538
Hywel Dda	£6,568,218	£11,343,464
Powys	£1,562,410	£2,720,191
Velindre NHS Trust	£529,395	£1,024,158
Welsh Ambulance	£544,955	£920,608
NHS Wales Shared Services Partnership	£94,404	£164,909
Health Education	£43,968	£85,381
Public Health	£56,451	£99,037
TOTAL	**£63,662,387**	**£108,915,654**

*FY 2022/23 mid-view forecast including EBRS Winter 22 (Oct 22 to Mar 23), provided by BGB 01.12.2022
**FY 2023/24 mid-view forecast not including EBRS for any period, provided by BGB 17.11.2022

Electricity

NHS Wales current contract initial period was from 1st April 2015 to 31st March 2020 and included the option for up to 60 months compliant extension. Before the current contract extension, the contract had been extended to 30th September 2022. The energy market has experienced extreme volatility since approximately mid-2021, which had led to unprecedented market prices and several Utility companies going into administration. Due to these factors, coupled with the NHS Wales position of being unable to secure electricity beyond 30th September 2022, the EPRMG agreed at the end of 2021 that NWSSP PS should endeavour to secure a contract extension for the final compliant period to 31st March 2025.

Management fee and balance/imbalance fee formed part of this negotiation; however, it must be noted that the largest factor was the price of Renewable Energy Guarantee of Origin certificates (REGO's). NHS Wales were purchasing at a cost of £0.60/MWh, and the price had risen substantially at the time of extension negotiations (this rise was partly attributed to the push for carbon neutrality and validated by benchmarking with Crown Commercial Services (CCS) and NHS England). NHS Wales were purchasing REGO certificates from natural sources (i.e., wind power, solar power, geothermal power, wave power and tidal power) and following EPRMG meeting discussions, the group decided to continue to purchase REGO's from natural sources for the initial 18-month contract extension period. BGB agreed to provide NHS Wales with periodic REGO pricing information to allow NHS Wales to react to any upwards market trend by fixing accordingly. The extension was finalized on 13th May 2022, which then allowed NHS Wales to make purchases until 31st March 2025.

Welsh Government have given a commitment to NHS organisations to manage centrally the FY-2022/2023 risk of increase in energy prices. Having brought to the attention of Welsh Government the cost implications of continuing to purchase REGO certification for natural source power, they confirmed that certification costs can be included in the funding to support NHS Wales in terms of providing further in-year funding at an appropriate point.

Electricity Forecast Value Breakdown by Organisation

Organisation	Mid View Forecast FY2022/23*	Mid View Forecast FY2023/24**
Betsi	£13,663,300	£26,181,261
Cardiff & Vale	£8,594,044	£17,778,317
Aneurin Bevan	£9,830,566	£19,885,355
Cwm Taf Morgannwg UHB	£6,908,152	£16,027,332
Swansea Bay	£8,571,279	£17,081,976
Hywel Dda	£6,065,413	£11,990,100
Velindre NHS Trust	£1,581,846	£3,371,839
Powys	£1,113,576	£2,091,770
Digital Health and Care Wales	£145,685	£290,126
Welsh Ambulance	£797,089	£1,441,725
Public Health	£266,397	£483,959
Health Education	£88,980	£187,969
NHS Wales Shared Services Partnership	£242,006	£477,888
TOTAL	**£57,868,334**	**£117,289,618**

*FY 2022/23 mid-view forecast including EBRS Winter 22 (Oct 22 to Mar 23), provided by BGB 01.12.2022
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BGB Announcement

In August 2022, as detailed above BGB notified NHS Wales that it was their intention to withdraw from the larger accounts of the Industrial & Commercial market (I&C). British Gas Business assured NHS Wales through both written and verbal communication during EPRMG meetings, that it was the intention of BGB to honour all aspects of the current contract in a 'business as usual' manner. The fundamental change resulting from the announcement was that the ability to extend the contract utilising the 3-year compliant extension option was no longer possible, as BGB would not be willing to agree to this. In addition, BGB confirmed that they would no longer be prepared to bid for a future contract. Contractually NHS Wales *is* subject to an early exit fee. However, recent discussion with BGB has indicated that if this transition project was implemented as agreed and followed accurately then it would be unlikely that a termination fee would be applied as all hedging/volumes would form part of that discussion and project management piece. BG have provided an indicative timeline of 6 months for transition and the expiry date should be at the end of a season (therefore either 30th September 2023 or 31st March 2024).

- **Market Research**

Prompted by the BGB announcement, the EPRMG requested that alternative procurement routes be investigated to inform NHS Wales of future procurement decisions for the purchase of Gas and Electricity.

CCS

CCS framework RM6011 Supply of Energy and Ancillary Services was identified as a suitable option and NWSSP Procurement Services (NWSSP PS) were requested to undertake a benchmarking exercise. Due to the expertise required to carry out such a benchmarking exercise, CCS colleagues supported this in collaboration with NWSSP PS, and produced benchmarking documents for fy 20/21, 21/22, and 22/23. The current broad purchasing strategy adopted for fy 22/23 at time of benchmarking, was to purchase on month ahead where forward risk factoring had been reduced. Owing to this strategy, at time of benchmarking (mid-September 2022) NHS Wales' position for fy 22/23 was largely unsecured beyond September 22. Therefore, large percentages of both commodity prices were based on open market prices which were not necessarily reflective of the prices that NHS would secure. In combination with this factor was the knowledge that the UK Government had announced the Energy Bill Relief Scheme (EBRS), with the final details and mechanics yet to be confirmed. It was therefore deemed that the 22/23 benchmarking data did not reflect accurately owing to these reasons and should not be presented alongside the previous financial years benchmarking. A summary of the benchmarking outcome is shown in the below table:

Commodity	Period (Financial year)	NHS Wales – achieved WAP p/KWh	CCS – achieved WAP p/KWh spread*
Gas	20/21	1.50	1.30 to 1.92
Gas	21/22	1.94	1.81 to 2.59
Electricity	20/21	5.00	4.72 to 5.52
Electricity	21/22	10.43	4.90 to 6.55

*Based on 4 CCS Basket options available during benchmarked period. Prices include estimated p/KWh CCS fee equivalent charge – Actual CCS fee is paid annually per meter within non-commodity charging mechanism.

NHS Trust References

NWSSP PS requested reference sites from NHS England trusts utilising the CCS framework. CCS have since provided this and the intention is to invite referees to an EPRMG meeting to facilitate questions and clarifications in relation to their experiences of utilising the CCS RM6011 framework.

Public Sector Buying Organisations

The following public sector buying organisations are alternatives to CCS
- LASER (owned by Kent County Council)
- NEPO
- YPO

When combined with smaller public sector organisations, it is estimated that these organisations' (large and small) total spend is equal to approximately 30% of CCS public sector spend of £2.1bn.

Commercial Brokers

Other NHS Trusts in England utilise commercial brokers as advised by CCS. Three of the largest are:
- Inspired Energy
- Energy Information Centre
- Inenco

It is estimated that all commercial brokers combined would not reach 1/3 of CCS total public sector spend.

Alternative Frameworks

In addition to the above, it is estimated that 6-8 English NHS Trusts utilise NHS Countess of Chester Hospital framework, and some Trusts source energy themselves as per NHS Wales' current arrangements.

- **Contract Proposal**

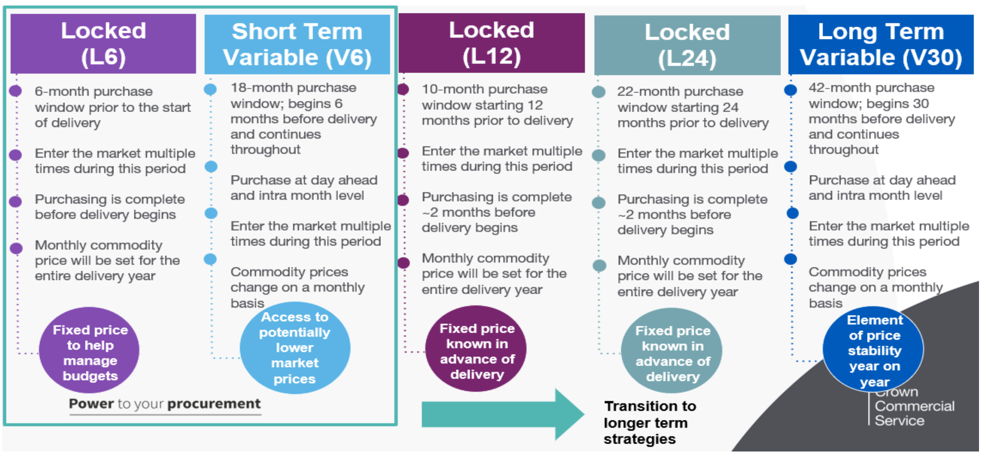
The current Energy market landscape has highlighted exposure to risk of utilities supply. This has been demonstrated by a few suppliers who have dissolved over the past 12 months in particular. Additionally, the reduced number of participants within the larger I&C supply market means procurement exercises will be subject to reduced or no competition.

In addition to aggregation benefits that the CCS RM6011 framework can offer, the benefit of collaborating with other public sector organisations within the CCS family (customer base) in this time of energy market uncertainty will enable NHS Wales to have a protected market supply whereby the UK government can intervene in case of emergencies/force majeure. Contracts currently in place do not offer such protection and volatility experienced in recent time resulting in suppliers' liquidation has highlighted the vulnerability of supply chain. Therefore, consideration should be given to the value-added benefit and assurance of protection that this collaborative approach under the UK Government's framework would provide to NHS Wales.

CCS have the largest aggregated public sector energy spend in the UK with 1104 customers for supply period fy 22/23. This is made up of 34% Central Government, 35% NHS, and 31% wider public sector. For fy 21/22 approximately 60% of NHS England trusts utilised the framework. The scale of CCS energy team of circa 36-colleague would offer NHS Wales security that the sourcing of energy would be handled appropriately by a team of energy experts and analysts. CCS have indicated that their independent risk management strategy group would welcome NHS Wales colleague/s to participate in their risk strategy governance.

CCS offers several Baskets which are either locked (prices are secured prior to delivery period) or variable (purchasing continues into the delivery period). Variable 30 is the most comparable basket compared to NHS Wales' current flexible trading arrangement. However, further information and data analysis can be provided by CCS to aid and inform the decision of basket(s) that NHS Wales may consider utilising. CCS confirmed that it is possible for different NHS sites to utilise different basket options to manage the portfolio across NHS Wales appropriately. Features and benefits of basket options available are illustrated in the below table.

CCS Basket Options – *Commercially Sensitive Information*



In addition to the above basket options, there are also bespoke baskets for consideration. CCS have indicated that they would not be willing at this stage to consider creating a new bespoke basket for NHS Wales, but that the option to join existing bespoke baskets may be available.

CCS have confirmed that fees for utilising the framework are charged at meter level and are based on an annual fixed fee which is paid monthly within non-commodity charges. They estimate based on NHS Wales portfolio that the annual fee would be circa. £100k. Consideration should be taken for the reduced resource and time requirements of NHS Wales staff across the EPRMG, Energy team and finance team who are involved in purchasing strategy and currently meet weekly. This has increased to as frequent as 3-times per week at the start of the Ukraine conflict. Interaction and communication between the Energy team and BGB trading desk takes place several times per day.

- **NHS Wales Meetings and Discussions**

The position of energy supply to NHS Wales has been an agenda point at NHS Wales Director of Finance (DoF) meetings following the announcement by BGB in 2022. NWSSP presented to the group an overview of the current NHS Wales contractual position, information on the CCS RM6011 framework option, and fy 20/21 and 21/22 benchmarking outcomes. An All-Wales DoF Forum Task and Finish Group was formed in December 2022 consisting of DoF, Deputy DoF and Director of Procurement, responsible with progressing the matter to a suitable point in which a decision could be reached by DoF to switch current energy provider and route to market via CCS. Acknowledging the tight timescales to make a commitment to join the CCS baskets by mid-March 2023 deadline, combined with the required governance, this project was progressed at speed.

In parallel to DoF's discussions, stakeholders within the EPRMG were engaged on this matter and meetings held on 3rd and 25th November 2022 to discuss the proposed switch. CCS attended the latter to present a brief overview of their framework and answer questions from the group. The next steps from this meeting were to seek further clarification to inform NHS Wales on the option to join the CCS framework.

Governance Review

In addition to progressing the project, the All-Wales DoF Forum Task and Finish Group have been tasked with reviewing the governance, resilience, and efficiency for managing the current and future contract.

- **Recommendation**

It is recommended that NHS Wales progress the arrangements to facilitate a move to CCS framework RM6011 Supply of Energy and Ancillary Services for both Gas and Electricity by the 15th March 2023 deadline. In parallel to this, NHS Wales should proceed with the appropriate necessary action with British Gas to exit the current arrangements.

Appendix

Appendix 1 – BGB Announcement Formal Communication

NHS Letter Exit from
Larger I&C Market Ac