

28 March 2023
Ref: Utilities Tender

Dear Leaseholder

Re: 2022 Bulk Energy Tender Report

This letter is aimed at leaseholders and tenants across the Rendall and Rittner managed estates, with the intention of closing the utilities process undertaken last year.

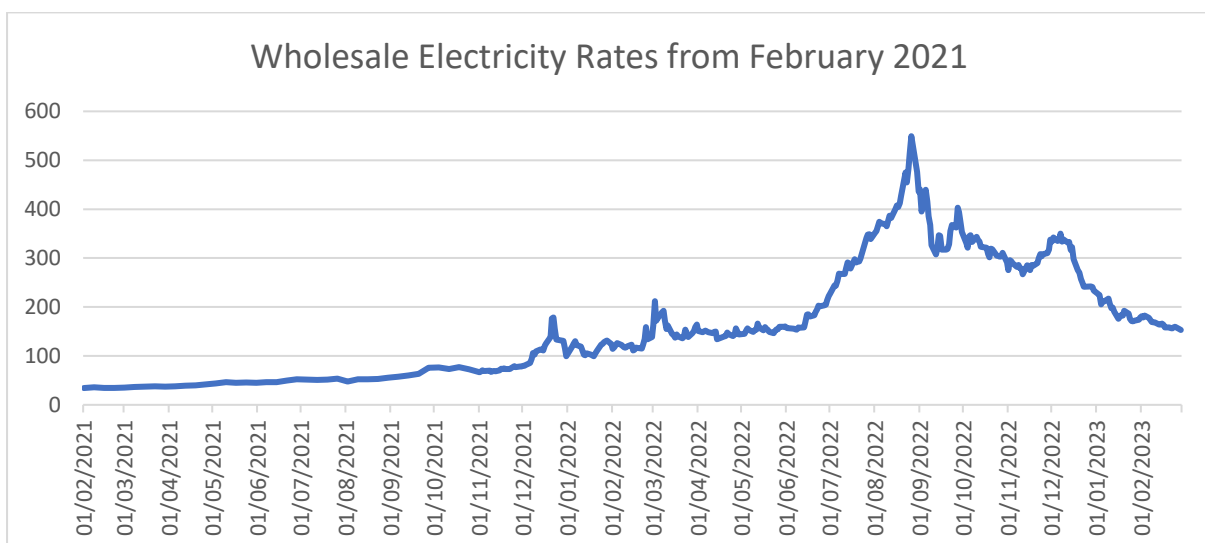
The energy market in 2022 suffered some unprecedented changes, based on a number of geopolitical influences.

We appreciate the concerns and hardship being caused by the increases in service charge budgets, which have been necessitated by energy costs rising so extraordinarily. Our intention, with the bulk procurement activity was to mitigate the energy cost increases, which were unavoidable, by securing market comparable rates in a challenging marketplace.

Market Context

The UK was already in the grip of the energy crisis, which began in 2021. This crisis saw over 30 energy suppliers closing their business by September 2021 and electricity prices had risen from approximately 15p/kWh to over 30p/kWh. Gas had also more than doubled in wholesale cost.

The chart below shows the movement in the wholesale electricity costs since February 2021.



Within the chart, the peaks are of particular note.

- The market saw a peak just before Christmas 2021. This was mainly due to delays in the commissioning of the Nord Stream 2 pipeline and other unforeseen infrastructure downtime which put a squeeze on supply, coupled with a cold winter forecast, which increased demand. These conflicting market forces forced pricing upwards.
- Whilst the market calmed after Christmas 2021, there was another peak at the end of February 2022, as an immediate response to Russia's actions against Ukraine. This led to numerous sanctions from the global community against Russia, and their response to those sanctions was to further restrict the Nord Stream 1 gas supply. This created the second, higher peak and a sustained period of high pricing. At this point, many suppliers closed their books to new business and were unable to price new or renewal business.
- As the energy crisis began to bite deeper, pricing increased dramatically. There were a number of factors to this, including the ongoing tensions between Russia and Ukraine, an increase in global demand due to a hot summer (heat wave in Asia, and demand for air-conditioning), and also depleted European gas storage that needed to be replenished in time for winter months. This led to the highest pricing peak in 2022 at the end of August.
- The peak at the end of September 2022 reflects the overload of pricing demands at that time. The majority of UK business renewals is at the end of September, and many customers were holding off renewing until the Government support package was announced. Once this was announced on 21 September, all those pricing requests were made, driving up demand and market pricing.

Subsequent to the peak in August, the markets have eased. This is as a result of Government support to businesses on energy bills; sufficient European storage for the winter heating season; a more stable (albeit still nervous) situation with Russian supplies.

Commercial Supply versus Domestic Supply

The utilities contracts managed by Rendall and Rittner are for the landlord supplies at each property; not the domestic supplies for each individual premise. A clear distinction is necessary, as we are frequently asked regarding domestic supplies and legislation.

Whether a meter is deemed commercial or domestic is based on the classification of the Premises, as contained within the Supplier's licence conditions to supply the gas and electricity. The Supplier's licence is issued by Ofgem and states:

A Domestic Premises is a premises at which a supply of electricity is taken wholly or mainly for a domestic purposes. The gas and electricity supplied through a landlord meter are not taken wholly or mainly for a domestic purpose, as they do not go into the demise of the apartments, but are used for lighting of communal stairs for safety, the powering of lifts, etc. Therefore, landlord meters are classified as commercial based on the industry database information, resulting in suppliers only offering commercial supply contracts for these meters.

Rendall and Rittner Tender Process

The majority of the Rendall and Rittner managed electricity meters renew on 1 October each year; with the majority of gas meters renewing on 1 December. We look to retender each of these in separate exercises (one for electricity, one for gas), leveraging our size and relationships to get preferential contract terms and competitive pricing. Bulk procurement in this regard enables credit objections associated with dormant management companies and not-for-profit status to be mitigated. Historically, the best time to approach the market for an October/Winter renewal is March/April of that year.

The Rendall and Rittner Utilities Team was monitoring market price movements in preparation for approaching the market at this time. However, as explained above, the Russia/Ukraine war had an immediate and dramatic impact on the market, which led to all suppliers refusing to price throughout March. Whilst the markets reopened in April, pricing remained 23% higher than the pre-invasion market, and so the decision was made to continue to monitor for a downward trend.

As soon as it became apparent that the market was not likely to reduce, Rendall and Rittner issued the Invitation to Tender. This initially went out to 13 suppliers. However, as market capacity shrank throughout August due to increasing rates, a further 6 suppliers were added to the list. The tender deadline was extended to allow those suppliers time to respond. When the deadline passed, only one supplier was willing to offer a price, as per the below:

Supplier	Tender Response	Type
British Gas	No Bid - Limited resource	Elec & Gas
Bryt Energy	No Bid - No Response	Elec
Bulb	No Bid - Not taking on new business	Elec
Corona	No Bid - Unable to offer pricing due to the wholesale market	Elec
Crown Gas	No Bid - Unable to offer pricing due to the wholesale market	Gas
Ecotricity	No Bid - Risk of portfolio is too large	Elec & Gas
EDF	No Bid - Unable to offer pricing due to the wholesale market	Elec
Engie	No Bid - No Response	Elec
EON	No Bid - Unable to offer pricing due to the wholesale market	Elec
Green Energy UK	No Bid - Unable to offer pricing due to the wholesale market	Elec
Good Energy	No Bid - Risk of portfolio is too large	Elec
Npower	No Bid - Not taking on new business	Elec
Octopus Energy	No Bid - No Response	Elec
Pozitive	Price Received	Elec & Gas
Regent Gas	No Bid - No Response	Gas
Shell	No Bid - No Response	Elec & Gas
SSE	No Bid - Risk of portfolio is too large	Elec & Gas
Utilita	No Bid - No reason given	Elec
Yu Energy	No Bid - No reason given	Elec

Due to the supplier responses received, the tender was closed at this point. In order to move the contracting forward, the Utilities Team sought renewal terms from all incumbents to mitigate the risk of out of contract rates being charged, which would be significantly higher than contracted rates. The immediate focus was on electricity, due to earlier renewal dates.

Direct Approach and the Impact of Government Support (EBRS)

Whilst the dialogue with the incumbent suppliers was ongoing in early September, the Government announced its intention to provide a support package on non-domestic meters. Fuller details on the support package were delayed until after the funeral of Queen Elizabeth II, however on 21 September 2022 those details were announced as the Energy Bill Relief Scheme (the EBRS).

The impact the EBRS had was an easing in the market; as reflected in the chart above. However, whilst prices reduced, suppliers continued to be extremely cautious about the risk of customer default and many suppliers instigated more stringent credit checks on clients. This is particularly a problem for the managing agent sector where contracts are created in the name of the client legal entity. If that legal entity has a dormant company status, or a poor credit history, suppliers will refuse to offer a contract. Where contracts are offered, these will have less preferential terms. Examples of the different terms being insisted upon included:

- 14 days Direct Debit payment terms (from 45 days BACS)
- Security deposits to be paid upfront for high-risk clients
- Premiums being added to unit rates, for high-risk clients
- Any overdue debt being cleared prior to pricing being offered
- Stringent late payment fees and disconnection notice processes being enforced

This approach to risk and credit means that only a small number of suppliers offer prices. We invited Ecotricity, EDF, Crown, Pozitive and SSE to reconsider the portfolio as a whole, as well as speaking with incumbents, in addition to using the external third party energy consultancy.

Legal Considerations

Due to the Landlord and Tenant Act 1985 (Section 20), there are constraints to the length of contract that we can put into place on behalf of our clients, without wider consultation. Consultation is needed for contracts over 12 months where the cost is over £100 per leaseholder. We requested and considered 6-month and 12-month options. As winter is the highest consuming season, it presents a higher risk for energy suppliers. Therefore, the market rates for a winter only offer (6m) were significantly more than the blended winter/summer rates (12m). As such, we renewed on a 12-month basis, where this was offered.

For electricity, Ecotricity was the most cost-effective offer received. This was because it avoided any out of contract rates, which would otherwise have been charged at 160p/kWh through the industry switching period. These are all co-terminus to 30 September 2023. For any electricity meters that Ecotricity was unable to provide pricing on, the meters were migrated over to EDF or Pozitive, or kept with the incumbent provider with co-terminus dates maintained where possible.

For gas, Ecotricity and Pozitive were less competitive than Crown in the majority of cases. As such, Crown were awarded the majority of the gas meters, co-terminus to 31 October 2023. British Gas and Regent retained a small handful of their renewals.

Commission

As with previous years, Rendall and Rittner is paid an uplift by suppliers as remuneration for the services provided throughout the year. The fee involved was:

- 0.3p/kWh (£0.003/kWh) on electricity contracts
- 0.15p/kWh (£0.0015/kWh) on gas contracts

This remuneration covers the cost of services throughout the year; not just the procurement exercise itself. These services also include bill capture, validation and processing, query management and dispute resolution with the supplier on behalf of the client, ongoing reviews around Meter Operator Agreements, capacity charges and debt, strategic projects such as smart meter installations and ESG (Environmental, Social & Governance) reporting.

Were clients to engage directly with other brokers/consultants in the market, our benchmarking suggests that those third parties would charge in the region of 1p – 3p/kWh (£0.01 – £0.03/kWh) for their procurement services.

Communications

Throughout the renewal process, we strived to provide suitable and relevant updates to our clients via a series of emailed letters and utilising the Property Management team in client meetings. Similarly, we informed leaseholders on progress through online posts, on our client portal.

It is our intention to continue to provide clear and timely communications to our clients, in the build-up to, and during, the next renewal process.

Outlook for 2023

Rendall and Rittner manage circa 355GWh of electricity and gas across 2600 meters. This volume makes the portfolio a highly attractive within the energy market, allowing us to unlock greater benefit; be that competitive pricing, preferential terms or better working relationships. These underlying expectations drive our procurement strategies.

For non-domestic meters, the rates are fixed for the duration of the contract. Whilst these can be exited early, it is difficult and costly to do so. This is because the supplier will have bought a proportion of the energy upfront at the then market rate and terminating the contract would involve them selling the energy back at the prevailing rate. Where the market has fallen, this will result in a loss for the supplier, and so they typically charge penalty fees for early termination.

As can be seen in the chart above, the market has reduced from 2022. In light of the softening market, we have already approached suppliers, exploring any options that may be available to reduce rates. We also have an eye on the 2023 energy procurement exercise. Conversations have already begun with suppliers to optimise our strategy on behalf of clients and leaseholders, and we expect to approach the market for initial pricing in April.

Yours faithfully



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