

30 August 2022
Ref: 2022 Bulk Energy Procurement Renewal Process

Dear Leaseholders

2022 Bulk Energy Procurement Renewal Process

We are aware of the concern caused to leaseholders in relation to the cost of living and utility costs in particular. This note therefore sets out the bulk procurement process that Rendall and Rittner is undertaking this year to review, tender and renew the energy contracts.

Background

We have 2,306 electricity and gas meters currently under management over 550 developments that will be included in the bulk procurement exercise, supplying developments with circa 182 GWh of electricity and 202 GWh of gas per year. Most of the electricity contracts will end on 30 September 2022, and most gas contracts end on 30 November 2022.

Market Conditions

It has been well publicised over the last 18 months that we are in an energy crisis. Various geo-political situations have created significant uncertainty within the energy markets, leading to three unprecedented peaks in the last seven months, with each peak greater than the one before. At the time of writing, the markets are currently at a peak and are expected to reduce in coming weeks. However, the market consensus is that rates are unlikely to reduce to the levels seen before this crisis.

Energy contracts are priced on "curves", based on when the contract starts and its duration. For example, a 12-month contract starting in September 2022 would be calculated using a blend of the Winter '22 pricing and Summer '23 pricing, as the contract term would span both curves.

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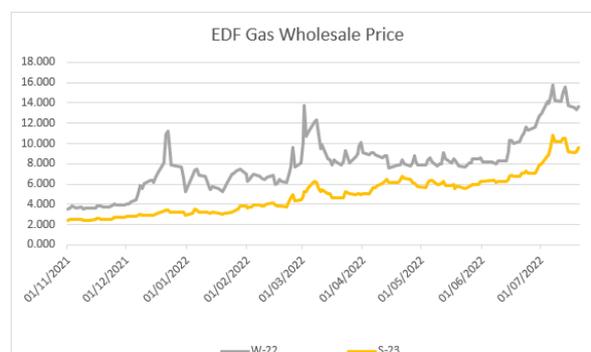
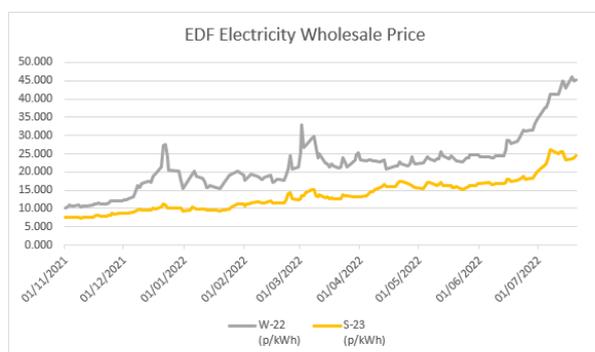
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To highlight how challenging the market currently is, the graphs below show the daily closed rates for Winter '22 and Summer '23 contracts. The market is currently reporting an average 429% increase on electricity from this time last year, and 561% increase on gas (data from EDF).

Other curves are also showing substantial increases, though not to this level. This is due to them having a different risk profile, in the view of the market traders.



Electricity (p/kWh)			
Curve	Jul-22 Rate	Jul-21 Rate	Difference (%)
Day Ahead	32.592	9.297	251%
Week Ahead	24.996	8.931	180%
Winter '22	45.201	6.921	553%
Summer '23	24.479	5.047	385%

Gas (p/kWh)			
Curve	Jul-22 Rate	Jul-21 Rate	Difference (%)
Day Ahead	8.473	3.034	179%
Week Ahead	8.804	3.03	191%
Winter '22	13.644	2.096	551%
Summer '23	9.558	1.509	533%

A common question posed to the Rendall and Rittner Utilities Team is why the Ofgem price cap is not applied to the landlord's meters we manage. The reason is that these are landlord supplies, providing electricity and gas to common areas and heat networks on the development. As such, they are categorised as commercial meters, not domestic meters, and unfortunately commercial meters are not included in the price cap. That said, suppliers will only charge 5% VAT on most of these supplies.

Bulk Procurement Process Prequalification

The bulk procurement process is already underway with prequalifying of potential suppliers. Due to the energy crisis, over 30 energy suppliers within the UK have gone into administration. The prequalifying of suppliers is therefore particularly important, to ensure we are contracting with financially sound businesses.

Prequalifying will also look at other aspects that are expected as part of the tender, such as:

- The supplier's approach to credit checking client legal entities
- The suppliers' green credentials
- The payment terms and other contractual waivers are potentially on offer

The Rendall and Rittner Utilities Team are prequalifying 14 different suppliers, with a view of selecting the best three or four suppliers per commodity, to receive prices from.

Bulk Procurement Process Pricing

The Rendall and Rittner Utilities Team will be issuing the schedule of 2,306 meters to the prequalified suppliers in advance, so they can begin their own due diligence on the accounts.

This will also give us forewarning of any issues that could later prevent us from entering into a contract on your behalf, such as expired Letters of Authority or poor credit history.

The current market conditions are not optimal for pricing contracts at this stage. We anticipate that prices will reduce; however, when this might be and by how far is very much dependant on external factors. The greatest uncertainty that is reinforcing high prices is fear around gas supply into Europe from Russia. However, recent (aborted) strike action in Norway as well as planned and unplanned maintenance to infrastructure all impact prices.

The Rendall and Rittner Utilities Team receive market updates daily and are in frequent communication with suppliers on when to approach the market. When the time comes, we will ask the pre-qualified suppliers to submit prices on the same day, to provide fair comparison. We will request pricing for 6-month, 12 month and 24-month contracts, so we can review the benefits of different contract lengths, though market pricing on shorter term contracts is very expensive at present.

Once the pricing is received, we will evaluate the returns to identify the optimal mix of contracts. The evaluation criteria will be based on the competitiveness of the price as well as the other criteria of the PQQ such as whether the supply is 100% renewable energy (for electricity) or carbon offsets provided (for gas), the contract terms offered, the account management structure and reporting protocols, and previous user experience. That said, in the current climate, we will be recommending based on what will be most competitively advantageous for our leaseholders. Once the evaluations are completed, the recommendations will go to the Rendall and Rittner Board for ratification.

Bulk Procurement Process – Negotiation and Contracting

Supplier's pricing is only valid for the day it is submitted. We therefore have a very small window in which to secure a contract so we will not be able to consult with our clients individually on their prices. We have instead put in place a communication plan to ensure our clients are updated through the process, via the property management team.

Once the Rendall and Rittner Board has ratified the recommendations, the Utilities Team will undertake any final negotiations with the recommended supplier to lock in contracts that offer the best value for leaseholders.

Commissions

As part of our commitment to provide and improve our utilities service, Rendall and Rittner works on a commission structure basis. The rates below will be included in the supplier's pricing, at the point of tender:

- Electricity – 0.3 p per kWh
- Gas – 0.15 p per kWh

This level of commission remains the same as the previous two years. Commission is generated against the consumption through each meter and is not impacted by changes in the wholesale price.

We hope the above provides reassurance in relation to the steps we are taking to secure the best outcome in a very difficult market.

Yours faithfully



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