



Committee and Date

West Mercia Energy Joint
Committee

15th March 2022

Item

12

Public

RISK MANAGEMENT UPDATE

Responsible Officer Nigel Evans

e-mail: nevans@westmerciaenergy.co.uk Tel: 0333101 4353

1. Summary

- 1.1 The Joint Committee annually reviews the WME Risk Management Strategy and at each meeting receive details regarding the key risks identified.

2. Recommendations

The Joint Committee are recommended to:

- 2.1 approve the WME Risk Management Strategy attached at Appendix A;
2.2 accept the position as set out in this report.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3 Given the subject matter of this report, the assessment of risk forms a fundamental part of the risk strategy.

4. Financial Implications

- 4.1 The financial implications of each risk are considered when the impact of the risk is assessed.

5. Background

- 5.1 The current WME Risk Management Strategy was approved by the Joint Committee on 2nd March 2021 a copy of which is attached in Appendix A. The WME management team have conducted their annual review of the Strategy document and no changes are being proposed.
- 5.2 The risk register is kept under constant review and is formally reviewed by the management of WME twice a year. The current risk register comprises of eighty-one highlighted risks, up five since the November report.
- 5.3 The majority of the risks within the risk register are operational with controls in place which mitigate the impact of the risks to an acceptable risk level.
- 5.4 The Strategy states that the Joint Committee are to receive details of all medium and high risks at each meeting. The table below identifies the ten current high and medium risks. This represents three new risks and the status of two risks being upgraded to medium and high respectively.

Ref	Risk	Risk Owner	L	I	Status	Rank	Rank Change
<i>Current High and Medium Risks</i>							
1	Market conditions pre-pricing leading to less competitive prices / high year on year price rises	Gareth Maude	4	3	12	Medium	No Change
2	Market conditions within year leading to less competitive prices and lost opportunities	Gareth Maude	3	4	12	Medium	Increase
3	Delays in customers completing new contracts resulting in high year on year price rises.	Nigel Evans	5	3	15	High	Increase
4	Breach of product tolerance levels	Gareth Maude	4	5	20	High	No Change
5	Breach of trading risk levels	Gareth Maude	4	5	20	High	No Change
6	Central government policy or Regulative initiative	Nigel Evans	1	5	5	Medium	No Change
7	Loss of key staff	Nigel Evans	3	4	12	Medium	No Change
8	Bad debts / delayed payment as result of increased energy prices	Nigel Evans	2	4	8	Medium	New Risk
9	Member Authority contracting energy outside of WME arrangements	Nigel Evans / Gavin Owen	4	3	12	Medium	New Risk
10	Dealing with suppliers that have ownership or investments within Russia or Belarus	Nigel Evans	5	3	15	Medium	New Risk

L – likelihood of the risk I – impact of the risk

- 5.5 The key driver affecting the increase in rank levels of Risk Ref 2 and 3 and the addition medium risk of Ref 8 are the energy commodity market conditions we have experienced over the last 12 months. Gas and electricity prices have increased significantly since March 21 and have traded at unprecedented levels. Adding to the challenge has been with levels of “in-day” volatility, never seen before. For context, during its peak in late December, market commodity prices for gas for the 21/22 delivery period had risen by over 462% and for electricity by 357%.
- 5.6 The sheer level of volatility within the market means it is much harder to unset positions within the year. As a result, Risk Ref 2 has been upgraded from Low to Medium. Despite a significant market advantage currently, if prices fall rapidly, our traded prices on some contracts could fall away from the market quickly. Unlocking positions has to be considered carefully, as quick upturns in the market could lead to losses.
- 5.7 With energy market prices being at unprecedented levels, all customers will be experiencing price increases from April 22, the level of which will depend on when the customer placed their contracts with WME (Risk Ref 1). To provide a sense of the rises seen in the market for the 22/23 year, the wholesale price of gas rose by over 600% and in excess of 400% for power in late December from the levels seen in March.
- 5.8 Despite advice, some customers have signed contracts very late in the year, with one being signed as late as mid-February. As a result of WME being unable to purchase to provide protection to these customers in a rising market, they are seeing very significant year on year price increases. As a result, Risk Ref 3 is now considered as High.
- 5.9 We have started engaging all customers who have contracts ending in March 23, which is earlier than usual, to try and mitigate this risk next year. Ultimately, we can only advise on this, and the timing and speed of procurement is up to each individual customer.
- 5.10 With the gas Day Ahead prices so high throughout the year, the rank of the risk associated with the gas cash out, Ref 4 in the table above, remains high. Should consumed volumes be greater than those procured (e.g. where the winter is colder than the norm) then these additional volumes would be bought at the Day Ahead rates leading to additional costs. This risk has been closely monitored by the business and mitigated where possible by procuring additional volumes where it is considered necessary. By doing so this does increase the risk of breaching risk levels hence why the risk Ref 5 remains high also.
- 5.11 To mitigate the gas cash out risks above, from April we will be utilising a new gas tolerance product with our supplier. A new risk has been added to the register to cover off this product and is currently considered as a low risk.
- 5.12 The risk relating to the loss of key staff has been reviewed and remains at the medium level. A review of the structure of the business has been completed and recruitment is underway to support this. This will help mitigate this risk, build in greater resilience, and strengthen for further growth.

- 5.13 As a result of significant increases in price across the portfolio, and the addition of two new “Fully Managed” customers we believe that there is an enhance risk of bad debt or delayed payments from customers. This has been mitigated as far as possible through regular budget provisions and will be monitored closely by the Finance Team.
- 5.14 The risk of a Member Authority contracting energy outside of the WME arrangements has been included in the risk register.
- 5.15 In light of the Russian invasion of Ukraine, there is a focus on any suppliers with ownership links to Russia or Belarus. WME have a fixed price DPS framework which services a very small part of our overall portfolio. This framework consists of 17 suppliers; Gazprom is one of these. We have begun the process of seeking legal advice with a view to removing them from this framework and in the meantime will not invite them to tender for any future competition. Additional due diligence will take place in future tenders in accordance with procurement rules and current legislation.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Joint Committee 2nd March 2021 – Risk Management Update

Joint Committee 29th November 2021 – Risk Management Update

Member

Councillor R Evans of Telford & Wrekin Council (Chair of the Joint Committee)

Appendices

Appendix A - WME Risk Management Strategy