

## Bath & North East Somerset Council

MEETING/ DECISION MAKER:	<b>Cllr Martin Veal, Cabinet Member for Community Services, and Cllr Tim Warren, Leader of the Council</b>	
MEETING/ DECISION DATE:	<b>On or after 17<sup>th</sup> December 2016</b> (for single Member decision)	EXECUTIVE FORWARD PLAN REFERENCE:
		<b>E 2920</b>
TITLE:	<b>Energy Services: Local Energy Tariff</b>	
WARD:	All	
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b> None		

### 1 THE ISSUE

- 1.1 There is an immediate opportunity to work in partnership to create a local energy tariff backed by the Council.
- 1.2 The local energy (electricity and gas) tariff project has the potential to benefit: all local residents; the fuel poor; local communities and the Council through: savings on energy bills; retaining economic benefits locally and generating a return for the Council that will, at minimum, cover marketing and contract management costs.

### 2 RECOMMENDATION

- 2.1 To approve the principle of commissioning a partner to create a Council endorsed local energy tariff offer for electricity and gas in order to gain a range of community benefits.
- 2.2 To note that there will be a further report to Cabinet prior to contract award, having tested the business plan and marketing approach through the procurement process.

### 3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 3.1 The procurement and set-up costs for the scheme are covered by the existing Energy Services Strategic Review one-off allocation budget. The Medium Term Financial plan from 2017/18 to 2019/20 assumes income generated from “Energy Services projects” starting from £15k in 2017/18 with annual target rising to £100k in 2019/20.
- 3.2 Once set up, the Council’s additional costs will be covered by the income generated from referral fees for customer leads created through Council intelligence, community outreach and unique marketing channels.
- 3.3 We anticipate the local tariff will attract up to 3,000 new customers per year, reaching 15,000 customers after 5 years, or up to 20% of the local residential market, and that the value of the energy savings for our local residents will be in the region of £4.5 million after 5 years (overall energy spend in B&NES is around £150 million pa).

### 4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

- 4.1 **Legal Powers:** Under Section 2 of the Local Government Act 2000 B&NES has the power to do anything which it considers is likely to achieve the promotion or improvement of the economic, social or environmental well-being of its area. Under Section 1 of the Localism Act 2011 B&NES also has a general power of competence to do anything which individuals may generally do.
- 4.2 **Social Value:** The social value includes: residents’ saving on energy bills; reducing fuel poverty; increasing local energy resilience; supporting community energy production and increasing community ownership of local energy.
- 4.3 **Equalities:** An Equalities Impact Assessment is integral to the procurement process. It is a requirement that the scheme will address current inequalities in the energy supply market, by helping disadvantaged households, often on pre-payment meters, with young families, older or disabled occupants who currently end up paying disproportionately more for their energy bills, to switch to a better deal.
- 4.4 **Sustainability:** It is intended that the scheme will, over time, provide a better return for local renewable energy generators, supporting the delivery of the Council’s Core Strategy target (CP3) on renewable energy. It will also help retain a greater portion of the area’s gas and electricity expenditure within the local economy, increasing investment and jobs potential and improving community resilience in the face of future energy price shocks and rising price trends in energy bills.

### 5 THE REPORT

- 5.1 In Bath & North East Somerset, annual expenditure on electricity and gas is around £153 million<sup>1</sup>. (This figure does not include consumption of heating oil or LPG as this is a different supply chain.) Currently, much of the value associated with this expenditure leaves the district, with benefits accruing nationally to energy supply and generation businesses.
- 5.2 Around 17% of our residents are currently living in fuel poverty<sup>2</sup>, costing an estimated £3.8m/yr in healthcare as a result of the poor physical and mental

health associated with living in cold homes<sup>3</sup>. Most of these households are heated by gas and electricity (estimated at 11,200), with an estimated 1,600 heated by oil<sup>4</sup>.

- 5.3 High energy costs through inappropriate electricity and gas tariffs are a significant contributing factor to fuel poverty for households. The Competition and Markets Authority recently concluded that the electricity and gas supply markets are not working as they should for customers. It found that 70% of domestic customers of the 6 largest energy firms are still on expensive 'default' standard variable tariffs, despite being able to potentially save over £300/yr by switching to a cheaper deal<sup>5</sup>.
- 5.4 The Competition and Markets Authority found that low levels of supplier switching by households is a major contributory factor. Research shows only around 10% of households regularly switch energy suppliers, with the remainder of so-called 'sticky customers' switching only occasionally (e.g. when moving house) or never (around 40%)<sup>6</sup>. Switching rates are lower in households with lower incomes, with the proportion of customers claiming to have never switched higher in social grades D and E compared to the average<sup>7</sup>.
- 5.5 Reasons for not switching include lack of trust in big energy suppliers, finding bills confusing, and the 'hassle factor'. Even if people do switch they need to keep switching to continue to get a good deal. Some customers are scared that if they do switch they will end up on a worse deal (an outcome which is estimated to occur in 20%<sup>8</sup>-40%<sup>9</sup> of cases). Only a fifth of people are confident that their supplier is charging fairly and working to provide them with the best deal<sup>10</sup>.
- 5.6 For pre-payment meter (PPM) customers this situation is worse. The average PPM customer pays around £230/yr more than they would under the cheapest equivalent online direct debit deal (rising to as much as £400/yr more)<sup>11</sup>. 'Collective switching' campaigns typically offer little benefit to pre-payment meter customers. Nationally 16% of households are on pre-payment meters<sup>12</sup>, with evidence suggesting the proportion in B&NES is similar<sup>13</sup>.
- 5.7 Against this backdrop, the electricity and gas supply markets are opening up, with energy suppliers starting to offer partnership and service packages to local authorities, enabling councils to promote a tailored and locally badged supply offer, without the need to become a fully licensed energy supplier. Services include customer service and billing and licensed energy supply functions, with the local authority providing brand support and local marketing, typically in return for a fee to cover marketing costs.
- 5.8 Local authorities, with their front line delivery and trusted voice, are well placed to secure customer take-up. Co-marketing with B&NES Council's Energy At Home retrofitting service is likely to increase customers for both schemes. Citizen's Advice has recognised the positive role that local authority supply partnership schemes can play in helping residents get a better deal<sup>14</sup>.
- 5.9 While this local tariff scheme cannot help to reduce heating costs for the district's 6,080 oil-heated households, all these households depend on electricity for lights and appliances, meaning every household in B&NES can benefit.
- 5.10 As well as tackling fuel poverty, a local energy supply model provides an opportunity to take further control of local supply and demand in the future as new

'smart energy' technologies come to market, helping to drive down costs, increase local revenue streams and increase energy security further.

5.11 Therefore, the key objectives for the project are to:

- Reduce electricity and gas bills; alleviate fuel poverty and improve health and well-being;
- Retain a greater proportion of the £153m/yr local electricity and gas spend that currently leaves the local economy.
- Ensure a better return for local energy producers to encourage more investment, increased capacity and more local energy jobs.
- Reduce local carbon emissions.
- Improve local energy security and resilience,
- Support transition to low energy, efficient and competitive local economy.
- Provide income for the Council to cover marketing and contract management costs.

5.12 The procurement process for a suitable energy supply partner will commence in late November 2016, with the posting of the OJEU notice. It is anticipated that the local tariff offer will be ready to be marketed to local residents in the summer of 2017.

5.13 Key characteristics of the B&NES local tariff are anticipated to include:

- (1) Competitive rates (cheaper than the average of the major energy suppliers, although not necessarily the cheapest).
- (2) Fair, transparent and consistent pricing.
- (3) Especially good deal for pre-payment meter (PPM) customers.
- (4) Gas and electricity (dual fuel, but not oil).
- (5) Excellent customer service and satisfaction.
- (6) Simple, easy to understand.
- (7) Delivery model that maximises community and local economic benefit.
- (8) Benefits to local renewable energy generators over time.
- (9) Locally badged and marketed.
- (10) Future options to include benefits from innovations such as smart metering and demand side response.
- (11) Delivery partner that prioritises long term brand loyalty and engagement.

## **6 RATIONALE**

6.1 A B&NES local energy supply model has the potential to contribute to a longer term vision of making the district more energy resilient and independent, and offers the following benefits to B&NES district:

- Reduced energy costs for residents, helping to alleviate the impact of local fuel poverty, improving health and wellbeing. Assuming an uptake of 3,000 households per year, the value of the energy savings delivered for our local residents would be £4.5 million after 5 years<sup>15</sup>.
- Retention of a greater proportion of the region's c.£153m electricity and gas expenditure within the local economy,
- Better return for local renewable energy generators, by enabling better matching between local generation and demand, increasing investment and jobs potential, and helping deliver our Core Strategy renewable energy target,
- Reduced carbon emissions in our area,
- Improved community resilience in the face of future energy price shocks and rising trends in energy bills,
- Support for the transition to a low-energy, efficient and competitive local economy, and enable a platform for the future integration of smart grid and new low energy technologies,
- Cost recovery for the Council for marketing and contract management costs.

6.2 The social, economic and environmental benefits of the local tariff project will contribute to the delivery of the following Council strategies and objectives:

- B&NES Vision 2020 and Corporate Strategy themes 'Creating the Future' and 'A Focus on Prevention' and the administration's manifesto focus on 'cleaner, greener and healthier communities'.
- Joint Health and Wellbeing Strategy – particularly Theme 1 'Preventing ill health by helping people to stay healthy' and Priority 4 to 'create healthy and sustainable places'.
- Economic Strategy – through local retention of economic benefit.
- Core Strategy – particularly the commitment to reduce carbon emissions and Core Strategy target CP3 on renewable energy (275MW renewable heat and electricity generation by 2029).
- Environmental Sustainability Partnership (ESP) Strategy – particularly the commitment to provide the leadership for a 45% cut in district wide CO<sub>2</sub> emissions and to support local energy generation.
- Community Energy Strategy – particularly the delivery of the aim to accelerate growth of renewable energy and energy efficiency improvements across the district, whilst delivering maximum local economic and social benefit.
- Think Local Procurement Strategy – particularly the principle that 'We will prioritise Social Value for our community. This means targeting opportunities for the local economy, providing for a sustainable future and supporting the vulnerable'.

6.3 Future opportunities that the local tariff may enable include:

- (1) Opportunity for future co-marketing: There is an opportunity to develop future services for residents and businesses that can be co-marketed with the local energy tariff in the future, as a result of new products or technological developments (e.g. smart grid or energy storage applications), that have potential to further reduce energy bills and deliver social benefit.

- (2) Opportunity for innovations in local smart grid infrastructure: There is an opportunity to use any local supply model which emerges to enable the trialling and demonstration of new infrastructure in the district (e.g. renewables generation linked to energy storage), leveraging in R&D funding, creating investment opportunities and delivering community and economic benefits for the district.
- (3) Opportunity to extend procurement framework: There is an opportunity to extend the procurement framework to enable other organisations / local authorities to join in future.

## **7 OTHER OPTIONS CONSIDERED**

- 7.1 Switching Campaigns - Collective switching campaigns can be used to deliver a competitive energy tariff to residents. However, they offer less opportunity to tailor the offering to local needs, and typically offer minimal benefit to households on pre-payment meters. They have been considered but rejected previously by B&NES Council for these reasons.
- 7.2 Becoming a licensed energy supplier – This option requires substantial investment and exposes the Council to considerable financial risk which the Energy Services Study (conducted as part of the Council’s Strategic Review) concluded was inappropriate for a Council and district the size of Bath & North East Somerset.
- 7.3 Do nothing – This option misses opportunities to deliver significant local benefit as well as income generation potential for the Council and was not considered consistent with current strategies.
- 7.4 Oil heating – The option to extend this scheme to include heating oil was considered, but since the heating oil market operates separately from the electricity and gas supply markets (involving different companies and regulatory regime) a separate procurement process would be required.

## **8 CONSULTATION**

- 8.1 Council: Cllr Martin Veal, Cllr Tim Warren, Informal Cabinet, SMT, ESP Board, Andrew Pate, David Trethewey, Corporate Finance, Corporate Procurement, Legal Services, Energy Management, Housing Services, Public Health, Connecting Communities, Business Continuity and the Community Energy Forum.
- 8.2 Curo (Richard Horne, via the Local Tariff Project Working Group, and Tom Hainey, through the Energy Services Senior Advisory Group). Curo has input to the development of the specification from its early stages and has expressed support for the scheme and the benefits it potentially offers its tenants. It remains interested in potentially partnering with the scheme, subject to the outcome of an internal review process.
- 8.3 Nationally: Ofgem (consumer markets team), Citizen’s Advice (energy policy research team); other local authorities (West Sussex County Council, Peterborough City Council, Cheshire East Council, Bristol City Council, Leeds City Council); energy supply companies (via a soft market testing programme).

## **9 RISK MANAGEMENT**

9.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance. A Business Continuity and Exit Strategy has also been developed. Both documents have been tested with the Local Tariff Project Working Group and the Energy Services Senior Advisory Group.

9.2 The key risks to the Council with their proposed mitigation strategies are:

- (1) Tariff doesn't stay competitive, resulting in it no longer being seen as a good deal (reputational damage). Strategy: KPI linked to price, benchmarked against average of e.g. major energy suppliers' standard variable rate, a robust procurement process.
- (2) Supplier goes out of business, resulting in loss of partner and potentially stranded customers (reputational damage, financial impact). Strategy: options covered in full by Business Continuity Strategy, but include (a) renegotiate with incoming supplier (identified by trade sale or Ofgem procedures) or (b) re-procure new supply partner. Supported by rapid and effective pre-prepared communications.
- (3) Take up lower than expected, resulting in scheme not achieving minimum required revenue (financial impact). Strategy: provision to be made in contract to exit if take-up does not meet minimum threshold.
- (4) Loss of Energy At Home scheme, meaning that Energy At Home marketing resource is no longer available. Strategy: provision has been made in cost projections for this eventuality such that the scheme could still be financially sustainable.
- (5) Procurement challenge from an unsuccessful energy supply bidder (financial impact). Strategy: robust procurement process with competitive dialogue which is fully open and OJEU compliant even though this approach is above and beyond what is required.
- (6) Poor customer service, resulting in dissatisfied customers (reputational damage). Strategy: rigorous procurement with robust specification on customer services with 'de minimis' performance threshold and ongoing KPIs.
- (7) Affordability versus wider benefits, i.e. that the most affordable tariff may not be the 'greenest' or offer best social value (reputational damage). Strategy: careful balance of priorities in specification and KPIs.

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<b>Background papers</b>	None
<b>Please contact the report author if you need to access this report in an alternative format</b>	

<sup>1</sup> Regional and local authority electricity consumption statistics: 2005 to 2014 (<https://www.gov.uk/government/collections/sub-national-electricity-consumption-data>) and Sub national gas consumption statistics: 2005 to 2014

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(<https://www.gov.uk/government/statistical-data-sets/gas-sales-and-numbers-of-customers-by-region-and-local-authority>), with energy price assumptions from <http://www.energysavingtrust.org.uk/corporate/our-calculations>. The figure does not include consumption of heating oil or LPG as these are subject to different supply chains for which government data is not available in the same way. There is a further estimated £9 million/yr expenditure on heating oil in B&NES (assuming an average spend of £1500/household/yr on heating oil and 6,080 oil heated households in the district).

<sup>2</sup> <http://www.bathnes.gov.uk/services/your-council-and-democracy/local-research-and-statistics/wiki/fuel-poverty>

<sup>3</sup> Figures from the Building Research Establishment and the Chartered Institute of Environmental Health's Housing Health and Safety Rating System model, calculated for B&NES, which calculates the total health cost as a result of poor housing which fails the statutory minimum standard.

<sup>4</sup> The estimated number of gas-heated households living in fuel poverty is 8,900, while the number for electrically-heated households is 2,300. These figures reflect the national trend for fuel poverty by heating type in England: DECC, Fuel Poverty Statistics, Detailed Tables, 2014, Table 11a <https://www.gov.uk/government/collections/fuel-poverty-statistics#2014-statistics>, and have been increased proportionally reflecting the higher density of fuel poverty in B&NES. Across B&NES 59,000 households are heated by gas, 9,200 by electricity and 6,080 by heating oil (Household Assessment Model, managed by the Centre for Sustainable Energy for B&NES Council).

<sup>5</sup> Competition and Markets Authority, 'Modernising the Energy Market' June 2016, summary of conclusions from the Energy Market Investigation, <https://www.gov.uk/government/news/cma-publishes-final-energy-market-reforms>

<sup>6</sup> Ipsos MORI (2014), 'Customer Engagement With The Energy Market: Tracking Survey'. Report for Ofgem.

<sup>7</sup> Energy and Climate Change Committee (2013), Written evidence submitted by the Department of Energy and Climate Change.

<sup>8</sup> Wilson and Waddams Price (2007), 'Do Consumers Switch To The Best Supplier?'

<sup>9</sup> House of Commons, Energy And Climate Change Committee (2012), 'Consumer Engagement With Energy Markets: Fifth Report Of Session 2012-2013'

<sup>10</sup> Which? (2014), 'Which? Calls For Fair Energy Prices', online.

<sup>11</sup> Data from Citizens Advice

<sup>12</sup> Data on proportion of PPM customers available at [https://www.ofgem.gov.uk/system/files/docs/2016/08/retail\\_energy\\_markets\\_in\\_2016.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/08/retail_energy_markets_in_2016.pdf)

<sup>13</sup> The 2011 Bath & North East Somerset Private Sector Housing Stock Condition Survey suggests that for owner occupied and private rented properties the proportion is around 4%, while Curo estimates that for social housing it is between 60% and 90% of its housing stock (Curo, personal communication). This suggests a total of around 11,000 households in B&NES (or 14%).



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<sup>14</sup> Daniel Walker-Nolan, Principle Policy Manager, Energy and Consumer, Citizen's Advice, and Gillian Cooper, Head of Energy Retail Markets Policy Research, Citizen's Advice, direct communication.

<sup>15</sup> This is the cumulative saving assuming an annual fuel bill saving of £100/yr compared to their current energy supplier. For households paying their suppliers' standard variable rate instead of a lower cost fixed rate deal, this saving estimate is conservative, see reference (5).