

Bath & North East Somerset Council

DECISION MAKER:	Cllr Mark Shelford, Cabinet Member for Transport and Highways, and Cllr Tim Warren, Leader of the Council	
DECISION DATE:	On or after 23rd September 2017 (for Single Member decision)	EXECUTIVE FORWARD PLAN REFERENCE:
		E 3001
TITLE:	Energy Services: Local Energy Tariff	
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report: 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 local residents and the Council through: retaining economic benefits locally, supporting delivery of local environmental targets, creating a platform to tackle fuel poverty over time, and generating a return for the Council that will, at minimum, cover marketing and contract management costs.

2 RECOMMENDATION

The Cabinet Members are asked to;

- 2.1 Confirm agreement to the delegated authority (Strategic Director - Resources) to award the contract to the preferred bidder for the local energy tariff project, in line with the Council's Contract Standing Orders, following the completion of market testing and a thorough procurement dialogue process, which has tested the issues raised by Cabinet members.

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 budget. Once set-up, the Council's marketing costs will be covered by the income generated from referral fees for customer leads.
- 3.2 The Medium Term Financial plan from 2017/18 to 2019/20 currently assumes revenue generated beyond cost recovery, from 'Energy Services Projects' starting from £15k in 2017/18, with the annual target rising to £100k in 2019/20.

3.3 The revised local tariff proposed outlined in this paper reduces the risks to the Council's reputation and the marketing burden, but does reduce the short-term revenue potential. This means that the revenue figures, i.e. income beyond cost recovery, would be £5k in 2017/18, £15k in 2018/19 and £24k in 2019/20 from the local tariff project. (It is hoped that further revenue will be generated through future renewables investment against the overall target.)

3.4 The renewable energy aspects of the local tariff scheme will enable greater retention of value within the local economy and over time will support opportunities for residents to invest in local renewable energy generation. In future, as regulatory changes allow, the project also has potential to reduce energy bills for residents through further tariff offers focused on reducing fuel poverty, in particular for residents with pre-payment meters.

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 of this project includes: increasing local energy resilience; establishing a platform to support saving on residents' energy bills and the reduction of fuel poverty over time; supporting community energy production and increasing community ownership of local energy.

4.3 Equalities: An Equalities Impact Assessment has been integral to the procurement process. It is a requirement that the supplier has potential to address inequalities in the energy supply market, by helping disadvantaged households, in particular those with pre-payment meters (including with young families, older or disabled occupants) who often pay 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, and the reduction of carbon emissions. It will also help retain a greater portion of the area's £153m/yr¹ energy 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 Over recent years there has been considerable change in the energy market nationally and locally. Local authorities throughout the UK have been debating what this means for local residents, as we have in B&NES, and taking action to engage in the energy market in order to deliver benefits to local residents, the local economy and to create income generating opportunities.

¹ 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 (<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>

- 5.2 Some local authorities, such as Bristol and Nottingham city councils have taken a high risk route and set up their own energy companies in an attempt to compete with the existing companies in order to make money and help residents. Others have taken lower risk approaches, such as Cheshire East, Peterborough and West Sussex, through contracted partnerships with newer energy companies, who can see the benefit for themselves and for customers of working with local authorities. Those authorities have taken a variety of roles in terms of branding and marketing/promotion.
- 5.3 As part of our Energy Services Programme, the Council has, like other local authorities, been exploring how to exploit the opportunities opening up in the rapidly developing energy market to bring maximum benefit to local residents, the economy and the environment. Over the past two years, our approach has been debated at different levels throughout the Council, including at Strategic Director and Cabinet Member level, which has been very useful in teasing out the issues and developing a robust local approach.
- 5.4 The core principles of this approach are:
- (1) To maximise the benefits to local residents, whilst
 - (2) Minimising the risks to the Council
- 5.5 Our work to develop a local tariff has also taken place in the context of our other resident focussed Energy Services projects such as:
- (1) Investment in and enabling of local, community owned renewable energy development (including on our own buildings and schools);
 - (2) Development of the Energy at Home scheme to facilitate home energy efficiency action for all householders, but with a particular focus on alleviating fuel poverty.
- 5.6 Over the last two years we have undertaken a thorough, cross-departmental process to test whether we could deliver further benefits to local energy resilience and independence, energy costs and carbon emissions through a Council endorsed local energy tariff. This process has taken into account issues and questions that have arisen from officers and Cabinet members throughout the process.
- 5.7 This project does not involve the Council setting up an energy supply business or actually entering the energy market itself. Nor is the Council entering a contract to pay the contractor to deliver the service. Rather, this is like a concession contract, whereby the contractor pays referral fees to the Council for the benefit of the Council's endorsement and ability to market the tariff to residents through unique communication channels.
- 5.8 The project is about finding a suitable energy supply company, that has a good fit with our values and objectives, who can deliver a local energy tariff to our specification.
- 5.9 The Council's role would be to endorse the offer and add value by lending local credibility and trust alongside our other Energy Services and to enable more rapid take-up from local residents through our unique reach and resident engagement capability. This is the Council enabling, not doing it ourselves.

- 5.10 Such a partnership would also put us on the front foot for future collaborative projects and funding opportunities, which could include our public sector, community and business partners, on renewable energy development, smart grid development, electric vehicle and battery storage infrastructure.
- 5.11 Cllrs Warren and Veal agreed in December 2016, through Single Member Decision, 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.
- 5.12 During the course of the competitive dialogue procurement process, central government driven regulatory change has taken place which has, to some extent, solved one problem through a price cap on Pre-Payment Meter tariffs. The new Conservative government has also instructed the regulator to look again at how to reduce prices further, especially for lower incomes households.
- 5.13 As a result of this, it became clear that, for the time being, it no longer makes sense to focus on a local tariff aimed solely at achieving a lower price for both Pre Payment Meter and other customers. However, these changes have had no impact on the green energy aspect of our plan and so an alternative approach has been developed that will deliver against all our other objectives whilst keeping the door open for future changes both in terms of technology and when/if price caps are lifted. The new approach has been agreed with the lead bidder and approved by the Energy Services Senior Advisory Group and consists of:
- (1) Limiting the initial B&NES tariff offer to a 100% green, good value, local energy tariff that undercuts other leading green tariffs;
 - (2) Reducing B&NES marketing role to reflect change in public offer;
 - (3) Establishing a flexible partnership to enable future tariff offers focused on reducing fuel poverty and benefitting pre-payment meter customers as opportunities arise.
- 5.14 The benefits of the new approach are:
- (1) Is a simple offer: good value local green energy tariff
 - (2) Provides reduced reputational risk & marketing burden
 - (3) Meets Council policy objectives and the administration's manifesto commitments
 - (4) Is the best way to support green energy generation locally at the current time
 - (5) Enables cost recovery on marketing for the Council
 - (6) Enables long-term flexibility and potential for new projects and increased revenue in future.
- 5.15 The evidence in the market is that government caps on standard and pre-payment meter tariffs will tend to reduce the public's desire to switch tariffs, but that there is still motivation to switch for ethical and green reasons. In the 2015 Voicebox survey in B&NES we asked local residents a number of questions on

energy issues including the likelihood of switching to a local tariff. Of those who responded, 68% said they would consider switching to a local tariff and 32% would consider paying more for a local green tariff.

5.16 The preferred bidder is well placed to deliver wider benefits to our households in fuel poverty and on pre-payment meters through its policies such as:

- (1) Not differentiating on price between pre-payment meter and direct debit customers and no hidden extra costs such as exit fees
- (2) 'Friendly credit' to pre-payment meter customers – meaning that they will never be cut off at evenings or weekends, even if their meter runs out
- (3) No credit check – so the tariff is available to more people
- (4) Smart meters for all pre-payment meter customers – using the most advanced smart meter technology on the market
- (5) A commitment to innovation to provide better deals for households in fuel poverty and on pre-payment meters

5.17 The procurement process involved two phases, first a soft energy market testing stage to ensure that the sort of set-up we wanted for B&NES was achievable and an engagement exercise with key services across the Council, with Curo and with community groups to ensure that our specification worked across the board.

5.18 The second phase was the competitive dialogue process following an OJEU notice. This process has just completed with agreements achieved with the preferred bidder across all Method Statement themes from our specification.

5.19 We wish to proceed to contract award with the preferred bidder because it has responded well to all aspects of the Council's specification for this contract and demonstrated a desire to work in partnership with us over time to deliver the best we can for B&NES residents.

6 RATIONALE

6.1 The intention of the project is to contribute to the following local benefits over time:

- (1) Retention of a greater proportion of the area's £153m² electricity and gas expenditure in the local economy
- (2) Reduced energy costs – particularly for those residents on higher cost Pre Payment Meter tariffs, who are typically lower income, more vulnerable and fuel poor
- (3) Better return for local renewable energy generators, by enabling a better match between local generation and demand, increasing investment and jobs potential and helping deliver the Core Strategy renewable energy target

² See footnote (1) above
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- (4) Reduced carbon emissions
- (5) Improved local resilience in the face of future price shocks and rising trends in energy bills
- (6) Support for the transition to a low-energy, efficient and competitive local economy
- (7) Cost recovery for the Council for marketing

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:

- (1) 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'.
- (2) 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'.
- (3) Economic Strategy – through local retention of economic benefit.
- (4) 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).
- (5) Environmental Sustainability Partnership (ESP) Strategy – particularly the commitment to provide the leadership for a 45% cut in district wide CO₂ emissions and to support local energy generation.
- (6) 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.
- (7) 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: Leader of the Council, Informal Cabinet, Senior Management Team, the Environmental Sustainability Partnership Board, Strategic Director (Resources & Finance), Divisional Director (Strategy and Performance), Section 151 Officer, Monitoring Officer, Corporate Finance, Corporate Procurement, Energy Management, Housing Services, Public Health, Legal Services, Customer Services (Council Connect), Connecting Communities, Business Continuity, and the Council's Community Energy Forum.
- 8.2 Curo: Curo has contributed to the development of the specification from its early stages via the Local Tariff Project Working Group and Energy Services Senior Advisory Group, in recognition of the benefit the scheme potentially offers to its tenants.
- 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.

9.2 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.

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

- (1) 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.
- (2) 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.
- (3) Tariff experiences criticism, for example for not being cheap enough (reputational damage). Strategy: a robust procurement process, plus KPIs that are linked to price. Tariff characteristics will be clearly and accurately communicated, and marketing of the green tariff will not be based on price.
- (4) 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.
- (5) 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.
- (6) 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.

9.4 We have worked with advisors from the Council's business partner, Ernst & Young to test the proposals and the bidder's ability to deliver. And we commissioned Cornwall Insight (independent UK energy market analysts) to review proposals the implications of recent government regulatory change.

9.5 The result of these reviews is positive and suggests that we can have confidence in both the proposal and the bidder's ability to deliver. Key issues to note are:

- (1) The local energy tariff project offers limited risks to the Council, as the only payments are to the Council in the form of concession payments relating to customer acquisitions and/or retentions
- (2) The main risks are reputational and relate to the operation of the tariff (e.g. poor customer service or lower than expected uptake). These risks are being mitigated via ongoing dialogue discussions and the intended contractual arrangements
- (3) Should the company experience financial difficulty, the risk to customers is fully mitigated by Ofgem regulatory arrangements

- (4) Historical financial information does not provide mitigation in this procurement as many bids received were from newly formed companies. However, the preferred bidder's business strategy and energy trading strategy provide comfort to the Council against the risk of insolvency and compares favourably to others in the industry
- (5) The conclusion is that the Council can ensure information is provided as part of KPI reporting that allows monitoring of these strategies and will give the Council visibility of the preferred bidder's performance during the contract

9.6 All of these issues have been included in the project risk analysis and mitigation plan we have produced in response to all the issues and questions that have arisen during the process.

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Background papers	None
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