

READING BOROUGH COUNCIL

REPORT BY DIRECTOR OF ENVIRONMENT AND NEIGHBOURHOOD SERVICES

TO:	STRATEGIC ENVIRONMENT, PLANNING AND TRANSPORT COMMITTEE		
DATE:	NOVEMBER 2017	AGENDA ITEM:	14
TITLE:	LOCAL AUTHORITY ENERGY COMPANY		
LEAD COUNCILLOR:	CLLR PAGE	PORTFOLIO:	Strategic Environment, Planning and Transport
SERVICE:	SUSTAINABILITY	WARDS:	ALL
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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report proposes that Reading Borough Council join Southampton City Council's (SCC) proposal to establish a 'white label' service to sell energy to residents in the South of England in Local Authority (LA) areas across Berkshire, Hampshire and Oxfordshire.
- 1.2 Just under 14% of Reading households remain in fuel poverty, meaning they cannot afford to heat their homes. Continually rising energy prices put ever increasing pressure on low income families and households.
- 1.3 A typical home on a standard variable tariff in the UK spends £1,135 per annum on energy; over £300 more than the lowest tariff available (Oct 17 figures). Reading's residents and businesses pay an estimated £109m p.a for energy and these prices are set to rise, worsening the problem of fuel poverty and weakening the local economy.
- 1.4 There are currently 60 energy suppliers in the UK, of which the 'big six' supply 82% of customers and other companies 18%. With the energy market starting to diversify, Local Authorities are getting involved in energy supply. The first LA owned company to set up in the UK was Robin Hood Energy in 2015, followed more recently by Bristol Energy. A new energy supplier called Rayleigh Energy is setting up in Portsmouth, a private/LA venture.
- 1.5 A number of Local Authorities have implemented collective switching campaigns. Reading Borough Council have not done so, preferring to focus resources on helping those most at need who are least likely to register for this kind of service.
- 1.6 RBC has been working with APSE Energy, SCC and a number of other Southern authorities to establish an approach to jointly supply energy. It was concluded that it is best to operate as a grouping of LAs to gain a sufficient market share. This could provide a reliable, good value local energy tariff.

- 1.7 Establishing a Local Authority energy company offer in the South could:
- Help tackle fuel poverty by reducing the cost of energy for residents.
 - Create income for RBC.
 - Enable a fully licensed company in the future.
 - Reduce carbon footprint and improve energy security of borough.
 - Create jobs.
 - Deliver further energy related services to the community creating further jobs and decarbonising Reading.
- 1.8 In June 2017 Southampton (SCC) Cabinet approved the establishment of such a LA offering (see link under background papers). SCC has written to potential partnering LAs to gain endorsement for phase 1 of their scheme. The SCC scheme is set out in four possible phases. The first phase is the establishment of a regionally branded 'white label' contract with a licensed energy supply company. Southampton would manage this on behalf of a number of partnering LAs in the southern region.
- 1.9 Future phases offer the opportunity to provide additional sustainable energy products and services and potentially to establish a LA owned licensed energy company in the South.
- 1.10 Background papers:

[Southampton City Council White Label Cabinet Paper](#)

2 RECOMMENDED ACTION

- 2.1 That the committee delegate to the Director of Environment and Neighbourhood Services in consultation with the Head of Legal Services and the Director of Finance, the decision to enter into a contractual arrangement with SCC to supply energy to customers in Reading Borough.**

3 POLICY CONTEXT

- 3.1** It has been much reported that members of the public are paying too much for their energy, with the fuel poor (those least able to afford their bills) and the most vulnerable, who tend to be least likely to switch, paying the most.
- 3.2** A number of Local Authorities have implemented collective switching campaigns, whereby a switching organisation such as i-Choosr would partner with the Local Authority to run a reverse-auction. Customers would register and the reverse auction which would be run in a single day. Customers would get the best price offered by an energy provider on that day.
- 3.3** For customers that are on standard (variable rate) tariffs, they can save around £250 per annum by going to the cheapest provider (figures from i-Choosr). If 10% of Reading's households were to register for a switch scheme, around 25% might be expected to accept the offer and switch, saving Reading households around £350k p.a in total. Customers can save a similar amount if they seek to switch independently, however and so it is the number of customers that switch that would not otherwise have considered doing so that a Council backed scheme would be seeking to reach.

- 3.4 Ofgem estimates that around 60% of customers do not switch to improve their energy tariffs. i-Choosr quote that two thirds of switchers have not switched in the last 3 years. It is these customers that can make the best savings, but these customers are also the most difficult to persuade. Customers who have pre-payment meters would ordinarily have to switch to a non pre-payment method to access the best tariffs. This is not a preferred or possible option for many low income households and therefore the switching method is not as advantageous to them.
- 3.5 The deals that are accessed through the collective switching route are typically time based, so it would require them to switch again at this point or risk being placed onto a standard variable tariff thereafter. The best long term deals for customers can often be with companies who have ethical commitments to pricing structures. It is possible to set up collective switching campaigns that set parameters such as ensuring pre-payment customers are included, offering 'green' tariffs etc. Bristol City Council offered a range of product types in their scheme, although this did lead to a lower quoted average saving of £104 per customer.
- 3.6 A large number of local authorities have entered into this kind of arrangement but Reading Borough Council have not done so, preferring to focus resources on helping those most at need who are least likely to register for this kind of service.
- 3.7 The Council runs the Winter Watch service which helps those who are struggling to afford to heat their homes. Every year the service helps over two hundred of fuel poor households to stay warm during the winter. The service also provides fuel top ups to help people afford their fuel bills. This service is funded by the public health service at Reading Borough Council.
- 3.8 Reading Borough Council is also working with Citizens Advice Bureau to provide a wide range of energy related support including assisting fuel poor customers in switching tariffs. This service is able to engage directly with the hard to reach.

Energy Supply

- 3.9 Energy supply to local households and businesses is via the local electricity and gas networks. The regulations mean that the generation, transmission, local distribution network and sale of energy to the end customer have to be managed separately. The six companies known as the 'big six' own the majority of local distribution networks, much of the generation plant and also sell energy directly to the majority of UK customers. They are so called 'vertically integrated' companies. A plethora of new companies have entered into the market to sell energy to end users. At last count there were 60 supply companies in total.
- 3.10 The energy retail company sells power to the customer under license from Ofgem. This license is very onerous to acquire and requires significant investment in order to meet the industry codes of practice.
- 3.11 For this reason Ofgem have recently allowed the establishment of a number of 'partnering' options which allow the use of a licensed partner to provide some or all of the services within the supply.
- 3.12 A number of LAs and other organisations have entered into such a partnership with an existing licensed energy supplier. This creates a locally branded energy supply option but without the risks associated with trading directly. This option creates some benefits such as revenue and control over company operations, local employment etc, but reduces others such as financial and employment benefits.

The most common model used is referred to as “White Label”, where a product is created that is branded differently from the host energy supplier and has some specific differentiation in its services.

- 3.13 The licence to trade is national and therefore the supplying company cannot services restrict to certain geographic boundaries, although it may choose to focus marketing activities on these. Local authority pioneers in this field are Nottingham (Robin Hood Energy) and Bristol (Bristol Energy) both of whom are fully licensed and sell power nationally. Robin Hood Energy has targeted a market share of ~1% of UK customers (250,000) to be developed over the first 3 years of trading. They launched in 2015.
- 3.14 Pre-tax profit margins for dual fuel supply for the larger energy retail providers was 4.04% in 2015.
- 3.15 A typical home owner in the UK spends £1,135 per annum on energy (Jul 17 figures) and an average business £4500*. The energy market in Reading is estimated to be worth £122m* p.a. (*calculated from 2014 carbon emissions data - published by DECC and using assumed unit rates). A 10% market share locally would create a gross revenue of £12.2m (£480k pre tax profit).
- 3.16 Berkshire has a population of 861,000, an estimated 360,000 houses and a potential domestic market of ~£380m. There are also approximately 70,000 businesses with a market worth an estimated £320m p.a.
- 3.17 The three Counties covered by the LA’s currently engaged offer a potential market of over 1 million homes and 200,000 businesses, providing a market conservatively estimated at £1.5bn_gross for electricity and gas sales.
- 3.18 The average standard variable tariff that a home owner in the UK pays is £1,135 per annum (Ofgem 31st Oct 2017). Standard variable rates are invariably higher than the cheapest available (average £827 p.a.). They are an average of £308 more expensive than the cheapest tariffs. The big six suppliers all have more than half of their customers on this higher tariff. Over 10 million customers with SSE and British Gas were on these tariffs in 2016.

Table 1: Average tariff prices by supplier: Standard variable vs cheapest available tariffs (GB)

Supplier	Supplier's average annual standard variable tariff	Supplier's cheapest annual average tariff	Market cheapest annual average tariff
British Gas	1072	1036	816
SSE	1121	872	816
E.ON	1133	941	816
EDF	1142	971	816
Scottish Power	1147	973	816

Supplier	Supplier's average annual standard variable tariff	Supplier's cheapest annual average tariff	Market cheapest annual average tariff
RWE npower	1166	935	816
First Utility	1132	927	816
OVO	1097	942	816
Utility Warehouse	1098	1017	816
Coop	1158	859	816

*Source Ofgem - Information correct as at October 2017

4 THE PROPOSAL

- 4.1 Partnering with an existing licensed energy supplier allows a branded energy option but without the risks associated with trading directly. This option carries some of the benefits but offers reduced revenues and less control over company operations, local employment etc.
- 4.2 SCC invited other Local Authorities to become partnering authorities, acting as endorsees of the brand. SCC would remain the contracted party with the licenced energy supplier.
- 4.3 There is no cost to LAs to enter into the scheme other than any external advice they may choose to bring in. The scheme would create income, paid per meter point, split between RBC and SCC. SCC projects 10,000 customers in year 1. The amount that LAs receive will depend on negotiations between SCC, the licensed partner and other LAs.
- 4.4 At the time of writing, 12 Local Authorities have signed the letter of support to become partners of the scheme. These are shown in Table 2 below.

Table 2 - Local Authorities who have signed Letter of Support

Basingstoke and Deane
Bournemouth UA
Cherwell
East Hampshire
Guildford
Havant
Oxford

Reading
Rushmoor
South Northamptonshire
West Berkshire UA
West Oxfordshire

- 4.5 SCC is hopeful that if sufficient householders and potentially businesses sign up across area and wider UK, more than 120,000 customers could be supplied within 5yrs. This would justify establishing a fully licensed company. This potential future development would only be undertaken where the business case and acquired experience enable the risk to be suitably managed but considerably greater profit share and job creation can be achieved under this model. This phase would be under a new contract(s).
- 4.6 SCC plans to undertake a progressive phased approach to deliver an effective energy supply product that will deliver the income objectives of the councils and benefits for customers. This report is proposing development of Phase 1 only, whilst ensuring that they agree terms with a procured licenced energy supplier that will enable future phases to be delivered.
- 4.7 Phase 1 objectives - to provide a branded energy supply product with a third party (White Label Product - see below) to provide a low risk income, tackle fuel poverty, supply cost effective energy to all, develop a customer base and provide certainty to invest capital in the future phases.
- 4.8 Phase 2 - 4 objectives are to supply and sell energy generated locally by SCC and partners, develop added value business opportunities to benefit the local areas and, if Phase 1 provides sufficient customer numbers, to develop a business case to become a licensed energy supplier and secure an energy supply license.
- 4.9 Discussions with SCC have highlighted a number of key points in addition to the outlined benefits which would be material in consideration by LA partners. These include:
- a) The nature of the partnership and contract between LA partners and SCC.
 - b) The level of retained fees available to local authorities.
 - c) The marketing arrangements.
 - d) The level of officer commitment required.
 - e) The governance of Partnership.
 - f) The proposals to develop business energy supply.
 - g) The possibility of LAs self-supplying.

5. CONTRIBUTION TO STRATEGIC AIMS

- 5.1 The development of a municipal energy company that can represent Local Authorities of the South England area would contribute to the following strategic aims:
1. Safeguarding and protecting those that are most vulnerable;
 2. Providing the best start in life through education, early help and healthy living;
 3. Keeping the town clean, safe, green and active;
 4. Remaining financially sustainable to deliver these service priorities.

6.0 COMMUNITY ENGAGEMENT AND INFORMATION

- 6.1 This report outlines the intention to join a route set out by SCC to establish an energy offer for local residents to reduce their energy bills. Public consultation will follow as required.

7. EQUALITY IMPACT ASSESSMENT

- 7.1 An Equalities Impact Assessment will be carried out as required as part of the assessment of the SCC proposition.

8. LEGAL IMPLICATIONS

- 8.1 The procurement of an energy supply partner can be undertaken in accordance with s.1 Localism Act 2011 - the general power of competence and under s.111 Local Government Act 1972 - the power to do anything conducive to, ancillary to or calculated to facilitate the discharge of the Local Authorities powers and functions. The procurement process will be undertaken by SCC. RBC will not be a party to the contract, but will have a separate arrangement/contract with SCC in respect of their role as an endorsee of the project.
- 8.2 A detailed assessment of the legal structure of the contractual relationship with Reading Borough Council and Southampton City Council and their respective energy service supplier will be carried out in due course as further information becomes available. A specialist consultant is being jointly appointed via APSE Energy on behalf of joining Local Authorities.
- 8.3 The regulatory requirements that apply to fully licensed energy companies are onerous. Consumer protection is at the heart of the regulatory regime administered by Ofgem and this is reflected in the level of rigour and process required to comply with the Industry Codes of Practice. Any contractual arrangements relating to acquiring a license in future phases will be assessed at the appropriate time by the parties and under specific resolution of the relevant committee(s).
- 8.4 Any company established to deliver energy services will be required to comply with relevant provisions of the Companies Act, together with all relevant regulatory requirements for the energy sector, the public sector equalities duty and other relevant pervasive legislation.
- 8.5 Careful consideration and negotiation of contractual relationships with partners would be required, especially in regard to the regulatory obligations upon a supplier and partners.
- 8.6 It is important that the initial contract supports possible future development of further phases. The ownership of customers, the gaining of experience and the strength of the terms of the partnership are key considerations.

9. FINANCIAL IMPLICATIONS

- 9.1 The financial implications of entering into an agreement with SCC will be fully considered, once the contractual information, per customer income levels, staff

resource implications and any financial risks associated with the proposal are available/understood. The costs will be met within the Council's existing and/or future budget.

- 9.2 The primary financial risks and benefits would sit with the partner that is carrying the majority of the risk. This would be the licensed energy supplier.
- 9.3 Detailed consideration of the financial implications of the proposal will be assessed in due course depending on the details of the proposal. In the first instance this will be some officer time and potentially a small amount of funding to contribute to expert opinions (as above) jointly with partners would be required. These costs would be met from within Council's existing budget.

10. BACKGROUND PAPERS

[Southampton City Council White Label Cabinet Paper](#)