

Southend-on-Sea Borough Council

Agenda
Item No.

Report of Corporate Director for Place

To
Cabinet

On
6 January 2015

Report prepared by: Jeremy Martin, Energy Projects Manager

Community Energy Project

Relevant Scrutiny Committee(s)
Executive Councillor: Councillor Longley
Part 1 Public Agenda Item

1. Purpose of Report

- 1.1. To seek approval to create a Southend Energy company to provide a direct offer to residents and businesses within the Borough.

2. Recommendations

- 2.1. **That the Council enters a partnership with OVO Energy Ltd to provide a bespoke energy tariff for residents and businesses within the Borough of Southend-on-Sea.**
- 2.2. **That £100k is allocated from the Business Transformation Fund in each of the next two financial years 2015/16 and 2016/17 to fund a small delivery team to progress this and other energy projects that support the Low Carbon Energy and Sustainability Strategy.**
- 2.3. **That the investment detailed in recommendation 2.2 is repaid from revenues generated from the delivery of individual energy projects.**

3. Background

- 3.1. Energy tariffs in the UK have been rising at above the Retail Price Index (RPI) for some time and are expected to continue to rise in the future. In the short term, tariffs are falling as worldwide energy costs are influenced by shale gas in the US but this is expected to reverse in the next 18 months.
- 3.2. Despite publicity around the benefits of energy switching, it is estimated nationally that two thirds of consumers are still contracted with the 'Big 6' energy suppliers, with many older and vulnerable residents as well as households on low income still on variable rates.

- 3.3. Switching to lower cost energy tariffs can save the consumer up to £200-300 each year if they are on the historic higher tariffs especially if they are not on dual fuel tariffs.
- 3.4. In Southend, the local suppliers prior to the market being open to competition, were E.ON for electricity and British Gas for gas. Locally it is understood that up to 68% of consumers in Southend are still with the incumbent supplier for electricity whilst nationally 40% of consumers are still supplied by British Gas (BG).
- 3.5. OVO Energy Ltd (OVO) are a small energy company with around 370,000 customers. They are known as one of the lowest cost providers with traditionally above average service. OVO are currently reviewing their prices every month to ensure that they stay in tune with the falling commodity cost of energy.
- 3.6. Estimated savings for consumers switching to OVO's fixed term tariffs from E.ON and BG dual fuel tariffs are £85 per year for E.ON and £112 for BG.
- 3.7. Many vulnerable consumers will be on prepayment meters with industry statistics suggesting that 10,228 consumers in SS0, SS1, SS2, SS3 and SS9 are on these meters. E.ON's prepayment tariff (PPM) is ranked 5 out of 25 (1 cheapest) while BG's tariff is ranked 15 out of 25. OVO will provide a smart meter to these consumers free of charge and OVO's Smart Pay as Go tariff (PAYG) in Southend is ranked 1 out of 25. Typical bill savings for an E.ON Pre Paid Meter (PPM) consumer switching to OVO would be £38 per annum and a BG PPM consumer would save £67.
- 3.8. OVO have launched a Community Energy Scheme aimed at partnering with local community groups and councils to offer the mechanism to provide a permanently low energy rate for the local community. This will help OVO to access a part of the market that they currently have no means to connect with whilst providing the rates that will benefit the residents. The first scheme to be implemented will be a partnership with Plymouth Energy Community which was established in 2013 with support from Plymouth City Council with another scheme to be launched in East/West Sussex and Brighton also with the backing of the local councils. A third partnership is set to be announced in the next few weeks with others in negotiation.
- 3.9. The OVO scheme will allow the Council to offer local tariffs under its own brand, close to the bottom of the market to any residents within a defined area based on postcodes. The area can be expanded after launch provided it remains within the Postcode Region – i.e. if the scheme is launched within the Southend Borough Council's area which is broadly represented by SS0, SS1, SS2, SS3 and SS9 postcodes, any other SS postcode can be added at a later stage.
- 3.10. In exchange for a minimum initial 5 year partnership and a commitment to work to sign at least 1,000 customers in the first year, OVO will provide all of the required expertise and systems at no cost.

- 3.11. OVO will also offer an option to the Council to purchase energy from the Council's own energy generation systems which may be at a rate higher than that offered by the FIT systems currently assumed in the Council's proposals.
- 3.12. If the Council chooses to start at the simplest level consistent with having its own tariffs, OVO will create a model whereby the Council will have no costs beyond marketing and customer acquisition and will earn approximately £30 per customer per year. This margin can be used either as revenue or can be used to lower the tariffs offered for some or all customers.

4. Proposal

- 4.1. It is proposed that the Council should create its own energy company based around a partnership with OVO. For the purposes of this proposal, the company will be called Southend Energy Company (SEC).
- 4.2. At this stage, it is proposed that the Council enter the partnership, but this could be set up using a separate entity such as a Limited Company or a Community Interest Company. It would be possible to start with the Council as the partner and then novate the contract into a subsidiary company at a later date.
- 4.3. SEC will need to create its own brand and will be marketed using joint branding with OVO. OVO have agreed to make the resources of their marketing team available to create the brand and marketing material.
- 4.4. SEC will establish tariffs targeting a price position slightly below the standard OVO tariffs available using part of the margin and the additional revenue from using purchase agreements for its own energy generation. The exact price position is not yet known and the level at which SEC can price below OVO's tariffs will change over time as the benefits of local generation are fed in. Currently, fixing a price at 1% below OVO's tariff would cost approximately £8 per year and would increase savings to consumers by nearly £8.50 (after VAT).
- 4.5. It is proposed that SEC will establish a basic operation, first providing tariffs for different types of meters and services (i.e. fixed, variable, PPM etc) which can be expanded over time as Ofgem's rules for tariff availability change. The operation can be expanded to include Smart meters, energy efficiency measures based on ECO funding and benefits from local generation over time.
- 4.6. SEC should also provide a local tariff for SMEs in the chosen operating area. The main launch for business would be after the residential launch, but a simpler introduction service will be available earlier which will provide the same benefits to businesses and to the Council without the specific SEC branding.
- 4.7. The initial operating area is proposed to be SS0, SS1, SS2, SS3 and SS9 which represents the Southend Borough Council area but SEC plan to discuss with other local council's if they would like to be able to offer the same benefits to their residents working with the partnership once set up. It should be noted that the SS9 area covers part of the Rochford Council area as well as Eastwood within the Southend Borough Council area. This offer is likely to be restricted to SS postcodes. Based on the initial targeting, the offer would be available

initially to 75,000 households but the wider opportunity would extend to around 300,000 (2011 Census data).

- 4.8. Residents will be invited to sign up through a dedicated website provided by OVO, a dedicated Freephone number manned by OVO staff and other access routes using local partners who can help consumers access the web sign up process in a similar manner proposed for the Essex Energy switch.
- 4.9. The operation of the partnership would be managed through a regular review with OVO at which sign ups, pricing, revenue and service would be assessed against pre-agreed performance indicators.

5. Timescale.

- 5.1. At present, the proposal can be implemented in approximately 5-6 months from agreement of the partnership agreement with OVO, but this timetable may be delayed by other partners signing up with OVO before the Council.
- 5.2. A detailed implementation plan will be agreed once approval is granted but implementation is proposed to be as fast as possible.
- 5.3. One of the options available to SEC will be to lower tariff rates using some of the output from energy generation. Once the proposition is established, working with the OVO pricing team, it will be possible to determine the point at which revenue from SEC is greater or less than any rate subsidy provided from energy generation. In any case, using output from the generation in this way may be a useful tool in the public consultations on more controversial projects.

6. Other Benefits

- 6.1. SEC marketing efforts will be targeted at the fuel poor, digitally excluded and PPM consumers as well as PR targeting more affluent clients. If these clients can be signed up to the proposition, the cash released from lowered tariffs will assist these consumers in paying their bills, heating their homes and alleviating the effects of fuel poverty.
- 6.2. The proposal offers the Council an opportunity to provide a direct benefit to residents of Southend and, over time, to residents with SS postcodes by association with other nearby local authorities.
- 6.3. A low cost energy tariff would be available to SMEs within the target operating area. Analysis of potential benefits to businesses are not currently available.

7. Other Options

- 7.1. Other options considered include:
 - Do nothing. Doing nothing will leave the efforts for the Council focussed on the Essex Energy switch process
 - Southend Energy switch. Creating a Southend energy switch will be expensive due to the processes which are required to make it work. It is

unlikely that the Council would recover the investment based on the experience of others.

8. Corporate Implications

8.1. Contribution to Council's Vision & Corporate Priorities

- **Healthy.** This proposition would be expected to have a disproportionate benefit to the fuel poor and those with the lowest means provided the marketing targeted at these groups is successful.
- **Prosperous.** This proposition would be expected to save money for residents, which is likely to be spent improving heating of homes or in local shops.
- **Excellent.** This proposition will provide for one of the lowest energy tariffs available in Southend with generally above average levels of service.

9. Financial Implications

- 9.1. In order to deliver the project along with other energy projects detailed in the Low Carbon Energy and Sustainability Strategy, it will be necessary to create a small team to actively progress this work. It is proposed that £100k is allocated from the Business Transformation Fund in each of the next two financial years to fund this and that this investment is repaid from revenues generated from the delivery of individual energy projects.
- 9.2. Initial costs for marketing will be expected to be more than covered by revenues generated within the year and a surplus will be expected to be generated. The principle cost will be in marketing, but as the main target clients will be customers who do not respond to traditional energy marketing messages, the most costly marketing methods that are generally used by energy companies will be excluded. The majority of the marketing will be through face to face contact by trusted intermediaries and advisors such as GPs, third sector advice organisations such as church groups, CAB and interested organisations such as landlords.
- 9.3. The marketing message will be designed to direct enquiries to OVO through a dedicated website set up and through the 0800 number manned by OVO staff.
- 9.5. The major cost is expected to be in producing leaflets and posters, answering simple questions and displaying the 0800 number for residents to call OVO. This cost is expected to be less than £10,000 in 2015/6.
- 9.6. OVO will pay for all start-up costs including design of brand and of marketing material, but funding of around £10k will be required for marketing collateral such as posters and leaflets during the year.

10. Legal Implications

- 10.1. The proposition will require a minimum 5 year partnership agreement with OVO Energy Ltd. Subject to Members agreeing the establishment of the Energy Company, all contractual documentation will require consideration by the Council's Legal Team.

11. People Implications

- 11.1. The proposition would be available to every resident within SS0, SS1, SS2, SS3 and SS9 initially and businesses within the same area. Over time this could be extended to all SS postcodes by working in association with other local authorities.

12. Property Implications

- 12.1. There are no property considerations.

13. Consultation

- 13.1. Consultation has been undertaken with Finance, Procurement and Economy and Tourism and the team running the Essex Energy Switch who have been working with a much wider team including Health. Much of the principles are the same between the Energy Switch and this proposition which provides a more permanent value offer.

14. Equalities and Diversity Implications

- 14.1. The proposition will be available to all residents and SME's within Southend. Consideration needs to be given to support for minority languages. The proposition will be expected to have a disproportionate benefit for fuel poor, the less well-off and the elderly.

15. Risk Assessment

- 15.1. Marketing. This proposal depends on successful marketing by SEC to consumers especially difficult to reach customers. If the marketing results in sign up by affluent consumers who are already tuned into switching tariffs, the benefits to SEC will be assured, but the benefits to the community will not be felt in the same measure.
- 15.2. Reputation. If OVO are unable to deliver their part in the proposition, the Council could suffer a reputational loss from poor service. OVO are recognised as having some of the highest service levels in the industry. If sign up volumes are very high, local Council staff and other partners in the marketing may struggle with the enquiry volume which may also cause reputational risk.
- 15.3. Reputational Risk from Energy Price Rises. As energy costs rise over time, SEC will be forced to increase its tariffs for its customers. This would only happen when the market costs rise and other energy companies also increase prices, but there is a risk that the increases could be seen as SEC's fault.

- 15.4. Call Volumes. The marketing may result in an increase in calls to the Council helpline and the more successful the marketing, the more calls could be generated. This is expected to be unlikely, as successful marketing will promote the 0800 number manned by OVO staff.
- 15.5. Marketing Cost. There is a risk that to achieve significant sign up, additional marketing may be required which could incur some additional cost to that proposed.
- 15.6. Business Competition. There is a risk that the SEC business proposition will compete with local Southend energy brokers. Initial searches have suggested that there are no such businesses in Southend.
- 15.7. Competition. At present there are no similar offers available in the energy market for the Council to compare this opportunity with. During the 5 year partnership, others are likely to introduce their own offers and as an early mover SEC could be left behind. OVO is seen as a dynamic responsive company who has led the energy market for some years and is likely to be well placed to respond to a competitor offer. At the end of the partnership, SEC would be expected to be able to be continued, closed or transferred to another partner.
- 15.8. Procurement. The initial view from procurement is that this proposal is outside the current procurement guidelines as there is no cost to the Council.
- 15.9. Bad Debt. Bad debt will be the responsibility of OVO to price for and to manage. If the bad debt proportion is higher than expected by OVO, the prices will be forced up. OVO have a good reputation for managing bad debt in a considerate way.
- 15.10. Breach of Contract. If the Council breach the contract in a way that causes OVO to breach their energy licence and the Council does not rectify the breach, the Council would be liable for costs to close down the partnership and to manage the transfer of clients to another provider.

16. Value for Money

- 16.1. The proposition represents good value for money as revenues are expected to be substantially above costs, whilst delivering a value proposition to residents and businesses.

17. Environmental Impact

- 17.1. There is no expected environmental impact.

18. Background Papers

- 18.1. There are no background papers with this report.

19. Appendices

- 19.1. There are no appendices included within this report.