

Southend-on-Sea Borough Council

Agenda
Item No.

Report of Deputy Chief Executive (Place)

To
Cabinet
On
12 March 2019

Report prepared by: Jeremy Martin, Energy and Sustainability
Manager

Southend Energy, Transfer to New Supplier

Place Scrutiny Committee
Cabinet Member: Councillor Flewitt
Part 1 (Public Agenda Item) / Part 2

1. Purpose of Report

The purpose of this report is to seek approval to transfer the contract for the operation of Southend Energy from OVO Energy Ltd to Robin Hood Energy.

2. Recommendations

- 2.1 That Cabinet approve the transfer of the contract to operate Southend Energy from OVO Energy Ltd to a new 5 year contract with Robin Hood Energy subject to agreeing suitable commercial terms.**

3. Background

- 3.1. Southend Energy was launched in May 2015 with a 5 year contract with OVO Energy Ltd (OVO) to manage the operational aspects of the scheme.
- 3.2. Under the contract, the Council manages the scheme, sets pricing together with OVO generally in line with OVO pricing for regulatory reasons and is responsible for marketing. The Council receives a fee for each customer that switches to Southend Energy which is equivalent to the sum allocated to marketing cost within the pricing. The fees are used to cover the direct cost of the scheme and any surplus is used to fund the Energy Team.
- 3.3. The primary purpose of Southend Energy was to engage with households, to encourage them to switch energy suppliers regardless of whether they purchased energy from Southend Energy. A particular focus was placed on 'sticky customers' who did not routinely or ever switch suppliers. This wider switching is not possible to measure and therefore the number of switches to Southend Energy has been measured. Since May 2015, 6,504 households have switched

(8.8%) with 3,908 households being currently on supply. The aggregate annual saving for households over what they would have spent on their previous contracts has been £1.6m. The scheme has been particularly successful in engaging with over 65's who are a known group of sticky customers who seldom switch supplier. Consistently more than 50% of the Southend Energy customers fall into this group.

- 3.4. The rate of switching has varied according to a number of criteria the most obvious of which has been the level of active marketing but the switching level was also higher when Southend Energy was most price competitive.
- 3.5. In late 2017 and early 2018, the Council engaged with OVO to discuss extending the current contract by 2-2.5 years. Whilst OVO were initially in favour, events in summer and autumn 2018 have meant that this is not possible and OVO have asked if a mutually agreed process could be implemented to close the scheme earlier than the contract end date of May 2020. Since the contract has now entered its final 18 months, no active marketing is being conducted in line with the expected wind down arrangements.
- 3.6. The request to close the contract early is not in the form of a contractual notice and the formal position is that the scheme will be wound down slowly as customers reach the end of their contract but it would be in the interest of the Council, OVO and customers to effect an earlier switch if possible.
- 3.7. The Energy market has changed a lot since Southend Energy was launched but switching supplier remains an important way for customers to achieve the best value supply despite the new cap on variable energy tariffs. However, few suppliers are working to take on new 'white label' contracts such as this especially after several suppliers have ceased trading in the last 6-12 months. Research amongst energy suppliers and other councils that have sought to set up similar operations have revealed no suppliers in a position to replace OVO other than Robin Hood Energy.
- 3.8. Robin Hood Energy (RHE) was launched in September 2015 by Nottingham City Council. RHE operates as a not-for-profit company with surpluses recycled to projects to alleviate fuel poverty. RHE does operate white label contracts with councils of which the best known is White Rose Energy (Leeds City council). In all other respects, RHE is a national supplier in the same way that OVO is and offers all of the functions and services of a national energy supplier.
- 3.9. The Council have engaged with early discussions leading to an agreement in principle from the RHE board to contract with the Council to operate Southend Energy with a target date for launch of July-September 2019.
- 3.10. Despite having to close the contract to supply Southend Energy, OVO will remain an important strategic supplier within the Energy Team's initiatives, not least within the Energy opportunities work to encourage generation and storage and in ways for households to earn revenue from supplying services to the Electricity Grid.

4. Other Options

4.1 The following other options were considered:

- To close Southend Energy. This would close the scheme whilst the need to encourage switching remains important in the market and therefore before the objective of Southend Energy was achieved. The ongoing impact of the additional switching and the opportunity to further encourage switching would be lost. Nationally, other approaches to switching have been tried including advertising which is expensive, collective switching, community engagement and These alternative approaches can be used in parallel with an approach such as a white label energy supply but have been shown to be less effective at engaging with 'sticky customers'.
- To renew or extend the contract with OVO. This was impossible to negotiate due to the changed circumstances and strategy at OVO.
- To tender for a new supplier. There are no known alternative suppliers able or willing to take on a new contract for Southend Energy as the scheme is generally too small for the very large energy suppliers. This is addressed below under value for money.
- To convert Southend Energy into a full Energy Company with its own supply licence. This approach is not viable financially at present.

5. Reasons for Recommendations

- 5.1. A new contract with RHE for Southend Energy will revitalise the scheme and will support its provision for a further 5 years. The Council will be responsible for marketing and will have an obligation to actively seek to generate leads with the referral fees paid specifically for this purpose. As the Council has demonstrated previously, generation of leads locally for the scheme is possible at a lower cost than traditional energy companies incur.
- 5.2. Continuing Southend Energy provides a focus for encouraging households to switch to achieve the best energy contracts for them.
- 5.3. A new contract with RHE will not have the same geographical constraints as the previous contract with OVO providing a wider market and for Southend Energy to take on customers from outside the Borough that respond to marketing within the area.

6. Corporate Implications

6.1 Contribution to Council's Vision & Corporate Priorities

6.1.1. The following 2050 Outcomes will be supported by this project:

- Pride and Joy. There is a tangible sense of pride in the place and local people are actively, and knowledgeably, talking up Southend. At its launch,

Southend Energy was very well received by press and households alike with qualitative research into the brand and imagery showing that local people wanted the scheme to focus locally and use local imagery.

- Safe and Well. We are well on our way to ensuring that everyone has a home that meets their needs. With over 9% annual energy inflation, households are exposed to ever increasing costs. Ensuring that Southend residents engage with the lowest tariffs assists households to manage this increasing cost and the established brand can then be used to engage with other savings opportunities.

Southend Energy is one a very few initiatives from The Council that is available to every household in the town and has established a strong brand presence.

- Safe and Well. We are all effective at protecting and improving the quality of life for the most vulnerable in our community. Southend Energy has been shown to be effective at targeting sticky customers, particularly over 65s, who are known to be a group that rarely changes supply to save money. This also provides those on lower incomes with savings opportunities.

6.1.2. Encouraging households to switch to more economical energy tariffs is an important part of delivering the Low Carbon Energy and Sustainability Strategy 2015-2020.

6.2 Financial Implications

6.2.1. Southend Energy has already delivered £1.6m per annum savings for households in the Borough compared to the cost of their energy on their previous tariff. Much of this has been saved by elderly and vulnerable households where much of the saving will have been spent in the local area.

6.2.2. Continuing to provide Southend Energy will provide important revenue into the Energy Team helping to support the work of the team without requiring additional taxation.

6.3 Legal Implications

6.3.1. A new contract will be required when acceptable commercial terms have been agreed. This contract will need to ensure that RHE have adequate data handling processes in place.

6.4 People Implications

6.4.1. Southend Energy is marketed and managed by the Energy Team. This new contract will continue to be managed in the same way with revenue helping to pay for the Energy Team resources.

6.5 Property Implications

6.5.1. There are no implications for Council properties because the scheme works to supply households with energy through contracts direct with RHE.

6.6 Consultation

- 6.6.1. This contract will be a direct replacement for the current contract and no consultation will be required.

6.7 Equalities and Diversity Implications

- 6.7.1. Southend Energy will continue to be available to all households within Southend and will also be available on a wider geographical basis if required – an Equality Impact Assessment has already been completed. No wider marketing beyond the Southend area is planned. The scheme has been shown to be well received by the over 65 age group and is successful at targeting the harder to reach groups who do not engage with traditional energy supplier marketing.

6.8 Risk Assessment

- 6.8.1. RHE is a rapidly growing company set up in 2015. There is a small risk that service levels may not be maintained but these are underpinned by regulations in place from Ofgem and service levels will be negotiated as KPIs within the contract.
- 6.8.1. Another energy supplier could challenge the new contract being put in place without a formal tender. This will be managed as described below under value for money.
- 6.8.2. A suitable commercial agreement may not be able to be agreed. This is unlikely as RHE operates other white label contracts and the early conversations have been mutually well received.

6.9 Value for Money

- 6.9.1 There are few energy suppliers taking on small white label schemes meaning that an effective tender is unlikely to be achieved whilst a full OJEU compliant tender would be time consuming and expensive. A negotiated contract is therefore recommended.
- 6.9.2. To manage the risk that another supplier objects to the negotiated contract process, the Council plans to advertise their intention to contract with RHE and to invite alternative suppliers to come forward. If suitable alternative suppliers do present themselves, the Council will conduct a full OJEU tender.

6.10 Community Safety Implications

- 6.10. None

6.11. Environmental Impact

- 6.11. The current contract with OVO contains enhanced environmental conditions relating to the proportion of Green Energy to be included within the supply mix. Where possible these will be carried forward into the new contract with RHE.

7. Background Papers

None

8. Appendices

None