

## Cabinet

25 January 2018

### **Delivery of the Warwickshire Energy Plan: Establishing a Collective Fuel Switching Scheme**

#### **Recommendations**

That Cabinet:

- 1) Authorises that for an initial two year trial period Warwickshire County Council work with iChoosr to deliver a collective fuel switching scheme to households (gas and electricity) across Warwickshire.
- 2) Authorises up to £55k p.a. of the County Energy Plan monies be allocated to cover costs to develop three promotional campaigns a year for two years aimed at enrolling and registering sufficient household gas and electricity accounts across Warwickshire to cover implementation costs. If any surplus were received this would go towards providing a registration & energy efficiency advice service for people needing assistance such as those without access to the internet, plus additional promotional activity for the next campaign.
- 3) Authorises the Joint Managing Director (Resources) to enter into:-
  - (i) any discussions which he considers necessary including investigating the delivery of the scheme in partnership with Coventry City Council and the Warwickshire District and Borough Councils.
  - (ii) any arrangements which he considers necessary (and on acceptable terms and conditions) to give effect to the scheme referred to above including any partnership arrangements.
- 4) Notes that a review will be carried out on the experience of each campaign and reported on at the end of the first year to determine the future life of the scheme.
- 5) Authorises the carry forward of the remainder of the Warwickshire Energy Plan monies to deliver three campaigns per year for the proposed 'Switch and Save' scheme. The end of year report will include recommendations for spending these and they will depend on the successful performance of the preceding campaigns.

## **1. Purpose of the report**

- 1.1 To update Cabinet on the results of further detailed financial evaluation and stress testing regarding pursuing a white label energy supply partnership.
- 1.2 As a viable alternative to white label, seek approval for entering into a collective fuel switching scheme with iChoosr and any willing partners.

## **2. Background**

- 2.1 At its meeting of 24<sup>th</sup> January 2017 Cabinet received a report on reducing energy consumption, energy storage, and providing cheaper energy for the people of Warwickshire whilst seeking the means of generating it in sustainable ways.
- 2.2 The setting up of a “White Label” not-for-profit energy supply service in partnership with a fully licensed energy supplier was approved subject to concluding agreements with the relevant District and Borough Councils and registered social landlords in relation to housing stock (particularly voids) necessary for this to be a viable proposition.
- 2.3 Cabinet delegated authority to the Joint Managing Director (Resources) to determine the scope of the White Label offering required.

## **3. White Label Cost & Income Modelling 2017 – 2021**

- 3.1 The Joint Managing Director (Resources) commissioned consultants in the roles of Project Accountant and Project Manager to work with the Council to acquire the latest available information in this dynamic and rapidly changing area, refine the financial assessment and develop all the required project management and partnership documentation should the proposal to develop a white label energy supply partnership prove to be financially viable with manageable risks.
- 3.2 Additional new information became available from two main sources:
  - The first ‘white label’ energy supply service partnerships aimed at helping to address fuel poverty were being established with OFGEM licensed energy suppliers by other local authorities, and
  - OFGEM published information relating to unfair tariffs and numbers of customers switching suppliers.
- 3.3 Four OFGEM licensed suppliers with the potential for offering a not-for-profit white label partnership responded to a range of questions sent to them by the Council. This research showed that:
  - The number of cumulative customers required at the end of year five varied from 3,000 to 26,000.

- Adverse social and other media activities were perceived to be a high risk if insufficient customers were acquired to make a white label offer viable.
- 3.4 The additional information was used to give updated assumptions for a stress test of the financial model to provide best, worst and current scenarios.
  - 3.5 The stress test figures for income generation, though still theoretical, were not as optimistic as the initial modelling provided in the January 2017 Cabinet Report, when local authority 'white label' schemes were in their infancy.
  - 3.6 The financial modelling showed that for the current assessment (Warwickshire LA social housing + incumbent switchers) the first year in which break-even is achieved could be after year five, at which point there could be a cumulative deficit of £290k.
  - 3.7 The financial modelling showed that for the current assessment (Warwickshire LA social housing + Orbit Housing voids + incumbent switchers) the first year in which break-even is achieved could be after year three at which point there could be a cumulative deficit of £170k.
  - 3.8 There was insufficient evidence to suggest that securing the required customer volume was guaranteed by concluding agreements with Warwickshire District and Borough Councils and Registered Social Landlord's. Therefore officers have concluded that the financial and reputational risks are too high.

#### **4. Collective Fuel Switching Schemes / Community Energy Buying**

- 4.1 There are alternatives to establishing a white label energy supply service. Collective fuel switching carries less risk, with no minimum customer numbers required, though offers less reward to the Council, the comparison of which is included at the **Appendix**.
- 4.2 Several organisations now offer a service whereby people can join a 'consortium' of domestic energy buyers. This gives economies of scale and reverse auctions give all licensed suppliers the option to tender to provide the lowest price tariffs for electricity only, dual fuel and pre-payment meters.
- 4.3 Switching usually requires some access to the internet, meaning that it is typically more affluent households that do so regularly to take advantage of the cheapest tariffs available. Collective fuel switching scheme providers can provide support to people wishing to switch but unable to do so easily.

## **5. About iChoosr**

- 5.1 One of the main UK providers of a collective fuel switching service is an organisation called iChoosr Ltd. They currently work with around 111 Local Authorities across Great Britain including Coventry City Council (CCC) who run their 'Switch and Save' scheme.
- 5.2 iChoosr hold three reverse auctions every year (February, May and October) to provide 12 month minimum fixed rate contracts. All UK registrants are put into one single group to maximise economies of scale, irrespective of local partnerships, groups or geographical source of registrations. 926,000 UK households have taken part in their collective switching schemes. £304 was the average amount saved by switchers in their last auction of 2016. In 2015 they helped residents save in excess of £13 million. In the May 2017 auction 57,000 people registered an interest with a 30% switching rate.
- 5.3 The potential savings for householders depends on the registrants' current tariff, payment method and their annual energy consumption. Registrants receive a personal offer from iChoosr to allow them to make a clear comparison between their estimated current and future spend.
- 5.4 At the end of their agreed tariff contract period the customer is automatically re-entered into the auction group to begin the process again, moving them to the supplier who wins the next auction providing the cheapest relevant tariff.
- 5.5 A £5.50 referral fee is paid by iChoosr to the Council per confirmed switch per fuel (one fee for every gas switch and one fee for every electric switch).
- 5.6 For those householders who cannot register on-line it is possible to sign up on paper. There is an administration cost for £3 payable per registration for these paper sign-ups. iChoosr bear half this registration cost and the other £1.50 would come out of the £5.50 referral fee which would have been paid to the Council by iChoosr if the registrant had instead completed the registration on-line through an appropriately branded web site.

## **6. Procurement of a Collective Fuel Switching Service**

- 6.1 East Riding of Yorkshire Council (ERYC) has entered into a public services concession with iChoosr Ltd who were procured through a voluntary OJEU process. The process specifically provides for participation by a wide range of other public contracting authorities.
- 6.2 UK local government authorities can be added to the ERYC contract with iChoosr. CCC used the ERYC Memorandum of Understanding (MOU) to access iChoosr. If this Council were also to be added to the ERYC contract with iChoosr a MOU would need to be signed and sent to the Head of Infrastructure and Facilities at ERYC. There would be no cost attached to this. Officers are of the understanding that the MOU simply gives a participating authority access to the ERYC Framework Agreement and that WCC would

also need to enter into a call off contract with iChoosr (pursuant to the Framework Agreement), on terms and conditions acceptable to the Joint Managing Director (Resources).

- 6.3 If the ERYC Framework Agreement is not used then, on the basis that any such contract with iChoosr is expected to be substantially below EU thresholds for concession arrangements, the view could be taken that the Council could contract directly with iChoosr on suitable terms and conditions. State aid risks are low (in terms of the council contributions in kind) on the basis that as only UK registered energy suppliers can supply energy to the switching scheme participants, the switching market itself is likely to be a UK-only market.
- 6.4 The energy purchasers would be the domestic residents of the registered households, not the Council itself nor other public bodies. Once a resident decides to switch and take up the relevant tariff(s) offered by the reverse auction winner (s) they deal exclusively with the supplier(s) signing a contract with them directly. The winner could be one supplier for all three tariffs or up to three separate suppliers, i.e. one supplier for each of the three tariffs (electricity only, dual fuel and pre-payment).
- 6.5 It is understood that iChoosr define the parameters of what a Local Authority can or cannot do with the data on the confirmed registrants who give permission for their data to be shared through the scheme users accepting a Privacy Policy sent to them by iChoosr.
- 6.6 Detailed information from iChoosr can be used to target specific groups of people most in need of support in addressing fuel poverty.
- 6.7 It is understood that where a registrant has not given iChoosr specific permission for data sharing, relevant information is anonymised.
- 6.8 iChoosr set up a unique web landing page for each Local Authority participating in a reverse auction to record the number of registrants showing an interest and the number of those going through to a confirmed fuel switch for calculating payment of any referral fees. The Council would therefore receive referral fees for Warwickshire residents completing registration and switching fuel.

## **7. Resources Required for Working with iChoosr**

- 7.1 In June 2017 East Dorset District Council (EDDC<sup>1</sup>) reported to their Scrutiny and Policy Development Committee that the lead in time would include engagement with Members, internal communications teams, IT, finance, procurement, reception staff and external partners (For WCC it would include Act on Energy, CAB, Age UK etc.).

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<sup>1</sup> <http://moderngoveddc.christchurchandeastdorset.gov.uk/documents/s16740/Fuel%20Switch-EDDC-Report.pdf>

- 7.2 EDDC reported that one of the seven Councils operating the scheme that they were in communication with allocated a budget of £12k p.a. for communications (radio, newspaper, flyers, Facebook) with an extra £500 being spent on additional twitter advertising. With an income (referral fee) of £5.50 received from iChoosr per confirmed switch per fuel their average annual income over three years of running the campaign had been £20k - £27k. The Councils surveyed by EDDC stated that their costs were covered by the income they received, that iChoosr had been completely supportive and no complaints had been received about their service.
- 7.3 If the Council were able to run a joint campaign with CCC, time could be saved on developing communications templates, advertising material and web page content.
- 7.4 CCC has run five 'Switch and Save' campaigns with iChoosr to date starting their first in 2013. In their first campaign 43% of registrants were in receipt of benefits, 46% had an income below £13,380, 21% were in receipt of Warm Homes Discount, 16% were on the Priority Services Register. Across all their campaigns, 70% of confirmed registrants had not switched before. Savings realised for first time switchers has been around an average of £224 p.a.
- 7.5 CCC set up their campaign and developed branding and advertising materials with £60k funding from DECC. They now fund all the campaigns themselves. CCC has no income target and work within set budgets. CCC state that the more you put into delivering the campaign, the more successful it is in recruiting switchers. Modelling of income within the business case suggests there will be a net cost of running the scheme in Warwickshire though programme costs will be monitored and expenditure scaled to reduce this impact. It is not a revenue generating exercise.
- 7.6 Information about the campaigns is distributed by CCC through Council Tax letters and other mail-outs to residents and an electronic display screen in the Council House.
- 7.7 The two CCC members of staff who participate in delivering the campaigns are core funded and deliver them as part of their roles as Domestic Energy Efficiency Officers.
- 7.8 A call service is offered by CCC only for the December campaign due to limited resources. A paper based registration service is offered by all local libraries.
- 7.9 Each campaign CCC runs starts ten weeks before the iChoosr auction and goes on for six weeks post auction once actual offer details are known.
- 7.10 WCC officer time required could be significant in the run up to each launch period then decrease once everything was up and running. A dedicated phone line for the launch period will be required for the initial three months of a campaign.

- 7.11 Public Health and the Warm and Well in Warwickshire Partnership would need to be engaged to promote the scheme.
- 7.12 Warwickshire Borough and District Councils would need to be engaged to promote the scheme with the Council providing promotional material to include in Council Tax mailings and other communication media.

## **8. The Case for a Warwickshire Fuel Switching Scheme**

- 8.1 Officers have researched the potential for a fuel switching scheme in Warwickshire. In doing so, a number of councils have been engaged. In particular officers have met with CCC officers to inform the Council's business case.
- 8.2 The business case supports the recommendations of this report and is available on request.

## **9. Conclusion**

- 9.1 There are residents in Warwickshire who could benefit from lower tariffs available through switching supplier but need support in order to switch suppliers.
- 9.2 There are a growing number of local authorities across England who have joined forces with organisations to promote collective fuel switching schemes to their residents as a means of supporting the most vulnerable in their communities.
- 9.3 In their last reverse auction of 2016 iChoosr helped residents who switched dual fuel with them save an average of £304 in the first year.
- 9.4 There is a referral fee of £5.50 paid to a local authority per confirmed switcher per fuel (£11 for dual fuel switchers) and this income can partially offset the cost of administering the scheme.
- 9.5 WCC should enter into arrangements with iChoosr Ltd for delivery of a collective energy switching scheme and investigate whether Coventry City Council would be willing to operate the scheme in partnership with the County Council and the Warwickshire District/Borough Councils.

## **10. Background papers**

None

### **Supporting Papers (Available via the WCC website).**

“Generating Income from Ground Mounted Solar and Other Stand-alone Renewable Energy Projects” – Cabinet Report 10/09/2015

“Delivery of the Warwickshire Energy Plan – Generation of Income from Energy Projects” - Cabinet report 24/01/2017

“Delivery of the Warwickshire Energy Plan – Addition of Ground Mounted Solar Projects Including Battery Storage to the Capital Programme” – Council Report 18/07/2017

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This report was circulated to the following members prior to publication:

Councillors Singh Birdi, Timms, Kaur, O'Rourke, Boad, Butlin and Clarke



## Appendix: Comparison of the two options

White labelling is not the only option for the Council. Another option is collective fuel switching. The comparison table below is based on best estimate assumptions.

Comparison	Collective Switching Scheme / Switch and Save with iChoosr	WCC Only 'White Label' Energy Supply Service
<b>Revenue budget provision required</b>	£55,000 p.a. staff and communications & marketing costs (radio, newspaper, twitter, Facebook, flyers, advertising, Council tax mailings, home page, any literature sent / provided to staff or households, recycling information, twitter adverts etc.) for three campaigns per year.	£95,000 p.a. staff and communications & marketing costs (radio, newspaper, bus backs, twitter, Facebook, flyers, advertising).  £92k p.a. subsequently.
<b>Commission</b>	£11.00 for dual fuel switchers, £5.50 referral fee per fuel per confirmed switch for registrants who sign up through a Warwickshire branded website.  For every meter that switches iChoosr receive a commission from the energy supplier, and they would share a proportion of that commission back with the Council.	£13.50 for dual fuel switchers (assume 75% of customers) and £6.75 for single fuel switchers (assume 25% of customers).
<b>Are costs covered by referral fee / commission generated?</b>	Scheme expenditure will be monitored to reduce net impact after partial offset by referral fee income.  Further information in the business case (available on request).	Possibly but not until after year five.
<b>Void offering for RSLs</b>	No	Possibly
<b>Customer numbers</b>	No minimum number required.	Need 6,000 – 7,000 per year.  High risk of not attracting enough customers.
<b>Switching times</b>	Three reverse auctions per year. Customers would sign up to a 12 month contract with exit fees.	Residents could switch at any time of year. No exit fees.
<b>Switching rates</b>	Only three opportunities to switch per year.	Could be higher switching rates with shorter time scales compared to collective switching.
<b>Business tariffs?</b>	No – only domestic tariffs.	Possibly

<b>Comparison</b>	<b>Collective Switching Scheme / Switch and Save with iChoosr</b>	<b>WCC Only 'White Label' Energy Supply Service</b>
<b>Opportunity to support local renewable energy generation?</b>	No.	Possibly– through Power Purchase Agreements.
<b>Procurement</b>	<p>Access the Public services concession contract with ERYC possible at no cost by signing the MoU with ERYC and entering into a call off contract with iChoosr. The Council would have complete control of the scheme (marketing, admin, communications etc.)</p> <p>The alternative is to contract with iChoosr outside of the framework arrangements.</p> <p>In either case there is no direct purchase of energy by either the Council or other public sector bodies.</p>	<p>Tender exercise required for EU compliant procurement if any public body is to purchase energy (e.g. district and borough councils).</p> <p>No direct purchase of energy by the Council.</p>