

CABINET	AGENDA ITEM No. 6
5 NOVEMBER 2012	PUBLIC REPORT

Cabinet Member(s) responsible:	Cllr Marco Cereste – Cabinet Member for Growth, Strategic Planning, Economic Development, Business Engagement and Environmental Capital	
Contact Officer(s):	John Harrison – Executive Director – Strategic Resources	Tel. 452520

COLLECTIVE ENERGY SWITCHING

RECOMMENDATIONS	
FROM : John Harrison – Executive Director – Strategic Resources	Deadline date : N/A
Cabinet is recommended to:-	
<ol style="list-style-type: none"> 1. Approve the Peterborough Collective Energy Scheme; and 2. Authorise the award of the contract for collective energy switching to IChoosr. 	

1. ORIGIN OF REPORT

1.1 This report is submitted to Cabinet following a referral from CMT on 15 October 2012.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to provide background information to the Collective Energy Switching Initiative and to seek the Cabinet’s approval in relation to the recommendation of contract award.

2.2 This report is for Cabinet to consider under its Terms of Reference No. 3.2.1, to take a leading role in promoting the economic, environmental and social well-being of the area.

3. TIMESCALE *(If this is not a Major Policy item, answer NO and delete second line of boxes).*

Is this a Major Policy Item/Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	
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4. COLLECTIVE ENERGY SWITCHING

4.1 Background

Introduction

4.1.1 The cost of energy has significantly risen in previous years and continues to do so placing more financial pressure on all consumers in an already difficult financial climate. This has created tremendous strain on the authority, households and businesses alike and forced more households into fuel poverty. To address this, the government has looked at innovative ways in which the effect of price increases and fuel poverty can be mitigated through better purchasing methods. Collective purchasing and switching has been identified

as a means where consumers can collectively address these issues. The latest figures from Peterborough City Council's Neighbourhoods Team show that 10,264 households in the city are in fuel poverty, approximately 14 per cent of the city's housing stock. The definition of fuel poverty is when a household has to spend more than 10 per cent of their household income on fuel to keep their home in a 'satisfactory' condition.

What is collective energy switching?

- 4.1.2 Collective purchasing and switching occurs when a group of likeminded consumers band together to negotiate a better deal with their gas and electricity suppliers. There is no set model for how individual schemes operate, however this kind of activity is usually facilitated by a third party who works on your behalf. In general, collective switching is where a third party actively negotiates a better tariff on behalf of the consumers they represent. Collective purchasing is where the third party / collective is directly purchasing a commodity from the gas or electricity supplier.

Collective switching started in Holland and Belgium in 2008. To date over one million customers have switched using this initiative to get cheaper energy.

The Energy Summit – Autumn 2011

- 4.1.3 In Autumn 2011 an Energy Summit was held by the Department of Energy and Climate Change (DECC), Ministers were keen to build on the potential for consumers in the gas and electricity market to benefit from collective energy purchasing and switching, becoming more empowered as a result of greater leverage in the marketplace and thereby reducing energy costs as a result.
- 4.1.4 In order to explore this, a working group consisting of representatives from industry, consumer groups, interested third parties, the Independent Regulator, Ofgem and Government Officials met a number of times to see what potential there was for collective purchasing and switching models and review any barriers preventing consumers coming together to get a better deal. The Group was asked to undertake this and make its recommendations to Ministers to facilitate this in April 2012. The Group recommended that two fact sheets were to be produced by the DECC in conjunction with Consumer Focus, one to highlight key things for collective switchers or purchasers to consider, the other for organisations and individuals who might organise collective purchasing or switching for energy consumers to highlight key issues to consider when setting up the schemes.
- 4.1.5 In May 2012, the fact sheets were published following a round table meeting chaired by the Secretary of State, Edward Davey, at which industry and consumer representatives considered how to encourage more organisations to become involved in collective switching schemes.

Open Letter to Councils from the Secretary of State

- 4.1.6 In July 2012, the Secretary of State, Edward Davey sent an open letter to all Chief Executives of Local Authorities encouraging them into thinking how they might lead and facilitate community energy and bulk buying schemes.
- 4.1.7 Since the council is already actively promoting its own Renewable Energy Strategy and associated Energy Services Company (ESCo), in response to the Secretary of State's letter, the council, took the lead and contacted other local authorities across England to gauge the appetite to aggregate the purchasing power of several councils together, in a collective purchasing scheme with Peterborough City Council taking the lead in procuring and delivering the scheme. As a result of this, the following councils responded and made a commitment to being included into the initiative:

- Blackpool Council;
- Bolton Council;

- Cheshire West and Chester Council;
- Hertfordshire County Council;
- Hull City Council;
- London Borough of Havering Council;
- Luton Borough Council;
- Manchester City Council;
- Northumberland County Council;
- South Holland District Council;
- Stockport Council;
- Suffolk Coastal District Council;
- Trafford Council;
- Waveney District Council; and
- Wiltshire Council.

4.2 The Peterborough Scheme

- 4.2.1 The Peterborough Collective Energy Scheme will enable people from across the city, and from other authorities and communities in the UK, to join together as a single unit to negotiate cheaper energy bills.
- 4.2.2 The scheme would be open to each Authority's residents, commercial entities including Small Medium Enterprises (SME's) and also other commercial and corporate entities outside their administrative areas.
- 4.2.3 If the initiative is approved, the unique element above other previous schemes is that Peterborough would lead the UK's first ever collaborative scheme for collective energy switching. The local authorities listed, will join the city council as part of the scheme, which in total will open up potential savings to two million UK households covered by the local authority areas above.
- 4.2.4 In response to the rise of households in fuel poverty, the scheme will also be the first in the UK to allow residents who use pre-paid meters to register.
- 4.2.5 To participate in the scheme, residents will be invited to visit a new website or to contact the council to register their details free of charge, giving their current energy usage figures for gas and electricity.
- 4.2.6 The scheme will work by means of a reverse auction where energy suppliers will be invited to bid the lowest price to supply the energy to all those signed up for the scheme. Residents will then be sent an offer to switch provider and accept their new energy rates.
- 4.2.7 Collective energy switching schemes exist in the UK and have been proven to save households money on their energy bills. A scheme started by the consumer magazine Which? attracted over 37,000 people to sign up to its collective switching initiative. On average those who registered saved £223 on their energy bills annually. South Lakeland Council recently ran a scheme and although the level of interest was less than 1,000 households the savings were between £60 – 200 per annum.
- 4.2.8 In addition the government has made it easier for people on pre-payment meters to switch from 1 November 2012.
- 4.2.9 It is not possible to estimate the savings to those on pre-payment meters and SME's. The Peterborough scheme will be the first in the UK for these two groups.

4.3 Delivering the Solution

- 4.3.1 In order to deliver the scheme, an IT based solution is required to facilitate the running of electronic reverse auctions to allow potential energy suppliers to bid their lowest bid for which a provider has been sought. As the lead authority, the council undertook a procurement exercise on behalf of the participating councils, which is detailed in Appendix 1. IChoosr was selected as the preferred bidder and a recommendation has been made to award the contract to them in the Recommendations Section above. IChoosr have been selected because they offer a value for money solution and have experience of delivery of such projects in the UK, Belgium and Holland. The Contract will be for a duration of 3 years and subject to a renewal of 2 years at the council's sole discretion.

4.3 Timetable

- 4.4.1 Domestic - Scheme registration will be launched in November 2012 and the result of auction available before Christmas.
- 4.4.2 SME's - Scheme publicity will start in November 2012 with registration and auctions held in January 2013.

5. CONSULTATION

- 5.1 Relevant internal departments including finance, legal and procurement have been consulted together with representatives of the participating councils. External legal consultation has been sought through Pinsent Masons LLP.

6. ANTICIPATED OUTCOMES

It is anticipated that Cabinet will approve the Peterborough Collective Energy Scheme and authorise the award of a contract to IChoosr for the provision of services for collective energy switching.

7. REASONS FOR RECOMMENDATIONS

- 7.1 In entering into the Peterborough Collective Energy Scheme, the council, residents and businesses of Peterborough and the communities of other local authorities will benefit from a reduction in energy rates.
- 7.2 The council will benefit from an income stream based on users switching to the new energy suppliers.
- 7.3 It is recommended that IChoosr is awarded the contract for collective energy switching as they have demonstrated that their submission offers the council and its fellow 'Participating Councils' a value for money solution.

8. ALTERNATIVE OPTIONS CONSIDERED

Do nothing – this was discounted because the council could potentially lose an income stream through the opportunity.

9. IMPLICATIONS

Financial - There will be no cost to the council from administering the scheme as all costs will be recovered via commissioning arrangements.

Legal - The legal implications have been considered at the various stages of this process and, where relevant, addressed in this report. All procurement has been carried out in accordance with the council's governance and statutory requirements and the scheme accords with the requirements of the energy legislation.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

No additional documents were used.

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