

<b>CABINET</b>	<b>AGENDA ITEM No. 9</b>
<b>19 JANUARY 2015</b>	<b>PUBLIC REPORT</b>

Cabinet Member(s) responsible:	Cllr Marco Cereste, Leader of the Council and Cabinet Member for Growth, Strategic Planning, Housing, Economic Development and Business Engagement	
Contact Officer(s):	John Harrison Executive Director, Resources	Tel. 452520

**CREATION OF A PETERBOROUGH DOMESTIC ENERGY SUPPLY TARIFFS**

<b>RECOMMENDATIONS</b>	
<b>FROM : John Harrison, Executive Director, Resources</b>	<b>Deadline date :</b>
That Cabinet approves:	
<ol style="list-style-type: none"> <li>1. That Council enters into a strategic partnership agreement for the development of an energy partnership in Peterborough with OVO Energy Limited (“OVO”); and</li> <li>2. That Council enters into a tariff agreement for the provision of domestic energy and supply tariffs in Peterborough with OVO.</li> </ol>	

**1. ORIGIN OF REPORT**

1.1 This report is submitted to Cabinet to further the Council’s strategic aim of becoming an environment capital.

**2. PURPOSE AND REASON FOR REPORT**

2.1 The purpose of this report is to seek approval to enter into a strategic partnership agreement with OVO for the development of an energy partnership in Peterborough and as part of the first project under that strategic partnership, to enter into a tariff agreement with OVO for the provision of domestic energy supply tariffs in Peterborough.

2.2 This report is for Cabinet to consider under its Terms of Reference ‘to take a leading role in promoting the economic, environmental and social well-being of the area and the promote the Council’s corporate and key strategies’ (paragraph 3.2 Part 3 section 3 Council Constitution).

**3. TIMESCALE**

Is this a Major Policy Item/Statutory Plan?	<b>NO</b>
Date for relevant Council meeting	

## 4. BACKGROUND INFORMATION

### 4.1 FUEL POVERTY – what is it?

4.1.1 Fuel poverty in England is measured by the Low Income High Costs definition, which considers a household to be in fuel poverty if:

- they have required fuel costs that are above average (the national median level)
- were they to spend that amount they would be left with a residual income below the official poverty line

4.1.2 The key drivers behind fuel poverty are:

- The energy efficiency of the property (and therefore, the energy required to heat and power the home)
- The cost of energy
- Household income

4.1.3 The simple definition of fuel poverty has always been where the household bill for energy is in excess of 10% of household income. The average household dual fuel bill (gas plus electricity) in the UK is approximately £1264.

4.1.4 In Peterborough it is estimated that some 7749 households are living in fuel poverty.

### 4.2 FUEL POVERTY – What actions has the Council already taken?

4.2.1 In Peterborough the Council has undertaken the following initiatives:

- Using informal action and powers under the Housing Act 2004 to **tackle excess cold in private rented** accommodation
- **Tackling excess cold in low income**, owner occupied properties by providing Repairs Assistance grant funding delivered by the Care & Repair Home Improvement Agency.
- **Collective Switching**
- Offering **Peterborough Energy Packages**, with Green Deal, ECO & Smart Metering
- Access to energy efficiency improvements via the **Green Deal Community Fund**
- Offering free **Private Residential Solar PV** generation on roofs

**Attached at Appendix 1 is the analysis of current benefits and impacts of the individual programmes.**

#### 4.2.2 Summary of Interventions

The average dual fuel bill nationally is £1264 per annum. The actions taken and in progress can reduce this bill by between 27% to 42%. The savings opportunities are demonstrated in the following table.

Summary of Possible Interventions per annum:-

	Green Deal Area (Collective Switching)	Green Deal Area (PEP)	Other City Areas (Collective Switching)	Other City Areas (PEP)
Collective Switching	£207	N/A	£207	N/A
Peterborough Energy Package	N/A	*£137 to £237 depending on tariff	N/A	*£137 to £237 depending on tariff
Free Residential Solar PV	£200	£200	**£200 subject to city wide roll out	**£200 subject to city wide roll out
Green Deal Community Fund	£100	£100	N/A	N/A
<b>Total</b>	<b>£507</b>	<b>£437 to £537</b>	<b>£407</b>	<b>£337 to £437</b>
<b>Percentage Saving</b>	<b>40%</b>	<b>35% to 42%</b>	<b>32%</b>	<b>27% to 35%</b>

\*The savings on the Peterborough Energy Package will vary according to the tariff available at the time.

\*\*The savings stated for Free Residential Solar PV are subject to the success of a pilot scheme being implemented in the Green Deal Area

### 4.3 WHO IS OVO?

4.3.1 OVO is a 'recent' entry into the energy supply market having been founded in 2009. OVO holds an electricity supply licence and a gas supply licence and carries out the business of supplying electricity and gas to domestic and non-domestic customers.

4.3.2 Recently OVO has started engaging with councils and communities with the intention of creating localised, community tariffs. This follows on from OVO's announcement in April 2014, which revealed a plan to democratise the energy market. It called this proposal "OVO Communities". The idea was to literally put "power" back into people's hands by giving councils, community groups and social housing providers the tools and support they need to set up their own local energy company. Further details are attached at Appendix 2.

4.3.3 The tables below show the position of existing OVO tariffs compared to the marketplace. These prices are national averages for a medium user (3,200 kWh of electricity and 13,500 kWh of gas per year).

(A) Price

(I) Dual Fuel Tariff

	5 <sup>th</sup> December 2014	5 <sup>th</sup> January 2015
<b>Extra</b>	£958	£937
<b>First Utility</b>	£961	£952
<b>Co-operative</b>	£1008	£960
<b>N Power</b>	£963	£963
<b>Scottish Power</b>	£970	£970
<b>OVO</b>	£973	£973
	<b>5<sup>th</sup> lowest</b>	<b>6<sup>th</sup> lowest</b>

(II) Single Fuel Tariff

	<b>5<sup>th</sup> December 2014</b>	<b>5<sup>th</sup> January 2015</b>
<b>I Supply</b>	£434	£432
<b>OVO</b>	£453	£453
<b>Extra</b>	£449	£432
<b>Scottish Power</b>	£444	£444
<b>Npower</b>	£448	£448
<b>First utility</b>	£454	£452
	<b>5<sup>th</sup> lowest</b>	<b>6<sup>th</sup> lowest</b>

(III) Prepay

OVO have consistently been the cheapest in the market place - £1130 per annum

(B) Quality

OVO consistently scores highly on customer satisfaction. Some of the awards OVO collected over the course of 2014 OVO are:

- Highest marks for overall customer satisfaction, 2014 USwitch awards
  - OVO also placed first for ten out of twelve USwitch awards: Supplier of the Year, Most Likely to Recommend, Value for Money, Best Deal for You, Customer Service, Billing Services, Meter Services, Online Services, Green Services, Transfer Process
- Number one for customer service, MoneySavingExpert.com 2014
- First for overall satisfaction in Energy Helpline's customer satisfaction awards 2014
- 73% overall customer score from the Which? customer satisfaction survey 2014
  - Five stars for customer service, value for money and bills (accuracy and clarity)

(C) Summary

As can be seen from the above table OVO consistently has one of the lowest tariffs in the UK and one of the highest quality levels.

#### **4.4 STRATEGIC PARTNERSHIP AGREEMENT**

4.4.1 Under the Strategic Partnership Agreement (SPA), it is proposed that the Council and OVO will work together to investigate the development of various energy supply related projects within and outside the Peterborough area. This will be in keeping with the Council's overall energy strategy, which includes the provision of energy services to Peterborough's residents and ultimately the supply of electricity and gas to domestic and non-domestic customers within the area.

4.4.2 The SPA will establish the partnership between OVO and the Council under which the parties will seek to jointly identify and develop energy projects that aim to contribute to making a measureable difference to the cost and availability of energy supply to residents of the Peterborough area. Over the course of the partnership, this may include:

- (a) the development of cheaper energy tariffs for private residents and SMEs;
- (b) the roll-out of smart meters to residents;
- (c) the deployment of OVO's ECO funding obligations within the city; and
- (d) agreeing Power Purchase Agreements for energy generated by the Council.

4.4.3 The first project on which the parties wish to collaborate is the provision of domestic energy supply tariffs in Peterborough.

## **4.5 CREATION OF A BESPOKE LOCAL PETERBOROUGH TARIFF.**

- 4.5.1 Based on the OVO tariff schedules in the market place, OVO has agreed to create, in Peterborough, one of the UK's first bespoke local government tariffs. The tariff will be limited to Peterborough postcodes so will only be available to Peterborough residents. The Peterborough Tariff should instantly become the lowest tariff in the UK for pre payment meters. For dual fuel and single fuel (electricity only), because the market is slightly different, it should be the cheapest among the larger energy providers, and will also be among the cheapest in the market overall.
- 4.5.2 The actual tariff to be put in place will be dependant on the prevailing market prices at the time of launch which is anticipated to be April 2015.

The following sets out the position for a Peterborough Tariff:-

### Dual Fuel

For Dual Fuel the Peterborough Tariff would have been the cheapest nationally from July 2014 through to December 2014.

Based on the 5<sup>th</sup> January 2015 data our tariff would have been second lowest at £950 - £13 higher than the lowest.

### Single Fuel

In December 2014 the Peterborough Tariff would have been the lowest tariff and in January 2015 the second lowest at £441 - £12 higher than the lowest.

### Prepay

The tariff would have been £55 cheaper than any other in the marketplace. In addition, smart meters would be installed (see 4.5.4 below).

- 4.5.3 The tariff will be jointly branded between OVO and the Council. OVO will perform all operational and functional activities of the tariff, while the Council will support the tariff through promotional and marketing activities within the city. It is the Council's involvement in promoting the tariff and its localised nature which makes the tariff more efficient and cost-effective than OVO's standard UK tariffs, therefore allowing OVO to offer Peterborough's residents a cheaper price under an exclusivity arrangement.
- 4.5.4 As part of the tariff, OVO will provide smart meters free of charge to replace existing prepayment meters. These will enable customers to top up using cards as well as online, by text message, using an app and over the phone. They will also provide customers with detailed real-time account information to enable them to track their usage and ensure they stay in credit. Smart meters typically save a household £65 per annum.

## **5. CONSULTATION**

- 5.1 There is no requirement for statutory consultation on this scheme and whilst ordinarily it would have been preferable to have consulted with Scrutiny prior to the Cabinet decision, the nature of the agreement with OVO requires the Council to move swiftly in order to secure the most advantageous deal for Peterborough residents.

## **6. ANTICIPATED OUTCOMES**

- 6.1 The Council will enter into a strategic partnership agreement and tariff agreement with OVO.

- 6.2 OVO will create a bespoke Peterborough tariff which if implemented today would be the cheapest in the UK. The tariff will not be available for residents outside of Peterborough.
- 6.3 The Peterborough tariff will significantly contribute to the existing fuel poverty actions that the Council has already put in place.

## **7. REASONS FOR RECOMMENDATIONS**

- 7.1 To enable the Council to offer what is anticipated to be the UK's lowest-priced energy tariff for dual fuel and prepayment metering to be implemented in Peterborough area; as well as introducing a highly competitive single-fuel offering.
- 7.2 The opportunity to enter into a partnership with OVO as an established regulated energy company within the market reduces the cost and regulatory burden to the Council in fulfilling its strategic objectives.
- 7.3 The strategic partnership agreement will allow the Council and OVO to explore and develop other energy supply opportunities which could assist the Council in reducing fuel poverty in the Peterborough area and contribute to the Council's wider strategic goal of becoming the UK's Environment Capital.

## **8. ALTERNATIVE OPTIONS CONSIDERED**

- 8.1 The Council could determine not to pursue the Peterborough Tariff and simply continued with the existing schemes as outlined in section 4.2. However, it would then lose the opportunity to make a significant impact on local fuel poverty through a direct reduction in residents' fuel bills.
- 8.2 The Council could pursue a local tariff by becoming a utility and creating its own tariff. This has been ruled out on the basis of the significant additional regulatory and other administrative set up and running costs which would be incurred.

## **9. IMPLICATIONS**

### **9.1 Financial:**

The Council will not pay OVO any money for it to create and offer the tariff since the services performed by OVO will be directly for the benefit of residents, rather than the Council. Equally, the Council will promote the Peterborough tariff through existing channels and resources and will not receive any income from OVO. As such, the Council will be acting as a facilitator for the tariff.

Any future developments under the partnership, such as a power purchase agreement, may be subject to separate decisions if the financial implications require it in line with the constitution.

### **9.2 Legal and procurement implications:**

This section considers:

- Procurement
- State aid

#### **9.2.1 Procurement**

The Council must act in accordance with the Public Contract Regulations 2006 (Rules) which require there to be an element of competition in the award of public contract works, services or supplies require competition. Because the Council is not receiving a service from OVO and is not paying OVO for any services, the nature of the proposed arrangements with OVO do not fall within the scope of the Rules. Both agreements are therefore excluded from application of the Rules.

### 9.2.2 State aid

Unlawful State aid occurs where a benefit is granted from a public resource for free or on favourable terms which distort competition. The Council has obtained advice from Pinsent Masons, its external legal advisers, on the terms of the proposed tariff agreement

#### Potential for State aid

The tariff agreement will not provide for any direct payment to OVO by the Council nor a profit guarantee, both of which would be likely to give rise to State aid

However, under the terms of the tariff agreement, the Council will perform marketing and promotion at a cost to the Council and a cost saving to OVO. These activities are expected to be of only nominal value and the Council should be able to rely on the €200,000 "de minimis" threshold below which a private enterprise can receive aid aggregated from all public bodies over a three-year period without triggering State aid. As necessary, OVO will be required to monitor the State aid received by it from all sources to ensure that the de minimis threshold is not met during the first three years of the partnership. OVO has confirmed that it has not received state aid benefit to date and will keep the position under review.

As a result of the Council providing promotional and marketing activities, OVO will make a cost saving (since it does not need to pay its typical marketing costs), which then allows OVO to reduce the tariff accordingly to a cheaper price than normal. The value of this cost saving could potentially be considered to be part of the value of the Council's marketing and promotional activities, which may therefore increase the nominal value of the Council's contribution to OVO. This will be taken into account when calculating the level of State aid which OVO has received.

There is no state aid issue for the overall Strategic Partnership Agreement.

#### Conclusion

While certain terms of the proposed tariff agreement may give rise to State aid issues in principle, commercial terms can be agreed between the parties to mitigate or remove the risks. Nonetheless, the situation will continue to be monitored as the terms are agreed and the tariff evolves

## 10. **BACKGROUND DOCUMENTS**

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

None.

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