

Appendix 2 - Briefing Paper - Southampton Energy Supply Company Proposal

SUBJECT: ESTABLISHMENT OF A SOUTHAMPTON CITY COUNCIL ENERGY WHITE LABEL FOR THE SOUTHERN REGION

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RECIPIENT: ENDORSEE SOUTHERN REGION LOCAL AUTHORITY

SUMMARY:

Domestic consumers within Hampshire, Oxfordshire and Berkshire spend in excess of £1.3 billion on their electricity and gas per annum, based on aggregating the average energy price per household. Very little of the profit made on energy purchased within our region goes back into our local economy or benefits our communities.

In addition, the energy regulator, OFGEM, and the Competition and Markets Authority states that energy supply companies have consistently overcharged domestic and business energy consumers.

Southampton City Council (SCC) is developing a proposal to provide local control of energy markets which will bring financial, social and potentially environmental benefits to the local authority and the energy consumers in their area.

The proposal includes an opportunity for other local authorities such as the Royal Borough of Windsor and Maidenhead to collaborate and partner to secure these financial, social and potentially environmental benefits for the Royal Borough.

A phased approach is envisaged.

The first phase involves setting up a white label (see [below](#) for explanation) energy supply for the southern region, which is being led by SCC and envisages a partnership with other LAs to endorse and benefit from participation in the initiative.

A potential further phase is to form a regional ESCO which takes an OFGEM licence for operating in the wholesale energy market.

This report outlines the benefits to all stakeholders and how the proposed SCC phased approach could help achieve the phase 4 longer term goal of setting up a licenced energy supply company, supplying locally generated power to residents and delivering a better deal to energy consumers within the southern region.

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THE PHASED APPROACH

SCC's phased approach consists of:

- Phase 1 objectives – to provide a branded energy supply product with a licenced energy supplier (White Label Product – see [below](#)) to provide a low risk income; tackle fuel poverty; supply cost effective energy to all; develop a customer base and provide certainty to invest capital in the future phases. Timeframe - estimated go live date April 2018.
- Phase 2 objectives – Develop further opportunities to reduce fuel poverty, such as energy efficiency projects; supply and sell energy generated locally by the council and our partners; develop further added value business opportunities to benefit our communities, businesses and local area; for example, solar PV and battery storage projects in domestic properties. Timeframe - from start of year 2.
- Phase 3 – and Phase 4 objectives – if Phase 1 provides sufficient customer numbers, to develop a business case to become a licensed energy supplier and secure an energy supply license. This could be via a partnership or regional group of authorities. Timeframe - 3-5 years

Phase 1 is available for all local authorities within the southern region to endorse and benefit from. It's proposed all other phases would be developed in partnership with other local authorities once the white label is set up and running successfully.

SCC need to work with other southern region local authorities to market the white label to increase the uptake and benefits for all regional stakeholders. Increased customer volume will increase the likelihood of development of the future business cases to set up a local fully licensed energy company and develop local sources of power.

A southern region LA stakeholder group will share best practice and develop priorities and opportunities whilst ensuring LAs and consumers benefit from the programme.

The key benefit of working with a group of southern region endorsee authorities will be:

- An existing licenced supplier will look more favourably when bidding on a white label that encompasses a wider customer base. This makes it more likely we will be able to secure greater influence on the tariff structure and ongoing benefits to the consumer.
- It's likely we will be able to secure a greater benefit for all authorities that deliver and endorse the white label brand.
- We can expect favourable terms to enable switching of the customers to another energy licence should we wish to set up a local fully licenced energy supply company in the future.
- By pooling the excellent energy related expertise across the region we will be able to deliver a wider range of community and investment works in a more lean and effective manner. This will inevitably lead to greater financial and social benefits to the LAs and customer base.

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- The long term viability and further investment opportunities become greater with a larger customer base.

WHAT IS AN ENERGY WHITE LABEL?

An energy white label is a registered brand that has a contractual agreement with a fully procured licensed energy supplier to sell gas and/or electricity to consumers under the white label's brand name.

The energy white label brand name has yet to be decided upon by SCC but its planned the final name will be a generic southern region name that can be used across the region by endorsee LAs.

The proposed organisational structure can be seen in figure 1 below. The following points refer to the numbers within the figure 1 structure:

- Point 1 – is the registered energy white label brand that is responsible for marketing and acquisition of customers.
- Point 2 – The brand is registered by SCC and the contract with the licenced energy supplier is managed by SCC. A financial rebate will be recovered from the end customer's bill via the licensed energy supplier to cover the set up and ongoing costs. Endorsee local authorities will share in that rebate. Any financial surplus could be reinvested in community or business case led energy projects.
- Point 3 – SCC will partner with an existing licenced energy supply company. All back office, licence requirements, billing and customer service is the responsibility of the licensed energy supply company.
- Point 4 – All marketing to acquire customers will be delivered by SCC and any endorsee local authorities; whereas all customer contact, once signed up, will be undertaken by the energy supply company.

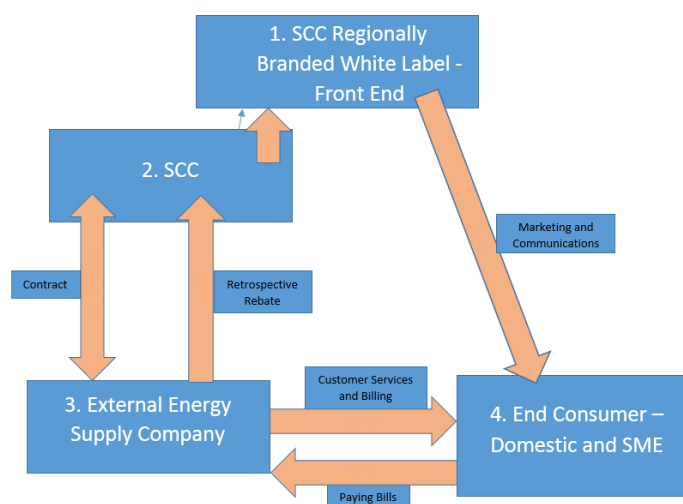


Figure 1 – Proposed White Label Structure

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BENEFITS OF STARTING WITH A SCC ENERGY WHITE LABEL

The white label option has the advantage of achieving a low-risk stepping stone to securing a long term aspiration to develop a locally owned fully licensed energy company and supply locally generated energy to customers in the southern region.

The benefits are as follows;

- Low cost – setting up an energy white label will cost SCC £160k in year one. Whereas Bristol and Nottingham councils have individually spent in excess of £2.4 million to set up a fully licence energy supply company. In addition, the ongoing revenue costs are substantially lower at circa £70k per annum for SCC.
 - There will be no procurement / set up costs for each endorsee local authority and any ongoing officer costs will be kept to a minimum and could easily be covered by the income generated.
 - SCC will provide a suite of marketing materials (in digital format) for use across traditional and digital marketing channels. Additional bespoke marketing materials can be produced by SCC but there may be a cost for these, which would be agreed on a case by case basis.
- Low risk approach to customer acquisition. The plan to secure a customer base and then develop business cases around that customer base for phases 2-4 will reduce the risk profile of investing in future projects. For example, we will gain an understanding of whether setting up a fully licenced energy supply company is viable based on the number of customers we acquire over a given period.
- Providing a low risk income to the councils involved in proportion to the number of households in their area.
- Developing a customer base.
- Providing a platform to invest capital in further energy efficiency and generation opportunities in future phases. Further business cases will also be developed based on accurate data, which could include renewable power generation or energy storage.
- Importantly a white label can provide benefits and added value opportunities to the end consumer, whilst meeting LAs aspirations to reduce fuel poverty and energy cost for the consumer.

OUTCOMES FOR CONSUMERS

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- Lower cost energy - the average resident to save between £100 and £200 on their annual energy bill.
- Reliable energy supplier, reassurance that cheap tariffs will not be withdrawn after an initial period and then replaced with substantially higher tariffs.
- Peace of mind from a trustworthy, local body
- Opportunity for local support, added value services & advice
- Knowledge they are supporting their local community / local business.

OUTCOMES FOR THE LOCAL AUTHORITY

- Positive outcomes for local consumers
- Customer base
- A sustainable income – for resources or energy work
- Opportunity to develop business cases for investment
- Opportunity to be involved in future partnership to develop and deliver additional energy services and a fully licenced energy supply company.

NEXT STEPS – SCC TIMELINES – WHITE LABEL KEY DATES

SCC to deliver the following:

- Outline Marketing & Customer Acquisition Plan – August / September 2017
- Commence Procurement – September / October 2017
- Name and final branding selection - October 2017
- Current Planned Contract Award – 16 weeks prior to Go Live
- Go Live (Entry on market) - Spring 2018

WHAT IS REQUESTED FROM ENDORSEE LAS

1. Prior to publishing tender / procurement documentation - LAs are requested to state their interest in endorsing the product. A template letter will be circulated by SCC for signature by the LA. Endorsee LAs are requested to return the letter to SCC pre-publication of tender documents. SCC will then include letters in tender.
2. Post contract award with a licenced energy supplier - There will be a further more formal contract document that will cover use and marketing of the brand, financials and governance within the Southern Energy LA group.
3. Endorsee LAs will be invited to take an active part in the proposed governance arrangements – including stakeholders groups, dealing with quality of service and price, development of further phases – energy generation, fuel poverty work, and commercialisation of additional energy services.
4. LAs brief their respective decision makers and feed back to SCC & APSE.

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5. Lead officers within each LA to facilitate southern wide Councillor briefing session. Cllr Shields from SCC Portfolio Lead will chair the meeting.
6. SCC can attend LA briefing sessions to provide additional background to the proposals.

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BACKGROUND and BRIEFING DETAILS:

7. Please see SCC Cabinet decision paper attached for further detail.
8. Contract between SCC and licence holder will include access to customer information to enable us to:
 - I. Develop further added value services
 - II. Change licence holder that supplies the brand.
9. It is Southampton City Councils intention to share the income with other local authorities which endorse and proactively market the regional energy white label. This will be agreed and confirmed at the point of securing a contract with an energy licence holder.
10. This income will cover the costs of the endorsee LA marketing the white label and potentially enable re-investment in energy services within the LAs area, and the wider region, in the future to benefit the community.
11. Greatest savings will be achieved by those customers that infrequently switch energy supplier or are on prepayment meters. These customers are likely to be on the highest tariffs. The aim is to target this customer group whilst being a trusted and respected energy supplier for all sections of the community.
12. A licensed energy supplier will be procured to deliver a SCC branded ESCo with a contract term of at least 5 years, plus optional extension periods up to another 5 years.

Appendices/Supporting Information:

SCC Cabinet Paper - ESTABLISHMENT OF A SOUTHAMPTON ENERGY SERVICES COMPANY (ESCo)

Further Information Available From:

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