

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Executive Member for Environment and Transport
<b>Date:</b>	22 January 2013
<b>Title:</b>	Procurement Approval: Collective Energy Switching
<b>Reference:</b>	4529
<b>Report From:</b>	Director of Economy, Transport and Environment

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#### 1. Executive Summary

- 1.1. The purpose of this paper is to seek approval to procure for a concession contract to provide a collective energy switching service.
- 1.2. This paper seeks to provide background information on collective energy switching, and outline why Hampshire County Council might want to further develop and deliver a scheme in Hampshire. It will also consider why a procurement is required and highlight any issues relating to this.

#### 2. Contextual information

- 2.1. Following the successful delivery of the Hampshire Senate's Insulate Hampshire scheme - which has seen over 18,500 insulation measures installed into homes in Hampshire, equating to over £2 million in fuel bill savings - the County Council is undertaking work to develop new projects which could continue to benefit the residents and communities of Hampshire.
- 2.2. Collective energy switching provides an opportunity for the County Council to help even more people across Hampshire benefit from real savings on their energy bills, by encouraging them to join together and use their combined purchasing power to negotiate a better deal.
- 2.3. Recent market research shows that the average Hampshire household energy bill is just over £1000 a year<sup>1</sup>, this equates to annual spend of over £800m on domestic energy across Hampshire.
- 2.4. Typically, consumers in Hampshire could save up to £200 a year on their energy bills by participating in a collective energy switching scheme, depending upon their current tariff(s) and their personal circumstances. For the first year of the scheme it is predicted that total savings could reach £25m

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<sup>1</sup> OFGEM figures show that this is slightly lower than the national average of £1390.

for customers in Hampshire. Assuming a typical pattern of take-up in subsequent years savings could exceed £150m at the end of the four year scheme<sup>2</sup>. It is clear that such a scheme has the potential to boost the efficiency of energy consumption in Hampshire, and drive down the energy bills of participating Hampshire residents.

- 2.5. The collective switching process is facilitated by an intermediary organisation, which actively negotiates a better tariff on behalf of the consumers it represents. Although in theory the County Council could play this role, it currently lacks the relevant skills and expertise to be able to do so. However, collective switching can be delivered in partnership between an intermediary and a local authority, which provides branding and endorsement for a scheme.
- 2.6. Work has been undertaken by the County Council in the last few months to better understand the rapidly emerging collective switching market. This work has shown that there is considerable interest in the concept of collective switching, which is also strongly supported by the Department of Energy and Climate Change (DECC), the Local Government Association (LGA), and consumer groups such as Consumer Focus.
- 2.7. A number of other UK local authorities have established collective switching schemes, in partnership with an intermediary organisation. Some of these are now offering the opportunity for other local authorities to join their schemes, in order to increase levels of aggregation and overall purchasing power. However, it is considered that since Hampshire is so large in its own right, this is not an option it necessarily would want to pursue.
- 2.8. The County Council is looking to work in partnership with the district and borough councils in Hampshire, along with Portsmouth and Southampton City Councils, in the further development and delivery of a Hampshire-wide scheme.
- 2.9. In order to progress this work, the County Council, on behalf of these authorities, wishes to procure the services of an intermediary organisation, to organise a collective switching scheme for consumers of grid based electricity and/or gas in Hampshire. Use of an intermediary organisation is currently seen as the most effective and resource efficient way to deliver a scheme in Hampshire.

### **3. Finance**

- 3.1. The intermediary organisation which manages a collective switching process, operates a business model based on the receipt of a referral fee for the number of switches it facilitates. Many collective switching schemes operated to date – mostly in mainland Europe but also some early schemes in the UK – have therefore been at limited cost to the local authority involved.

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<sup>2</sup> This is based on current energy prices and does not take into account rising prices or any future changes to tariff structures.

- 3.2. The County Council intends to procure an intermediary organisation on the basis of a concession contract. It will not pay for the services that intermediary will provide.
- 3.3. The County Council and other participating authorities from Hampshire will work with the intermediary to deliver a collective switching scheme. There will likely be a split of activities between all parties, and therefore some financial and staff resource will be required from the County Council. For example, some input will be required to assist in the marketing and promotion of a scheme, to encourage participation and uptake.
- 3.4. Hampshire County Council and participating local authorities will look to recover their costs as a result of working with an intermediary organisation in the delivery of a collective switching scheme in Hampshire. This will be achieved through a part-share in the referral fee paid to the intermediary, associated with customers switching suppliers.
- 3.5. A collective switching scheme will be free for consumers to use.
- 3.6. The procurement exercise and resultant contract will indicate a clear division of responsibilities between the intermediary organisation, Hampshire County Council, and participating district, borough and unitary councils.

#### **4. Performance**

- 4.1. The County Council intends to let a concession contract for a collective energy switching service of up to one year duration (with the option to extend after that period on a yearly basis, up to a maximum of four years in total). It is anticipated that in the first year, three switching cycles will be run. The aim in year one, will be to provide the opportunity for domestic consumers to potentially save money on their energy bills and/or switch to a 'green' tariff. In delivering this aim, it is anticipated that collective switching may help to reduce levels of fuel poverty in Hampshire.
- 4.2. Collective switching transfers the onus for securing a better value energy deal from the consumer to the intermediary organisation. Therefore, consumers who have previously been reluctant or fearful of switching supplier may be more comfortable with the process.
- 4.3. According to Ofgem, 60% of consumers have never switched energy supplier and three-quarters are still on their supplier's default tariff. This is despite the fact that retail energy prices have risen significantly over the last ten years, and that fuel costs are now one of the biggest financial outlays for households.
- 4.4. Collective switching offers consumers a simple and easy way to save money on their electricity and/or gas bills. This includes vulnerable, disadvantaged and hard to reach members of the Hampshire community. There is no obligation through participation to switch, so consumers still have a choice over which tariff they are on.
- 4.5. Should subsequent schemes be delivered in years two to four, and should the market be able to accommodate it, the aims may be expanded to include for example: a wider target group including Small and Medium Enterprises, and

other corporate and commercial entities; a specific focus on target groups such as those in fuel poverty; or a wider range of fuels e.g. collective purchasing for those using heating oil.

- 4.6. The County Council has recently agreed an Energy Strategy which recognises the significant role it has to play in providing community leadership for resilience against the risks of energy security, affordability and carbon emissions.
- 4.7. Collective switching provides an opportunity for the County Council to provide this positive leadership, ensuring that energy prices do not negatively impact upon the wellbeing of the people of Hampshire.
- 4.8. Delivery of a collective switching scheme will also enable the County Council to demonstrate delivery of a project 'on the ground' to benefit the people of Hampshire; build closer relationships with its communities in relation to the energy agenda; use its position as an organisation trusted to act in the best interests of local consumers to reduce energy costs; build on the successful partnership working established through Insulate Hampshire; and utilise an innovative 'service delivery' model.
- 4.9. Working with an intermediary organisation, a scheme could be delivered without the need for heavy resource input from the County Council, since the intermediary would undertake the bulk of the work required.

## **5. Contract operational value**

- 5.1. The County Council is seeking an intermediary organisation to provide services through a concession contract. However, because the intermediary will receive payment from the energy supplier(s) in the form of referral fees, a value to the intermediary of operating the contract can be placed. This will be dependant upon the level of fee received, the number of schemes run, and the number of switches facilitated.
- 5.2. The total number of dwellings in Hampshire, including Portsmouth and Southampton, is estimated to be approximately 760,000. Experience from successful examples of collective switching schemes operating in mainland Europe has shown that schemes run successively in the same area attract more consumers to participate each time.
- 5.3. In year one, the operational value of the contract to the intermediary is estimated to be up to £3.8 million (based on three switching cycles and a £30 per switch fee). This reflects 3% of Hampshire dwellings participating in the first cycle, 10% in the second, and 20% in the third.
- 5.4. Should the contract be extended to years two, three and four, up to three switching cycles may be run per year. In this case, assuming participation year on year follows the pattern outlined above, the operational value to the intermediary over four years can be estimated as being up to £15 million.
- 5.5. The procurement process will reflect, where appropriate, this 'contract operational value' in accordance with best practice procedures.

## **6. Future direction**

- 6.1. Collective energy switching, delivered in partnership with other Hampshire local authorities, represents an opportunity for the County Council to become involved in a community scale project, securing multiple benefits for its residents and communities.
- 6.2. A typical collective switching scheme takes 2-3 months to run, from start to completion. A scheme could be operated as a one-off event, or the process could be repeated in phases for a defined period. The County Council would look to let a contract which allows for additional switching phases to be run by the same intermediary organisation if the first scheme (and its process and management) proves successful.

## **7. Recommendations**

- 7.1. That approval to procure be given in respect of the concession contract for a collective energy switching service of up to one year duration (with the option to extend after that period on a yearly basis, up to a maximum of four years in total). The one year contract has an estimated operational value of up to £3.8 million (based on three switching cycles) for the intermediary organisation. The total contract over 4 years has an estimated value of up to £15 million for the intermediary.
- 7.2. That a ratio of 10% for cost recovery and 90% for quality be applied in tender evaluation of the items approved.
- 7.3. That the Director of Economy, Transport and Environment be given delegated authority to agree any variations, in consultation with the Executive Member for Environment and Transport.

**CORPORATE OR LEGAL INFORMATION:****Links to the Corporate Strategy**

<b>Hampshire safer and more secure for all:</b>	Yes
Corporate Improvement plan link number (if appropriate):	
<b>Maximising well-being:</b>	Yes
Corporate Improvement plan link number (if appropriate):	
<b>Enhancing our quality of place:</b>	Yes
Corporate Improvement plan link number (if appropriate):	

**Other Significant Links**

<b>Links to previous Member decisions:</b>		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
Hampshire County Council Energy Strategy	4202	29 October 2012

**Section 100 D - Local Government Act 1972 - background documents**

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

## **IMPACT ASSESSMENTS:**

### **1. Equalities Impact Assessment:**

- 1.1 The proposals in this report have been developed with due regard to the requirements of the Equality Act 2010, including the Public Sector Equality Duty and the Council's equality objectives. An assessment of the impacts in this service area can be found at: [Ensuring that Hampshire is Energy and Climate Change Resilient](#).

It is considered that the issues covered by this report will not have impacts requiring further specific actions by the Council above those already established in its existing policies and working procedures.

### **2. Impact on Crime and Disorder:**

- 2.1. It is not considered that collective energy switching will have any crime and disorder impacts

### **3. Climate Change:**

- 3.1. How does what is being proposed impact on our carbon footprint / energy consumption?

Depending upon the design of a collective energy switching scheme, opportunities may exist to encourage energy consumers in Hampshire to purchase energy from a more sustainable energy source (e.g. 'green' energy). This contributes towards the County Council's aim to facilitate community access to low carbon/renewable energy and energy services, with the potential to lead to a reduction in Hampshire's carbon footprint.

- 3.2. How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

Consumers of energy in Hampshire are heavily reliant on grid-based fossil fuel imports for their energy. Climate change has the potential to significantly impact upon the energy sector. Changes to climate and severe weather events may affect the UK's capacity to generate energy and distribute power and may alter patterns of energy consumption and use. Because energy markets operate in a global context, climate change impacts elsewhere in the world that significantly impact global energy supply may also have the potential to indirectly affect Hampshire, particularly through price rises for end users.

Collective switching provides a process which enables consumers to negotiate a better energy tariff and reduce their electricity and/or gas bills. As a result, they will be better placed to manage future potential fluctuations in energy prices, including those arising as a result of climate change impacts.