

STRATEGIC OUTLINE CASE

The purpose of the Strategic Outline Case (SOC) is to confirm the strategic context of the proposal (a potential programme or project) and provide an early indication of the preferred way forward, but not the preferred solution option. The SOC template briefly considers:

1. **Strategic** Direction of travel, strategic fit and case for change
2. **Economic** The range of options
3. **Commercial** The preferred procurement strategy
4. **Financial** Estimated costs/savings
5. **Management** Proposed management arrangements

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Record the GATE 1 Decision by SLT:	

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1.0 EXECUTIVE SUMMARY

- 1.1. The purpose of this document is to provide Strategic Leadership Team with sufficient detail to make an informed decision on Wirral Council entering the Energy Market and selecting the most appropriate entry model.
- 1.2. Across the Country, local authorities are taking action to improve energy security, lower energy bills and support community economies by seizing opportunities to get involved with energy supply. By doing so, they provide customers with an alternative to the “Big 6” utility companies.
- 1.3. Wirral Council is seeking to help address the issue of fuel poverty. Fuel poverty is an issue that affects a large number of Wirral residents and setting up an energy supply service will help alleviate this by enabling residents to obtain cheaper gas and electricity.
- 1.4. The project will contribute economically by maximising household income for the most vulnerable and low income tenants and by supporting more households out of fuel poverty.
- 1.5. The Council wants to explore the context around establishing an energy company and the alternatives around that model and understand which options would be realistic for Wirral.
- 1.6. There are 3 main Energy market considerations, each with differing levels of risk:
 - **Fully Licensed Operator**
Local Authority applies to Ofgem for a license to become a gas and electricity energy supplier. LA to comply with a number of industry codes.
 - **White Label Provider**
Local Authority doesn't hold a supply license itself, but partners with an already established licensed supplier to offer gas and electricity under its own brand (e.g. Wirral Energy). Partner will already possess an energy license together with the relevant statutory and compliance infrastructure.
 - **License Lite**
Local Authority taking on the role of an electricity supplier with an existing senior energy supplier. LA applies to Ofgem for electricity only license and has to comply with all aspects of their electricity licence expect for compliance with industry codes.

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- 1.7. A number of local authorities have already entered the energy market, mainly as either as a Fully Licensed Operator (Nottingham City Council : Robin Hood Energy), as a White Label Provider (Liverpool City Council : LECCy, Cheshire East : FairerPower for All) or as a License Lite operator (Greater London Authority).
- 1.8. As fuel poverty continues across the UK, consumers in the most need continue to be faced with a lack of choice from the energy industry. Local Authorities have been exploring various models to tackle this, from collective switching to energy efficiency measures, with varying degrees of success.
- 1.9. This project will enable residents who are currently less able to switch energy providers to do so more easily as the option we are proposing doesn't require residents to pay a switching fee. There is a key piece of work to be done with landlords to encourage them to take advantage of the cheapest tariffs available.
- 1.10. It is assumed that existing resources will be in place to support the Marketing, Contract Management, Legal and Financial aspects of such a programme of work.

2.0. STRATEGIC CASE

- 2.1. In 2015 Wirral set out 20 pledges in an ambitious plan to achieve outcomes relating to three key themes. Key priorities from the People theme of the Wirral plan include achievement of outcomes relating to older people and people with disabilities living independently and reducing child and family poverty.
- 2.2. The aim of this project is to reduce gas and electric tariffs across the Wirral for all residents by directly competing in the marketplace and driving down wider market energy costs and ultimately reduce fuel poverty in the Wirral area.
- 2.3. A fuel poor household is defined as one which needs to spend more than 10% of its income on all fuel use and to heat its home to an adequate standard of warmth. In England, this is defined as 21°C in the living room and 18°C in other occupied rooms.
- 2.4. It is estimated that 10.9% of households in the Wirral are fuel poor.

County	Estimated number of households	Estimated number of Fuel Poor Households	Proportion of households fuel poor (%)
Wirral	142,993	15,568	10.9%*

*Source : Sub-regional fuel poverty, 2014 data

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- 2.5. A new energy concession arrangement could be branded, promoted and endorsed by Wirral Council and would primarily seek to sell gas and electricity to residents at a lower cost than other suppliers by passing on savings achieved from operating on a not for profit basis and maintaining low overheads.
- 2.6. To seek to replace outdated, inflexible and inefficient pre-payment meters with the latest SMART pay-as-you-go alternatives. These new meters offer easy to understand information on energy consumption, giving householders more control and helping them to manage their energy use.
- 2.7. Smart meters can help residents manage and reduce their bills as well as help to reduce CO2 emissions and the impact on the environment, which is also a key objective for the Council.
- 2.8. A high quality customer service would be offered which would support fuel poor and vulnerable people and use more sensitive and appropriate debt recovery processes.
- 2.9. A priority will be to help residents to move away from pre-payment meters and onto direct debit tariffs, saving households hundreds of pounds per year on their fuel bills. Customer payment history would be assessed, rather than outside credit agency reports, and the switch to credit mode made remotely at no cost to the customer.
- 2.10. Research recently published by the Citizens Advice Bureau showed that people who have to use prepayment meters pay on average an extra £226 a year on their energy bills compared with those paying the cheapest direct debit tariff.
- 2.11. Commercial arrangements with Housing Associations, Registered Providers, Housing and Commercial Developers will need to be scoped and established to include new build, transition and void properties to maximise the number of switching customers.
- 2.12. Dependent on which Energy market entry option is taken, engagement with LCR partners will be required to ascertain the scope of the project in terms of scalability across the region to achieve maximum contract economies of scale.
- 2.13. The Council will be looking to recover £100k to direct towards key services but the significant financial benefits will be passed onto residents.

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3.0. Strategic Risks and Mitigations

- 3.1. Like any commercial undertaking, participation in the energy market as a supplier creates significant opportunities and some risks. However there is substantial experience available and lessons from other operational models can be used to develop effective commercial arrangements.
- 3.2. The size and extent of any risks will depend largely on what model is being used. However, by putting in place the right mitigation plans and operational models these can be managed such that the full benefits can be realised.
- 4.0. It is important to clearly define the objectives for considering market entry, associated timescales and the level of investment you are willing to risk as nothing is certain in today's energy market.

Risk	Mitigation
Lack of Knowledge and expertise in the energy industry.	Developing a better understanding of the industry by accessing appropriate knowledge and expertise.
Compliance with State Aid and procurement rules.	To be reviewed throughout the financial planning process and specialist legal support sought as required.
Damaging reputation: Competing against Neighbouring Authority.	Engagement with Chief Officers at LCR level.
Political consequence of being associated with a failed endeavour.	Run the business on a not for profit basis. Develop a comprehensive business case. Provide a reliable energy supply with well managed suppliers.

5.0. ECONOMIC CASE

- 5.1. There are 3 main Energy market considerations as a branded supplier each with differing levels of risk :
- Fully Licensed Operator
 - White Label Operator
 - License Lite (electricity only)

Fully Licensed Operator

What is Fully Licensed?

To become a fully licensed supplier, the Council must apply for an Electricity and/or Gas supply license from Ofgem. Although a supply license is relatively straightforward and cheap to obtain it carries with it the requirement to comply with a number of industry codes. These prescribe the actions a supplier must take in order to work effectively in the existing energy market structure. It is compliance with these requirements that we must consider carefully and manage effectively, should we wish to proceed.

The big advantage of local authorities becoming a fully-licensed supplier is the level of independence and control it brings over setting costs, tariff prices and the strategic objectives of the supply business. However, although a supply license may be cheap to obtain, the systems and staff requirements to comply with industry codes are relatively expensive and time-consuming to establish.

Advantages and Disadvantages

- Investment costs : £800k - £3.5m
- Required Infrastructure : resource intensive
- Credit lines and Parent Company Guarantee requirements
- Required Customer volumes to pay back investment £130k-150k dual fuel
- Costs to acquire customers
- Trading risk – volatile wholesale energy market
- Time to market : 12 – 18 months
- Profit margins 1-4% some suppliers reporting significant losses
- Creating a USP – not competing on price and customer service alone

Example of a fully-licensed Supplier: Nottingham City Council 1st LA to set up this type of Energy Company called Robin Hood Energy. They currently employ approximately 70 FTE.

White Label Supplier

What is a White Label Supplier?

A white label provider is an organisation that does not hold a supply license itself, but instead partners with an established licensed supplier (e.g. Robin Hood Energy) to offer gas and electricity using its own brand.

The advantage of this option is that the partner will therefore already possess an energy license together with the relevant statutory and compliance infrastructure required. The local authority then offers energy to consumers through this third party, using its own brand, e.g. Liverpool is “LECCy”, Cheshire East is “Fairer Power for all”.

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White Label arrangements are often used by local authorities who wish to address issues of fuel poverty amongst residents by improving competitiveness and the encouragement of supplier switching.

A common characteristic is that the unlicensed white-label supplier will have little or no control over costs and prices. However, the white label (e.g. Local Authority) would have the opportunity to negotiate its own tariff with the licensed supplier, shaped to its customer's specific needs.

If Wirral were to choose this energy market option, they would receive a small commission payment for each customer it acquires (approximately £7 per customer, based on Liverpool CC Contract).

Advantages and Disadvantages

- Low investment costs £0k - £150k
- Nominal/No infrastructure costs
- No credit lodge requirements
- Time to Market 3-6 months
- Income paid usually via monthly/annual commission and tariff mark-up

Example of a white label energy supplier : Liverpool City Council (LECCy) , Cheshire East (Fairerpower for all) both through Robin Hood Energy. Liverpool City Council have not increased their staffing establishment as a result and envisage the contract to be monitored and marketed utilising existing staffing resource.

License Lite Supplier

What is License Lite?

License Lite supply involves a local authority taking on the role of the License Light supplier with an already established "senior" energy supplier.

In this model the authority would be required to comply with all aspects of their electricity supply license, except for the condition that requires compliance with industry codes such as balancing and settlement, as these obligations would be met by the senior fully licensed supplier on the local authority's behalf.

This license option was set up in 2009 as a way of making it easier for small suppliers to enter the energy market and avoid the expenses associated with code compliance. The big advantage of license lite is that it makes market entry quicker and cheaper. By outsourcing many industry operations to a third party, not only do you avoid infrastructure costs but also their associated operational risks. On the downside, working with a third party means letting go of some autonomy and control over costs.

Advantages and Disadvantages

- Electricity option only
- Low investment costs £150k - £500k

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- Time to market can be very slow > 1 year
- Partner with existing supplier to manage SLC11.2 (industry compliance)
- Supplier remains responsible for all other regulation
- Enables market entry where your company does not have the capacity to interact with the technicalities of the energy system
- Allows a direct relationship with your customers

Example of local council-run License Lite supplier: Greater London Authority.

5.2. Economic Risks and Mitigations

Risk	Mitigation
Fluctuation in energy prices	Work with partners to share risk
New skills will be required to become a fully licensed operator	Procure specialist support as and when required

CASE STUDIES

Robin Hood Energy

Established by Nottingham Council and launched in September 2015, Robin Hood Energy is a not for profit, independent energy supplier. Robin Hood Energy aims to provide customers throughout the UK with gas and electricity at the lowest possible price.

Robin Hood Energy works in the same way as a typical energy firm. They buy in bulk on the open market, off the National Grid, and then sell it on to its customers. The difference between Robin Hood Energy and other larger energy suppliers is that there are no private shareholders and no director bonuses. Income generated from supplying energy is used to cover overheads and any excess cash is pumped back into the system to try and improve savings.

Robin Hood Energy has been subject to rigorous and complex industry accreditation procedures that will guarantee the company is compliant with energy market regulations.

Nottingham City Council has created an arms-length organisation bringing together a team of energy industry experts and service providers who have experience in creating and running energy companies.

Liverpool City Council

In November 2016, Liverpool City Council undertook a procurement exercise awarded a concession contract for the Licensed Energy Supplier for Liverpool Energy Community Company (LECCy) to Robin Hood Energy Ltd.

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Their objective is to offer lower cost energy to householders, improve home energy efficiency across the city and enable the Council to develop further innovative energy services for the benefit of residents in the future. A key priority for them, being to help residents move away from pre-payment meters and onto direct debit tariffs, saving households hundreds of pounds per year on their fuel bills.

Greater London Authority

In 2016, Greater London Authority (GLA) entered into the energy market by obtaining a junior electricity supply licence (License Lite) whereby, with the support of a fully licensed electricity supplier, GLA procures electricity from low and zero electricity generators and supplies it to selected public sector and commercial consumers in London.

The GLA in effect acts as a facilitator, securing the best market for the electricity at the best available price, in return for taking a margin on the income received to cover its costs and retain a surplus.

Under the Licence Lite model and regulatory system, the GLA as licensee is relieved of its obligation as a licensed electricity supplier to be a party to the principal industry market codes and avoids the cost risks and complexities of being a party, in return for reaching an agreement with a licensed supplier who is a party to the codes and provides the necessary market interface services.

The model is low cost and risk compared with current mainstream electricity supply activities and offers to small scale low and zero carbon electricity generators a better route to market with the prospect of enhancing their revenues.

6.0. Preferred Energy Market Entry Option

- 6.1. The choice of energy supply model will be unique for each local authority.
- 6.2. For Wirral, we need to establish the purpose and aims of the supply venture. For example, if the primary purpose for Wirral Council is to offer low cost energy to Wirral (and beyond) residents suffering from fuel poverty, then the most appropriate supply model would be a “Fully Licenced Operator”, where you have full control of the tariffs. However, this option can be both expensive and time-consuming to set up, with bigger risks, however there are potential greater benefits. These facts may make the option inviable to the Council and it may chose an alternative, such as a “White Label Provider”, which will provide a low cost energy offer to residents, however with minimal income generation.
- 6.3. An initial high level options appraisal has been undertaken as set out in the Corporate Business Analysis Framework and the preferred Energy Market Entry for Wirral Council is to become a “White Label Provider”.

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- 6.4. In the short term, it may be advantageous to enter the energy market through a White Label supplier arrangement with a longer term aspiration to development and establish a Liverpool City Region “Fully Licenced Operator” arrangement.
- 6.5. Both Sefton Council and Knowsley Council have expressed an interest in entering the energy market. Further partnership working will be required.
- 6.6. However, there are a number of further options available to Wirral under this recommendation.
- a) Undertake a sole procurement exercise for Wirral.
 - b) Undertake a procurement process to include other LCR local authorities.
 - c) Partner with Liverpool City Council, offer “LECCy” to all Wirral residents either under the brand “LECCy” or a sub brand specific to Wirral.

7.0. Potential Partnership Arrangements

- 7.1. If Wirral Council choose to become a “White Label Supplier” there are a number of partnership options available:
- Procure a joint partnership arrangement with other Local Authorities within Liverpool City Region (LCR).
- 7.2. A joint procurement exercise with other Local Authorities within LCR has a number of advantages including reduced tendering costs and a shared customer base; the size of which will make the contract more attractive to licensed suppliers, which should in turn enable better terms to be negotiated.
- Partner with Liverpool City Council on an existing contract arrangement.
- 7.3. In conjunction with Liverpool City Council (LECCy) partner and expand their white label arrangement with Robin Hood Energy, which is already established and scheduled to be launched end of March 2017.
- 7.4. Therefore, it is recommended that the most appropriate energy market option for Wirral Council at present is the White Label Operator model and to explore the possibility of procuring a LCR wide contract with our neighbouring LA’s.**

8.0. COMMERCIAL CASE

- 8.1. All procurement, financial and legal negotiations will be handled in line with corporate guidelines.
- 8.2. It is envisaged that an Energy Partnership Working group will be established to deliver this project, of which membership will be determined based on the Energy Market entry option chosen.

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8.3. At this stage there has been no assessment of market interest, this will be progressed on approval of this Strategic Outline Case.

9.0. FINANCIAL CASE

9.1. Any incremental costs incurred on this project should be minimal as most of the resources expended will relate to staff time and marketing through existing channels (Wirral View and the Council's website for example).

9.2. Each customer acquired by the 'white label' supply partner has a value to them, and it is expected that the partnership will be eligible to receive a payment for every new customer. Part of these payments will be retained in order to pay for marketing costs and to assist in financing future energy efficiency projects, and part (expected to be half) will be used to discount the price that the customer pays.

9.3. There is a financial risk in that if insufficient customers take up the supply the monies received from the supply partner would be insufficient to meet the costs that have been incurred (for marketing, for example) but this is not considered material.

9.4. The costs associated with managing this project have not yet been assessed, but specialist advice (legal, procurement and financial expertise) will need to be secured. Project management and project support resources will also need to be provided by the Transformation Programme.

9.5. There are a number of dependencies which need to be carefully managed to ensure that this project remains affordable: These are:

- The availability of sufficient and appropriate resources
- Robust contract management resources
- Fluctuating market energy prices

9.6. Financial Risks and Mitigations

Risk	Mitigation
Failure to generate anticipated revenue	To produce a robust Business Plan to include marketing strategy.
Supplier market position could change (within framework period) impacting on Customers	
Significant changes in consumption could result in impact on pricing	

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10.0. MANAGEMENT CASE

- 10.1. The proposal will see the creation of an Energy supply service that will help tackle fuel poverty by enabling Wirral residents to obtain cheaper gas and electricity.
- 10.2. An objective of the project will be for Wirral Council to offer the cheapest available energy tariffs to Wirral residents in order to achieve the aim of reducing fuel poverty within the borough.
- 10.3. The greatest risk is in the Council not doing anything, which would result in fuel poverty households potentially remaining in fuel poverty and not being able to benefit from this proposed Wirral Energy scheme.
- 10.4. As part of the 1st phase, the Energy Company will focus on energy supply to residents, a second phase of the project at a later date will encompass commercial Energy for businesses, council assets, schools and colleges.
- 10.5. The project is currently in the initial phase and therefore no initial communication requirements have been identified. Engagement with Liverpool City Council has taken place to help ascertain Wirral Council energy market entry options and LCR aspirations. A high level communication plan will be developed on approval of this strategic outline case.
- 10.6. Project management, business analysis, procurement, legal, marketing and financial resources will be required to take the proposals to the next stage.
- 10.7. Estimate of resources
- 10.8. Whilst extremely ambitious, this project can be delivered provided relations with partners and politicians can be effectively managed and sufficient resources committed.
- 10.9. Work will be progressed to understand how this work will be managed on an ongoing basis as BAU.

10.10. Key risks to delivery and mitigation

Risk	Mitigation
Lack of knowledge and experience in this area	Learn from other Local Authorities experiences
The scheme is not successful	Robin Hood Energy is an established and experienced organisation

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Energy Company Market Entry Strategic Outline Case						
Option	Political Risk R = High Risk	Difficulty of Implementation R = Complex	Difficulty of Management/ Delivery R = Complex	Cashable Benefits Available R = Low	Policy Fit - meets Pledges R = Few Pledges	Total Min = 5 Max = 15
Fully Licensed Operator						
• Sole	Red	Red	Red	Amber	Green	8
• LCR	Red	Red	Red	Green	Green	9
White Label Operator						
• Undertake a sole procurement exercise for Wirral.	Green	Amber	Green	Red	Green	12
• Undertake a procurement process to include other LCR local authorities.	Green	Amber	Amber	Green	Green	13
• Partner with Liverpool City Council: Use "LECCy" brand	Red	Amber	Amber	Amber	Green	10
• Partner with Liverpool City Council: Sub brand specific to Wirral.	Red	Red	Amber	Amber	Green	9
License Lite						
• Sole	Red	Red	Red	Amber	Green	8
• LCR	Red	Red	Red	Amber	Green	8