

Leeds domestic energy services company (LESCo) Prospectus

1. Contextual background

The council has made public commitments to both reduce carbon and address fuel poverty. Specifically, the council is committed to reducing citywide carbon emissions by 40% between 2005 and 2020 and has already made significant progress towards this target. The council is also working on practical programmes to help people to afford to heat and power their homes. This is based on a three pronged approach:

1. Improving the energy efficiency of all homes in Leeds in order to reduce home energy demand;
2. Supporting vulnerable people in crisis, or at risk of crisis, to reduce the immediate suffering caused by fuel poverty; and,
3. Reducing the cost of fuel and increasing incomes in the city.

Work to date has predominantly focussed on helping people to insulate their homes and install modern, controllable heating.

In addition, the council has recently entered into a long-term partnership with Better Homes Yorkshire (BHY) to offer energy efficiency improvements available through the Green Deal to any private household in the Leeds area. The council has agreed to exclusively endorse their offer for private homes up to March 2018 in return for clear prices and quality standards, and a commitment to local employment and training. This addresses the overall carbon reduction target and the first of our three priorities for affordable warmth and also, part of the third priority as well.

The council also works in partnership with Groundwork, Care & Repair, the NHS, and a range of other public and third sector partners to identify vulnerable people and support them to improve the energy efficiency of their homes. This tackles the second of our affordable warmth priorities.

We now want to take action to reduce the number of people paying too much for each unit of energy they consume, to more holistically address our third priority. We believe that the best way to achieve this is to establish a new local energy supply offer which can provide fair and competitive energy, supported by a programme of smart meter installations and a further link to focussed energy advice.

2. High level aims & objectives

The council is seeking to establish a uniquely branded local domestic energy supply company to reduce electricity and gas fuel bills for the city's residents and to enable the local authority to deliver innovative energy services in the future, with the intention of benefitting citizens financially and pursuing broader environmental objectives.

The council does not wish to simply enter into a collective switching or white labelling arrangement. Rather, we want to create a highly flexible and dynamic local supply organisation that will allow us to:

- Build our own tariffs (incorporating the partner’s operating costs & margin);
- Invest over the medium-long term in partnership with an established energy company to acquire an ever larger customer base;
- Install smart meters; and
- Construct and implement innovative energy service offers.

This prospectus sets out the vision we have for the company we wish to create. Crucially, it states our desired outcomes and underpinning requirements. It aims to clarify who in the marketplace is both capable of delivering and willing to offer the types of services we require.

Alongside the prospectus there is a call for initial expressions of interest (EOIs). This is designed to allow organisations to demonstrate that they are in a position to meet our minimum requirements, either now or in the immediate short-term, with the objective of enabling us to gain a better understanding of market capacity. The guidance we’ve received from internal legal officers has suggested that this process will not constitute a procurement project since we will not be ‘buying’ anything *per se*. However, the council does need to ensure that it undertakes a competitive process – if there is sufficient market interest and capability – to confirm that applicable competition and state aid laws are complied with.

3. What the council can offer

The summary table below clarifies what we will and won’t offer to our chosen partner:

Included	Excluded
Endorsement – publically & with key authority partners – and use of the council brand	Payment of an upfront or ongoing fee
Ability to automatically switch all feasible voided council homes to new energy company	Purchase of energy for non-domestic (corporate) council buildings
Marketing support through the free channels open to the council (see appendix I)	Endorsement of a private sector energy efficiency offer if in conflict with Better Homes Yorkshire

To expand on the above, the relationship is envisaged to be mutually advantageous. The council will be better able to achieve its strategic objectives for the city, whereas the partner will be able to turn a profit from the venture. Indeed, the partner will secure commercial benefits from gaining access to customers that may not have been readily obtainable via normal routes. There are also links to corporate social responsibility, wherein any partner will be able to demonstrate stronger business ethics in terms of making a focussed effort to actively get customers the best deals possible. In support of the 3 core offerings set out in the table, the following is relevant:

- **Endorsement** – the council brand can be a powerful tool in leveraging public confidence. This stems from the perception that local authorities can be trusted to deliver services in a fair and professional manner. Any partner can tap into this goodwill towards the

council and in doing so access customers that might not be willing to engage in collective switching campaigns and such like due to a general distrust of mainstream energy providers.

- **Voids** – During the 2013/14 financial year, tenancy turnover for council housing created 5,542 ‘voids’, wherein tenancies were terminated and subsequently re-let. The average void timeframe is just under 30 days and it is anticipated that this presents an ideal opportunity to:
 1. Automatically switch properties to the new domestic ESCo; and,
 2. Install smart meters to replace any pre-payment meters that may be present and potentially, standard meters as well.

Annually, this approach would provide a low cost yet sizeable addition to the customer base of the company.

- **Marketing** – the council has a plethora of marketing options accessible to a potential partnership of this nature. This offers novel advertising routes that could be used to reach a wide audience through many different modes of communication. An illustration of the marketing outlets available to us is displayed in appendix I but please note that the list provided is far from exhaustive.

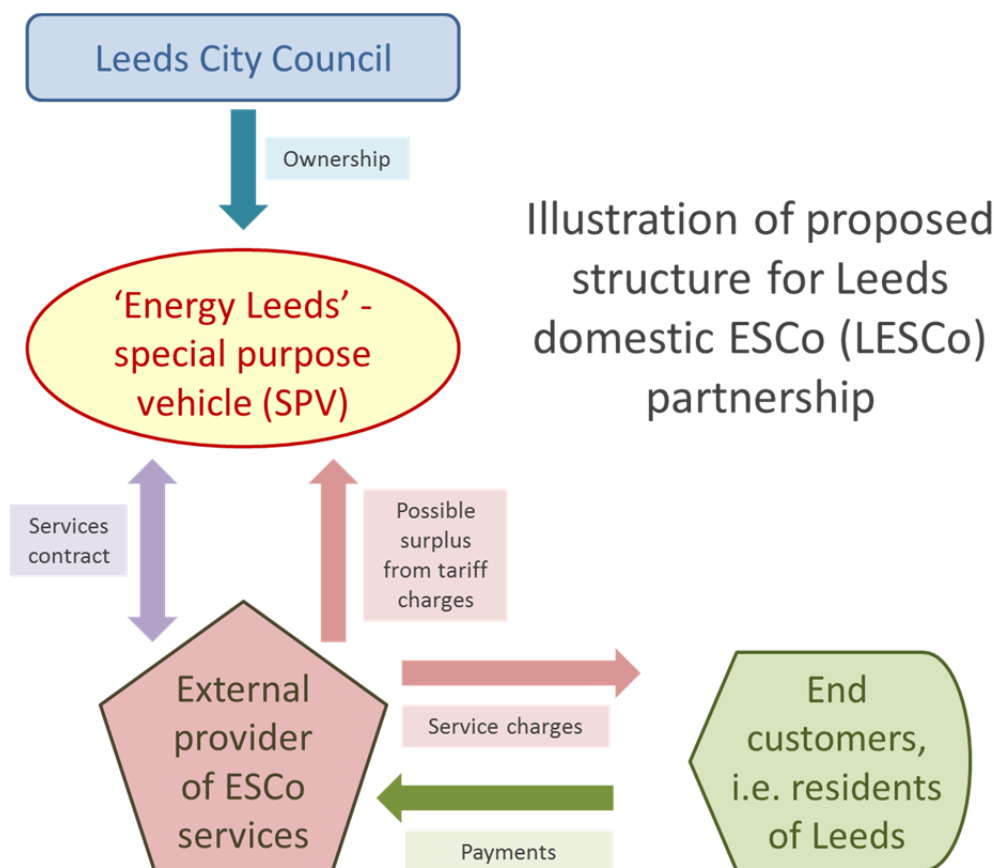
In addition, the council would help to facilitate promotion of the ESCo offer through existing city partners, such as to Housing Association tenants, NHS workers, university students, and indeed, the council’s own staff.

4. Key desired outcomes

1. Provision of lower cost energy, made available across the whole of Leeds but especially targeted towards those living in fuel poverty.
2. Facility to create bespoke tariff structures that can be tailored in a way that allows the council to tackle key socioeconomic/sustainability aims.
3. Exemplary customer satisfaction that negates historically poor customer satisfaction with mainstream energy companies and embraces technological improvements to enhance the customer experience.
4. Prioritisation of smart meter roll-out to households currently using expensive pre-payment meters.
5. Smart meter offer to all other customers ahead of legislative curve.
6. Full access to all ESCo customer consumption data, for the council and its research partners, so that trends can be mapped and potential energy efficiency interventions can be assessed.
7. Enablement of contractual routes for any renewable energy/heat generated by the council or local community energy schemes to be sold to the ESCo with the intention of passing on any associated bill reductions to customers.
8. Ability to generate a modest revenue surplus – without affecting the competitive viability of the tariff structures – to reinvest in linked initiatives around city-wide CO₂ reductions, affordable warmth, and any other innovative energy related projects.

5. Vision & requirements for partnering

It is our expectation that the partnership will involve the council setting up a special purpose vehicle (SPV) to help deliver the services required. It is envisaged that the SPV would be wholly owned by the council and would involve the partner being a 'contractor' to it. The exact legal and financial composition of the organisation to be established is yet to be formalised and hence, is open to negotiation at this point. However, for reference the proposed structure is depicted in the diagram below.



Our vision is that the company will be self-perpetuating once we get an initial influx of customers. We anticipate that by the end of year 1 we'll have a customer base of between 7,500 and 10,000 households. A rough indicative roadmap for how we'll achieve that is shown in the table below. Our hope is that the LESCo will be scalable and news will spread quickly throughout the city regarding its financial merits. Indeed, as discussed we'll be proactively marketing the offer via a number of diverse outlets. Our ultimate goal is to create a company with the greatest number of customers possible. There are approximately 320K homes in Leeds and if we can switch just a small percentage of these to the LESCo much can be achieved, both commercially for the partner and also, in supporting the council's stated aims regarding fuel poverty alleviation and climate change mitigation.

Customer acquisition channel	Conversion	Year 1 customers
Council house voids	90%	5,000
Council tenants	6%	2,750
Partnership with other social housing providers	5%	500
Council/partner staff	1%	1,250
Debt advice (contact centre, CAB, etc.)	10%	300
Energy grant recipients (BHY, Green Dec, etc.)	20%	200
Total		10,000

In terms of our requirements for partnering, outlined below are the essential and desirable criteria that any partner we proceed with must be able to satisfy. Although not all of the following will be tested during the EOI stage, we want to make it abundantly clear what we will assess if we decide to pursue a competitive process. This is to avoid the risk of an organisation committing resources to the process when ultimately they will not be able to mount a successful bid.

A. Essential criteria

1. There must be zero upfront or on-going transactional costs borne by the council during the formation or operation of the new ESCo.
2. The lead partner must be an established company with a trading history of at least 3 years.
3. Any organisation that we work with must – either in-house or through a formal partnership with an existing energy supply company – be able to provide the statutory functions of an energy supply company by no later than the 20th of January 2016 if competition is not required or the 28th of March 2016 if it is. For reference, the indicative timescales that the council is working towards are shown in the Gantt charts provided in appendix II. These illustrate 2 scenarios, one wherein competition is not required and the other, in which it is. In line with the above, prospective partners shall be in a position to provide all customer service functions at the point of launch, which we would expect to include - but not be limited to – the following:
 - Billing (statements & payments)
 - Provision of suitable apps, online accounts, & call centre services
 - Management of bad debt
 - General communications & promotional activities
4. For the avoidance of doubt, the partner will be responsible for buying wholesale energy and selling this on to the ESCo's customers as part of the overall tariff structure agreed. As such, the lead partner must, through either its own endeavours or that of a consortium partner, be able to provide evidence of past energy trading history in a domestic setting, including an analysis of performance against industry benchmarks for wholesale energy buying over a prolonged time period.
5. The combination of costs within the partner's remit – when aggregated – must be sufficiently lean and realistic such that the overall tariff – including any 'modest' council uplift – offers competitiveness when compared to the marketplace's lowest cost options at any point in time. The company must also be scalable without any tariff charges on the ESCo partner side showing disproportionate percentage increases should the company grow.
6. Potential partners must be capable of granting the council the ability to set prices and determine tariff structures (with a retained commitment to also provide some level of guidance on pricing strategies).
7. The ESCo partner must grant the council the ability to formulate 4 core tariffs, as per those listed below:
 - 1 x standard variable rate tariff
 - 1 x fixed-term / fixed-price tariff
 - 1 x pre-payment tariff
 - 1 x 'green' tariff (wherein energy is sourced entirely from renewable sources)
8. The partner must guarantee open book accounting across the whole suite of tariffs in order to give a full breakdown of the following elements:
 - Billing

- Debt recovery and bad debt (chasing payments & contingencies set aside)
 - Customer services
 - Distribution & network charges
 - Industry settlements
 - Metering
 - Trading operations (e.g. balancing, settlements, office space, wages, other overheads, etc.)
 - Reporting
 - Wholesale energy costs
 - Social & environmental obligations (i.e. immutable centrally imposed levies)
 - VAT
 - Profit margin applied
9. Partners must possess the ability to install smart meters (for both energy utilities) from the point of the ESCo's inauguration – at scale - with no installation costs to households. Initial prioritisation is to be given to customers with pre-payment meters, especially in scenarios where the council's social housing is 'voided' during tenancy changes. In the case of voids, the partner must be able to arrange and install smart meter replacements for pre-payment counterparts within the council's predetermined time window, i.e. 15 working days. The partner will also be expected to commit to KPIs for annual installations of smart meters to replace both pre-payment & standard meters.
 10. The maximum contractual term for the ESCo services offered by a 3rd party will not be permitted to exceed 5 years, after which time the council must have the option to retain the brand created and the customer base. Elaborating upon this requirement and to avoid any doubt, customers will belong to the SPV itself and not the ESCo service provider so that if the local authority decides to no longer utilise the services of the external ESCo partner the client base shall remain with the ESCo. Furthermore, the council shall own all intellectual property rights (IPR) created by the partnership.
 11. The domestic ESCo must be capable of branding itself in whatever manner it deems appropriate and all partner services shall be required to respect and co-promote that brand. The council will have ultimate say on the final branding approach chosen, albeit we will work with the partner to make all reasonable endeavours to create a brand that serves the best interests of both parties.
 12. The council must be given the ability to acquire its own customers for the domestic ESCo.
 13. There must be a 'reasonable' minimum number of initial customers required to make the commercial proposition viable upon launch and within the 1st year and furthermore, any on-going targets/KPIs around customer accretion must also be achievable (in terms of both time constraints and pure numbers) and moreover, flexible enough for the council to exceed expectations if growth is faster than anticipated.

B. Desirable criteria

14. The partner must drive innovation within the domestic ESCo. For instance, the following examples elucidate several of our most pertinent desires:
 - We expect 'best in class' technology to be used – in terms of both hardware and software – to provide a streamline, cost effective, and simple to use service that maximises the ease with which customers can engage with the ESCo.
 - The partner organisation should have a willingness to consider signing power purchase agreements (PPAs) for any local renewable energy generation falling

under the auspices of the domestic energy ESCo. Any PPAs would need to be agreed at a cost that is both competitive and representative of the system charge reductions that the partner would benefit from, e.g. the 'triad benefit'. Any additional discounts and/or innovative financing models that could further benefit the domestic ESCo would be actively encouraged.

- Where partners have to meet Energy Company Obligation (ECO) requirements, the council would expect that this funding would be made available to support the council's pre-existing energy efficiency programmes and contracts in Leeds.

Furthermore, the council would anticipate that any new forms of innovative service provision would be considered at frequent junctures throughout the relationship and moreover, subsequently integrated into the ESCo's business operations if found to be feasible from a cost/benefit perspective.

15. The council has a strategic relationship with a number of research partners, such as the University of Leeds and Leeds Beckett University. It is possible that these and other fora may generate mutually beneficial investment ideas or research programmes. Therefore, through the ESCo vehicle it would be desirable if the partner showed a willingness to embark upon applicable joint ventures and research programmes and to contribute funding towards apposite CAPEX projects.
16. Any partner should be open to the potential for utilising council run local services, where applicable, to help deliver the functions required of the domestic ESCo (e.g. call centres, debt collection operations, and so on).
17. An ESCo partnership could engender significant opportunities in respect of improving the socioeconomic prospects of the city's inhabitants by stimulating new employment and skills across several disciplines in the energy supply business sector. Examples of potential outcomes that could be achieved include: an increase in local employment; development of suitable training programmes; creation of apprenticeship placements; facilitation of work experience assignments; and so on.
18. In terms of break clauses, the council's preference would be that any fixed term tariffs are not subject to an 'early exit' or 'termination' fee since this could be perceived as inequitable. This would be especially pertinent in situations where voids have been automatically switched to the new ESCo and as such, the incoming resident neither actively nor freely chose to be supplied by it.

Appendix I – a selection of marketing outlets available to the council

Marketing channel	Format	Audience	Cost
Staff e-newsletters & various communication circulars	Electronic	LCC staff	Free
Intranet website - 'Insite'	Electronic	LCC staff	Free
Internet (external) website - various dedicated pages reaching wide range of demographics	Electronic	Public	Free
Facebook (Leeds City Council)	Electronic	6,000+ likes	Free
Twitter (LeedsCC_News)	Electronic	33,000+ followers	Free
Classified ads	Electronic	LCC internal staff	Free
Distribution of posters to display on staff noticeboards	Hardcopy	LCC Staff	Free
Referrals from Better Homes Yorkshire and affordable warmth partners	Electronic	Circa 4,000 customers per annum	Free
Media & events listings (e.g. What's On)	Electronic	Public	Free
Councillor mailing list	Hardcopy/electronic	Elected members	Free
Roundabout ads	Hardcopy	Public	Free
Outreach newsletter	Hardcopy	Public	Free
Events with LCC involvement (stands & hoardings)	Hardcopy/electronic	Public	Free
School Matters newsletter	Electronic	All schools	Free
Full Circle Newsletter	Hardcopy/electronic	Health & social care providers	Free
LeedsCard communications	Hardcopy/electronic	15,000 email	Free
Neighbourhood Learning newsletter	Hardcopy	Community Groups citywide	Free
Bodyline newsletter	Hardcopy/electronic	Bodyline members	Free
Housing Leeds newsletter	Hardcopy/electronic	Householders	Free
Housing officers	Face-to-face	Social housing tenants	Free
Horizons newsletter and Family Hub website	Hardcopy/electronic	Childcare providers	Free
Bits 'N' Pieces & website	Hardcopy/electronic	Belle Isle tenants & residents	Free
One stop centres (various locations)	Hardcopy	Staff and general public	Free
Community centres & civic buildings	Hardcopy	Staff and general public	Free
Libraries	Hardcopy	Staff and general public	Free
Leisure centres	Hardcopy	LCC staff and general public	Free
Golf centres	Hardcopy	LCC staff and general public	Free
Commercial sites, e.g. cafes, parks, Tropical World, estates, nurseries, etc	Hardcopy	LCC staff and general public	Free