

**Meeting of the Cabinet - 20<sup>th</sup> June, 2013**

**Report of the Chief Executive and Director of Adult, Community and Housing Services**

**Domestic Collective Fuel Switching – Tackling Fuel Poverty**

**Purpose of Report**

1. To provide information to Cabinet on on-going work regarding the Council's domestic collective fuel switching initiative for residents including a pilot initiative and to seek approval to further explore the options and to enter into a collective fuel switching initiative.

**Background**

***Energy Prices and Collective Fuel Switching***

2. Retail energy prices have more than doubled in less than 7 years. It is anticipated that this trend will continue as recent reports from Ofgem (the energy regulator) indicate that as the UK network of power stations lose capacity, the UK will need to 'shop' in the global energy market place. These price rises will continue to impact on households where 15.3% of households in Dudley are classified as being in fuel poverty (this is where more than 10% of a household's income is spent on fuel). These increases come at a time where residents are also feeling the impact of stagnating wages, welfare benefit reforms and rising household costs.
3. Domestic collective energy switching provides households with an opportunity to make a saving on their energy bills by switching to cheaper tariffs and/or suppliers. Research conducted on behalf of Ofgem has revealed, however, that nationally 63% of consumers have never switched energy supplier for gas and 65% have never switched for electricity. Confident consumers who were proficient at sourcing better deals, were in the minority and most consumers lacked the confidence and knowledge to switch.
4. Domestic collective energy switching has the potential to increase engagement in the gas and electricity markets and to help consumers get a fairer deal on their bills. It is still in its infancy in the UK but the concept is growing fast with 65 councils now involved helping 100,000 residents to save more than £10 million.
5. It works through likeminded consumers banding together to negotiate a better deal with their gas and electricity suppliers. There is no set model for how individual schemes will operate, but this will usually be facilitated by a broker.
6. The broker operates as a third party and will negotiate a tariff on behalf of the consumers they represent via an energy auction. Residents register their interest in the 'collective' which enables the broker to indicate to the market the potential 'switching' pool. The schemes are free for residents to join. The broker

takes responsibility for running the reverse auction(s) to identify the lowest cost energy provider. It is during this process that energy companies are given opportunities to put forward their lowest price per kilowatt of electricity and cubic metre of gas.

7. The contract to supply is won by the lowest cost energy provider. The householders then decide whether to switch under the scheme and to contract with the chosen energy provider. There is no obligation to switch until after the auction when households receive an estimated revised fuel bill based on the successful tariff. Energy auctions can also include the potential for pre-payment customers to switch. Not all residents will necessarily save and this depends, for example, on their fuel usage and their existing tariff and method of payments.
8. A Local Authority enabled collective offers the opportunity to secure cheaper energy for local residents and with the right scheme there is also the potential to secure an investment stream from finders' fees.

### ***Local Authority's Involvement***

9. A number of councils have already developed collective energy switching schemes. One of the early schemes has been led by Oldham MBC with their initial auction held in October 2012. This has been developed into a Greater Manchester (GM) collective switching scheme which Wolverhampton City Council linked into earlier this year.
10. Wolverhampton's initial round of fuel switching promotion using the Oldham framework and their intermediary provider (broker) iChoosr led to 2359 Wolverhampton households signing up to the e-auction. The average saving was approximately £114.00. Due to this success, Wolverhampton Council has secured agreement from iChoosr and Oldham to waive joining fees for Dudley Council and the other Black Country authorities.
11. Interest in a collaborative Black Country Community Energy Switching Scheme was sought at a recent ABCA meeting from Wolverhampton City Council. Evidence from other collective switching schemes is that greater benefits can be potentially secured through higher participation and therefore the wider the geographic area the better for residents.
12. The response was very positive with Dudley and the other two Black Country authorities expressing interest in joining the Oldham framework with iChoosr as the intermediary provider (broker) to undertake domestic collective fuel switching as a pilot initiative linked with Wolverhampton City Council based on:
  - No fee being charged by iChoosr, Oldham or Wolverhampton Councils to Dudley residents
  - Any referral fee (income) paid as a result of this pilot initiative relating to Borough residents is received by Dudley Council.
13. This has enabled us to receive advice and assistance from Wolverhampton for free and based on this and the 'offer' from Wolverhampton CC it was agreed to run a pilot for the June 4<sup>th</sup> auction.
14. Dudley's pilot collective switch was promoted through our website and residents were able to register in the switch through clicking on a link and registering their

interest. A maximum of 5 email addresses could be registered from one computer. Telephone registration was also available. The cut off date for this auction was 3<sup>rd</sup> June 2013. A press release was also issued and there was coverage in the local press.

15. This opportunity provided the Borough with the following:
  - Immediate support to Dudley consumers as they face the challenges arising from higher consumer prices against static and in some cases reduced incomes
  - Supporting the Council having greater relevance to its residents
  - Initial planning and support given through the 'tried and tested' route of Oldham Council
  - Minimal risk to Dudley in the initial trial of collective/co-operative ventures
16. It is anticipated that there will be an opportunity to be involved in a further collective energy switch using the Oldham framework with the Black Country councils in Autumn 2013. It is intended that a future initiative will involve a range of council services (including Dudley Council Plus) helping residents become aware of the option to register and in some cases registering their interest for them (where they have no access to the internet).
17. There are, however, other frameworks that the Council could join – some of these frameworks may incur a joining fee. It is intended that the council will explore and appraise all the available options for collective domestic fuel switching – including the cost / benefit of each option - prior to making any final decision for a further initiative. Lessons learnt from the pilot initiative will be incorporated into this appraisal. .
18. The risks to a successful project have been considered. The two most significant ones are:
  - A slow start to the promotional campaign may lead to a low sign up by the 3<sup>rd</sup> June cut off. A total of 206 households had registered their interest by the cut off date of 3<sup>rd</sup> June 2013.
  - Failure of energy suppliers to offer attractive tariffs to customers in the auction leads to low numbers of switchers.
19. Both of these are seen as acceptable risks to provide Dudley consumers with a choice and opportunity to reduce energy costs at a time when prices are rising faster than earnings.

## **Finance**

20. There is no cost with Dudley Council joining with Greater Manchester's collective energy switching scheme. Other frameworks may charge a joining fee. The marketing of a scheme to residents to make them aware of the opportunities of collective switching would be an additional cost but would help to maximise interest in the scheme including maximising the take up for vulnerable households. The maximum budget required for this aspect is £10,000. It will be funded through DACHS revenue reserves.

## **Law**

21. Any business dealing with consumers is bound by consumer protection laws, and organisers of collective purchasing and switching arrangements are no exception.

Much of the relevant consumer law is intended to ensure that services are provided with reasonable care and skill, that information provided is accurate and that businesses act fairly towards consumers. Where there is any collection of data the council will need to comply with our obligations under the Data Protection Act 1998. It is clear the council can participate in this scheme. It will however be important that the campaign is clear that the Council is facilitating the scheme but makes clear that the contract will exist between the consumer and the energy provider.

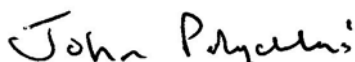
## **Equality Impact**

22. It will be crucial to target communications using existing Council and wider partner networks. Links with Credit Unions, CAB and community organisations will be critical to the support of the energy switching campaign and to ensure that all households – including vulnerable households – get an opportunity to register their interest in the collective switch.
23. The Greater Manchester scheme has been able to secure interest in the pre-payment meter consumer.

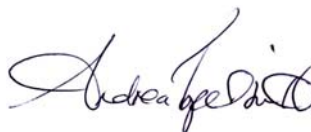
## **Recommendation**

24. It is recommended that:-

- The contents of the report are noted.
- The approach set out in the report to explore and appraise the various options (including the Black Country approach) for a collective energy switching scheme for Dudley households (including incorporating any findings from the pilot) is agreed.
- Cabinet authorises the Chief Executive in consultation with the Leader, and Cabinet Member for Housing to enter into a collective energy switching scheme.
- approval is given for the use of up to £10,000 to support this initiative and to undertake a range of promotional activities.
- Any referral fees (income paid to the Council through the collective fuel be used as follows:
  - 50% towards continued support for tackling fuel poverty initiatives in Dudley including future promotion activity for successive rounds of collective fuel switching.
  - The remaining 50% is considered as additional income for the council.



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**John Polychronakis, Chief Executive**



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## **List of Background Papers**

Text for Energy Switch Page

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<sup>i</sup> 2011 Sub-regional fuel poverty data, DECC May 2013