

<b>DECISION-MAKER:</b>	<b>CABINET</b>		
<b>SUBJECT:</b>	<b>SOUTHAMPTON ENERGY SERVICES COMPANY</b>		
<b>DATE OF DECISION:</b>	<b>20 FEBRUARY 2018</b>		
<b>REPORT OF:</b>	<b>CABINET MEMBER FOR SUSTAINABLE LIVING</b>		
<b><u>CONTACT DETAILS</u></b>			
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#### **STATEMENT OF CONFIDENTIALITY**

Appendix 1 of this Report is not for publication by virtue of category(s) 3 (financial and business affairs) of paragraph 10.4 of the Council's Access to Information procedure Rules as contained in the Council's Constitution. It is not in the public interest to disclose this information because the information to be withheld in the appendix to the main report, is considered to be commercially sensitive and has a direct link to the future contracts employed by the Council and the Council itself. Disclosure may prejudice any future tendering exercises to secure a partner to deliver the energy product and the terms of such agreement affecting the Council's opportunity to secure best value for the citizens of Southampton and beyond through the energy company project. It is therefore not in the public interest to disclose the contents of the appendix while a procurement process is anticipated to secure the delivery of the project as any benefit gained through increased transparency of the negotiation process would be directly exceeded by the commercial detriment to the Council's negotiating position.

#### **BRIEF SUMMARY**

A public procurement process has taken place to secure a partner to enable the establishment of a Southampton Energy Service Company (ESCO), as approved in the previous cabinet paper dated 20th June 2017. Please see the Appendix 1 paper for further background to this report.

The purpose of this report is to seek approval from Cabinet to award a contract to the winning bidder, identified in confidential appendix 1, to enable the formation of a Southampton branded white label energy supply service (hereafter referred to as the 'Energy Supply Service') to be operated and marketed within the southern region.

A compliant open tender process has been undertaken, which has resulted in a successful bidder.

The content of the report provides the rationale behind why this decision is recommended.

<b>RECOMMENDATIONS:</b>		
	<b>(i)</b>	Following an evaluation process undertaken in accordance with the contract procedure rules (CPR), Cabinet are recommended to endorse the evaluation outcome and to approve the award of the contract to the winning bidder identified in appendix 1 for a period of 5 years from the contract start date (planned 9th March 2018) subject to continued satisfactory performance and meeting the council's contractual requirements.
	<b>(ii)</b>	To delegate authority to the Associate Director Capital Assets, to approve decisions relating to the development, operation and financing of the Energy Supply Service from contract signing onwards.
	<b>(iii)</b>	To delegate authority to the Associate Director Capital Assets, to develop and secure contracts with committed local authorities and social landlords to enable regional endorsement and partnership working with the Energy Supply Service.
	<b>(iv)</b>	To delegate responsibility to the Associate Director Capital Assets following consultation with the Energy Supply Service Project Management Board and the Tariff Setting Board to manage the requirements of the contract and to agree the setting of tariffs, rebates and marketing resources for the Energy Supply Service.
<b>REASONS FOR REPORT RECOMMENDATIONS</b>		
1.	As approved at cabinet 20 <sup>th</sup> June 2017, the council have run a two stage procurement process to secure a partner organisation, in line with procurement regulations, for a 5 year concession, which will enable the council to establish an Energy Supply Service.	
2.	The closing date for responses was the 12 <sup>th</sup> January 2018 and at the closing deadline three responses had been received. This was in line with expectations.	
3.	The evaluation process established that the winning bidder submitted the most economically advantageous tender and it is recommended that the contract be awarded to the winning bidder.	
4.	Not only is the winning bidder able to provide the services we requested but many aspects of their bid are innovative in the existing energy market, particularly with regards to proven delivery of the white label model and bringing about alleviation of fuel poverty, which is one of the City Council's key objectives.	
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>		
5.	The market has been tested and alternative bidders were considered through an open tender process. The winning bidder submitted the best quality bid.	
<b>DETAIL (Including consultation carried out)</b>		
6.	The confidential appendix 1 provides further information concerning the procurement process, preferred bidder, Energy Supply Service trademark and	

	financials, which are not currently able to be publicised as the procurement and trademarks registration processes are yet to be finalised
7.	The previous Cabinet paper, Establishment of a Southampton Energy Services Company - 20th June 2017, gave approval for Southampton City Council to procure an Energy Supply Service partner.
8.	The Concessions Contract Regulations 2016 and the Public Contract Regulations 2015 determine that the council undertake a fair, open, and transparent competitive process when seeking to appoint a partner to deliver the Energy Supply Service.
9.	Therefore, an open procedure was followed with a 50/50 percentage split chosen between quality and indicative commercial elements respectively.
10	<p>The winning bidder has the experience to work with SCC and its partners to deliver on the councils overall aspirations, which include:</p> <ul style="list-style-type: none"> <li>• Cost effective energy rates for domestic residents (target 10k meter points in year 1), Southampton businesses and within the southern region.</li> <li>• Simple tariffs including fixed and pre-payment tariffs.</li> <li>• Working with us to tackle fuel poverty and improve the lives of residents in Southampton and southern England.</li> <li>• Provide a low risk income to the City Council</li> <li>• A void energy service for SCC and other local authority tenanted, new build and leased properties. This will include domestic properties and in the future commercial properties. An example SLA was provided as part of the tender submission.</li> <li>• Providing a platform for future investment in energy efficiency initiatives as well as additional energy generation.</li> </ul>
11	Southampton is leading the delivery of a southern region local authority Energy Supply Service to supply domestic, and in the future businesses, energy using an outsourced, low risk, low cost approach that focuses primarily on saving customers money on their energy bills.
12	There are 13 Southern Council Energy Group members that have provided an initial commitment to endorse and market the Energy Supply Service (the endorsee authorities).
13	The 13 endorsee authorities are Basingstoke and Deane, Bournemouth, Cherwell, East Hampshire, Guildford, Hart, Havant, Oxford, Reading, Rushmoor, South Northamptonshire, West Berkshire and West Oxfordshire, and are home to 847,290 households, including Southampton. This equates to 61% of the total households within the Southern region.
14	<p>The project plan key dates are:</p> <ul style="list-style-type: none"> <li>• Trademark formally registered 5<sup>th</sup> March (subject to approval)</li> <li>• Final contract award 9<sup>th</sup> March</li> <li>• Mobilisation 4 months</li> <li>• Go live – 2<sup>nd</sup> July.</li> </ul>
15	In summary mobilisation will include:

	<ul style="list-style-type: none"> <li>• Full development of marketing plan – internal and external partners</li> <li>• Finance agreements between the winning bidder, SCC and partners</li> <li>• Development and sign off of formalised agreements between SCC and endorsee LAs</li> <li>• Setting up and configuring systems, which includes website (internal and winning bidder), supplier customer relationship management and billing systems.</li> <li>• Training of all direct stakeholders</li> <li>• Operational set up and testing</li> </ul>
16	Go live is planned for July with soft marketing through existing channels to tenants and those identified as being in fuel poverty; however, it is currently planned that a full marketing campaign will commence in September 2018 in time for the autumn switching season.
17	<p>Consultation on the Energy Supply Service has been carried out with:</p> <ul style="list-style-type: none"> <li>• Chief Officers Management Team</li> <li>• Associate Director Capital Assets,</li> <li>• Finance, Legal, Procurement (client and Capita)</li> <li>• Cabinet</li> <li>• Cabinet Member for Sustainable Living</li> <li>• The Environment Centre</li> <li>• 13 Southern Region local authorities</li> </ul>
18	<p>The communications, marketing and brand trademark work is ongoing and has:</p> <ul style="list-style-type: none"> <li>• Delivered an energy supply service survey. 1,346 members of the Southampton community responded and over 500 responders provided their email addresses to be kept updated on the progress of the energy brand. Feedback was positive, with 80% of respondents very likely or fairly likely to consider buying energy with SCC.</li> <li>• The Energy Supply Service trademark brand name was chosen from the shortlisted names at a People’s Panel on 8th November 2017 (see appendix 1 for confirmed name). Web addresses have been secured for the shortlisted names.</li> <li>• Developed branding for the Energy Supply Service and formally commenced registration of the trademark, 15th December 2017. If there are no objections, the trademark will be formally registered by the 5th March 2018.</li> <li>• The trademark name will not be publically confirmed until the formal registration is authorised by the Intellectual Property Office.</li> </ul>
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Revenue</u></b>	
19	The principle resource requirements of the Energy Supply Service will include marketing of the brand to secure customers, stakeholder engagement and management, along with contract management.

20	The contracted partner will be responsible for the supply of energy, all energy licence responsibilities and the back office functions of the Energy Supply Service. Therefore the ongoing financial risks to the Council are limited to the annual marketing and contract management costs.
21	The estimated revenue costs for delivery of the Energy Supply Service in year one are approximately £158k, which principally covers marketing and communications of the brand. Annual ongoing revenue costs are subsequently expected to reduce to around £80k per year.
22	The year one setup costs will be funded from available PUSH (Partnership for Urban South Hampshire) funding currently held in the Housing & Sustainability Portfolio.
23	Under the proposals the annual ongoing revenue costs for marketing, and contract management will be funded from the income generated by the Energy Supply Service from year two onwards.
24	The Council will receive income from each customer supplied via the Energy Supply Service at a rate known as the recovery rate. This has been confirmed as part of the procurement process and used for income estimates.
25	The 5 year customer target will be agreed as part of the contract and further negotiation process; however, the Energy Supply Service is projected to capture a minimum 40,000 customers across the region within 5 years.
26	SCC will work with other local authority areas to endorse and incentivise local marketing to increase customer numbers and help recover set up costs and maximise the wider benefit to consumers under a single regional brand.
<b><u>Property/Other</u></b>	
27	None
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
28	The procurement of an energy supply partner can be undertaken in accordance with s.1 Localism Act 2011 – the general power of competence and under s.111 Local Government Act 1972 – the power to do anything conducive to, ancillary to or calculated to facilitate the discharge of the Local Authorities powers and functions.
<b><u>Other Legal Implications:</u></b>	
29	Any company established to deliver energy services will be required to comply with relevant provisions of the Companies Act together, all relevant regulatory requirements for the energy sector, the public sector equalities duty and other relevant pervasive legislation.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
30	The council is not directly purchasing services from the Energy Supply Service partner; therefore the risks associated with the project are primarily centred on service delivery to the end consumer and income generation, which could affect the resources available for marketing and the expected additional

	benefits.
31	The project's risk register will continue to be assessed and updated on a monthly basis during the mobilisation period, through to go live.
32	The recommendations present no risks to current service delivery.
33	<p>The proposal may cause a moderate to significant level of external stakeholder concern, particularly around reputational risk. These risks are being minimised by:</p> <ul style="list-style-type: none"> <li>• Contracting with an experienced and market leading partner.</li> <li>• Development of an effective marketing plan.</li> <li>• Consultation with the community and endorse local authorities.</li> <li>• Securing internal resources to effectively manage the contract through mobilisation and beyond.</li> <li>• Maintaining a risk register, assessing and updating this within mobilisation and ongoing contract relationship meetings.</li> <li>• Managing sensitive data in accordance to General Data Protection Regulations.</li> </ul>
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
34	Specific alignment with corporate strategy outcome - People in Southampton live safe, healthy, independent lives and the Executive Political Commitment to work with other local councils to launch our own power company; use it to offer cut priced electricity and gas to residents.
35	Strategic interdependencies include work on fuel poverty, public health, decent homes, Low Carbon City, Carbon Reduction Policy.

<b>KEY DECISION?</b>	<b>Yes</b>	
<b>WARDS/COMMUNITIES AFFECTED:</b>	All	
<u>SUPPORTING DOCUMENTATION</u>		
<b>Appendices</b>		
1.	Confidential - Business Plan: Energy Supply Company (ESCo)	
2.	Equality and Safety Impact Assessment	
<b>Documents In Members' Rooms</b>		
1.	None	
<b>Equality Impact Assessment</b>		
<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>		<b>Yes</b>
<b>Privacy Impact Assessment</b>		
<b>Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.</b>		<b>No</b>
<b>Other Background Documents</b>		
<b>Other Background documents available for inspection at:</b>		
<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>	
1.		
2.		