

PLYMOUTH CITY COUNCIL

Subject: Energy Co-operatives
Committee: Cabinet
Date: 15 January 2013
Cabinet Member: Councillors Penberthy and Vincent
CMT Member: Anthony Payne (Director for Place)
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Ref: JMS
Key Decision: No
Part: I

Purpose of the report:

The purpose of this report is to identify and agree the key principles for the creation of an Energy Co-operative in Plymouth. The report also seeks approval to delegate authority in progressing delivery of the Co-operative.

Corporate Plan 2012-2015:

The report directly supports the Co-operative Council's approach to best meet the needs of local communities by utilising co-operative models of delivery and to promote a low carbon city. The proposal directly relates to the Council's Greener Plymouth commitment pledges to 'create a co-operative energy supply company or mutual to negotiate better gas and electricity prices for domestic users and one to support solar energy generation'.

The proposal to create an Energy Co-operative also supports the Council's priority for delivering sustainable growth, reducing inequalities as well as providing value for communities. Specifically, the Corporate Plan identifies priorities including 'improving energy efficiency in buildings, developing and making low carbon district heating schemes viable and reducing the emissions of public sector estate, and reducing per capita CO2'.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

Further work is still required to understand and define the financial and resource implications in establishing and managing an Energy Co-operative. £21,250 funding has been identified from within existing Place Directorate budgets for 2012/2013 to progress the Business Case and explore the financial implications of different business models. Support has also been sought from the Co-operative Enterprise Hub (part of Co-operatives UK, the national body for co-operatives), who can provide advice on business planning and legal structures. Appropriate funding will be sought from the Place Directorate budget in 2013/2014, according to the level of resource required, which will be identified in the Energy Co-operative Business Plan. This is likely to include funding for marketing or promotion of the proposal initially and the establishment costs.

Other implications: e.g. Child Poverty, Community Safety, Health and Safety, Risk Management and Equality, Diversity and Community Cohesion:

The low carbon / energy initiatives will directly support the promotion of community cohesion by helping to provide cost reductions, including for households with lower income, addressing the causes of fuel poverty. This is also a key theme within the draft Child Poverty Strategy. These proposals are also being developed in conjunction with the social inclusion unit and need to consider how to tailor approaches to different audiences and package benefits together.

The consultation process will ensure that other relevant stakeholders will be engaged within the Council and also externally, where relevant, including housing associations, businesses, social enterprises and public sector organisations.

Recommendations & Reasons for recommended action:

It is recommended that the Cabinet:

1. Approve the principles for an Energy Co-operative to deliver a range of cost and carbon saving initiatives for local communities, focusing initially on collective energy purchasing/switching.

Reason: To enable the Council to develop the business case for energy co-operatives in line with the Corporate Plan

2. Delegate authority to the Assistant Director for Planning, in consultation with the Portfolio Holder for Co-operatives and Community Development and the Portfolio Holder for Environment, to agree the business model for the Energy Co-operative and progress the delivery, subject to budgetary provision being identified and necessary approvals.

Reason: To enable the Council to progress delivery of the Energy Co-operative in line with the Corporate Plan.

Alternative options considered and reasons for recommended action:

Alternative options will be explored through the Energy Co-operative outline business case.

Background papers:

- Apse Briefing: Collective energy purchasing and switching working group recommendations. <http://www.apse.org.uk/briefings/12/12-42%20Collective%20energy%20purchasing%20and%20switching.pdf>
 - DECC Factsheet: Collective Purchasing and Switching: What potential providers need to know. <http://www.decc.gov.uk/assets/decc/11/funding-support/5367-collective-purchasing--guidance-for-providers.pdf>
 - Background Paper 1. Energy Co-operatives Review of Examples in the UK
 - Background Paper 2. Options For Energy Switching/ Purchasing Clubs
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Sign off:

Fin	PC.PlaceF PC1213 013.101212	Leg	JAR/16245 TH0073	HR	N/A	Corp Prop	N/A	IT	N/A	Strat Proc	N/A
Originating SMT Member: Paul Barnard Assistant Director for Planning											
Have you consulted the Cabinet Member(s) named on the report? Yes											

1.0 Background

- 1.1 The purpose of this report is to identify and agree the key principles for the creation of an Energy Co-operative in Plymouth. The report also sets out the next steps which have been identified for delivery of the Co-operative.
- 1.2 Plymouth City Council is developing proposals for locally owned energy solutions. The cost of heat and power for residents and businesses has increased significantly in recent years. The average bill for a standard tariff dual fuel customer was £1345 in December 2011, from £865 in December 2007. Prices are projected to continue to rise significantly in the future, as set out by OFGEM, and this can be seen in the recent price increases by a number of the major providers. This is a result of a combination of factors, but primarily increases in wholesale energy costs. Over 14,000 households across the City are already living in fuel poverty (draft Plymouth Report 2012) and increases in energy prices will exacerbate this position, together with the method of bill payment. This also links to carbon reduction challenges, with 33% of city's carbon emissions associated with domestic energy use.
- 1.3 The main focus of this report is the development of an Energy Co-operative. The business case is being progressed, including options for delivery based on the market research; however key principles are set out, including next steps in more detail.

2.0 Opportunities for Co-operative Solutions

A Co-operative is an autonomous entity of people or businesses that come together in order to meet their common economic, social and/or cultural needs more effectively through joint ownership and democratic governance. Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity.

In 2011, the total number of co-operatives in the UK was 5,933 – a growth of 8.9% on the previous year. The number of memberships grew by 5.5% to 13.5 million. The co-operative economy grew by 1.5% outperforming the UK economy for the fourth consecutive year.

Energy co-operatives are one of the fastest growing sectors. Co-operative Energy is just over 2 years old and won the 'Consumer Action Award at Which' awards 2011 and more recently the Big Switch Auction when 40,000 more people committed to move to Co-operative Energy. Some examples of Energy Cooperatives are included in the background paper 1.

The co-operative economy shares ownership amongst many groups of owners: residents, consumers, workers, the community or enterprises. The benefits of sharing ownership include:

Better governance – Co-operative membership will encourage both delivery in the short-term and to safeguard the long-term i.e. serve their members' best interests
Greater accountability – boards have a clear and transparent chain of accountability to their members and the people the business most affects

Enhanced prosperity – greater involvement from stakeholders and members means that the organisation is likely to be serving its members better and therefore is more likely to prosper.

Plymouth City Council as part of its Co-operative Council agenda is exploring co-operative approaches, including in relation to energy, providing a leadership role as an honest broker to facilitate these solutions.

3.0 Plymouth Energy Co-operative

- 3.1 There are opportunities for a community or 'not for profit' entity in Plymouth, to deliver a range of carbon and cost savings for residents and businesses, including energy bill reductions, renewable energy, and energy efficiency measures.
- 3.2 Key principles for an Energy Cooperative could include to:
- Offer / negotiate a better price for energy for local people and businesses.
 - Address the challenges of fuel poverty and carbon reduction through innovative approaches.
 - Be based on Co-operative values of self-help, self-responsibility, democracy, equality, equity and solidarity and allows local people to have a stake in its operations, using an open, democratic and transparent governance structure, with membership open to all.
 - Tackle the issues of those on the lowest incomes often paying the highest tariffs for energy.
 - Simplify the number and complexity of low cost and low carbon tariffs.
 - Increase use of solar powered renewable energy technologies, through (i) community investment on solar installations on public or community buildings (ii) bulk purchasing of solar renewable energy equipment (or other renewable energy products).
 - Seek to reinvest profits back into fuel poverty and carbon reduction programmes or other community initiatives.
 - Provide advice and information on energy issues in relation to reducing costs and carbon emissions.
- 3.3 There is the potential to offer a range of energy customers in the City lower energy bills through collective approaches to switching tariffs, direct negotiation or hedging. This can make a significant difference to reducing costs for local households and businesses and also help address fuel poverty. The Association of Public Sector Excellence (APSE) has recently published guidance on this, together with the Department of Energy and Climate Change (DECC). Councils can facilitate negotiations on behalf of householders (without themselves entering into a contract). A range of potential approaches to collective switching are set out in the background paper 2. The method of payment is also important for many residents, including for households with the lowest incomes, and some schemes allow those with pre-paid meter cards to participate. Businesses can also benefit as well as domestic customers, through either buying collectives or through combined energy buying baskets (where energy brokers can hedge for business organisations such as in Northampton).

- 3.4 It is currently envisaged that a clear initial role for an Energy Co-operative could be focused around collective energy purchasing or switching, delivering cost savings for residents and businesses, and addressing inequity in energy billing, but it is important to understand how it could also support other low carbon initiatives, which would also deliver further cost savings. There are also clear opportunities for solar power in Plymouth (with some of the best solar radiation in the UK), with potential share issue or investment in solar installations on community buildings. Discounts could be achieved on renewable energy equipment through bulk purchasing, which can be passed onto the owner/ occupiers. Future Co-operative activities could expand to include other renewable solutions, including biomass and investment in marine related renewable energy.
- 3.5 The Energy Co-operative could also act as an investment vehicle used to deliver a range of initiatives, with the potential to utilise funding from a range of sources, including Green Deal and Energy Company Obligation (in relation to building retrofit programmes), Feed in Tariff and Renewable Heat Incentive (in relation to renewable energy installations), together with S106 or grant funding. From 2016, 'Allowable Solutions' funding may also be available from developments to meet their carbon compliance. This would require a delivery vehicle, such as a 'Community Energy Fund', as set out by the Zero Carbon Hub (the national centre of excellence in relation to carbon research, endorsed by Government).
- 3.6 By taking a holistic approach and packaging together a range of measures to suit the relevant audience, would also increase the potential success and uptake of low carbon initiatives. The Co-operative can also help support the local economy and will potentially create local jobs with the development of local supply chains (this can be quantified at the next stage).

4.0 Next Steps

- 4.1 A Business planning exercise will be progressed from January 2013 to explore the different business models, their activities, benefits, viability and resource implications. This will include investigation of a minimum two options including: (i) partnering with other Local Authorities and/or other co-operatives (ii) developing a bespoke Plymouth Energy Cooperative. The first option may have a reduced lead in time.
- 4.2 The Business Plan will also identify some of the key social, economic and environmental benefits that could be generated and potential performance targets.
- 4.3 As part of this process, relevant stakeholders will be engaged within the Council and also externally, where relevant, including housing associations, businesses, social enterprises and public sector organisations. Market research is needed to determine the market demand in respect to the different stakeholder groups. Understanding the willingness of residents and businesses to engage with a Co-operative is vital. Potentially the Co-operative will save them money and they can choose to take a more, or less, active role within it.

- 4.4 Branding and marketing are also needed to promote and influence uptake to ensure that stakeholders are aware of the benefits. This type of scheme is more successful with greater numbers of people signing up. In the South West over 40% of domestic energy customers have never switched, according to Department of Energy and Climate Change Quarterly Energy Prices (September 2012) and this could potentially be higher in Plymouth. Beneficiaries would include tenants, owner- occupiers and local businesses.
- 4.5 Further work is required to understand the most appropriate business and governance options for an Energy Co-operative in Plymouth, including financial and resource implications. The process of exploring any enterprise, co-operative or other entity, requires development of a 'top-line' business plan. It is vital to have a clear vision, mission, aims and objectives. The top-line plan will take market research (primary and secondary) and start to outline the viability (and returns) of the proposal.
- 4.6 Being clear on the strategy will then enable the right legal structure and governance to be put in place. The structure could be a standalone 'not for profit' social enterprise, but needs to be endorsed by the Council to create trust and confidence. Partnership approaches with other organisations will also be explored.

5.0 Links to other initiatives

- 5.1 The City Council is proposing to invest in a range of energy efficiency and renewable projects on its own estate that will contribute to the Council's aims to become carbon neutral. There is still potential to explore whether investment in solar installations on City Council buildings or land could be made by the Co-op.
- 5.2 There may be an opportunity to offset any residual authority carbon through projects undertaken by the Co-op in order to achieve carbon neutrality in the medium term. Further work is required to establish what methodologies/ guidelines to use in order to achieve credible carbon neutrality.

6.0 Timescales for delivery

- 6.1 The Energy Co-operative Business Plan will be progressed from January 2013, to inform the implementation of this proposal. This work will be completed by April 2013.
- 6.2 Potential timescales for delivery could be:
- Launch Plymouth Energy Switching Initiative by July 2013
 - Following the launch 3- 4 months will be required to achieve a sufficient critical mass of people signed up to negotiate energy price reductions for consumers, by which time the appropriate legal structure can be established. Customers could therefore anticipate cost savings to start after October 2013.
 - Launch solar share issue by March 2014.
- 6.3 All of this work will be prioritised in the forthcoming Planning Department Business Plan 2013 – 2016.