



Collective energy purchasing and switching working group recommendations

To: All contacts in UK

Key issues

Schemes to enable users to reduce energy costs managed by local authorities

Opportunities for income generation for local authorities

Existing schemes in place in Cornwall, South Lakeland and Peterborough

1. Introduction

Following the Energy Summit last Autumn, Ministers were keen to build on the potential for consumers in the gas and electricity market to benefit from collective purchasing and switching, become more empowered and reduce their energy costs as a result.

Collective switching offers households an opportunity to sign up to a scheme that allows an intermediary to negotiate with energy companies on their behalf in order to secure the householder a discounted energy price. This is a result of the energy company being influenced by the number of people engaged in the scheme. There is a process of registration for anyone who are interested in switching gas and electricity suppliers. This is managed by a local authority (or other organisation) and anyone living within or outside the local authority boundary may sign up.

2. Progress

In order to explore this issue further Ministers established a working group to see what potential there was for collective purchasing and switching models and review any barriers to helping consumers come together and get a better deal. The Group has now recommended that fact sheets for consumers and collective purchasing/switching organisations be produced highlighting key things for collective switchers or purchasers to consider as well as a fact sheet for organisations and individuals who might organise collective purchasing or switching for energy consumers which will highlight the key issues to consider when setting up a scheme. Factsheets are on the DECC website at - <http://www.decc.gov.uk/en/content/cms/funding/collectpurch/collectpurch.aspx>.

The Group has recommended that Ofgem publish guidance about which standard licence conditions suppliers and organisations will need to consider in relation to collective purchasing and switching. It is Ofgem's general view that the licence requirements do not prevent suppliers engaging with such schemes. However, suppliers are responsible for ensuring compliance with the terms of their licence and will need to seek their own advice on how the rules apply in particular circumstances..

Ed Davey, Secretary of State, has written to all domestic gas and electricity suppliers to stress the importance of their engagement in collective purchasing and switching. It will of course be up to the individual companies to participate or not based on the commercial viability of the scheme presented to them.

DECC has agreed to work with the LGA on developing advice for Local Authorities interested in collective purchasing and switching. The Secretary of State has written an open letter to all Local Authorities calling on them to get involved in collective purchasing and switching schemes to help residents get a better deal on their energy bills. He encourages all to consider how they might lead and facilitate community energy switching and bulk buying schemes noting that local authorities are well placed to help local residents manage high energy bills by organising switching and bulk buying schemes, as a result of their position of trust in local communities and partnerships with other key players.

3. Practicalities

A number of schemes have been established specifically in Cornwall, South Lakeland and Peterborough (the latter with another 9 councils as an aggregation procurement project) all at different stages. See contact details for the Peterborough led scheme below. The general approach is that a period for sign up is defined followed by a 'reverse auction'. The reverse auction could see energy companies bid against each other to offer the lowest tariffs, in the hope of winning tens of thousands of new customers. Final prices are then set and information sent to everyone who had registered – with them having the chance to accept the price or decline it. Companies acting as partners to the local authority estimate that in the UK around £150 to £200 could be the average annual saving for consumers.

Once the switch has taken place a share of the switching fee will be received by the local authority from the supplier and this can be used by the Council to combat fuel poverty within the locality.

Some local authorities already run or are involved with 'heating oil clubs' which can help local residents save money through bulk purchasing.

4. APSE Comment

APSE welcomes this type of initiative which can potentially benefit both local authorities and local communities. Using any income to the council for tackling fuel poverty clearly promotes their place-shaping and leadership roles addressing a significant issue at a time of financial hardship for many. Local people benefit from such spending generated by the scheme as well as being able to make savings by signing up for cheaper energy prices. The suppliers are competing in the market, have an opportunity to gain further customers whilst working in partnership with local authorities and will benefit financially as a result.

Schemes such as these require effort by the local authority to communicate with their local residents. Engagement remains a difficult issue to address for many local authorities who are skilled at communicating with certain sections of the population such as benefit recipients or council house tenants. However, engaging with hard to reach groups or with those who are indifferent is difficult. This type of scheme is more successful the more people sign up so communication is paramount.

Partnership working with energy companies is another example of how local authorities can work with other sectors for the benefit of local residents and gain some income for themselves. Those local authorities willing to get involved in this type of scheme will invariably be the ones who take the risk but who also have most to gain.

Local authorities wishing to become involved in collective energy purchasing and switching are referred to the DECC website at:

<http://www.decc.gov.uk/en/content/cms/funding/collectpurch/collectpurch.aspx>

Cornwall Council at <http://www.cornwall.gov.uk/default.aspx?page=31947>

South Lakeland Council at <http://www.southlakeland.gov.uk/newsroom/news-stories/environment-news/1-august---power-up-your-commu.aspx>

The Peterborough led scheme is holding its first meeting in London on Friday 7th September 2012. Those interested should contact John Harrison, Executive Director - Strategic Resources, Peterborough City Council. Tel: 01733 452520. Email: john.harrison@peterborough.gov.uk

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