



# LOCAL PARTNERSHIPS

The public sector delivery specialists

## Local Energy Options



**Local Partnerships will publish a full report in summer 2016: “Local Energy Options – A Guidance Document for Local Government”. This report will help inform local authorities about the scale of opportunity available in the changing energy sector.**

It will outline the benefits of a council-backed energy supply business and set out a number of different ways authorities can get involved in energy, with examples of what some pioneering councils have already achieved. It will serve as a roadmap for local governments, while also providing the building blocks for more in-depth thinking on the practicalities of setting up a new supply venture.





Across Britain, councils are taking action to boost renewable generation, lower energy bills and support community economies by seizing opportunities to get involved with energy supply. By doing so, they provide customers with an alternative to the big utility companies and are capitalising on emerging trends in energy production and transportation. These place locally-focussed energy ventures centre stage.

As a fundamental element of communities, energy features in all our daily lives and underpins much of our economy. Traditionally, energy has been supplied by a small number of large utility companies. However, their ability to give customers value for money has been brought into question. In 2016 the Competition and Markets Authority's investigation into the energy market revealed that the big suppliers have been overcharging consumers by £1.7 billion per year.

Recent research by Cornwall Energy has established that households are now able to choose from more than 35 different suppliers, providing a range of tariffs. These so-called "independent" suppliers (those other than the Big Six) hold an increasing 15.5 per cent share of the dual-fuel energy market. 52 per cent of all energy switches had gone to independents by early 2016. This clearly demonstrates that customers are actively choosing new suppliers who offer cheaper and more sustainably-sourced energy. As a result, the market has never been more favourable to innovative new entrants.

Meanwhile, the 2015 Paris Agreement has intensified the international drive to decarbonise. Britain's energy sector is, therefore, currently undergoing a monumental shift towards the greener energies offered by renewable technologies, such as wind and solar. Many of these renewable-generation projects are small and embedded within communities, with local authorities becoming increasingly involved with their planning and progress.

## Meeting sustainability goals

Binding carbon commitments mean that the proliferation of renewable generation in the UK needs to continue far into the future. As a part of Electricity Market Reform, Government incentivisation schemes designed to encourage this investment have been subject to significant change. The replacement of the Renewable Obligation scheme with Contracts for Difference and reductions in the Feed In Tariff rates for smaller generators have created significant uncertainty amongst investors.

Local authorities are in a great position to alleviate this uncertainty by working with local generators and forming long-term agreements to purchase their electricity. This strengthens investor confidence for generators, helping renewables to flourish locally, while also allowing communities to access greener energy supplies directly.

By taking a more active role in local energy, authorities would have the ability simultaneously to support renewable development while taking all possible steps to keep prices low for the end consumer.

Furthermore, DECC research revealed that consumers were more likely to take part in schemes if they were organised by their local authority rather than another organisation because their local authority is viewed as a "trusted intermediary". In repaying that trust a Local Authority Supplier can offer better value to customers whilst driving forward its sustainability ambitions.

This potentially vital role that local community energy groups can play in meeting national renewables targets is appreciated by government. In 2014 the UK released its Community Energy Strategy which states that national government is keen “to see all authorities showing leadership to help deliver community energy projects”. It also recognises that community energy could potentially supply one million homes by 2020. To help reach this target, the government committed £25 million in funding for urban and rural community energy funds. Such support has also been echoed in Scotland, with the Scottish Government announcing in 2016 a further £10 million of funding for innovative local energy projects. These support mechanisms secure a long-term role for community energy activities.



### **Generating revenues**

The past five years has seen considerable pressure on local government finances as central government support is reduced. Many authorities have seen significant cuts to their finances and, as a consequence, have searched for new and innovative sources of income to help meet their budget challenge.

Engagement in the energy market offers councils the means to bring significant and sustainable sources of income into the organisation. These could range from improved power-purchase agreements for energy they may already produce themselves, through to income generated from a fully licenced supply model.

### **Boosting communities and businesses**

Issues of localism and wellbeing are often key political priorities, with many councils looking to reduce demand on their services by supporting local communities in new ways.

The availability of affordable energy is already a factor in areas that are of primary concern to local government. It can shape our local economies, encourage potential inward investment as well as significantly influence the wellbeing of vulnerable residents.

Affordable energy is also a key concern for businesses whose profitability and contribution to the economy can be significantly influenced by their energy bills. The Competition and Markets Authority’s (CMA) energy market investigation recently concluded that the smallest businesses often find it hard to engage in the market owing to a lack of pricing transparency and information, and are poorly served by existing suppliers.

The ability to influence directly how energy contributes both to residents and businesses is an attractive proposition for many local authorities.

Direct participation through a bespoke energy-supply venture could provide a solution. Local government is uniquely placed to understand the specific needs of their communities. Armed with this understanding, they are able to craft solutions through their energy-supply business to provide the prices, services and support that other suppliers do not offer.

### Assisting enablement

The regulatory landscape in the coming years is set to shift towards less prescriptive regulation of the energy market. This will make it easier than ever for non-traditional business models to enter the market and create innovative products and services for consumers.

As the energy-supply market has evolved, so has the emergence of IT, advice and trading providers offering services that allow new suppliers to enter the market at a lower cost than historically, and without the need to undertake all activities required of a supplier on day one. By contracting out to established and proven service providers, it is possible to establish a presence in the energy-supply market and, as the new company grows in size and experience, it can (if it chooses) take more of the industry process activity in-house.

Reaching customers and selling energy have also been simplified thanks to the rising popularity of price-comparison websites. New entrants who capitalise on this form of selling can benefit from lower customer acquisition costs. It is also a great way to get their brand into the national consciousness.

### Energy-market engagement

Councils are now realising the value of their local knowledge in the energy arena. With their understanding of community needs and renewable-energy projects, local authorities are uniquely placed to create a successful supply business that can directly link local green energy to nearby communities. This would give generators certainty of revenue and provide households and budding businesses alike with access to cheaper and more sustainable energy. Accrued revenues from a supply venture can then be reinvested back into communities through projects and services.

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