Energy Brokering

Key points

Energy brokering is viewed as a policy mechanism which can help in the fight against fuel poverty and help deliver competition in the local energy market.

No firm proposals have yet been made. Any analysis contained in this paper is therefore hypothetical.

The Northern Ireland Housing Executive is drawing up proposals for an energy brokering scheme which will benefit its tenants and is likely to be based upon a preferred supplier arrangement.

The recent People Power report recommends that this scheme is a short-term step toward a much broader scheme which would include a wider customer base.

The Utility Regulator has noted that any scheme which includes a cross subsidy (one set of customers subsidising another) or a form of discount that is not cost reflective, would be problematic due to existing legislation and (Power NI and Phoenix) licence agreements.

The Regulator has also noted, however, that Power NI and Phoenix’s licence agreements allow the companies to designate specific classes of customers and offer these customers specific terms and conditions.
The Consumer Council have also identified the possibility of designating a specific ‘pool’ of customers. They have also raised the possibility of amending existing legislation and licences to facilitate an energy brokering scheme.

Significantly, the Consumer Council has noted that: ‘an energy brokering scheme in Northern Ireland would be starting from a “clean slate”. It would be the role of the Northern Ireland Executive and the Utility Regulator to design a regulatory and policy framework that maximises the scheme’s support for fuel poor/vulnerable households. In doing so policy makers and the Regulator should draw from best practice from schemes/frameworks that are already operating successfully in Great Britain, Europe and the USA.’

1 Introduction

The following paper provides background information on energy brokering and comment from the Utility Regulator and Consumer Council on the potential impact it may have on energy consumers in general.

2 What is energy brokering?

In its very broadest sense the term ‘energy broker’ is used to define an organisation or individual who acts as a ‘middleman’ between energy suppliers and their consumers, offering consumers energy deals or discounts. There are, for example, numerous commercial ventures throughout the UK who operate by sourcing businesses better energy rates, often by obtaining the best ‘switching’ option (this commercial sector is not without its problems, see this Consumer Focus report for further details).

However, this paper is concerned with energy brokering as a potential government policy tool to be utilised ‘to help in the fight against fuel poverty and help deliver competition in the local energy market’. There have been a number of recent developments in Northern Ireland in this vein.

2.1 A Northern Ireland Housing Executive Energy Brokering scheme

Clause 19 of the Housing (Amendment) Act (Northern Ireland) 2011 granted powers to the Northern Ireland Housing Executive (NIHE) with regard to energy brokering. These powers enable the NIHE to develop energy brokering arrangements with energy suppliers for the benefit of its tenants. Whilst full details of what arrangements such a scheme would entail are, as yet, unavailable, a range of information is available which points toward how the final scheme may operate.

The Home Energy Conservation Report 2010, for example, notes that there are two possible approaches that could be taken:

1. **Preferred supplier arrangements/affinity deals** – in which the landlord works with a specific energy supplier to promote an agreed discounted tariff to its
tenants. The selection of a preferred supplier is based upon evaluation and the competition of potential suppliers.

2. **Bulk or aggregated energy buying** – in which the landlord would buy from the energy market in large quantities and therefore secure a discount through volume.\textsuperscript{iv}

The report states that the ‘Housing Executive is proceeding on the basis of first option’, noting that the second option ‘is inappropriate as the Housing Executive would not be in the position to actually purchase, store or sell energy to tenants’.\textsuperscript{v}

The 2010 report *Energy Brokering: Power to the People – Feasibility Study*\textsuperscript{vi} adds to the above, suggesting that the Energy Saving Trust Affinity Deal Tool Kit and previous experience from the Great Britain (examples drawn from the Energy Trust publication are contained in Annex 1) could be used as a template for a similar scheme in Northern Ireland. Two suggested models for brokerage are put forward. The first, in which a government organisation deals directly with energy companies to broker a deal, and a second were a professional broker is brought in to negotiate on behalf of an organisation. The second option is viewed as beneficial as it allows the organisation to make use of the existing knowledge, relationships and expertise of a professional broker.\textsuperscript{vii}

The *People Power* report suggests that a NIHE led scheme would be a short-term solution that could be developed in the medium to long-term into a scheme that targets consumers in general rather than social housing in particular.\textsuperscript{viii}

A third source to provide details of how a NIHE led brokering scheme may look is the 2011 Department of Social Development policy document *Warmer Healthier Homes: A New Fuel Poverty Strategy for Northern Ireland* (March 2011).\textsuperscript{ix} In this document the Department suggests that a NIHE brokering scheme could also include Housing Association Tenants. It states too that the:

…the Minister has met the two gas and two electricity suppliers, advised them of the forthcoming scheme and pressed that they respond positively and offer credible discounts. The Minister has also made representations to the Utility Regulator to ensure that any issues which may prevent large numbers of customers from switching energy suppliers are addressed.\textsuperscript{x}

The policy document also outlines the potential impact a NIHE scheme could have by noting:

The social housing stock in Northern Ireland comprises approximately 90,000 homes owned by the Northern Ireland Housing Executive and approximately 30,000 homes which are owned by a variety of Housing Associations. The rate of fuel poverty being experienced by tenants in Housing Executive households is now the highest of all tenures, with 57% of these households living in fuel poverty.\textsuperscript{xi}
2.2 A wider Energy Brokering Scheme for Northern Ireland

As mentioned above, the *Power to the People* paper, jointly produced by the NIHE, Consumer Council and Bryson Charitable Group, sees the scheme being NIHE as a precursor to a much more broad and inclusive scheme. The collaborative report recommends that:

*In the medium to long term, these arrangements could be developed to allow the bulk buying of energy to provide lower prices to the consumer. This could be further facilitated if local and central government procurement bodies could link their energy purchasing, in particular the government estate, as a base load to leverage a better deal for domestic consumers under one contractual tariff arrangement.*

The progress of such a scheme would depend largely on political will. Currently, no firm plans have been put forward to define how a scheme might work. The New Local Government Network has put forward the example of an initiative developed in the Netherlands – ‘Met de Stroom Mee’ – as a potential model for exploration. Details of this initiative are outlined in Box 2; Figure 1 provides an illustration of how such a scheme would work.

---

**Box 1: Dundee City Council**

Since 2001 Dundee City Council has conducted a Preferred Supplier Arrangement with Scottish and Southern Energy (SSE). SSE pays the council a commission for every new customer they sign up and a further loyalty payment for each year a tenant remains a SSE customer. The income generated is used to fund grant funded energy efficiency measures to tenants in most need and energy advice to all. In 2004, it was forecast that the scheme would generate £70,000 per year over the following three years (based upon 14,000 properties).
The Institute for Public Policy research have also suggested that the government examine possibilities for utilising their bulk purchasing power, specifically in respect to low income groups and older people. In a 2006 report the Institute highlighted that a significant number of vulnerable consumers use pre-payment meters and were not benefitting financially from payment methods such direct debit. It urged Government to bulk buy gas and electricity for pensioners and the unemployed, and then deduct the cost from income support and pension payments. However, issues such as the cost of administering such a model and other factors such as assisting vulnerable consumers who do not use prepayment metres should be considered.

3 Impact on consumers

As seen above, energy brokering is intended to make energy more affordable for consumers in social housing. However, a question arises: is it possible that the cost of the scheme could be borne by consumers who are not participating? This question, which arises from the similar cross-subsidy issues identified when the idea of a social tariff was mooted, was put to the Utility Regulator and the Consumer Council.
On the issue of how an energy brokering scheme might be financed, the Utility Regulator commented:

...as we have had no proposals from any energy companies and have not seen the proposals for the energy brokering scheme you mentioned, it is difficult for us to comment in detail or fully determine the impact on customers.

However, if any energy brokering plan involves a cross subsidy from the generality of customers to a small group of customers, or a discount to a particular customer group which is not cost reflective – then we can see a number of problems with the legislation and the licences. The Utility Regulator has a duty to protect the generality of customers and cannot favour one group of customers and could be deemed to be acting ultra vires of our duties if we were to do so.xvi

Upon receipt of definite proposals the Regulator would consider Condition 14 of the Power NI (NIE Energy Supply) Licence ‘Prohibition of discrimination of supply’ and Condition 2.5 of the Phoenix Supply Licence ‘Undue discrimination and undue preference’.

Two other licence conditions are significant. Licence condition 27 (4) of the Power NI (NIEES) licence:

The Licensee shall determine standard terms and conditions for the supply of electricity to Domestic Customers and may determine different standard terms and conditions for different cases or classes of cases or for different areas. The Licensee shall not enter, or offer to enter, into a Contract for the supply of electricity with a Domestic Customer otherwise than on its standard terms and conditions.xvii

And condition 2.18.2 of the Phoenix Licence:

Determination of standard terms and conditions for Household Consumers
Without prejudice to Condition 2.4.6, the Licensee shall determine standard terms and conditions for the supply of gas to Household Consumers and may determine different standard terms and conditions for different cases or class of cases or for different areas. The Licensee shall not enter, or offer to enter, into a contract for the supply of gas with a Household Consumer otherwise than on its standard terms and conditions.xviii

A number of key points arise from this. Firstly, both Power NI and Phoenix can determine ‘different cases’ and ‘class of cases’ of domestic customers and offer these customers different standard terms and conditions. Secondly, that discounts are permissible so long as they do not involve a cross-subsidy and they are cost reflective.
One interpretation of this is: both companies could theoretically define a class of customer – for illustrative purposes an 'energy brokering class’ – and offer this class of customer different standard terms and conditions. It reads too that these customers could, as part of their terms and conditions, be offered a discount so long as this discount was reflective of cost savings associated with supplying this specific class of customer – for example, if it reflected the savings associated with bulk selling.

The Regulator has noted that such an interpretation is ‘broadly ok’ but has again emphasised that further exploration and examination of the licences would be required once full details of the scheme become known.xix

The Consumer Council’s analysis of the situation is as follows (note original email to the Consumer Council made reference to the fixed profit requirements of each company):

*The fixed profit requirements of Phoenix Supply and Power NI only relate to their regulated domestic tariff.*

*It is important to note that under the competitive market - fixed profit requirements does not mean that these energy companies are guaranteed a certain profit margin, as can energy companies can lose customers through domestic customers switching supplier. To date just over 55,000 customers have switched from Power NI and around 8000 customers have switched from Phoenix Supply.*

*We would envisage an energy brokering scheme would operate outside this regulated tariff (as currently occurs with business tariffs offered by Phoenix Supply and Power NI) or that the Utility Regulator amends current regulation to allow Power NI and Phoenix Supply to offer a lower tariff alongside the current regulated tariff.*

*Other energy companies which operate in Northern Ireland, and do not offer a regulated tariff would not have this issue - as they do not have a fixed profit requirement. These companies currently include – Airtricity, Budget Energy, Energia, ESB Electric Ireland, Firmus, Vayu.*

*Currently business consumers are offered lower tariffs because of the volume they purchase, and we are aware that through energy brokering some businesses in Northern Ireland have been able to negotiate preferential energy tariffs for their employee.*

*) A similar system could operate for fuel poor households in Northern Ireland, by:

1. *Government to use the purchasing power of its estate to negotiate lower tariffs for fuel power residents.*
2. Local business/industry using their purchasing power to negotiate lower tariffs for staff/local residents.

3. Communities coming together so that they can negotiate a lower tariff based on their overall purchasing power.\textsuperscript{xx}

Again, it is significant that this statement makes reference to a separate pool of customers – the afore-mentioned ‘energy brokering class’. It does not, however, make reference to cost reflective savings and raises the issue of amending current legislation to facilitate a discount to this group of customers.

The Consumer Council have also stated:

\textit{An energy brokering scheme in Northern Ireland would be starting from a “clean slate”. It would be the role of the Northern Ireland Executive and the Utility Regulator to design a regulatory and policy framework that maximises the scheme’s support for fuel poor/vulnerable households. In doing so policy makers and the Regulator should draw from best practice from schemes/frameworks that are already operating successfully in Great Britain, Europe and the USA.}\textsuperscript{xxi}
Annex 1: Examples of preferred supplier agreements from the Energy Saving Trust
Affinity Deal Toolkit publication

Energy supply affinity deals

Aberdeen City Council

Summary
- Preferred energy supplier arrangements with ScottishPower.
- Void properties are being transferred to ScottishPower at a rate of 2,500 per year.
- This generates around £80,000 a year in income for the council.
- £48,000 of loans have been granted to households resulting in £220,000 worth of measures installed in 178 dwellings (with the additional funding being provided from grants and household investment).

Introduction
In 1998/9, Aberdeen City Council established preferred supplier arrangements with ScottishPower for the supply of gas and electricity to empty Aberdeen City Council homes. The arrangements also enable tenants to benefit from the deregulation of the energy supply market.

The benefits
Energy supply is maintained when a property is empty (with no meters disconnected) meaning that new tenants benefit from immediate supply when they move into a property. There is no obligation on the council tenants to choose the preferred supplier, like everybody else, tenants are free to transfer to a supplier of their choice by giving 28 days notice. Council staff only have to deal with one supplier for void properties and delays in relets are kept to a minimum.

ScottishPower makes a commission payment to the council for every new customer signed up. The income is used to provide grant funded energy efficiency measures for those in greatest need and a loan fund for others to invest in energy efficiency.

Approach
The council’s housing department initially consulted with tenants about the initiative and received a positive response. To ensure value for money, potential preferred suppliers were asked to tender for the work. Returned tenders were analysed by the property and technical services department.

Detailed procedures were worked out with representatives from the area housing managers and property controllers (council staff involved in empty property management), along with ScottishPower and the regulator. Staff in the local area offices attended briefing sessions on the changes prior to their introduction. Briefing/consultation meetings were also held with the housing improvement section, property and technical services, housing inspections, property and the SEAC.

The initiative was launched via a press conference to try to ensure awareness of the new arrangements. In addition, shortly after ScottishPower was appointed as the preferred supplier, the council sent a letter to all existing council tenants to inform them of the benefits of the deregulated market and to let them know about the preferred supplier arrangements.

Lessons learned
- A daily list of void properties is now submitted electronically by the council for action/registration. Transfer normally takes four to six weeks.
- New tenants get information about their supplier through their tenant handbook and via a pre-printed postcard, which is supplied when they get the keys to their property.
- The council meets with ScottishPower every six weeks to discuss issues. Procedures are continually modified in the light of experience. The scheme is quite difficult to administer, as there are many different parts of the council involved, but council staff do feel that it makes a difference to what they can do.

Further Information
For copies of the full case study please contact Practical help (T: 0870 241 2089). If you require more information please contact Janice Lyon, Aberdeen City Council, T: 01224 523512

Providing research and information services to the Northern Ireland Assembly
Isle of Wight

Summary
- Preferred energy supplier (supply alliance) arrangements with ScottishPower.
- Council has minimal housing stock so transfer of value was not included in the deal.
- Income in the region of £6,000 over a three-year period.
- Revenue used to fund grants to community groups and prizes for individual householders.

Introduction
In 1998, the Isle of Wight Council negotiated a marketing alliance with ScottishPower designed to help promote the benefits of the newly competitive market to householders across the island.

The benefits
Householders benefited from a deal which offered competitive prices that were monitored by the council on a quarterly basis.

ScottishPower paid money into a local community fund, based on each new customer signed up. This funding was used to generate grants to good causes and to fund awards (eg free supply of gas and electricity for a year).

In addition, ScottishPower provided a fast-track complaints system for customers on the island and agreed to desist from doorstep selling to householders in the area (something the elderly population of the island were finding increasingly intrusive).

In return, the local authority produced a leaflet, undertook mailings and generated considerable press and PR for the scheme, including articles in the council's magazine.

Approach
The idea for the marketing alliance originated within the Trading Standards service within the council and was driven by a desire to ensure that householders on the island received the benefits from competition. The alliance was designed to break consumers' reluctance to switch energy supplier.

After the concept had received committee approval, a specification was drawn up and an initial expression of interest was sought based on 10 criteria. All potential partners were invited to respond to this and those who had most closely met the council's specification were offered the opportunity to give a presentation to outline their ideas.

ScottishPower were selected at this point and a more detailed agreement was then negotiated with them. As part of their agreement ScottishPower produced confidential reports for the council every three months to demonstrate that their prices remained within the top five energy suppliers for all customer groups (direct debit, pre-payment, normal repayment).

Lessons learnt
The scheme ran successfully for three years, at the end of which the council took a view that it had successfully achieved its main aim – to raise the profile of the competitive market and to encourage people to think about fuel company switching.

Further information
Rob Owen, Isle of Wight Council, Tel: 01983 823160
Dundee City Council

Summary
- Preferred energy supplier arrangements with Scottish and Southern Energy plc (who trade as Scottish Hydro).
- Forecast income for Dundee City Council of £70,000 per year over three years.
- A £250 charge is paid by the supplier when a property has both gas and electricity supply.
- Revenue from energy efficiency audits.

Introduction
Dundee City Council has established preferred supplier arrangements with Scottish and Southern Energy plc (who trade as Scottish Hydro) for the supply of gas and electricity to empty and newly-constructed council properties. The scheme went live in January 2001 and the council entered into a second, three-year contract with Scottish Hydro in January 2004.

The benefits
Tenants benefit from immediate supply when they move into a new property. There is no obligation on them to remain with the preferred supplier like everybody else, tenants are free to transfer to a supplier of their choice by giving 28 days notice. However, it is anticipated that 80-90 per cent will remain with Scottish Hydro. In addition to generating revenue, council staff need only deal with one supplier for void properties.

Scottish Hydro pays a commission payment to the council for every new customer signed up. A loyalty payment will also be made in respect of each year that a tenant remains as a Hydro customer following the initial signing. The income is used to provide grant-funded energy efficiency measures for those in greatest need and a free energy advice service for all tenants. It is hoped to expand the service provided to help meet the targets of the Dundee Fuel Poverty Strategy.

Approach
(The following outline relates to the initial creation of the scheme in 2001.)
The council’s housing division prepared a report for its housing committee outlining the intention to tender for the establishment of a preferred energy supplier scheme. Once the green light had been given, tender documentation was prepared by a team including the improvements and maintenance team, the housing department procedures officer, and an independent energy advisor. The legal and QS departments were also invited to comment.

Although nine energy suppliers initially registered an interest in tendering, only two completed tenders were actually returned. Before appointing the selected tenderer, the housing committee was again approached to approve the selection. There was some concern expressed about supporting a supplier who was not necessarily the cheapest for all customers but approval was eventually given.

At this point, a decision was made to implement the scheme on a phased basis:
- Phase 1 involved transfer of all the council’s void properties to Scottish Hydro.
- Phase 2 will involve all properties that are having gas central heating installed through the council’s heating projects (approx. 1,000 per year), who have not previously had a gas supply, being connected to Scottish Hydro.
- Phase 3, still to be agreed, involves a mail shot to all council tenants, making them aware that Dundee has a preferred supplier and advising them to contact Scottish Hydro.

As part of Phase 1, extensive work to develop simple procedures was undertaken by the programme development officer, the procedures officer, the revenue officer, and Scottish Hydro. It was also essential to involve all the area housing officer staff responsible for implementing the procedures in the development; something that took longer than expected but helped ensure everybody was comfortable with the final proposal. A review of the procedures and reconciliation of revenue was undertaken once the scheme had been running for a few months.

Lessons Learnt
Understandably, since the area housing officers play such an important part in the implementation of the scheme, they have expressed some interest in obtaining some of the financial benefits accrued. There is some negotiation underway since the underlying motive of the scheme is to generate a fund for energy efficiency improvements.

It is important to get the tender documentation right. Spending more time will help ensure the best supplier is appointed. It is also essential to document the tender process carefully and keep good records.

When developing procedures, it is essential to involve all the staff who will be implementing them.

Once a supplier is appointed, they should be closely involved in working up procedures. Ideally they should appoint a dedicated officer, or at least a phone number exclusively for dealing with preferred supplier schemes.

Further Information:
Anne Clark, Dundee City Council, T: 01382 434672, anne.clark@dundee.gov.uk
Greater Manchester Alliance

Summary
- Preferred energy supplier arrangements with ScottishPower.
- Revenue to be spent on energy efficiency related activity.

Introduction
In July 1999, the metropolitan borough councils in Greater Manchester decided to form an alliance of local authorities with the aim of promoting a preferred energy supplier. In return, tenants and residents would receive cheaper fuel and other benefits. The councils would also receive a commission for each consumer recruited.

The benefits
The direct benefit to the council is the receipt of payment from ScottishPower for each property transferred or tenant signed through the deal. The individual councils decide how to use the income. All have decided to earmark it for related purposes, such as improving energy efficiency. The option is also there to make a direct payment back to tenants. ScottishPower is providing access to an independent freefone benefits helpline, suitable frequent payment options and other benefits aimed at assisting low income consumers.

Approach
The councils taking part worked to develop a specification aimed at meeting a range of needs. This was a difficult, but ultimately creative, process as officers involved came from very different backgrounds (housing management, legal, energy efficiency and anti-poverty policy roles). Many different interests had to be negotiated and accommodated in trying to reach final agreement on what eight different local authorities wanted to get out of the deal for their local communities. Local politicians also needed to be kept on board in developing a new kind of partnership arrangement with a private energy supplier. A form of tendering process was undertaken in April 1999. This was not strictly necessary as councils were not buying goods or services directly. The councils simply agreed to use various methods to promote the energy supplier. Individual contracts are signed between customers and the company. ScottishPower was selected by the Alliance as the company most likely to meet its requirements and a three year agreement reached. Implementation was undertaken on a phased basis around Greater Manchester according to the needs of individual councils. Eventually five of the eight councils entered into agreements with ScottishPower.

Lessons Learnt
Price: It was clearly evident, in promoting the ‘preferred supplier’ deal to local residents, the council had to make sure prices were favourable in an increasingly competitive market. However, finding one supplier that could be promoted as the best on price for all local residents was impossible. The ad hoc approach failed to agree to only promote the deal to council tenants, since anti-poverty considerations were felt to be particularly important.
Low income / Low use customers: The council could not find a supplier that was able, or willing, to offer a deal across the board, which provided equal benefits for prepayment and direct debit customers. ScottishPower was regarded as offering the best deal available for prepayment customers. All suppliers offered the best discounts for dual fuel customers.
Take-up of the deal: A key issue for the council was the amount of work required of staff to maximise take-up and whether this was an appropriate use of staff time. The alliance therefore decided, in the initial stages, to concentrate on procedures for switching and properties over to ScottishPower. New tenants will still have a choice over which supplier to use.
Trust: Several years into the agreements, the local authorities have built up excellent working relationships with ScottishPower. ScottishPower has been consistently competitive on price for all types of customers.

Further Information:
Andrew Waiteworth, Greater Manchester Alliance, T: 01706 273818
E: andrew.waiteworth@chhousing.org.uk

1 See http://www.freeindex.co.uk/categories/industry/energy_suppliers/energy_brokering/ for a range of such companies
4 Ibid


*xv* Guardian *Think tank urges bulk buying energy to aid jobless and elderly* (10 April 2006) [www.guardian.co.uk/business/2006/apr/10/money.oilandpetrol](http://www.guardian.co.uk/business/2006/apr/10/money.oilandpetrol)

*xvi* Correspondence with the Northern Ireland Authority for Utility Regulation 4 October 2011


*xix* Communication with the Northern Ireland Authority for Utility Regulation 05 October 2011.

xx Correspondence with the Consumer Council for Northern Ireland 04 October 2011

xxi Correspondence with the Consumer Council for Northern Ireland 05 October 2011