



energy brokering report

FEASIBILITY STUDY

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PEOPLE POWER

Feasibility Study



foreword



In the summer of 2008, my predecessor Margaret Ritchie established a Fuel Poverty Task Force to examine ways of alleviating increased fuel poverty caused by the unprecedented rising costs of home heating fuels in Northern Ireland that remain as relevant today as 2 years ago. Around the same time the Consumer Council, Housing Executive and Bryson Charitable Group initiated a scoping study into the feasibility of an energy brokering scheme in Northern Ireland, whereby social housing landlords would attempt to secure cheaper energy for their tenants.

One of the recommendations of the Task Force was to explore options for the bulk purchase of energy. Brokering is one model for achieving this outcome. The report highlights where schemes have been successfully implemented in other parts of the world. I am delighted therefore that this report has now been completed and confirms that there is scope for the delivery of brokering services in Northern Ireland. This can only help in the fight against fuel poverty and help deliver competition in the local energy market. The completion of the report is not the end of the process but it gives the organisations involved the confidence to take the development of a scheme to the next stage. Indeed my department is assisting in this and I look forward to the next stage in this process and hope to see an energy brokering scheme operating in Northern Ireland in the near future.

In the meantime may I commend all involved in taking forward this important piece of work.

Alex Attwood MLA
Minister for Social Development

executive summary

For Northern Ireland and indeed all UK households, 2008 brought exceptionally high price increases in both regulated energy (electricity and natural gas) and in home heating oil. As a response to these escalating prices, in May 2008 the Minister for Social Development, Margaret Ritchie, established the Fuel Poverty Task Force, bringing together the key stakeholders in energy in Northern Ireland to identify how fuel poverty should be addressed.

At the same time, the Consumer Council for Northern Ireland, the Northern Ireland Housing Executive (NIHE) and Bryson Charitable Group (Bryson) had been looking at the possibility of options to procure cheaper energy for households in Northern Ireland and took this scoping study forward.

The study comprised desk research on similar schemes in Great Britain and further afield along with a programme of interviews with key energy and other stakeholders in Northern Ireland.

The research shows that energy consumers in Great Britain, Europe and the United States are benefitting from schemes which help deliver domestic energy at lower prices. Unfortunately, such schemes do not occur in Northern Ireland.

The research indicates that there is scope for an energy brokering scheme to be developed for Northern Ireland energy consumers, using schemes established elsewhere as a guide for best practice. There is a willingness among many stakeholders to participate in the development of an energy brokering scheme and so this project should be taken forward to the fully costed business plan stage.

Currently, there are some constraints to the development of an energy brokering scheme. Although both gas and electricity markets are now open to domestic competition, with the current systems there is a technical restriction to the number of consumers who can switch to alternative suppliers. It is estimated that 6,000 electricity customers (1% of households) are able to switch suppliers per month. This includes only 600 pre-payment consumers. Current gas switching systems will only allow 1,000 consumers to switch per month and only a minority of these can be on pre-payment meters. This situation must improve if an effective energy brokering system is to take place, which would also allow for unabated domestic competition for Northern Ireland consumers.

recommendations

1. Low consumer switching capacity in natural gas and electricity is a physical barrier to full domestic competition and there must be a push for swifter development by energy companies and the Utility Regulator in this area. The main obstacle to lower domestic energy prices is lack of alternative suppliers in the market. New suppliers, which will be necessary to support brokering schemes, will not enter the market until the appropriate switching mechanisms are in place. This has to be a priority action for everyone concerned with the domestic energy market in Northern Ireland.
2. In the short term, housing bodies would find it a valuable option if they could enter into Preferred Supplier Arrangements or Affinity Deals. The current Energy Saving Trust Tool Kit and knowledge from previous experience from Great Britain could be used to develop a working group to test and develop such arrangements.
3. 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.
4. Task a working group to develop a pilot project for vulnerable customers to bulk order and spread payment for their home heating oil using support organisations such as the Credit Union.
5. Commission a fully costed business plan to support and guide the development of the initiatives recommended above.



Preferred Supplier Arrangements/Affinity Deals

While the main focus of the research was on bulk purchase options, it soon became apparent that Preferred Supplier Arrangements or Affinity Deals in Great Britain, aimed at helping local authorities fund fuel poverty or energy efficiency initiatives, had also been very successful.

A Preferred Supplier Arrangement/Affinity Deal is when a housing provider lends public support to a specific energy supply company after a full evaluation and competitive tendering process. The housing body will then work with the identified supplier to promote an agreed energy supply service to residents or tenants. The residents/tenants are not obliged to switch to the recommended supplier and still enjoy the same freedoms of the market as any other energy consumer.

As part of this arrangement the supply company offers residents special services or benefits and will usually pay housing providers a commission for every resident who signs up. Payments can include a recurring loyalty payment producing additional revenue annually. These benefits may include discounted tariffs, rebates or energy efficiency upgrade programmes for dwellings. Some schemes have seen housing providers receive payments of between £10 and £30 per new customer signed up generating a substantial revenue stream. As energy suppliers estimate that it costs approximately £50 to £60 to sign up a new customer, this will be of long term benefit to the supplier in terms of savings in marketing costs.

Dundee City Council

Dundee City Council has established Preferred Supplier Arrangements with Scottish and Southern Energy (SSE) for the supply of gas and electricity to empty and newly connected Council properties. The scheme went live in January 2001 and the Council entered into a second, three year contract with SSE in January 2004.

SSE pays a commission payment to the Council for every new customer signed up. A loyalty payment is also made each year that a tenant remains as an SSE 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. Dundee City Council hopes to expand the service provided to help meet the targets of the Dundee Fuel Poverty Strategy.

At the time of the review a forecast indicated that Dundee City Council would receive income of £70,000 per year over the three years (from a housing stock of 14,000 properties).

Benefits of Affinity Deals

Energy Saving Trust has identified a number of benefits for all parties participating in Affinity Deals as detailed below.

Benefits to householders

- Access to a trusted supplier endorsed by their housing provider.
- Tariffs reviewed for competitiveness by the housing provider on behalf of local residents.
- Easy access to energy efficiency packages alongside energy supply.

Benefits to housing providers

- Assistance from energy suppliers in the delivery of anti-poverty strategies.
- Generation of revenue to be used for fuel poverty/energy efficiency measures.
- Reduced work and improved management of energy supply to empty properties.
- Access to the energy suppliers' technical resources and expertise.
- Increased awareness of energy efficiency.
- Single point of contact within an energy supply company.
- A simple well proven route for partnership building with an energy supplier.

Benefits to suppliers

- A good opportunity for recognised, supported promotion in a specific area.
- Customers are more likely to stay with the preferred supplier.
- More constructive and effective use of marketing/sales budgets than doorstep selling.
- Can help suppliers to meet their own social and environmental objectives as well as commercial targets.

Bulk or Aggregated Energy Buying

Bulk buying is when a large single purchaser buys energy from the market place in large volumes for a reduced cost. Bulk purchasing would bring economies of scale that would enable Northern Ireland energy consumers to negotiate reduced tariffs and lower energy costs. In terms of bulk purchase schemes there are several options to consider:

1. Supply company

In order to establish a bulk energy supply company, an organisation would need to apply to the Northern Ireland Utility Regulator for a supply licence. A newly formed supply company would also be responsible for the billing and customer service aspects of energy supply along with the energy purchase and associated contractual obligations.

2. White Label supplier service

An alternative option for achieving reduced energy costs could be creating an energy supply company that uses the services of an existing energy supply company; this is known as a 'White Label' service. There are examples of such partnerships in Great Britain where smaller supply companies have used the billing systems, IT infrastructure and customer service of existing licensed supply companies in a partnership arrangement.

Such arrangements exist between organisations such as Sainsbury's supermarkets with EDF and Ebico with Scottish & Southern Energy.

Ebico

Ebico is a not-for-profit energy supply company established in Great Britain in 1998 with the specific aim of countering the market pressures that increase poverty and heighten social inequity.

Ebico works in partnership with Scottish & Southern Energy (SSE) as the licensed supplier which was selected based on its consistently high score in polls of customer service amongst domestic energy suppliers.

SSE provides the customer service in terms of connections and billing which is co-branded with Ebico. In addition, Ebico itself provides vulnerable customers with further targeted support.

3. Brokerage

There are two forms of brokerage that may be viable for the Northern Ireland market. First, is to broker a deal directly with a utility company on behalf of residents or tenants. Second, is to use the services of a professional broker who negotiates on behalf of an organisation. The benefit of using a broker is that they have expertise and existing relationships within the market and experience of energy trading.

The success of energy brokering is dependent on the amount of energy and combination of sources (gas and electricity) to be supplied. The greater the volume the better the chance of negotiating the best tariff deal.

WoonEnergie

WoonEnergie is an organisation based in the Netherlands which acts as an energy broker for housing association tenants. The organisation was established by the Dutch federation of housing associations (Aedes) which was concerned that the competitive energy market was not bringing tangible benefits to social housing tenants.

The WoonEnergie concept works with the housing associations offering their tenants cheaper energy and then WoonEnergie takes over the marketing and customer service. The housing association tenants authorise WoonEnergie to act on their behalf in contracting an energy supplier who then invoices tenants directly within the terms of the contract.

WoonEnergie is the largest consumer collective in the Netherlands with more than 60,000 households. There are approximately 130 housing associations working together representing more than a quarter of the housing associations in the Netherlands. The energy price is one of the three lowest in the market and the annual benefit to each household is around €60.

Home Heating Oil

There are around 300 heating oil distributors in Northern Ireland. In 2008 customers for all fuel types experienced unprecedented volatility in the market place with prices for 900 litres of Home Heating Oil reaching £590. Currently oil customers are experiencing some respite from the high oil prices with 900 litres costing around £416. At the moment, based on average consumption, the average oil consumer can expect an annual heating bill of £1040.

The 2008 World Energy Outlook indicated that it expected oil prices to rise from current levels and trade at around \$100 per barrel between 2008 and 2015.

According to the NIHE 2006 House Condition Survey, Home Heating Oil has increasingly become the preferred fuel of domestic heating in Northern Ireland with over 70% of dwellings (89% in rural areas) using oil fired central heating. This reflects the current restricted availability of natural gas outside urban areas.

The research showed that the two most popular ways of bulk buying heating oil are:

1. Buying Groups

A buying group is when a group of consumers come together to leverage the group size in exchange for discounts from suppliers. In general they do not have a membership fee and there is no rigid structure. With regard to Home Heating Oil there are some examples of successful buying groups.

2. Heating Co-operatives

Cooperative societies are run for the mutual benefit of their members with any surplus usually being put back into the organisation. Further information is available in the legal structures section of the full report.

The Energy Co-operative

The Energy Co-operative is a non-profit, member owned co-operative with over 6,500 members throughout South-eastern Pennsylvania. Founded in 1979 by a successful food co-operative in Philadelphia, the Energy Co-operative has provided savings on home heating oil for 30 years. In 1998 it became a licensed electricity supplier.

The scheme works by providing members with prices which are guaranteed to be a fixed margin above wholesale prices, a favourable margin negotiated on behalf of members. The Co-op sets the price and publishes it daily. There is also provision of discount on service contracts and choice of payment terms.

It is a non-profit co-operative so any profits are returned to members at the end of each year. In order to become a member of the Co-op there is an annual residential fee of \$15 or a commercial fee of \$30. There is also a free residential membership available to low income households including those individuals over 65 or with a disability.

Northern Ireland Oil Schemes

Locally, steps have been taken by some Northern Ireland local councils and 'not for profit' organisations to help consumers pay for the high cost of oil by setting up stamp savings schemes. Through these schemes residents in a specified council area buy home heating oil stamps, collect them in a savings card and use the value of the stamps to pay for all or part of their next oil order. Stamps are available from specified outlets and can be used with oil suppliers participating in the scheme.

A review of the Belfast City Council pilot Fuel Stamps Scheme indicates a generally positive response to the introduction of the scheme and a seemingly high level of support among users. Despite this there are concerns about the scheme, including the significant security issues of printing and storing the stamps, which are effectively a cash substitute. Consequently the stamps must be subject to high levels of security in terms of printing, handling and storage.



role for credit unions

One suggestion explored has been to form an alliance with Credit Unions in Northern Ireland to see if a savings vehicle could be established for consumers, as individuals or as a heating oil buying group or co-operative.

The Ulster Federation of Credit Unions (UFCU) expressed interest in the development of energy brokering and could see the organisation as having a role as a savings vehicle. This would benefit its members and may encourage more people to join the Credit Union. The suggestion was raised with board members of the UFCU who were broadly in favour of the idea.

The Irish League of Credit Unions is also broadly in favour of developing savings plans for oil and indicated that the existing system could easily handle such a savings plan. The benefit to using Credit Unions is that the money in the oil savings account can accrue interest, members can also borrow at reasonable interest rates to meet any shortfall in savings to meet the oil purchase cost. They can purchase in larger vends to maximise discounts and the money can be used by any oil supplier, nominated across Northern Ireland, willing to offer negotiated discounts.

summary of conclusions

The research shows that energy consumers in Northern Ireland could benefit from schemes which help deliver domestic energy at lower prices.

The research indicated that there is scope for an energy brokering scheme to be developed for Northern Ireland energy consumers.

There is a willingness among many stakeholders to participate in the development of an energy brokering scheme. Therefore, this project should be taken forward to the fully costed business plan stage.



about the organisations

Consumer Council for Northern Ireland

The Consumer Council (CCNI) is an independent consumer organisation set up by Government in 1985 and is funded by the Department of Enterprise, Trade and Investment. It works to bring about change to benefit Northern Ireland's consumers, by making their voice heard and making it count. It represents consumers' interests in the areas of transport, water and energy. It also has responsibility to educate consumers on their rights and responsibilities and to provide them with the skills they need to make good decisions about their money and manage it wisely.

The Consumer Council handles consumers' complaints about buses, trains, planes, ferries, electricity, natural gas, coal and water.

Northern Ireland Housing Executive

The Northern Ireland Housing Executive is a non-departmental public body, established by the Housing Executive Act (Northern Ireland) 1971. Under this act they took over the housing responsibilities of 65 separate authorities and became Northern Ireland's overall housing authority.

Their work with communities on housing services and the issues that affect local neighbourhoods adds real value to decision-making, service development and higher standards. Their goal is that everyone has access to decent, affordable housing. They aim to work with communities and other organisations in order to meet the housing needs of existing and future generations.

Bryson Charitable Group

Bryson is Northern Ireland's leading social enterprise at the forefront of the development of the social economy. It operates a diverse range of services in important social policy areas including: family support, recycling, social care and energy services. Bryson's vision is to be a leader in creating a just and sustainable society and is committed to identifying and developing sustainable responses to existing and emerging social need.

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This document is available in alternative formats.

Please contact:

Noel Rice

Energy Conservation Unit

Northern Ireland Housing Executive

The Housing Centre

2 Adelaide Street

Belfast

BT2 8PB

Tel: (028) 90318525

Email: noel.rice@nihe.gov.uk

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www.nihe.gov.uk

