

TITLE OF REPORT: New electricity supplier arrangements for Barford and Stretford Courts**REPORT OF: Peter Udall – Strategic Director Economy, Innovation and Growth**

Purpose of the Report

1. To seek approval to change the electricity supplier for residents at Barford and Stretford Courts, from the Council to a new Special Purpose Vehicle.
2. To seek approval to grant property and equipment lease agreements to the Special Purpose Vehicle, to facilitate the change of supplier.

Background

3. The Gateshead HEIGHTs (High Rise Energy Infrastructure for Gateshead Housing Tenants) incorporates Barford and Stretford Courts. These blocks are supplied heat and power by the Council, from a gas-fired combined heat and power plantroom on site. For power, the Council contracts with Emergent to provide all metering and billing services.
4. Currently the Council supplies heat to all residents. For power, the Council supplies 70% of residents, with the remaining resident choosing to opt out and retain a different supplier. This number is reducing over time, as the benefit of Council's cheaper power offer help customers switch, but it is not likely to reach 100%
5. Currently, the Council is not fully recovering the costs of supply to the 30% of residents opting out. Also, under the current model, there is a risk that Emergent cannot retain their meter operator, due to the small size of the scheme.
6. This report puts in place mechanisms to address these cost and operating risks.

Proposal

7. The Council has been working with its metering and billing provider (Emergent) over the past 3 years, to set up and approve new industry practices to allow private domestic electricity supply to successfully manage customers that opt out of taking the Council's supply offer.
8. The proposal is that:
 - Emergent will set up and operate a Special Purpose Vehicle (SPV), to become the new electricity supplier to residents in Barford and Stretford Court
 - The Council will remain responsible for setting electricity tariffs as required
 - The SPV will receive income from residents, to cover all operating costs of power supply, and its own management costs.

- Any surplus income remaining in the SPV will be returned to the Council annually
 - To facilitate the above, the Council will lease to the SPV the electrical switchroom of the plantroom and electrical equipment (for a peppercorn rent), to allow the SPV to operate and supply power within the regulations.
9. The Council will retain full control of the heat supply to residents, which is not part of the above arrangement. There is no impact on residents from this proposal.
10. Using 2023-24 pricing estimates, this proposal is forecast to reduce the net cost of operating this scheme by £22,000 per annum
11. In addition, this will secure the ongoing operation of the scheme, and its metering and billing provider, to allow the Council to continue to provide lower cost power to residents at these two blocks.

Recommendations

12. It is recommended that Cabinet:
- (i) Approves the transfer the Council's power customers to a new Special Purpose Vehicle, owned and operated by Emergent Ltd.
 - (ii) Approves the entering into contracts and granting of leases to the Special Purpose Vehicle for the relevant property and equipment necessary for the operation and supply of electricity to residents.
 - (iii) To delegate authority to the Strategic Director, Corporate Services and Governance to agree the final terms of contracts and lease agreements between the Council and the Special Purpose Vehicle in relation to the above recommendations.

For the following reasons:

- (i) To comply with electricity supply agreements in place with customers.
- (ii) To ensure the HEIGHTs scheme recovers its operating costs over its lifetime.
- (iii) To ensure HEIGHTs customers continue to pay fair and below market prices for their electricity.

Policy Context

1. The HEIGHTs project continues to contribute to the delivery of the Council's Thrive Agenda, the Council's Climate Change and Net Zero Strategy and other Council strategies and commitments, specifically:
 - Helping to alleviate fuel poverty for residents, by providing low cost heat and electricity
 - Reducing energy consumption and carbon emissions of homes and public buildings in the borough and
 - Improving the quality and comfort of heating systems by replacing aged, inefficient systems such as night storage heaters.

Background to Gateshead HEIGHTs

2. The Gateshead HEIGHTs project installed low-carbon heat and electricity generation plant in 7 high rise blocks in Gateshead, to test these systems ability to reduce the carbon emissions and energy costs of these homes:
 - Regent Court – heat only, supplied direct to residents from town centre district energy scheme.
 - Ripley, Willerby, Acomb, Bedale, Angel courts – heat only, supplied from Ground Source Heat pumps.
 - Stretford, Barford – heat and electricity, supplied from combined heat and electricity generation plant.
3. At Barford and Stretford Courts, the Council supplies 108 residents (70%) with electricity. The Council contracts with Emergent Ltd, who provide the billing and metering solution that allows the scheme to operate.
4. Unlike the heat supply, under UK energy regulations residents can choose whether they want to be supplied electricity by Gateshead Council or by a different supplier.
5. Since starting the electricity supply, the aim was to supply 100% of customers, and whilst the number has increased, its not expected that all customers will choose to take the Council's supply, even though it is currently cheaper than the market rate.
6. The customers opting out were intended to have their metering "deducted" from the overall block supply, as this will be met by their electricity suppliers – this was part of the innovation to be proven in the original project. However, it has taken the Council and Emergent over 3 years to work with the regulators, to secure an agreed solution. During that time, the Council has borne some of the cost of power supply to these opt out customers, which is not covered by income. It's estimated £22,000 per year of additional costs are being incurred
7. Furthermore, the small scale of the scheme is making it difficult for Emergent to retain the services of the meter operators it uses.
8. This report seeks to put in place new arrangement to address these issues.

Proposal

9. The proposal is as follows:
 - a. Emergent will set up and operate a Special Purpose Vehicle (SPV), to become the new electricity supplier to residents in Barford and Stretford Court. Under this arrangement, the SPV can meet the new regulations agreed to enable opt out customers to be deducted from the scheme's electricity metering / balancing arrangements. This also allows Emergent to retain its meter operator. The Council does not have the skills and experience to operate within these regulations.
 - b. The Council will transfer its power customers to the new SPV, notifying all customer of this, and the arrangements. Importantly, the Council will still remain responsible for setting electricity tariffs as required and instruct the SPV on which tariffs to charge.
 - c. The SPV, as power supplier, will receive income from residents from power sales, to cover all operating costs of power supply, and its own management costs.
 - d. The SPV will generate surplus income from these arrangements, and share all accounting information in an open book arrangement with the Council. Any surplus income remaining in the SPV will be returned to the Council annually, which will go towards covering other operating costs of heat supply for the blocks.
 - e. To facilitate the above, the Council will enter a contract with the SPV, which sets out the terms of engagement between Council and SPV, as well as relevant lease agreements to the SPV, the electrical switchroom of the plantroom and electrical equipment, to allow the SPV to operate and supply power within the regulations. The regulations require the supplier to have a degree of ownership and control over key supply infrastructure / property. Leases will be at peppercorn rent.
10. The Council will retain full control of the heat supply to residents, which is not part of the above arrangement. However, the income received from the SPV – the balance of monies, from power sales, after SPV costs are deducted – will support the cost of operating the heat supply to the blocks.
11. In terms of the current arrangements, the Council is currently in a contract with Emergent for the billing and metering services, which is due to expire on 30 September 2022. That contract was procured competitively, and Emergent were the only bidder at the time. This contract will be allowed to expire, and the new SPV arrangements will take over.
12. Considering procurement, the Council will need to enter a new concession contract with the SPV (created and owned by Emergent) to set the terms of agreement. It's proposed to contract for 3 years initially.
13. It's proposed that the Council undertake a negotiated tender process direct with the SPV, on the basis that Emergent are the sole party in the UK, to have developed and sought approval to use these new metering codes that allow the scheme to settle opt out customers, which only they have authority to use (from Ofgem). Thus they, and the SPV they will create, are sole supplier. It's on this basis that the Council will contract with the SPV.

14. The Council still needs to consider the potential value of the concession, as follows:
- Concession contract values are assessed by the value of turnover. For the proposed SPV, this would be £300,000 over 3 years. This is below the £5.3m threshold required by the Concessions Contract Regulations, and hence the procurement just needs to follow the Council's own procurement rules.
 - It's noted that while the turnover value is significant, the terms of the concession do not allow the SPV to make profit, as all surplus income is to be returned to the Council, after SPV costs are covered. The value of the contract to the SPV, and its owner (Emergent) is low - the owner, Emergent, will take a fee of £267/month, or £3,204 per year, for its services to manage the SPV and the power supply arrangements only fee retained by Emergent.

Financial implications

15. The Barford and Stretford scheme is part of the wider HEIGHTs scheme, with heat network at 4 locations. Financially, the schemes are considered as a whole, with the aim to at least be cost neutral to the Council collectively.
16. Barford and Stretford have had a net cost to operate (for example, net costs have been £21k and £38k in 2020-21 and 2021-22 respectively), rising last year due to energy costs rising significantly after Autumn 2021. A significant part of the net cost is due to incurring some costs for the electricity supply to the opt out customers
17. The current forecasts of scheme operating costs and income for 2023-24 (based on current market price forecasts, and still providing a lower than market rate for residents) are as follows, under the current arrangements, and under the new SPV arrangements:

| 2023-24 forecasts | Costs | Income | SPV income | Net Cost |
|-------------------|----------|-----------|------------|----------|
| Current | £163,733 | -£130,059 | | £33,674 |
| SPV model | £106,921 | -£53,944 | -£41,200 | £11,776 |

18. On this basis, its forecast that the Council will realise an approximate £22,000 per annum cost reduction, as a result of this arrangement. Importantly, this assumes the Council continues to follow its principles of setting tariffs at below the market rate

Alternative Options

19. **Council to continue to operate the scheme:** After October 2022, the contract with Emergent would lapse, and the Council would need to start operating the metering / billing itself, which it doesn't have the skills to do, or find another provider, which is unlikely given the small size of scheme. In addition, the Council would continue to bear costs arising from opt out customers
20. **Council could reprocure another provider:** At present, only Emergent approval to use the new metering code regulations at Barford and Stretford, and so another provider does not exist.

Consultation

21. The Leader and Deputy Leader, Housing, Economy, and Environment and Transport portfolio holders have been consulted on these proposals, and support the recommendation to Cabinet.
22. Once agreed, residents will be notified of the revised arrangements, with regards the change of supplier, as well as confirming that the Council remains in control of tariff setting

Implications of Recommended Option

23. Resources:

- a) **Financial Implications** – The Strategic Director, Resources and Digital, confirms that arrangements aim to reduce operating costs, which will support either the Council's revenue budget position, or allow further discounts to be provided to customers.
- b) **Human Resources Implications** – None.
- c) **Property Implications** – The proposal requires a small property and equipment lease to the SPV, at a peppercorn rent, for the duration of the contract, which currently is 3 years.

24. **Risk Management Implication** – The Council retains the ongoing risk of setting tariffs to customer and of recovering costs of the wider scheme, including heat supply. However, the Council has approved reviewing and revising tariffs again from 1 October 2022 if necessary, in line with the start of this new arrangement, and the publication of the next Ofgen Energy Price Cap.

25. **Equality and Diversity Implications** - None

26. **Crime and Disorder Implications** – None

27. **Health Implications** - ensuring residents have lower than market price tariffs for their heat and power can encourage them to continue to use their heating as normal, potentially averting cold home related health problems

28. **Climate Emergency and Sustainability Implications** - the report continues to support the successful operation of these low carbon heat networks, supporting carbon emission reductions for homes.

29. **Human Rights Implications** - None

30. **Ward Implications** - the scheme is located in Chowdene and Bridges Ward.

Background Information