Is there a future for Municipal Energy Companies?

Mark Bramah, Managing Consultant, Municipia
What has happened to Municipal Energy Supply Companies?

Robin Hood Energy
- Nottingham City Council
- Established 2015
- 130,000 domestic customers
- Losses £23.1m
- Sold to Centrica/British Gas 2020

Bristol Energy
- Bristol City Council
- Established in 2015
- 65,000 domestic customers
- Losses £32.5m
- Sold to Together Energy (Warrington Borough Council)

Our Power
- Scottish Housing Associations
- Established 2016
- 31,000 domestic customers
- Ceased trading Jan 2019.
- Losses £29.9m
- Customers novated to Utilita Energy

Victory Energy
- Portsmouth City Council
- Established 2017
- Losses £3.5m.
- Ceased trading October 2020

Together Energy
- Warrington Borough Council bought 50% stake in 2019
- Established 2016
- 60,000 domestic customers
- Losses 2018 £7m

Yet another energy supplier goes bust: Ethical, non-profit Our Power joins the long list of small providers to bite the dust

Our Power has ceased trading, leaving 28,000 customers to find a new supplier.

The firm has said supply will not be affected & prepayment meters can be topped up as normal.

The regulator will look to find a new supplier for customers as quickly as possible.
Costs - Fell during 2015 and early 2016, larger reductions for gas than electricity. By 1 May 2018, the dual fuel index is 9.7% above its level at the start of 2015. The electricity index is 19.7% higher, while the gas index is 0.1% higher.

Competition - 57 active suppliers in the domestic gas and electricity retail markets as of March 2020. The six largest suppliers and 51 other suppliers, mainly active in both gas and electricity. No. of suppliers reached a peak of 70 in 2018 and has fallen back since.

Smaller Energy Companies struggling

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Customers</th>
<th>Date ceased trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>GB Energy</td>
<td>160,000</td>
<td>November 2016</td>
</tr>
<tr>
<td>Future Energy</td>
<td>10,000</td>
<td>January 2018</td>
</tr>
<tr>
<td>Gen4U</td>
<td>1,000</td>
<td>July 2018</td>
</tr>
<tr>
<td>Iresa Energy</td>
<td>95,000</td>
<td>July 2018</td>
</tr>
<tr>
<td>Usio Energy</td>
<td>7,000</td>
<td>October 2018</td>
</tr>
<tr>
<td>Extra Energy</td>
<td>129,000</td>
<td>November 2018</td>
</tr>
<tr>
<td>Spark Energy</td>
<td>290,000</td>
<td>November 2018</td>
</tr>
<tr>
<td>Economy Energy</td>
<td>235,000</td>
<td>January 2019</td>
</tr>
<tr>
<td>Our Power</td>
<td>38,000</td>
<td>January 2019</td>
</tr>
</tbody>
</table>
Energy Companies market share

At-a-glance summary
Between Q2 2011 and Q1 2020, the combined electricity market share of the six largest suppliers dropped from nearly 100% to 73% (the latter includes OVO’s market share after the acquisition of SSE and is up from 70% in Q4 2019). The market share held by medium and small suppliers was 27% in Q1 2020, down from 30% in Q4 2019.
Large Energy Suppliers profits

How much profit did suppliers make in 2019?

Total domestic supply profits aggregated across the six firms, measured as earnings before interest and tax (EBIT), decreased by 150%, compared to the 35% reduction between 2017 and 2018. All of the six large suppliers showed a year-on-year decrease in profit margins in domestic supply.

In non-domestic supply the combined EBIT was down 21% compared to 2018. Half of the six large suppliers, E.ON, British Gas and EDF, showed a year-on-year increase in profit margins.

In 2020, OVO completed the purchase of SSE and E.ON acquired npower. The Consolidated Segmental Statements of 2019 are not affected by these sale transactions.

British Gas owner suffers £1.1bn loss

Centrica blames energy price cap and falling gas price for poor performance

British Gas’s owner, Centrica, has plunged to a loss of more than £1bn after the price cap cut the energy supplier’s earnings to all-time lows and falling gas market prices dealt a blow to the value of its North Sea business.

The parent company of Britain’s biggest energy supplier delivered its worst financial results since 2015, reporting a pre-tax loss of £1.1bn for last year, from a £375m profit in 2018. Profits generated by British Gas fell by 71% to £330m, the lowest levels in the supplier’s history, and shares slumped to a 22-year low.
2. Regulation

- **Ofgem** – The role of the Regulator in market design
- **Supply licence** - conditions and compliance with industry codes
- **Structure of the business** – Not for profit supply companies like Robin Hood Energy were not vertically integrated unlike larger energy companies.
- **Renewable subsidies** – Impact of ROCs and Capacity market payments

- **Jan 2019** – Acquisition of ‘Our Power’ with 31,000 customers rejected.
- **May 2019** – Local Elections
- **May 2019** – Audit of RHE 2018/19 accounts
- **October 2019** – Renewables Obligation £9.5m loan
- **Nov/Dec 2019** – Additional loan request £4.5m
- **12 Dec 2019** – General Election
- **End Dec 2019** – Interim management Team brought into RHE
- **Dec 2019** – Publication of accounts delayed 3 months
- **Jan 2020** – Strategic Review of the business
- **August 2020** – Public Interest Report published
- **Sept 2020** – Sale of Robin Hood Energy to Centrica/British Gas confirmed
Nottingham City Council

Report in the Public Interest concerning the Council’s governance arrangements for Robin Hood Energy Ltd

4. Auditors Public Interest Report

Table 1

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18*</th>
<th>2018/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>64.3m</td>
<td>72.5m</td>
<td>68.0m</td>
<td>89.7m</td>
</tr>
<tr>
<td>Profit (loss)</td>
<td>(62.5m)</td>
<td>(67.3m)</td>
<td>(61.3m)</td>
<td>(62.3m)</td>
</tr>
<tr>
<td>Meter savings</td>
<td>165,000</td>
<td>220,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* The accounts for 2017/18 were restated following the 2018/19 audit, converting the previously reported profit of £203k to a £1.6m loss.

Table 2

<table>
<thead>
<tr>
<th></th>
<th>31/1/16</th>
<th>31/1/17</th>
<th>31/1/18</th>
<th>31/1/19</th>
<th>31/1/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholding</td>
<td>0%</td>
<td>0%</td>
<td>7.5%</td>
<td>7.5%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Loans</td>
<td>2.3%</td>
<td>9.5%</td>
<td>11.7%</td>
<td>20.2%</td>
<td>31.0%</td>
</tr>
<tr>
<td>Prepayments</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>3.9%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Parent company</td>
<td>0%</td>
<td>7.0%</td>
<td>12.0%</td>
<td>12.0%</td>
<td>16.5%</td>
</tr>
<tr>
<td>guarantees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension guarantees</td>
<td>0%</td>
<td>0.7%</td>
<td>0.7%</td>
<td>0.7%</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>2.3%</td>
<td>17.2%</td>
<td>31.6%</td>
<td>44.3%</td>
<td>50.0%</td>
</tr>
</tbody>
</table>

* In addition, the Council provided uncapped letters of comfort in respect of 31 March 2016 to 2019, and 6 letter capped at £12.5m for 31 March 2019.
** The Council held a single £1 share on 31/1/15 and 31/1/17.
Public Interest Report Findings

- Setting up and operation of an energy company is ambitious in complex, competitive and regulated markets in which energy companies operate.
- Impact which external global factors can have on pricing the focus on low tariffs and poorer customers – further increased these risks.
- Governance arrangements which the Council has had in place were not strong enough, particularly given the nature of the Company and its markets.
- Insufficient appreciation within the Council risks involved in ownership of, and investment in, RHE Insufficient understanding within the Council of RHE’s financial position.
- Insufficient sector (or general commercial) expertise at non-executive Board level and a lack of clarity in relation to roles within the governance structure.
- Arrangements did not establish an appropriate and consistent balance between holding to account and allowing the Company freedom to manage, and this worsened as levels of trust decreased and the financial position deteriorated.
- The governance arrangements were overshadowed by the Council’s determination that the Company should be a success.
5. Robin Hood Energy – Some key issues

• Political and corporate support.
• Governance and risk.
• Investment & Finance.
• Ethical approach – renewable energy/warm homes discount
• Structure & Ownership.
• Utility model.
6. Options for Municipal energy supply

• **Local Electricity Bill 2020** - The aim of the bill is to allow consumers to purchase energy from local groups, and not just nationally licensed utilities. As such, the new ‘Right to Local Supply’ for energy is intended to allow communities to sell locally generated electricity directly to local households and businesses.

• **Power Purchase Agreement (PPA)** - Power Purchase Agreements (PPAs) are contractual agreements between energy buyers and energy sellers to purchase and sell energy generated by a renewable asset (existing or ready to build).

• **Sleeving** – A sleeving arrangement is a form of PPA between a generator and a third-party energy supply company, whereby the generated power is ‘sleeved’ via the network from the source of generation to an asset where the power is utilised.

• **Private wire** - Private wire systems are localised electricity grids connecting a generator directly to an adjacent asset which buys the power.

• **License Lite** - A way to apply for a licence to supply electricity and to get a direction which will relieve the organisation from obligations under the licence conditions and industry codes.

• **White label** - In the retail energy market, a ‘white label’ is an organisation that does not hold a supply licence, but instead works in partnership with a licensed ‘partner supplier’ to offer tariffs under the white label brand.

• **Local Energy Market** - LEMs are emerging as a potential solution to coordinate an increasingly complex decentralised energy system. They serve as instruments to coordinate the generation, supply, storage, transport, and consumption of energy from decentralised energy resources (DERs) within a confined geographical area.

• **Peer to Peer** - P2P energy trading platforms have a diverse range of business models and offerings. Some proposals are modest and fit firmly within existing electricity market structures. For example, retail suppliers are developing platforms which offer their customers the ability to select their preferred sources of energy.

• **Microgrid** - A microgrid is a decentralised group of electricity sources and loads that normally operates connected to and synchronous with the traditional wide area synchronous grid but can also disconnect to “island mode” and function autonomously as physical or economic conditions dictate.
Local leadership to transform our energy system

Local authority roles
Service providers Regeneration experts
Entrepreneurs Trusted conveners
Project developers Planners Transport planners
Social landlords Innovators Landowners

Local government pathways to net zero

Foundations
Collaborating with energy networks

Pillars of transformational change
Priming the retrofit market
Zero carbon development
Low carbon transport
Green economic recovery and transformation
Building social permission

Innovative approaches
Innovating for a smart, fair energy system
Supporting community energy organisations
Unlocking private sector investment

Central government enabling actions
Long-term political commitment
Effective governance structures
Agreeing the area’s energy ambitions
Process, policy, and culture change

Figure 2: Regen’s net zero city hall