

APPENDIX 2

PROJECT DEFINITION DOCUMENT (PDD)			
1. General Information			
Directorate	Economy	Portfolio/Committee	Clean Streets, Recycling & Environment
Project Title	Birmingham City Council Energy Company	Project Code	TA-01804-10
Project Description	<p>Introduction</p> <p>The Project Definition Document (PDD) sets out the context, progress and opportunities for Birmingham City Council (BCC) to enter the energy market. Subject to approval of this PDD, a Full Business Case (FBC) would provide a full appraisal of the options available to BCC to enter the energy market. The FBC will also include a Delivery Plan for the recommended option for approval.</p> <p>There are a number of established options for BCC in entering the energy market. In their simplest forms these include:</p> <ul style="list-style-type: none"> • A 'white label' approach that would see BCC partnering with an existing licensed supplier and setting a tailored and branded energy tariff to residents in its area. • A 'Licence Lite' approach that would enable BCC to hold a licence to sell electricity (but not gas) to domestic and non-domestic customers. • A 'fully licensed company' that would give BCC a licence to supply gas and electricity to domestic and non-domestic customers. <p>All three options involve different levels of reputational and financial risk which are linked to their respective levels of involvement and flexibility in industry regulations and operations. The detail of the three approaches is discussed within the PDD and will be finalised within the FBC. BCC will need to make a decision on the most appropriate route, depending on the ability to deliver against the challenges that Birmingham faces, and therefore the reasons for the Council entering the energy market. These challenges and the recommended ambitions are also outlined for approval within this PDD.</p> <p>Project Context</p> <p>Despite the gas and electricity market being privatised in the 1980s, and competition fully introduced in the 1990s, it is only in the last few years that local authorities have begun to understand their potential role in the energy market and how this can contribute to the realisation of their long-term strategic goals. This has been partly driven by changes in legislation that enabled local authorities to undertake more extensive commercial activities but also wider central government policy to decarbonise the economy and the UK's infrastructure.</p> <p>A key driver for local authorities seeking to become a player in the market place is that despite 17 years of full retail competition the market continues to fail the most vulnerable in society and that the "municipalisation" of energy has the potential to address these concerns and deliver wider local and regional benefits. In Birmingham 14% of households are in fuel poverty, amongst one of the worst affected in the country.</p> <p>As opposed to private sector energy companies, a local authority entry into the energy market will not necessarily seek to generate high profit margins to satisfy shareholders and as such can focus on a sustainable business model with specific aims that deliver outcomes for the locality. Local authorities can more easily utilise existing relationships with communities and local organisations to provide well priced energy products to low-income households (those in both</p>		

private and public owned property). These customers typically pay more than the conventional market offers, due to reasons such as lower consumer proficiency skills (including access to the internet), precarious household budgets (including no access to bank accounts), and thermally inefficient housing, remain on inappropriate and expensive tariffs.

Small businesses are also poorly served by the energy market and they tend to be where the conventional industry extracts the highest profit margins as many businesses do not have the time or skills (or regulatory protection and lobby groups) to negotiate the best deals. Cornwall Energy's OBC estimated that Birmingham's non-domestic target market (the market that currently switches) is £67,400,000 annually. However, this only represents 15% of the Birmingham non-domestic market.

As with other UK core cities, such as Nottingham and Bristol, BCC has a unique and critical role to play in the future of its city energy system, which includes influencing how its citizens and businesses are affected by energy supply. BCC itself has a significant role in the local energy market due to the size of its own estate and social housing portfolio. Through its delivery of services to the city it also has a key role and influence over the wider infrastructure and economic, social and environmental performance of the city.

There has been a growth in local authority energy companies over the past two years and in 2016 BCC decided to explore a range of energy supply opportunities in more detail that would allow it to play an active role in the local energy environment in the context of a sector that continues to transition to a more decentralised, lower carbon, and "smarter" system.

BCC has a potentially significant role in its local energy market due to the size of its own estate and its influence over the wider infrastructure and the economic, social and environmental performance of the city. BCC's annual energy bill of ~£25.3m (split between BCC estates, £13.2m, Housing Revenue Account (HRA) properties and other tenants, £3.5m and Education properties, £8.6m) is equivalent to the typical consumption of around 57,000 electricity and 19,000 gas medium user households. BCC's social housing stock of 62,000 properties (with an average 5,200 voids per year) provides BCC with a potentially strong customer base to enter the energy market. The FBC will include considerations around the impact of potential future reductions in BCC's estate and associated energy spend. In addition the mechanisms and decision making required to facilitate switching will be investigated to inform realistic income projections.

The scale of the Birmingham energy market, including the wider domestic and non-domestic customer base provides a unique opportunity relative to other local authority entrants.

Progress to Date

Following endorsement at Star Chamber meetings on 7 July 2016 and 8 December 2016, Chaired by the Deputy Leader in conjunction with the Strategic Director, Finance and Legal, BCC commissioned Cornwall Energy, one of the leading energy market advisors, to complete an options appraisal of the available supply opportunities and an outline business case (OBC) for what it deemed to be the most appropriate option.

Ambitions for BCC Entry into the Energy Market

A Programme Board was setup in September 2016 to oversee the development of this work, with representation from the appropriate BCC service areas. The first role of the Programme Board was to identify what it deemed to be the

position of BCC's involvement in the energy market, which would be used as one of the criteria to evaluate options. These were defined as to:

- Offer a competitive range of single and dual fuel tariffs to domestic and commercial customers;
- Be the most environmentally conscious and trusted local energy supplier;
- Provide a fairer deal for households currently in fuel poverty (particularly those residents with prepayment meters);
- Encourage investment in locally generated (decentralised) low carbon and renewable energy, covering heating, cooling, power and vehicle re-charging and re-fuelling for carbon reduction;
- Support community investment in renewable and low carbon projects; and
- Stimulate investment and economic opportunities with SMEs and utilise university expertise, using the Tyseley Energy Park as an area of focus.

Outline Business Case Process

Cornwall Energy presented an options appraisal of all current available routes to market for local authorities including:

- Do Nothing – BCC could choose to take no action to enter the energy market
- White label - this option would see BCC partnering with an existing licensed supplier, enabling a local authority backed company to provide tailored and branded energy tariffs to customers in its area.
- Licence Lite - BCC would become a holder of an Ofgem granted licence to sell electricity to end consumers, but with complex and costly central industry compliance outsourced to a third party. This is not an option for gas supply
- Fully licensed - BCC would become a holder of an Ofgem granted licence to supply energy from the outset to end consumers, with BCC handling all the central industry compliance itself.

Initial evaluations of the Options are detailed in Appendix 3. The options considered identified a fully licenced supply as the most suitable option to deliver the ambitions. This work will be further developed to determine the most appropriate option for BCC to pursue and the outcome will form part of the FBC to be submitted to Cabinet in September 2017.

FBC Development

Subject to approval of the PDD to progress to FBC, within scope is a detailed assessment of all options, as well as a Delivery Plan for the preferred option which will be ready for immediate execution if approved. These will be based on the most effective configuration of options (to be explored during FBC) to deliver BCC's requirements and ambitions.

FBC Project Plan

The Project Plan will agree a schedule of activity, terms of reference and a full project plan to deliver the FBC. The items in 'Key Project Activity' under Project setup will inform the Project Plan.

Full Business Case

The FBC will include:

- A full analysis of the options available to BCC.
- A recommendation on the preferred option.
- A Delivery Plan for the preferred option.

The Delivery Plan includes all of the relevant information required to deliver the recommended option. The detail of this will vary depending on the preferred option, and where relevant is expected to include:

- **Financial Model and Case**

This will map out in detail the project budget with projections for launch and growth and include all known costs of start-up and operation, revenue and market projections. The financial model will form the basis for the delivery plan.

- **Legal and Governance Structure**

This will provide a comprehensive local authority energy company policy document, taking into account current and anticipated market regulation. The output at this stage will determine and drive the direction of travel for the set-up, operation and management of the chosen option, including (dependent upon recommended option):

- The company as a legal entity
- Regulatory requirements
- Governance structure
- Ownership
- Investment structure for third party investment – public or private sector
- Repayment of financing and debt transfer
- Tax implications of all potential structures
- Relevant powers and use of powers
- State-aid issues
- Procurement of systems, energy and services
- Linkage to / from BCC owned generation

- **Target Operating Model**

A Target Operating Model will provide the roadmap for setting up the recommended option, including the processes, people and technology required. There will be strong liaison with industry regulators and suppliers to ensure that all operating infrastructure is understood and mapped out so that a clear transition to market entry is mapped out. Of particular note will be laying out the plans for customer services and how this would be achieved, and how existing BCC service capabilities and the close relationship with customers could be used. The requirements and costs relating to marketing and branding for customer acquisition purposes will be included.

- **Delivery Plan and Procurement Strategy**

Largely driven by the financial model and the target operating model, the output of this deliverable will be a detailed Delivery Plan and Procurement Strategy for the recommended option. This will build on the knowledge and activities developed through the FBC and will encompass (depending on recommended option):

- Market entry option setup;
- License acquisition and commissioning;
- Financial structure;
- Execution of procurement activities for the systems and services required to operate an energy company;
- Staffing strategy;
- IT implementation;
- Marketing mobilisation.

The following project activity has been, or will be completed in order to produce the FBC by September 2017.

Key Project Activity	Activity Milestones
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	1	<p>Project setup</p> <ul style="list-style-type: none"> • Identification of key milestones and timescales for the project and delivery phases • Interviews with internal stakeholders – i.e. members, officers and functional staff • Interviews with external stakeholders – i.e. potential suppliers / partners • Review all data gathered • Identification of required resources – internal and external • Setup of subgroups and officer roles 	Feb – March 2017
	2	Complete options appraisal and finalise recommendation	March – July 2017
	3	Market sounding exercise with systems and service providers	March – April 2017
	4	Confirm legal and governance position	March – April 2017
	5	Deliver legal and governance policy document	May – June 2017
	6	Develop marketing strategy and plan for delivery	May – June 2017
	7	Define a strategy to tackle fuel poverty with an aim of reducing it from its current level of 14%	May – June 2017
	8	Develop customer servicing strategy (Insource / outsource)	June – July 2017
	9	Develop a risk register which details both the risks related to development and business as usual, as well as the existing and suggested mitigation actions	March – Sept 2017
	10	Financial case - financial model construction and preferred option operating policy (including BCC finance implications)	May – July 2017
	11	Create Target Operating Model and associated delivery plan detailing activities to be executed once FBC has been approved.	June – Aug 2017
	12	Develop Procurement Strategy and commence delegated activity	June – Aug 2017
	13	Cabinet – FBC submission	Sept 2017
	14	BCC to give notice to CCS* if applicable	1 Oct 2017
	15	If applicable, company setup and award of contracts*	Oct 2017*
	16	Controlled market entry*	Feb 2018*
		Market entry complete (if applicable to recommended option)*	April 2018*
<p>*Note – Items out of scope for FBC project but drive the critical path for execution.</p>			
<ul style="list-style-type: none"> • Execution of the delivery plan and any delivery will be subject to approval 			

of the FBC by Cabinet.

- Previous savings targets relating to BCC's involvement in the energy market are no longer in place following removal through the 2017/18 budget process. It should be noted however that the Procurement and Commissioning Team have appointed energy specialists STC to identify savings and efficiency measures. That work is not part of this project albeit there will be synergies to be considered as the project progresses.

How the Project will Operate

The project is being managed internally by a Programme Board. This is chaired by the Cabinet Member for Clean Streets, Recycling and Environment. Members of the Board include representatives from the project sub-groups (below) and Assistant Director for Transportation and Connectivity (the project sponsor). The Board is responsible for receiving updates on the project, making recommendations and for identifying any significant issues in relation to progress. The Board meets every two months and is next due to convene on 12 July 2017.

A Business Development Manager (BDM) has been appointed to oversee the completion of the FBC. Specialist consultants will be commissioned to provide legal, financial and commercial industry expertise for the FBC where necessary. The BDM role is being managed by the Sustainability Team, Economy Directorate and will work within a core project team. The Sustainability Team has been responsible for project development to date.

A number of sub-groups will lead on the critical detail required to inform the FBC and will work with the BDM, project team and specialist consultants in order to appraise the options that will inform the project deliverables. Sub-groups include Legal and Governance, Finance, Marketing and Target Operating Model. Other officers will be involved to inform the operational and customer focused activity.

Preparatory Procurement Activity

If the recommended option in the FBC is for BCC to setup a Fully Licensed Energy Company, then the following steps will need to be taken:

- Notice will need to be given on the existing contract for BCC's energy supply with Crown Commercial Services (CCS) by 1 October 2017 in order for the energy company to self-supply BCC by 1 April 2018. CCS has confirmed there is no flexibility in respect of this deadline due to their purchasing and contract arrangements and should the 1 October contract notice not be given, BCC will be locked into a contract with CCS for a further 12 months for energy supply. This would delay the energy company launch by one year. The financial impact of this is not fully understood but will be confirmed during FBC completion.
- Tender exercises for a number of services are required to take place during the period between approval of the PDD and the FBC completion to enable an energy company to be set up in the timescale required, should this prove to be the recommended option. These are detailed in Appendix 5 and delegated authority is being requested for procurement activity to be undertaken as part of FBC completion so that should Cabinet approve the FBC and this is the recommended option, contracts can be entered into immediately. The only impact for BCC if the FBC is not approved will be officer time for the tender process which will be within FBC budget - tenderers will be advised as part of the process that contract awards will not proceed if the FBC is not approved.

Links to

The project supports the delivery of all strategic priorities as set out in the

Corporate and Service Outcomes	<p>Council Vision and Forward Plan 2017+ of Housing, Jobs and Skills, Health and Children.</p> <p>The entry into the energy market aligns with the strategic objectives and policies in the Birmingham Development Plan – ‘Planning for Sustainable Growth’ that aim to ensure that “by 2031 Birmingham will be renowned as an enterprising, innovative and green City that has delivered sustainable growth meeting the needs of its population and strengthening its global competitiveness.” It is compliant with the city’s Carbon Roadmap, which identified a carbon reduction target of 60% by 2027.</p>
Project Benefits	The project will identify the most appropriate option for entry into the energy market. It will provide a robust and fully costed Delivery Plan for BCC to establish the recommended option. Subject to approvals, delivery will result in the achievement of BCC’s stated ambitions by entering into the energy market.
Project Deliverables	<p>The project deliverables are identified and detailed in the Project Plan (above) including:</p> <ul style="list-style-type: none"> • Full Business Case <ul style="list-style-type: none"> ○ Full Options Appraisal ○ Financial Case ○ Legal Case ○ Target Operating Model ○ Legal and Governance Structure • Delivery Plan and Procurement Strategy
Dependencies on other projects or activities	The project will require alignment of activity across a number of service areas that have already been involved in the OBC. These include: Sustainability, Finance, Legal, Birmingham Property Services, Procurement and Commissioning, Waste, Public Health, Planning and Regeneration, Transportation and Connectivity.
Achievability	BCC will be advised by industry experts who have experience in working with energy market entrants and the FBC will identify all risks and robust mitigation strategies to ensure an effectively managed approach to delivering the project. Due to the specialist nature of the project and the risks required, BCC will also require dedicated and specialist project management throughout completion of the FBC.
Assumptions	<ul style="list-style-type: none"> • External supporting resources can be acquired within the existing budget • The market opportunity is sufficient • The output will be a better deal for the people and businesses of Birmingham <p>If the preferred option at FBC completion aligns with the Cornwall Energy OBC, to setup a Fully Licensed Energy Company, then further assumptions include:</p> <ul style="list-style-type: none"> • BCC energy spend can be transferred to the company from April 2018 • Education spend on energy can and will be transferred into the company from April 2018 • Housing voids and BPS commercial/industrial voids can be switched to the energy company • BMHT new build can become customers of the energy company
Project Manager	Richard Rees, Strategic Energy Delivery Officer, working within the Sustainability Team

	Phone: 07881 617116 Email: richard.rees@birmingham.gov.uk
Project Accountant	Simon Ansell, Head of City Finance, Economy Directorate. Phone: 0121 464 9124 Email: simon.ansell@birmingham.gov.uk
Project Sponsor	Anne Shaw, Assistant Director, Transportation and Connectivity, Economy Phone: 07827 367155 Email: anne.shaw@birmingham.gov.uk
Proposed Project Board Members	The Project Board and sub groups are composed of officers from the service areas that are most relevant to the project delivery (Sustainability, Finance and Legal, Birmingham Property Services, Procurement and Commissioning, Waste, Public Health, Planning and Regeneration, Transportation and Connectivity. It will continue to be chaired by the Cabinet Member for Clean Streets, Recycling and Environment.

Head of City Finance (HoCF)	Simon Ansell, Head of City Finance, Economy Directorate.	Date of HoCF Approval	
<i>Other Mandatory Information</i>			
• Has project budget been set up on Voyager?			Yes
• Issues and Risks updated			Yes

Appendix 1 - Risk Register

The Energy Company Board has identified potential risks below, but a full risk register will be included in the FBC to be presented to September 2017 meeting.

Name of Project			
Senior Responsible Officer	Anne Shaw	Programme Manager/Project Manager	Richard Rees

Risk ID	Project	Date identified	Risk title and description description	Risk Owner	Opening Risk Score			Mitigating Actions	Current Risk Score			Status	Comments / Progress
					Likelihood	Impact	Risk score		Likelihood	Impact	Risk score		
1	Full business case	01/01/2017	Consultancy support costs exceed the budget available for the required detail of work for the FBC	Anne Shaw	1	3	3	A clear project schedule (see 'Key Project Activity' above) and project management plan will be put in place. Cornwall Energy has been advising on the likely budget from previous experience in this area and we are confident that this is sufficient to deliver the FBC.	1	3	3	Open	BDM contract is fixed price. Additional services (finance, legal and specialist support) are being identified and procurement undertaken in due course. Additional costs unknown at present. Internal capacity to support is being monitored and reported to the Board.
2	Full business case	01/01/2017	Insufficient capacity to manage the BDM and FBC	Anne Shaw	3	3	9	The Project Team will maintain a clear forward plan of its work and capacity to deliver	4	3	12	Open	Reason for increased score: 1 FTE removed from project team in Economy FOM.
4	Full business case	01/01/2017	FBC development takes longer than anticipated	Anne Shaw	2	4	8	A clear project schedule (see 'Key Project Activity' above) will be established at the outset and updated throughout when key milestones are met. The board will be kept up to date of progress against milestones.	3	4	12	Open	Reason for increased score: Project plan was approved by the Board on 15/3/17. Subgroup meetings established and clear milestones set out which are currently behind schedule . Continuous monitoring required to report risks on delivery.

5	Full business case	01/01/2017	Political, senior officer and specialist internal support is not provided or available to the project	Anne Shaw	1	5	5	The project will be signed off by relevant political and senior officer support throughout the duration of the FBC development. A Board will help to oversee the development of the FBC and regular meetings with key officers will be established.	1	5	5	Open	Board to remain similar to the OBC that was formed late last year. Member sponsorship from Cllr Trickett. Anne Shaw current senior officer champion.
6	Full business case	01/01/2017	BCC incurs resource and reputational loss as a result of procurement activity running ahead of cabinet approval in September, if FBC is not approved by Cabinet	Anne Shaw	2	3	6	Costs will be limited to staff time and procurement of external specialist support. Tenderers will be advised that award is subject to FBC approval. Contracts will not be signed until approval has been given from Cabinet. Reputational damage will need to be managed but seen as relatively minor			0	Raised	

As the highest risk option, of establishing an energy company for full licence supply, it deemed prudent to bring these risks to the fore within the PDD. A full risk register would be provided in the FBC, should that be the recommended option.

7	Energy company becomes operational	01/01/2017	Inefficient/costly procurement of services	Anne Shaw	3	4	12	1) Market testing with necessary providers – e.g. systems, customer service solutions, wholesale counterparties, etc. 2) Make use of external advisors to assist with meetings to ensure services and costs are fully understood 3) Early legal clarity regarding procurement framework and terms of which funding is accessed. 4) close monitoring of the Cabinet approved budget at	3	4	12	Raised	
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								PDD for development of FBC,					
9	Energy company becomes operational	01/01/2017	Significant change to retail or wholesale market environment	Anne Shaw	3	3	9	1) Detailed business case developed with prudent view of all known costs and reputable forecast of future trajectory 2) Use of external advisors to sense check business case and provide independent view of market and regulatory developments 3) Inclusion of contingency fund to accommodate any unforeseen changes	3	3	9	Open	Part of soft market testing and access to the regulatory powers will ensure programme is abreast of market developments. Part of the overall strategy to take ownership / control of generation capacity will help to mitigate the risk of market changes impacting the business case
10	Energy company becomes operational	01/01/2017	Unclear/ complex governance structure	Anne Shaw	1	5	5	1) Establishment at the outset of a workable governance model that ensures clear delineation of responsibility for the company (and subsidiaries) and shareholder(s) (including potential JVs) 2) Sufficient legal resource to put in place governance structure and form company—including opening company bank account, access to line of credit/ collateral 3) Describe KPIs/ reporting requirements for company/ board	1	5	5	Raised	Legal advisors have been appointed to support FBC
11	Energy company becomes operational	01/03/2017	Inadequate planning and development	Anne Shaw	2	4	8	1) Detailed business case that identifies all known costs and best view of likely revenues over a long-term (e.g. initial five years with growth projections and thereafter steady state revenue) 2) Market testing with service providers at early stage of development (e.g. system	2	4	8	Raised	FBC development project underway with clear requirement to identify target operating model and delivery plan. Marketing testing to be progressed as soon as possible.

								providers, metering agents, wholesale energy counterparties)					
12	Energy company becomes operational	01/03/2017	Operational failure/ shortcoming once live – including systems such as billing and CRM	Anne Shaw	2	5	10	Clear and detailed Target Operating Model from inception to market entry, initial market entry (non-domestic) and full market entry (domestic)	2	5	10	Raised	Delivery plan and target operating model to be developed alongside business FBC. Market testing to be commenced as soon as possible to understand and mitigate operational risk
13	Energy company becomes operational	01/03/2017	Cannot recruit suitable staff into the company in time for activities to be completed for April 2018	Anne Shaw	3	5	15	Staff chart and forward plan to be developed and processes defined	3	5	15	Raised	
14	Energy company becomes operational	01/03/2017	Cannot enter into contracts with providers in time for April 2018 launch following cabinet approval	Anne Shaw	3	5	15	Tender processes completed and recommendation for award of contract will need to take place before the FBC is submitted to Cabinet in September	3	5	15	Raised	Opening programme discussions with procurement. Seek delegated authority to commence and finalise a tendering process for a supplier in a box for the industry licence and systems.
15	Energy company becomes operational	01/03/2017	BCC does not align the process for its energy procurement with the energy company launch	Anne Shaw	2	4	8	Commissioning and procurement are working closely with the BDM for the energy company to ensure that the processes are aligned and there is clear legal position on the process	2	4	8	Raised	

16	Energy company becomes operational	03/05/2017	BCC gives notice on CCS contract but does not become operational by April 1 to self supply	Anne Shaw	2	4	8	Commissioning and procurement are working closely with the BDM for the energy company to ensure that the processes are aligned. A contingency plan will be developed in the event of any delay to self-supply. This will be further explored and costed.	2	4	8	Raised	
17	Energy Company becomes operational	12/06/2017	BCC Energy Co cannot provide competitive tariffs to attract customers compared to the market competition	Anne Shaw	2	4	8	The Target Operating Model, Financial Model and Marketing subgroups will need to ensure costs of operation and systems are efficient to enable the company to provide competitive tariffs to customers.	2	4	8	Raised	Tariff strategy to be developed.

Appendix 3 – Market Entry Options

The following sections detail the different options that are being considered for BCC's entry into the energy market.

	White label	Licence Lite	Fully licensed	Do nothing
Definition	This option would see BCC partnering with an existing licensed supplier, enabling a local authority backed company to provide tailored and branded energy tariffs to customers in its area.	BCC would become a holder of an Ofgem granted licence to sell electricity to end consumers, but with complex and costly central industry compliance outsourced to a third party. This is not an option for gas supply.	BCC would become a holder of an Ofgem granted licence to supply energy from the outset to end consumers, with BCC handling all the central industry compliance itself.	BCC could choose to take no action to enter the energy market.
Investment requirement to set-up	£100,000 to £180,000	£665,000 to £945,000	£1.2mn - £1.9mn	Nil
Time to launch from point of financial close	1 – 3 months	6 months (min) – 12 months	12 months (min) – 18 months	N/A – No Launch
Revenue retention	Low (typically payment per customer)	High (all customer revenue)	High (all customer revenue)	Nil
Regulatory compliance	Low (typically partner provides sales/ marketing material)	Medium/ High (all customer facing requirements)	High (all requirements—but can outsource)	None
Pricing/ product flexibility	Low (typically determined by partner—likely for household only)	Medium – high (senior supplier will determine some costs)	High	None
Staff requirements	Low (typically sales agents and contract management)	High (customer facing retail activity)	High (customer facing retail activity and central industry compliance)	None
Market confidence and examples	<p>Proven—concerns that appetite from partner suppliers may be waning.</p> <p>Examples include Leeds City Council (White Rose Energy with Robin Hood Energy) and Cheshire East Council (Fairer Power with Ovo)</p>	<p>Untested—although GLA should become operational in early 2017</p> <p>Examples: the GLA are still pursuing this option (license not yet granted) with a very specific purpose to supply the Underground.</p>	<p>Conventional route—tried and tested with ability to outsource many obligation</p> <p>Examples: All energy suppliers (British Gas, EON etc fall into this category) but a couple of local authorities have also entered the market: Nottingham City Council (Robin Hood Energy) and Bristol City Council (Bristol Energy).</p>	N/A
Major risks	<ul style="list-style-type: none"> Over time local tariff is “out of the money” Little room to negotiate on price/ product 	<ul style="list-style-type: none"> Confidence that “senior” suppliers will offer services Proving interface between Licence Lite and senior 	<ul style="list-style-type: none"> Customer growth assumptions do not materialise Poor implementation 	<ul style="list-style-type: none"> There will be no additional opportunities generated to take advantage/ invest in local energy generation.

	<ul style="list-style-type: none"> ▪ Unsatisfactory contract terms with partner ▪ Limited scope for unique tariff offerings ▪ Low levels of revenue accrued ▪ No 'ownership' of customers ▪ No direct route to market for local generation ▪ Relatively immature and poorly serviced market segment ▪ Little scope for capturing and reinvesting local energy spend due to it going to the partner supplier 	<ul style="list-style-type: none"> ▪ supplier ▪ Options at expiry of contract with senior supplier ▪ Relatively high cost to establish and go-live - requires sufficient customer numbers/supply volumes to be viable ▪ Specialist skills required to establish entity ▪ Electricity only ▪ Little precedent for uptake of Licence Lite 	<ul style="list-style-type: none"> ▪ Highest entry cost of all options ▪ Specialist skills required to establish entity and for ongoing operation ▪ Full exposure to wholesale market and regulatory risks 	<ul style="list-style-type: none"> ▪ Complete inability to achieve ambitions and benefit from the opportunities relating to a BCC energy company as covered above ▪ An opportunity to address and reduce fuel poverty and stimulate low carbon and renewable energy generation will be lost
Opportunities	<ul style="list-style-type: none"> ▪ Test appetite for local energy brand ▪ Reduce energy costs for more vulnerable disengaged customers 	<ul style="list-style-type: none"> ▪ Flexibility for product/ prices ▪ Purchase local generation ▪ Underwrite long term offtake contracts ▪ Contractual relationship with end customers ▪ Greater job creation than white label supply ▪ Lower entry costs than fully licensed supply ▪ Electricity industry complexity outsourced to third party 	<ul style="list-style-type: none"> ▪ Full flexibility to set prices and contract terms ▪ Purchase local generation ▪ Underwrite long term offtake contracts ▪ Contractual relationship with end consumers ▪ Ensures that all customer revenues are recovered by energy company ▪ Potential to improve value of local generation (for generator and local consumers) ▪ Suitable for gas supply, unlike Licence Lite ▪ Tried and tested, unlike Licence Lite ▪ Greatest scope for job creation 	<ul style="list-style-type: none"> ▪ No opportunities generated from this option.

Appendix 4 - Budget information

The following table illustrates the total costs and funding for the development of the FBC. A full breakdown of the costs for the preferred option will be provided in the FBC.

Budget Summary				
	Voyager Code	Financial Year 2016-17	Financial Year 2017-18	Totals
Capital Costs	N/A	£ (in '000s)		
Expenditure:				
N/A		0	0	0
Totals		0	0	0
Revenue Costs	TA-01804-10	£ (in '000s)		
Expenditure:				
FBC Development:				
Specialist consultancy – BDM, market advisor, legal, financial and marketing support		24	248	272
BCC officer costs		0	28	28
Totals		24	276	300
Total Expenditure		24	276	300
Funded by:		£ (in '000s)		
Capital				
N/A		0	0	0
Totals		0	0	0
Revenue				
Flexible use of Capital Receipts		24	140	164
Earmarked Reserves		0	136	136
Totals		24	276	300
Total Funding		24	276	300

Notes – Revenue Consequences

The revenue consequences will be met from earmarked reserves of £136,000 and previous budget approvals to date of £164,000 from the flexible use of capital receipts.

The revenue consequences of the preferred option will be confirmed in the FBC.

Project Development Requirements/Information	
Products required to produce Full Business Case	<ul style="list-style-type: none"> • Completion of target operating model • Development of a detailed financial model • Delivery Plan and Procurement Strategy
Estimated time to complete project development	The FBC will be completed and the project products submitted to Cabinet for approval in September 2017.
Estimated cost to complete project development	£300,000
Funding of development costs	Use of earmarked reserves totalling £136,000 plus approved project development budget to date of £164,000

Planned FBC Date	September 2017	Planned Date for Technical Completion	April 2018
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Appendix 5 – Procurement Strategy

Services Required up to FBC Completion

A number of specialist consultants are required to support the sub-groups in providing the information that will inform the FBC. Specialist support is being procured via open tender processes or using collaborative framework agreements in accordance with Standing Orders and the Procurement Governance Arrangements. The requirements cover the following disciplines:

- Business Development Manager
- Finance Advisory Support
- Legal Advisory Support
- Market Advisory Support

Procurement Activity up to FBC Delivery

If the recommended option in the FBC aligns with recommendations made by Cornwall Energy, for BCC to setup a Fully Licensed Energy Company, then the following steps will need to be taken to ensure delivery by April 2018:

- Notice will need to be given on the existing contract for BCC's energy supply with Crown Commercial Services (CCS) by 1 October 2017 in order for the energy company to self-supply BCC by 1 April 2018. CCS has confirmed there is no flexibility in respect of this deadline due to their purchasing and contract arrangements and should the 1 October contract notice not be given, BCC will be locked into a contract with CCS for a further 12 months for energy supply (until April 2019). This would delay the energy company launch by one year. The financial impact of this is not fully understood but will be confirmed during FBC completion.
- Tender exercises for a number of services are required to take place during the period between approval of the PDD and the FBC completion to enable the energy company to be set up in the timescale required, should this prove to be the recommended option. Delegated authority is being requested for procurement activity to be undertaken as part of FBC completion so that should a recommendation of the fully licenced option be made and approved, contracts can be entered into immediately. The only impact on BCC if the FBC is not approved, will be officer time for the tender process which will be within FBC budget. Tenderers will be advised as part of the process that contract awards will not proceed if the FBC is not approved.

Delegation of authority to the Corporate Director of Economy, Director of Commissioning and Procurement, the interim Chief Finance Officer (or their delegate) and the City Solicitor (or their delegate) is being requested to commence the procurement process for relevant items below. The strategy and specifications for these items will be developed over July – September and will be subject to approval.

Subject to the fully licenced option being the recommendation in the FBC, the Delivery Plan will provide the detail on the outcomes of the procurement activity and any recommendation on award of contracts.

Contract	Role within Energy Company	Procurement Activity Dates	Procurement details – value, term, procurement approach – relevant to the fully licenced option
License and industry systems	It is proposed that the Energy Company will be setup by utilising the typical entrant route to market by purchasing an existing pre-accredited fully licence supply company already holds the necessary accredited licences. This is less expensive and more efficient than creating a supplier from scratch and go through the licencing accreditation process.	June to October 2017	<p>The anticipated start date is 1 October 2017 following FBC approval for a period of 5 years. The costs associated with this procurement include:</p> <ul style="list-style-type: none"> • A one off payment for the purchase of the licence and setup support for the estimated sum of £250,000. • Ongoing monthly costs associated with operating the company under the licence which will vary with company turnover (relative to customer numbers and growth) and may range from £250k per annum to in excess of £800k per annum. <p>The indicative ongoing costs identified above will be refined at Full Business Case stage, along with the identification of funding sources associated with the purchase of the licences. Costs associated with the licence will not be committed until the Full Business case is approved.</p> <p>Approval to commence this procurement activity was approved in the Procurement Planning Activities Report to Cabinet dated 16 May 2017.</p>
Wholesale energy trading service:	<p>a. The <u>trading desk service</u> will assume responsibility for all trading activity, executing BCC's energy trading and hedging strategy and ensuring competitive purchasing activity within the market. This will be a 24/7 role executing buy contracts on a half hourly basis through the year in line with BCC Energy Company growth forecasts.</p> <p>b. <u>Commodity trading</u> - This will be the execution of contracts to purchase energy as referenced above</p>	July to October 2017	<p>a. Cost: approximately £200k per annum. Variable cost linked to volume of energy purchased dependent on medium customer number and company growth - the greater the volume the higher the cost. The contract period would be up to five years.</p> <p>b. The spend for Year 1 is approximately £15m based upon the current estimates for BCC energy consumption relating to potential BCC spend referenced in Project Context. This will also accommodate growth in customer numbers and</p>

	– the actual energy purchases necessary to supply the customer base.		<p>therefore energy spend. There are options within the market for trading desk and commodity trading to be sourced from the same supplier which can provide opportunities to supply zero carbon energy.</p> <p>The procurement route is being finalised and will be in accordance with Standing Orders and the Procurement Governance Arrangements.</p>
Metering service	<p>The service is to provide the following mandatory metering requirements:</p> <p>Meter Operator – managing the operation and maintenance of legacy electricity meters and installation of new smart meters</p> <p>Meter Asset Manager – as above but for gas meters</p> <p>Data Aggregator – aggregation of all customer meter reading data.</p> <p>Data Collector – collection of customer meter readings.</p> <p>Smart DCC – Access to the Smart Data Communications Centre – for all new smart meters.</p> <p>Meter Asset Provider. It is the financial institution / organisation that funds and owns meters.</p>	July – October 2017	<p>The spend for Year 1 is approximately £875,000 based on an industry average of 3.5% costs for non-domestic relative to energy consumption. This will also accommodate growth in customer numbers and therefore energy spend.</p> <p>Further costs will be dependent on the chosen smart meter strategy and the company investment strategy – to be determined during FBC completion.</p> <p>Given that the UK metering market is changing to smart over the next few years. The contract period will be up to three years.</p> <p>The procurement route is being finalised and will be in accordance with Standing Orders and the Procurement Governance Arrangements.</p>

Procurement Activity following FBC Delivery

Further procurement activity, subject to September Cabinet approval, may include:

1. Specialist advice
2. Property
3. IT hardware and systems
4. Customer Service
5. Marketing – brand/proposition development and communication.