A community-based approach to securing cheaper energy for low income households

Andrew Shadrake and Gerard Couper

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About the authors:
Andrew Shadrake and Gerard Couper, of CAG Consultants (www.cagconsultants.co.uk), were commissioned by Plymouth City Council to lead the feasibility and community engagement work which created Plymouth Energy Community www.plymouthenergycommunity.com (see development case study at http://tinyurl.com/nuu56yj). They are currently assisting other authorities developing similar initiatives. CAG Consultants, is a co-operative itself, and is one of the UK's leading sustainability, climate change and community engagement consultancies. CAG is currently working with the housing association sector to train community energy champions.

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Collective energy switching schemes have generally failed to reach vulnerable households, but research shows how councils could reduce energy costs for this group by using different approaches. Changes in regulation and policy offer opportunities for working with vulnerable individuals more effectively, through partnerships with community energy co-operatives and other organisations with similar aims.

Introduction

Collective energy switching[1] has now been thoroughly tested in the UK. During early 2013 many councils were involved in DECC-funded[2] schemes, designed to help large numbers of householders to reduce energy bills by switching to new suppliers. Over 190,000 households registered interest in the schemes, though the number switching was lower than expected, at 21,641 households, a conversion rate of 11%.[3]

The schemes had very limited success in helping households using prepayment meters, who are often the most vulnerable.[4] Only 3% of registrations, and of switchers, were known to be from this group, although nationally 16% of electricity users, and 14% of gas users, have prepayment meters.[5] By contrast, the proportion of switchers paying by direct debit was higher than their prevalence in the population.

This was a disappointing result, since many councils had gone to considerable lengths to reach vulnerable customers. DECC, London Councils[6] and others[7] have commissioned research on why it is difficult to secure switching among this group, and the authors recently supplemented that work with a survey in Plymouth.

The Plymouth study

Plymouth was chosen for the study because its switching scheme was delivered differently from most others, being led by Plymouth Energy Community, a resident-led energy co-operative[8] which had strong council support. The study, conducted in May 2014, surveyed offline registrants who had not switched. There were 20 phone interviews (a 38% response rate), supplemented by a focus group.

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[1] The official definition of collective switching is "where consumers group together, typically facilitated by an independent organisation which negotiates with multiple suppliers, to secure a deal on their energy supply" Ofgem (March 2014) p.64.

[2] "DECC" is the Department of Energy and Climate Change. The funding stream was called Cheaper Energy Together, and had a total value of over £5 million.

[3] DECC (October 2013) p.21. Sixty-three of the councils participated in a second switching round in June 2013, with 35,000 registrations and 5.7% of these switching. There was also a third round in November, with 13,515 registrations and a 13% conversion rate (Energy Saving Trust (April 2014) p.1).

[4] London Councils (February 2014) p.1.

[5] Implying that only 630 such households switched through the scheme, though not all the schemes could provide this breakdown (DECC (October 2013) p.9.

[6] A cross-party organisation representing London's 32 borough councils and the City of London (http://www.londoncouncils.gov.uk).

[7] See, for example, Lorenc & Others (October 2013)

[8] Energy co-operatives can take several forms, and undertake a variety of activities. Typically, they are member-led industrial and provident societies, offering democratic control combined with access to share investment with tax advantages, but without the level of Financial Conduct Authority regulation faced by other legal entities.

Some of the results reinforced findings in other research. For example, most people, (55%), said that the factor most likely to make them change in future was saving money. This reinforces the conclusion of a larger London study,[9] which said that the main reason for not switching was that the offer was not good enough. People in Plymouth gave a wide range of reasons for not switching. These included: being happy with their existing supplier (20%); the proposed savings being too small (10%), and being prevented from switching by an energy debt (10%).[10] The London study similarly reported a wide range of reasons, though many were different, such as: not having time to consider the offer; it seeming too complex; not understanding what they needed to do; forgetting about the offer, or believing the proposed supplier was untrustworthy.[11] Another study has found that there are particular issues faced by many older people which require specific interventions.[12]

An interesting finding was that even among the Plymouth group who had not switched, there was a lot of goodwill towards, and trust in, Plymouth Energy Community, as a community-based energy co-operative. This was particularly emphasised in the focus group.[13]

The research shows that any further interventions to help people switch need to address their individual issues, as well as offer a worthwhile saving.[14] This will require new approaches, something reinforced by changes to the rules governing collective switching.

Changes in regulation

The regulations covering both tariffs in general, and those available through collective switching, have changed. Each supplier can now only offer four core tariffs. The only exception to this is that specific collective switch tariffs maybe offered, provided each collective switch scheme meets the criteria set by Ofgem.[15]

In principle, this is beneficial for collective switching, because it now offers one of the few routes to innovation available to energy suppliers. It may mean that they are more willing to compete, particularly for dual fuel online customers. One of the first auctions to be held under the new rules took place in London in November 2013, and had three bidding rounds for that group, reflecting keen competition.[16]

On the other hand, the new tariffs in the London example did not offer a saving for 29% of households registered. Where there was a saving for people on prepayment meters, this was low, averaging between £27 (for dual fuel) and £31 (for electricity only), compared with an average saving over the whole scheme of £114.[17]

[9] Energy Saving Trust (April 2014)
[10] Where a householder owes their supplier over £500, it is not usually possible to switch suppliers, nor to move from prepayment to a credit meter, supplying cheaper energy.
[11] Energy Saving Trust (April 2014) p.17
[12] Lorenc & Others (October 2013) p.899
[13] 100% of focus group attendees were very satisfied with Plymouth Energy Community, and 67% of phone interviewees rated it good.
[14] Another study described apathy as a reason for not switching (Lorenc & Others (October 2013) p. 900)). While this is no doubt true in some cases, the lack of interest in switching among some groups may be entirely reasonable, given the low level of savings secured. This is particularly true of people on prepayment meters.
[15] These are set out in Ofgem (March 2013) p.64.
[16] Furthermore, 80% of customers in the whole round were offered specially created tariffs (Energy Saving Trust (April 2014) p.1).
[17] Figures are for the first year. Energy Saving Trust (October 2013) p. 19.

Energy suppliers are reluctant even to offer a prepayment meter tariff,[18] and there is very little competition in this market.[19] Consequently, those most in need of financial support are least likely to obtain it through collective switching. Until Ofgem changes the rules to improve competition, councils interested in reducing energy bills for this group must find other ways to do so.

Individual switching: addressing each householder's needs

It is clear from both the research and the regulatory changes that vulnerable householders need individualised help to overcome the specific problems they face. There are effective ways to deliver this. For example, energy debt can be addressed by having dedicated energy debt advisers, working with energy foundations and credit unions. Energy foundations are often prepared to pay off an energy debt, provided they can be confident a debt will not recur. Credit unions can help people manage their money (or manage it for them), creating that confidence.[20] Once the debt is discharged, a person may switch supplier – and may also be able to ask their present supplier to install a credit meter. This would give access to cheaper tariffs.[21]

Another solution is to provide people with an instant switching quote. This overcomes the loss of potential switchers caused by the delay between registration for a collective switch and the issue of an offer, which must follow the close date for registrations. Individual switching is already easy to access for people who are online and able to assess different offers. Advisors could work with people in vulnerable groups who do not fall into that category.

One option is to promote telephone switching, which is cheaper than face to face engagement. It also has the advantage that calls can be monitored, making it easier to demonstrate regulatory compliance. On the other hand, for many people, the only way to initiate a discussion, or provide the appropriate support, is to meet them. Advisors working in this way could: visit people at home (or attend a housing association residents meeting, or similar community gathering[22]); determine the household energy spend; go online to seek quotes and explain them, helping people commission a switch.[23]

This model requires a network of advisors, all with online access, and ideally with an app which allows them to assess energy use accurately, with or without sight of energy bills. Such support is likely to be beyond the resources of most local authorities. This is where community partnerships can have a role. Councils can build on existing partnerships and create new ones, working with housing associations and other community-led organisations with similar aims. This can unlock money and other resources. This community dimension to addressing energy issues has been embraced by the government in its Community Energy Strategy. [24]

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[18] There are many reasons for this, but one is that it is no longer possible to offer a cashback under collective switching (Ofgem (March 2014) p.24). This was a simple way of giving a discount, while developing a new tariff is resource intensive.

[19] Energy Saving Trust (October 2013) p.15. The position is further complicated by the fact that Ofgem's criteria require that for a tariff to be considered one falling within the rules collective switching, it must be fixed. Fixed tariffs are extremely rare in the prepayment meter market.

[20] Debts can, of course, recur for reasons other than poor financial management. Many householders budget well, but have such low incomes that any unexpected outlay from an accident or change in circumstances can lead to debt. Such a cause for an energy debt may be presented as part of the evidence to an energy foundation.

[21] Some suppliers will require a fee for the installation of a credit meter, which might be funded from a community energy pot (see later discussion regarding energy co-operatives).

[22] CAG is currently working with Circle Housing Association to provide training to energy champions, and offering switching sessions to residents along these lines.

[23] The switch request itself will often need to be completed by the person wishing to switch, rather than an adviser.

[24] DECC (January 2014)

The Community Energy Strategy

The Community Energy Strategy represents a significant policy change which could help councils deliver a range of measures to reduce energy bills. The Strategy's main implication for local authorities is that they are urged to work with community organisations to deliver four strands of energy activity: generating, reducing use, managing demand and energy purchasing.

The Strategy gives several reasons why community energy action could be particularly effective. One is that people are generally motivated to become involved in community energy as a way to reduce bills.[25] Another is that the Government is supporting the Big Energy Saving Network, which is putting in place a large number of trained volunteers able to advise householders on tariffs, switching and energy efficiency (which can deliver far greater savings than switching, and over a longer term). Those volunteers are members of the communities they work in, and so would respond to leadership by a community co-operative. Thirdly, the Government is discussing with the Community Energy Coalition[26] how community organisations can assist the fuel poor.

All of these can help councils deliver lower bills for residents. For example, the trained volunteers could provide the face to face support needed to promote individual switching among vulnerable groups.

There are persuasive reasons for working with energy co-operatives in particular. One concerns renewable energy generation. Energy co-operatives can generate renewable energy, financed by a community share issue, reducing costs for schools and other community buildings. They can access tax breaks for investors which are not open to any other organisations, and so can raise capital quickly and comparatively cheaply. As well as increasing local incomes and creating jobs, the renewable installations can make a profit which can be used to pay for individual switching initiatives, and energy efficiency schemes. Plymouth Energy Community (see case study) shows what can be achieved.

[25] DECC (January 2014) p.16

[26] http://ukcec.org/

Plymouth Energy Community[27]: Benefits of a council-co-operative partnership

Plymouth Energy Community (PEC) is a community-led co-operative which aims to give people in the city the knowledge and power to take action to change their own energy future. It does this through initiatives in three areas: reducing energy bills, improving energy efficiency, and generating a green energy supply in the city.

To reduce energy bills, it ran a community engagement process in 2013 and early 2014, focussed on energy switching and working particularly with vulnerable households. This led to bespoke energy advice to 600 householders, and provided the knowledge and experience for the co-operative to design tailored interventions to overcome barriers to switching faced by fuel-poor and similar groups. Working in partnership with Plymouth City Council, it now has access to two dedicated energy debt advisors. They help people have their debts discharged by energy foundations, increasing the likelihood they can switch to cheaper, credit, meters, and eventually to cheaper tariffs

To increase energy efficiency, PEC customer referral teams visit householders to help them enrol in the ECO scheme, operated in partnership with British Gas. PEC's involvement has resulted in a referral rate five times that of the energy supplier's own teams. Plymouth Energy Community earns a fee for each household commissioning an installation.

In addition, using funding from a small grant, volunteer Energy Champions are supported to attend community events and local meetings to provide advice and information about how to save money and reduce energy use.

To generate green energy in Plymouth, PEC completed a share issue, raising £600,000 in seven weeks. It has begun installing solar PV on 18 school roofs in the city, which will provide cut price power to the schools, while providing a good return to investors, and providing an income stream to pay for the co-operative's management costs and developing future energy-related initiatives.

The partnership with Plymouth City Council has been essential to the success of the co-operative. All management is undertaken by Council staff under a service level agreement, with salary costs met from Plymouth Energy Community funds. Energy debt advisers are also employed by the council. The ECO scheme was brokered by Plymouth City Council, which also provided a loan to meet the pre-development costs of the solar share issue. The council's involvement provided a high level of trust to prospective investors in that share issue, and enabled council-owned schools to sign up for solar PV installations.

The council has benefited in a variety of ways. Addressing energy debt contributes to its target for assisting the fuel-poor. The ECO scheme will greatly reduce carbon emissions from private sector housing. The solar PV installations will reduce the operating costs of several council schools, while generating an income to pay for future energy-related work.

Overall, the partnership with PEC has provided a way for the Council to achieve its energy objectives with enthusiastic participation from Plymouth residents, empowering them, while reducing the call on its own resources over the long term.

[27] www.plymouthenergycommunity.com

The case study shows what is possible when a council supports an energy co-operative to deliver energy outcomes. Sometimes there will be an existing co-operative, which a local authority can work with. Where there is not, an authority may wish to create one, as Plymouth City Council did. They may be encouraged by the fact that funding will be available from September 2014.[28] In either case, the achievements can include: securing funding not available to councils; securing a volunteer base of energy champions able to delivery advice on energy efficiency and switching; securing a much higher level of referrals to ECO providers than they could achieve directly and providing an income stream to support new energy initiatives.[29]

The way forward
The research described in this article shows that, while past collective energy initiatives have been expensive and resource intensive, for limited direct benefit, there are several new opportunities for councils to reduce energy costs, especially for poorer householders. These include:

1. Forming partnerships with local community energy initiatives where these exist, and helping to create community-owned energy co-operatives where they do not.
2. Forming partnerships with other organisations with similar aims, such as housing associations.
3. Supporting networks of well-trained volunteers, drawn from the communities they work in, to deliver energy efficiency and individual, instant, switching advice.
4. Forming partnerships with ECO (and possibly Green Deal) providers, who receive referrals from the community co-operative door-to-door teams, delivering substantial domestic energy use and fuel bill reductions.
5. Supporting community energy sector to recruit energy debt advisers, helping people to discharge energy debts, move from prepayment meter to credit, and provide advice about lower tariffs.

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[28] The Urban Community Energy Fund will offer 100% grants up to £20,000 for feasibility studies into renewable energy opportunities, with a further £130,000 loans for pre-development costs. http://tinyurl.com/pzwm452 While a local authority may not be eligible to apply for funding itself, community partners will be able to do so.
[29] This is quite apart from the benefits flowing directly from a renewables programme, which include: reducing energy costs for schools and community organisations; educating a new generation in energy issues; securing local investment and reinvestment; providing a way for people on low incomes to participate in local investment, and co-own a generation company; reducing energy spend exiting the local economy.