

# Policy and Sustainability Committee

10.00am, Tuesday, 22 August 2023

## Energy for Edinburgh – options appraisal

Executive/routine Wards Council Commitments	Executive All
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### 1. Recommendations

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- 1.1 It is recommended that the Policy and Sustainability Committee:
  - 1.1.1 Notes the option appraisal for Energy for Edinburgh; and
  - 1.1.2 Agrees to continue to develop the business case for local heat networks and consider whether there is a role for Energy for Edinburgh, once that work is further advanced, later this year.

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## Energy for Edinburgh – options appraisal

### 2. Executive Summary

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- 2.1 The Council-owned energy services company (ESCo) Energy for Edinburgh Limited (EFE) was incorporated in 2016 but, to date, has not carried out any activity. An appraisal on future options for EFE has found that there is currently no clear role for EFE but that it could be used to progress heat network projects subject to further, more detailed, assessment.

### 3. Background

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- 3.1 EFE is the Council's arm's length ESCo.
- 3.2 Proposals to create an ESCo for Edinburgh were initially presented to the Council's Economy Committee in [May 2014](#). The relevant report identified four proposed objectives for the ESCo:
- 3.2.1 Delivering affordable energy initiatives (with a particular focus on alleviating fuel poverty and reducing energy bills);
  - 3.2.2 Income generation;
  - 3.2.3 Reducing carbon emissions as per the Sustainable Energy Action Plan (SEAP) targets; and
  - 3.2.4 Creating wider benefits for the community.
- 3.3 In [September 2015](#), the Council approved the first stage of establishing an ESCo for Edinburgh as a wholly Council-owned body. This report identified four prospective areas of activity for the ESCo:
- 3.3.1 District heating – providing coherence and a clear delivery model in developing district heating schemes across Edinburgh, ensuring that best practice is made available, that the technologies used are scalable and compatible and that economies of scale are utilised;
  - 3.3.2 Solar farms – taking forward the development of land to house large numbers of photovoltaic solar panels;

- 3.3.3 Smart cities – accelerating the roll-out of integrated, scalable, sustainable smart city technologies and services to deliver energy efficiency; and
- 3.3.4 Community energy – providing advice and expertise to community energy schemes in Edinburgh, assisting in getting new schemes established, helping to access funds, and potentially providing a ‘one stop shop’ for energy advice.
- 3.4 In [March 2016](#), the Council approved the establishment of an ESCo (to be named Energy for Edinburgh), including its articles of association, shareholders agreement, and draft business plan.
- 3.5 The report set out a vision for EFE of “*delivering the Council’s energy aspirations, supporting Edinburgh’s citizens and businesses in becoming more sustainable by reducing energy demand and encouraging local energy generation.*” The report identified the objectives of EFE as being to:
  - 3.5.1 Reduce carbon emissions;
  - 3.5.2 Deliver affordable energy (with a particular focus on alleviating fuel poverty);
  - 3.5.3 Generate income;
  - 3.5.4 Encourage wider community benefits; and
  - 3.5.5 Access and leverage the use of private sector finance where appropriate and where its use meets the above objectives.
- 3.6 The business plan proposed that EFE should act as a single point of contact for all strategic energy initiatives across the Council and identified a number of projects, at that time, that the company could lead on.
- 3.7 The 2022/23 budget for the Council allocated £0.2m to EFE “*to allow a zero-carbon energy project to move forward*”. £0.01m of this has been utilised to date for costs associated with keeping EFE open, leaving £0.190m.
- 3.8 On [17 November 2022](#), Policy and Sustainability Committee considered a report on 2030 Climate Strategy – Environmental Assessment Consultation and Review. The decision of Committee included recognising that EFE had a role to play in the Council’s Local Heat and Energy Efficiency Strategy, and that this was proposed as a priority area for investment. The Committee requested that a thorough options appraisal for opportunities for energy generation partnerships in the city be undertaken with an evaluation of how best to make EFE an active enterprise, including consideration of options for alternative and joint ventures, with learning from other ESCOs and Local Authorities.
- 3.9 In [January 2023](#), Policy and Sustainability Committee considered an update report on EFE. Committee agreed the following motion:
  - 3.9.1 Noting the motion agreed at Policy and Sustainability Committee in November 2022 which set out a path for developing a strategic approach to supporting Energy for Edinburgh to becoming an active enterprise, including the forthcoming report which will include “a thorough options appraisal for

opportunities for energy generation partnerships in the city [...] with an evaluation of how best to make Energy for Edinburgh an active enterprise, including consideration of options for alternative and joint ventures for Committee to consider, and with learning from other ESCOs and Local Authorities”.

- 3.9.2 Regrets that this report on Energy for Edinburgh was not included in the Committee work programme historically and risks pre-empting outstanding reports and stymying action on the topic, as agreed by Committee previously.
  - 3.9.3 Agrees to retain the £0.2m for future work of Energy for Edinburgh, with spending to be determined and directed by the results of the options appraisal, to ensure it is embedded into the wider strategic context which includes consideration of the Local Heat and Energy Efficiency Strategy, Energy Efficiency Taskforce and 2030 Climate Strategy.
  - 3.9.4 Agrees to another report in two cycles with an appraisal of at least 3 options for the future of Energy for Edinburgh.
  - 3.9.5 Agrees one of the options in the report will set out securing a delivery partner to purchase 50% shares in the company for a price of at least £0.2m which will also be made available to the company- following the Midlothian Energy approach. Other options should also explore the feasibility of Energy for Edinburgh to provide a platform for the Council to lever additional funding.
  - 3.9.6 Ensures that any of this funding does not duplicate existing funding streams and services such as the CARES scheme and Home Energy Scotland.
- 3.9 This report addresses paragraph 3.9.4 of the motion.

## **4. Main report**

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- 4.1 The full option appraisal is attached as Appendix 1 and considers six options for EFE:
  - 4.1.1 Winding-up the company;
  - 4.1.2 Using EFE to progress solar PV projects;
  - 4.1.3 Using EFE to progress heat network projects;
  - 4.1.4 Using EFE to progress non-domestic energy efficiency projects;
  - 4.1.5 Selling shares in EFE; and
  - 4.1.6 Using EFE to leverage funding.
- 4.2 These options are assessed against three principles:
  - 4.2.1 That EFE should only engage in activity where there is a strong rationale for the activity in question being carried out by EFE as opposed to the Council or a third party;

- 4.2.2 That EFE should only engage in activity where it could conceivably have some manner of competitive advantage; and
- 4.2.3 That the activity can be delivered by Council staff and contractors acting on behalf of EFE rather than necessitating EFE has dedicated staff.
- 4.3 The finding of the appraisal is that using EFE has limited added value in delivering projects at this time. While there could be a role in progressing future heat network projects in Edinburgh, utilising it for this purpose will need to be benchmarked against other options once business cases are completed, such as direct delivery by the Council. Elected members are therefore advised to note this position and delay a final decision on the future of EFE until later this year when heat network business cases are finalised.

## **5. Next Steps**

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- 5.1 If Committee agrees the recommendations of this report, officers will:
  - 5.1.1 Write to the Board of EFE to advise them of the agreed position for the company and invite them to remain in post until a final decision is taken;
  - 5.1.2 Seek the view of the Board of EFE on the options appraisal;
  - 5.1.3 Continue to develop the city's Local Heat and Energy Efficiency Strategy (LHEES) and report this to Committee in December 2023;
  - 5.1.4 Continue with the procurement of a heat network developer and operator in Granton (which is due to be reported to Finance and Resources Committee early 2024); and,
  - 5.1.5 Continue to develop a business case for a heat network in South East Edinburgh, with a report to Committee expected early 2024.
- 5.2 It is envisaged that, as the above areas of work advance, it will become possible to finalise the assessment of whether there is a role for EFE in relation to heat networks.
- 5.3 The final assessment will be reported back to Committee in January next year alongside the Climate Strategy update.
- 5.4 The £0.190m budget allocated to EFE will be used to cover any company costs in this financial year and any further work (such as legal or technical specialist advice) required to finalise the assessment of the role EFE could play in the delivery or management of heat networks in the city.

## **6. Financial impact**

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- 6.1 In the short term, the Council could make a small saving if Companies House and HMRC are advised that the company is currently dormant, while the business case for EFE to progress heat energy networks is developed.

- 6.2 The costs currently incurred by the company are principally audit (circa £6,500 per annum), tax (circa £950 per annum), and insurance (circa £1400 per annum). These costs could be reduced by declaring EFE to be dormant until such time as it trades. The £0.190m budget identified will be utilised as described in paragraph 5.4.

## **7. Stakeholder/Community Impact**

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- 7.1 Consultation has been undertaken with internal and external stakeholders to inform the options appraisal.

## **8. Background reading/external references**

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- 8.1 None.

## **9. Appendices**

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- 9.1 Appendix 1 – Energy for Edinburgh options appraisal

## Energy for Edinburgh – options appraisal

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### **2. Executive summary**

- 2.1. This report is an options appraisal for Energy for Edinburgh Limited (“EFE”), the arm’s length energy services company of the City of Edinburgh Council. The report appraises options for the future of EFE.
- 2.2. EFE was incorporated in November 2016, but has yet to carry out any activities as of March 2023. The company has no employees or any significant assets.
- 2.3. The UK energy market is currently in a period of instability, with significant price rises for consumers and multiple recent energy company failures.
- 2.4. The Council is currently taking forward a range of energy-related projects in-house, among them the scoping and development of various heat networks.
- 2.5. A business plan for EFE was produced in 2016; it identified three principal workstreams that were proposed to be the initial areas of focus for the company: heat networks, non-domestic energy efficiency, and solar PV. It is considered that several assumptions in the business plan are no longer sound in the current context.
- 2.6. Multiple other UK local authorities have established ESCos. Some are focused on a single project centred on an asset owned by the local authority, while others have a more diverse workload. Where local authority-owned ESCos have acted as fully licensed energy providers, this has on multiple occasions resulted in challenges for the local authority in question.
- 2.7. The options appraisal considers six options for EFE: winding-up the company; using EFE to progress solar PV projects; using EFE to progress heat network projects;

using EFE to progress non-domestic energy efficiency projects; selling shares in EFE; and using EFE to leverage funding. These options are assessed against three principles: that EFE should only engage in activity where there is a strong rationale for the activity in question being carried out by EFE as opposed to the Council or a third party; that EFE should only engage in activity where it could conceivably have some manner of competitive advantage; and that the activity question can be delivered by Council staff and contractors acting on behalf of EFE rather than necessitating EFE having dedicated staff.

- 2.8. The finding of the appraisal is that there is not clear role for the company at the current time but that EFE could be used to progress heat network projects in Edinburgh subject to further assessment.

### **3. Introduction**

- 3.1. This report is an options appraisal for Energy for Edinburgh Limited (“EFE”), the arm’s length energy services company (ESCo) of the City of Edinburgh Council. This report has been prepared for consideration by the Council’s Policy and Sustainability Committee on the future of the company.
- 3.2. As set out in this report, EFE currently possesses no employees, no capabilities, and minimal resources. Given this, the focus of the report is upon identifying areas where an arm’s length energy services company could add value, and where projects that the Council wishes to see realised can best be delivered using this model.

### **4. Background**

- 4.1. Proposals to create an ESCo for Edinburgh were initially presented to the Council’s Economy Committee in May 2014. In March 2016, the Council approved the establishment of EFE, including its articles of association, its shareholders agreement, and a draft business plan. The report set out a vision for EFE of *“delivering the Council’s energy aspirations, supporting Edinburgh’s citizens and businesses in becoming more sustainable by reducing energy demand and encouraging local energy generation.”* The report identified the objectives of EFE as being to:

- Reduce carbon emissions;
- Deliver affordable energy (with a particular focus on alleviating fuel poverty);
- Generate income;
- Encourage wider community benefits; and
- Access and leverage the use of private sector finance where appropriate and where its use meets the above objectives.

- 4.2. EFE was incorporated as a private limited company on 8 November 2016. As of March 2023, EFE has no employees and no assets besides a nominal amount of cash.<sup>1</sup> The company has not to date delivered any projects or carried out any meaningful activities.
- 4.3. The 2022/23 budget for the City of Edinburgh Council allocated £200,000 to EFE *“to allow a zero-carbon energy project to move forward”*.
- 4.4. In January 2023, the Policy and Sustainability Committee requested that officers prepare an options appraisal on the future of EFE, with the options appraised to include (a) securing a delivery partner to purchase 50% shares in the company (b) using EFE to provide a platform for the Council to lever additional funding.

## 5. Energy market context

- 5.1. The context in which EFE operates has changed significantly in recent years. The UK energy market is currently experiencing significant challenges, primarily due to a sharp rise in global wholesale gas prices. Following a decade of stable or falling prices, gas prices began to rapidly increase towards the end of 2021, driven by factors such as rising demand, depleted reserves, breakdowns and maintenance events at key facilities, and various supply pressures associated with Russia’s invasion of Ukraine. Rising gas prices have in turn driven up electricity prices.
- 5.2. The UK energy price cap – which places a ceiling on how much suppliers can charge residential consumers for standard variable tariffs for gas and electricity – was increased from £1,277 in August 2021 to £4,279 in January 2023: a rise of £3,002 (235%). It was subsequently reduced to £3,280 in April 2023. Notwithstanding that the prices levied on consumers have been capped at a lower ceiling by the UK Government’s Energy Price Guarantee, the last 18 months have seen unprecedented increases in energy prices, resulting in significant pressures for both residential and non-residential energy consumers. These pressures have been exacerbated by high levels of inflation in the UK economy generally, with the Consumer Prices Index including owner occupiers’ housing costs (CPIH) rate standing at 9.2% in the year ending 30 February 2023, down slightly from a record peak of 9.6% in the year ending 31 October 2022.
- 5.3. One impact of energy market volatility has been the failure of multiple energy companies. From July 2021 to June 2022, 29 UK energy companies, with a total of approximately four million customers, collapsed. These included Bulb Energy Ltd, at the time the UK’s seventh largest energy supplier with 1.6 million customers, which was placed into special administration by the UK Government before being

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<sup>1</sup> This excludes the £200,000 allocated to Energy for Edinburgh in the 2022/23 Council revenue budget as this sum has not been transferred to the company.

acquired by Octopus Energy. The failure of these companies was due to a range of factors including an inability to pass increases in wholesale costs on to consumers due to the energy price cap and fixed deals, making their financial positions untenable.

## **6. Review of current workstreams**

- 6.1. The City of Edinburgh Council is currently involved with a considerable range of activities relating to energy and sustainability more generally. Certain of these activities are summarised below.
- 6.2. The Council has, for several years, been exploring the scope to deliver heat networks in Edinburgh. While this remains an emerging area, there has been a significant increase in momentum in recent years with several projects making significant advances:
  - 6.2.1. The Council is leading on a major mixed-use development at Granton Waterfront that will deliver thousands of new homes along with commercial space, a primary school, and other buildings. The aspiration is for the overall development to be net zero carbon. In January 2023, the Council published a prior information notice on Public Contracts Scotland in which parties interested in bidding to design, build, finance, operate, and maintain a heat network at Granton Waterfront were invited to note interest;
  - 6.2.2. Edinburgh BioQuarter is an existing community of healthcare, academia, and commercial researchers in southeast Edinburgh, centred on the Royal Infirmary of Edinburgh. A partnership comprising NHS Lothian, the University of Edinburgh, Scottish Enterprise, and the Council is working to bring forward a major expansion of BioQuarter that will deliver around two million square feet of commercial innovation space along with around 2,000 homes, with work to appoint a development partner ongoing. There is interest in implementing a comprehensive heat solution for BioQuarter, and there has been exploration of a potential heat network solution; and
  - 6.2.3. The Council is also exploring various other potential heat network schemes in areas including Gracemount, Sighthill, Craigentenny, and Seafield. These schemes are at various stages of development with the Council's involvement in each ranging from the lead developer to a potential off-taker. On a smaller scale, the Council is also exploring a number of communal heat schemes.
- 6.3. The Council is improving the energy performance of its existing social housing stock via ongoing investment in retrofitting activities, including insulation, upgrades to heating systems, and upgrades to doors and windows. New social homes in Edinburgh being delivered as part of the 21<sup>st</sup> Century Homes programme are built

to a high standard of energy efficiency and utilise heating systems with no direct emissions, such as heat pumps. Further to this, the Council is delivering energy efficiency upgrades to privately-owned homes in areas of Edinburgh with high levels of fuel poverty via the Energy Efficient Scotland: Area Based Scheme initiative.

- 6.4. A project to upgrade over 55,000 streetlight lanterns in Edinburgh from halogen bulb to LEDs completed in 2022. The project was funded via prudential borrowing of £24.5 million and the upgrades are expected to save the Council £54 million over 20 years, reduce energy consumption by 60%, and reduce CO<sub>2</sub> emissions by 75%. The project was named “Energy Project of the Year” at the 2022 Energy Awards.
- 6.5. The Council is currently preparing a Local Heat and Energy Efficiency Strategy (LHEES). The LHEES will be a long-term strategy for improving the energy efficiency of buildings in Edinburgh and reducing their emissions, contributing to the national targets of no buildings in Scotland contributing to climate change by 2045 and no households in Scotland being in fuel poverty by 2040 (along with the Council’s own net zero carbon targets). The LHEES will identify “pathways” to decarbonisation for different areas of Edinburgh and segments of its building stock, based on their specific characteristics. Among the outputs of the LHEES will be an evidence base that will underpin recommendations around heat network zones in Edinburgh; the LHEES will therefore help drive forward heat network development.

## **7. Review of energy services companies**

- 7.1. There is no legal or commonly used definition of an ESCo, and the activities carried out by ESCos are highly variable. The activities of some existing UK local authority-run ESCos are summarised below:
  - 7.1.1. Aberdeen Heat and Power Company Limited (company number SC233625, incorporated 2002) is a wholly owned company of Aberdeen City Council that was established with the remit of developing and managing heat networks and combined heat and power schemes to alleviate fuel poverty in Aberdeen. It now supplies heat and hot water to customers in Aberdeen – including hundreds of homes and several public buildings – via a series of heat networks supplied by four energy centres. The ESCo is responsible for procuring the design and construction of the networks and for their ongoing operation and maintenance.
  - 7.1.2. Hackney Light and Power is the energy services arm of Hackney Council.<sup>2</sup> Its stated aims are to install solar panels on Hackney Council-owned rooftops; roll-out electric vehicle charging points; invest in renewable heat generation;

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<sup>2</sup> It is unclear at the time of writing whether Hackney Light and Power has been incorporated.

and support businesses and residents to invest in renewable energy technologies. The activities of the ESCo to date have included commissioning the installation of solar panels on the Hackney Council-owned West Reservoir Centre, placing contracts for the installation of 3,000 electric vehicle charging points throughout Hackney, and delivering a free insulation programme for Hackney Council.

- 7.1.3. Midlothian Energy Limited (company number SC678840, incorporated 2020) is a 50/50 joint venture between Midlothian Council and Vattenfall Heat UK Limited which was established to utilise waste heat from the Millerhill Recycling and Energy Recovery Centre to supply low carbon heat to customers in Shawfair and the surrounding area via a heat network. The ESCo will procure design and construction of the network.
- 7.1.4. West Dunbartonshire Energy LLP (company number SO307232, incorporated 2021), is a wholly owned company of West Dunbartonshire Council established to run a heat network utilising heat extracted from the River Clyde at the Queens Quay development in Clydebank. It has been capitalised by West Dunbartonshire Council with £1 million. The responsibilities of the ESCo are to include commercial management of the heat network business; approving prices and tariff structures; and monitoring the performance of Vital Energi, the entity responsible for the day-to-day operation of the energy centre and pipes for the heat network.
- 7.1.5. City Leap Energy Partnership Ltd (company number 14298622, incorporated 2022), trading as Bristol City Leap, is a joint venture between Bristol City Council and the renewable energy company Ameresco which was established as part of a planned 20-year partnership. The partnership is aimed at bringing £1 billion of green investment into Bristol in areas including heat networks, wind turbines, solar panels, insulation, and heat pumps. The joint venture will make use of funding opportunities such as the Public Sector Decarbonisation Scheme and the Home Upgrades Grant Scheme.
- 7.2. It is noted that several of the ESCos profiled above have been established in order to deliver a specific project centred on an energy asset owned by the local authority, for example a heat network. Other ESCos have been established to take forward a wider range of projects, similar to that envisaged in the 2016 EFE business plan.
- 7.3. A small number of local authorities have established ESCos as fully licensed energy providers, giving them the ability to set prices and enter into power purchase agreements with generators. A review of these projects has been undertaken, with several examples set out in Annexe One. The overall finding is that acting as

an energy provider is challenging, with several high-profile failures resulting in significant losses for the local authorities in question. Key considerations include:

- The energy market is inherently highly competitive and challenging to extract profits from, particular for new entrants. This is likely to be exacerbated where energy suppliers are charged with additional duties, for example supplying cheap energy or supplying green energy;
- Current energy market volatility has intensified challenges for suppliers;
- Economies of scale are key to the financial success of energy providers due to high overheads and fixed costs;
- Energy customers are highly price sensitive, meaning suppliers are unlikely to be able to rely on securing local customers;
- Energy suppliers require significant upfront investment to cope with market volatility and regulatory changes and may incur sizeable early losses as overheads rise with growth; and
- The financial exposure of the local authority can be significant in the event that it provides loans, guarantees, or other backing to the company.

## **8. Review of Energy for Edinburgh business plan**

- 8.1. As noted, a draft business plan for EFE was approved in March 2016. This section of the report reviews the plan and analyses the key proposals set out in it and the assumptions underpinning them.
- 8.2. The business plan identified a key potential role for EFE as being to serve as a *“central strategic energy function within the Council that brings projects together to pool expertise, explore synergies or maximise social, environmental and economic benefits”* and to serve as *“a single point for all strategic energy initiatives across the Council”*. While it remains the case that there is no central function in the Council for coordinating energy projects, the rationale for this role being fulfilled by an arm’s length company rather than as a corporate Council function is unclear.
- 8.3. The business plan anticipated recruitment of staff for EFE taking place in Q2 2016, concurrently with the incorporation of the company and prior to other activities such as board meetings taking place. Accordingly, it was envisaged that EFE would have a dedicated staff resource from its inception, whereas in actuality EFE remains unstaffed after more than six years. The business plan is unclear on the precise number of staff EFE was envisaged as having, but it is clear that it was anticipated the company would employ at least one full-time project manager.
- 8.4. The business plan identified three areas of focus for EFE in the short-term: solar photovoltaics (PV), heat networks, and non-domestic energy efficiency. The

potential role of EFE in each area as set out in the business plan is summarised below:

### **Solar PV**

- 8.5. The proposed project entails the formation of solar PV canopies on park-and-ride sites and the development of solar farms on unused Council land or former landfill sites. Three potential options for EFE involvement are identified: EFE negotiating and managing leases over Council land on behalf of the Council (receiving project management and administration fees); EFE procuring a developer to install the solar PV arrays, with the developer receiving income from feed-in tariffs (FITs) and EFE receiving income from the electricity generated; and EFE itself financing the installing of the solar PV, repaying the finance using income from electricity generated and FITs.<sup>3</sup>
- 8.6. The business plan sets out the rationale for EFE delivering this project rather than the Council. It states that *“there has been a lack of resource and appropriate skill set [within the Council] to take this type of project forward”* and that *“EFE can use its expertise to assist developing and managing these projects”*. The business plan therefore anticipates EFE being better placed to deliver this project due to possessing resources, skills, and expertise that the Council lacks. However, as noted, EFE possesses no employees and only modest resources, meaning at present EFE does not have the resources to deliver this project. While in principle employees could be hired for EFE with the necessary skills and experience, the costs of this would be considerable and the benefits of recruiting to EFE rather than the Council directly are unclear. It is considered that it could potentially be more expensive to recruit the employees in question to EFE given that the Council possesses an existing infrastructure for recruitment, payroll, human resources, etc. While Council employees could potentially carry out the work on behalf of EFE, this would appear to obviate the stated benefits of having EFE deliver the project.
- 8.7. Given the above, it is thought that the case for EFE playing a key role in the delivery of solar PV projects as set out in the business plan is not credible in the current circumstances. However, the potential for more intensive use of Council land and property for solar PV could warrant further exploration and conceivably EFE could play a role in leveraging private investment into this.

### **Heat networks**

- 8.8. The proposed project entails the development and extension of heat networks in Edinburgh. Three main areas of activity where EFE could potentially play a role are identified: designing, financing, and building the generation and transmission

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<sup>3</sup> In respect of the latter two options, the end of feed-in tariffs in April 2019 means this approach is likely no longer viable.

assets; operating and maintaining the energy centre and pipe network; and providing metering and billing services to customers.

- 8.9. The business plan sets out the rationale for EFE delivering this project rather than the Council. It states that *“undertaking projects within a limited company allows potential risks to be limited in their impact on [the Council], should difficulties be encountered”* and that *“an ESCO also provides an avenue for CEC to develop commercial opportunities to sell heat to the private sector [...] the Council currently does not have the ability to do this easily.”* The rationale for utilising EFE in this role is therefore around limiting risk and unlocking commercial opportunities.
- 8.10. The principles underpinning the rationale for utilising EFE to deliver this project are thought to have some merit and warrant further investigation although the level of risk associated with these activities would need to be fully assessed when benchmarked against other options such as direct delivery by the Council. Work is currently being taken forward directly by Council officers in relation to Granton and South East Edinburgh. While no firm conclusions have been reached, it does appear that heat networks will be the preferred option for decarbonising heating and hot water in these areas although Council and Scottish Government support is likely to be required to create investable propositions i.e. at the moment it is unlikely the market could deliver without intervention of some form. It is also noted that EFE in its current form lacks the capabilities required to play any meaningful role in the delivery or operation of heat networks.

### ***Non-domestic energy efficiency***

- 8.11. The proposed project entails the retrofitting of non-domestic buildings in Edinburgh. It is anticipated that EFE would supply *“monitoring and verification assistance at later stages, ensuring that the cost and CO<sub>2</sub> emission savings are being realised in line with the approved business case”* and supply *“advice, support and a potential procurement route for [partner] organisations to implement their own energy efficiency measures”* in return for management fees. In effect, EFE is envisaged as helping public sector organisations such as NHS Lothian and businesses implement energy efficiency measures.
- 8.12. The business plan sets out the rationale for EFE delivering this project rather than the Council. It states that *“expanding these energy efficiency projects across the City’s various organisations would prove very difficult for [the Council] to undertake as a more bureaucratic entity with strict approvals processes”* and that *“EfE can coordinate energy efficiency works where required, alongside [heat network] scheme initiatives, and CEC would not be able to do this.”* It is, however, unclear how EFE would support the work that other organisations are carrying out internally. As above, it is noted that EFE in its current form lacks the capabilities required to play any meaningful role in the delivery non-domestic energy efficiency projects.

- 8.13. Given the above, it is thought that the case for EFE playing a key role in the delivery of non-domestic energy efficiency projects as set out in the business plan is not credible in the current circumstances.
- 8.14. In addition to the above project, the business plan identified several other areas in which it was envisaged that EFE could become involved. A selection of the projects identified is set out below. It is noted that several of the projects identified have moved on significantly since 2016:
- Streetlight LED replacement programme;
  - Stair-light replacement programme;
  - Use of solar farms on unused CEC land;
  - Electric vehicle charging; and
  - Domestic building energy retrofit programme.
- 8.15. Across the various projects, the business plan identified where it was envisaged that EFE could add value. The following items were identified:
- Accelerate investment;
  - Community engagement;
  - Co-ordinate partners;
  - External financing;
  - External partnering;
  - Provide expertise;
  - Scaling; and
  - Source external partners.
- 8.16. It is thought that the potential for EFE to add value in the ways set out above may be limited. For example, EFE is envisaged as providing expertise to projects. As noted, EFE currently does not have any employees or capabilities. While in principle it would be possible for EFE to recruit employees utilising the £200,000 of funding available to the company, given the potentially wide-ranging nature of the company's activities, it would be challenging to provide all these capabilities in-house. A recent piece of work commissioned by the Council on a heat network project has involved input from disciplines include project managers, electrical engineers, design engineers, mechanical engineers, carbon consultants, and commercial consultants. Different projects will require different disciplines, in some cases relatively niche. It is suggested that it would be challenging to EFE to viably recruit the employees needed for it to provide expert advice on the projects in question, and that it is likely to be more feasible to contract this work out to external suppliers.

- 8.17. The business plan sets out proposals around the finances of EFE. The business plan was predicated on EFE being awarded £150,000 of start-up funding; while this funding is not currently in place, £200,000 was awarded to EFE in the 2022/23 Council revenue budget. The £150,000 was envisaged as being used to fund staff and operational support costs for EFE. In the longer-term, the business plan envisaged EFE being financially self-sufficient via a combination of grant funding; direct investments into the company; commercial loans; spend to save projects; and revenue streams such as management fees.
- 8.18. Overall, it is considered that the business plan for EFE, published in 2016, is predicated on several assumptions that are no longer sound. EFE was further envisaged as being involved in a wide range of activities relating to energy and energy efficiency; while the attractiveness of this is recognised, it is considered that it would be challenging for an enterprise on the scale of EFE to effectively manage these different workstreams and, perhaps more important, develop the capabilities and core competencies needed for EFE to succeed in its markets.

## **9. Options appraisal**

- 9.1. Consideration has been given as to the optimal role for EFE to play in the energy ecosystem of Edinburgh. As there are a large number of roles that EFE could play in the future, the purpose of this options appraisal is to consider where EFE can add value. This assessment can be informed by where analysis of projects has identified benefits in using an arm's length company as a vehicle for delivery. The appraisal has focused on the areas named in the 2016 business plan as principal workstreams for EFE as these have previously been identified as areas of opportunity for the company.

### ***General considerations***

- 9.2. As noted in section seven, the business plan prepared in 2016 set out a number of areas where it was envisaged EFE could play a role. Scrutiny of the business plan suggests that certain of these proposals may be challenging to deliver. In some cases, projects are already being delivered by the Council, and the rationale for introducing EFE into the process is unclear. Further, it is suggested that resourcing the quantity and variety of projects set out in the EFE business plan would be challenging. Given this, it may be prudent for EFE to focus on a single or small number of projects in the short- to medium-term.
- 9.3. Related to the above, consideration should be given to where EFE's strengths are envisaged as lying. Management theory indicates that a company should concentrate on activities relating to its core competencies, which may not be aligned with what the company perceives as its core business. As noted, the 2016 business plan identifies a wide range of activities that the company was envisaged

as potentially being involved in. While areas of work such as heat networks, energy efficiency, and electric vehicle charging are thematically related, the specific capabilities required for the delivery in each area are different. The appeal of having a single company undertake a wide variety of functions relating to the Council's interests in sustainability is recognised; however, while it may be feasible for a large organisation to develop capabilities in each area, this is not thought to be realistic for a micro-business such as EFE. It is suggested that it would be better for EFE to focus wholly or primarily on a single area of activity and concentrate upon developing capabilities and core competencies in this area.

- 9.4. A key consideration is in which circumstances it would be optimal for EFE to carry out projects rather than the Council itself. As a local authority, the City of Edinburgh Council benefits from certain advantages that can assist with the viability of projects. These include exemption from certain taxes (for example, Corporation Tax and, in some cases, Value Added Tax); access to lower cost finance (for example, via prudential borrowing); access to certain grant funds; and access to public sector procurement frameworks offering preferential prices. It is conceivable that utilising EFE to deliver projects instead of the Council could result in unintended consequences, for example increased tax burdens. While in theory any number of Council projects *could* be transferred to EFE, it is likely that in some cases this would result in additional cost for the same outcome given the above factors.
- 9.5. It is noted that the costs of establishing EFE as a genuinely standalone company (in the same manner as other Council arm's length companies such as Edinburgh International Conference Centre Limited) would be significant in terms of overheads such as corporate leadership; support staff (for example, legal, finance, human resources, and administrative staff); premises; utilities; pensions; insurances; cash on hand; etc. Given this, it is assumed that for EFE to be viable, the company would need to be embedded within the Council for at least the short to medium-term.
- 9.6. To inform the options appraisal, three principles around the role of EFE are proposed:
  - 9.6.1. The first proposed principle is that EFE should only engage in activity where there is a strong rationale for the activity in question being carried out by EFE rather than the Council (or a third party). In particular, where considerations such as VAT and Corporation Tax mean that executing a project would, all other things being equal, be more expensive for EFE than for the Council, there would need to be clear benefits to utilising EFE to justify this in terms of value for money. It is suggested that these benefits could include:
    - Shielding the Council from liability associated with project risks;

- Enabling a project to leverage in funding unavailable to the Council (for example, crowdfunding, equity investment, or grant funding only available to companies) or participate income generation opportunities that the Council cannot;
- Enabling greater flexibility in respect of matters such as procurement; and/or
- Enabling partnerships with other organisations.

9.6.2. The second proposed principle is that EFE should only engage in activity where its status as an arm's length company of the Council gives it some manner of competitive advantage or otherwise render it better placed to carry out this activity than another organisation. This is in recognition of the fact that the "sustainability" ecosystem is relatively cluttered, with a large number of government bodies, charities, and businesses already engaged in various activities, meaning EFE is unlikely to be well placed to make a significant impact where it does not possess such an advantage. In these circumstances, the Council's interests are likely to be best served by working with more established organisations who are already heavily engaged in the sphere in question. Circumstances where EFE's status as an arm's length company of the Council could confer an advantage on it are thought to include:

- Projects entailing the usage of Council land and property, where the Council grants preferential access to EFE;
- Projects relating to existing Council initiatives and activities; and/or
- Projects related to the award of contracts, licences, etc by the Council.

9.6.3. The third proposed principle is that EFE should, in the short- to medium-term, focus on projects that can be delivered by Council staff and contractors acting on behalf of EFE rather than projects that would entail EFE having its own staff complement. This is due to the costs of staffing and the associated overheads. It is considered financially more prudent to utilise EFE as a vehicle for delivery rather than a standalone company. As a proposition, this would entail EFE focusing on areas where the Council already has some degree of capabilities rather than entirely new areas (for example, hydrogen).

### ***Options***

9.7. For the purposes of the options appraisal, six options have been selected. These have been drawn from the immediate areas of focus for EFE identified in its business plan, along with other options stemming from input from elected members. They are:

- A. Wind-up EFE or retain the company in a dormant state;
- B. Use EFE to progress solar PV projects;
- C. Use EFE to progress heat network projects;
- D. Use EFE to progress non-domestic energy efficiency projects;
- E. Sell shares in EFE; and
- F. Use EFE to leverage funding.

9.8. Additional information on each option is set out below.

***Wind-up EFE***

9.9. The first option would be to wind-up EFE. In practical terms this would translate to the Council deciding not to have an arm’s length ESCo in the short to medium term, albeit it would not prevent the Council from effectively recreating EFE at any point in the future if it wished to do so.

9.10. As EFE does not have any staff or assets, the wind-up process would be relatively straightforward with no question of redundancies, special dividends, etc. Equally, as EFE does not currently have any core competencies, there would be no losses in this sense. There is a small financial incentive to wind up the company compared with (for example) retaining the company in a quasi-dormant state.

9.11. Winding-up EFE would deliver a modest annual saving in terms of the costs associated with financing report and auditing for the company. There would be no loss of income.

9.12. The disadvantages of this would be around the opportunity cost of not having EFE take projects forward. The Council would also need to consider the reputational impacts of such a decision and be clear that it remained committed to its targets under the 2030 Climate Strategy.

***Use EFE to progress solar PV projects***

9.13. As set out in section seven, the original draft business plan for EFE envisaged the company playing a role in the delivery of solar PV canopies on Council-owned park-and-ride sites and the development of solar farms on unused Council land, noting the potential for EFE to “*use its expertise to assist developing and managing these projects*”, noting a “*lack of resource and appropriate skill set*” within the Council.

9.14. However, this section of the business plan has been superseded in some respects. In particular the business plan references entering into a sale agreement with the energy supplier Our Power (which went into administration in 2019) and utilising the Feed-in Tariff scheme (which closed to new entrants in 2019). The end of the

scheme means that the sale of electricity from solar PV is less attractive although this is set against sharp increases electricity prices.

9.15. An assessment of this option against the three principles is set out below:

9.15.1. *Rationale for EFE delivering* –As noted, the business plan suggests that EFE would provide expertise that is lacking within the Council, but EFE does not itself possess this expertise, and the rationale for recruiting staff to EFE rather than the Council is unclear. Further, it is noted that the Edinburgh Community Solar Co-operative – which was established to “support and be involved in the development, installation, management, operation, generation, transmission and provision of renewable energy and low carbon sources” – owns and operates 30 solar panel installations in Edinburgh with combined capacity of 1.38 megawatts, and has worked with the Council previously. Given the Co-operative has existing capabilities in this area, it is suggested that the Co-operative may be better placed to take forward projects that the Council does not wish to progress itself. Still further, it is anticipated that there would be concerns associated with EFE negotiating agreements on the use of Council assets in terms of transparency and oversight, particularly in the case of more sensitive assets such as pieces of green space targeted for solar meadows. Therefore it is judged that there is not a strong rationale for this activity being delivered by EFE rather than the Council.

9.15.2. *Competitive advantage* – it is judged that there is potential for EFE to secure a competitive advantage in this area given it could in principle utilise Council assets, for example park-and-ride sites and rooftops.

9.15.3. *No staff requirement* – it is judged that the specific activities EFE is envisaged as delivering in the business plan – negotiating and managing leases, procuring partners, and arranging finance – could in principle be delivered by the Council, drawing upon the experience of existing Council employees, subject to the necessary resources being put in place.

9.16. In summary, it is not considered that this option is attractive at this time, primarily as it would be more pragmatic for solar PV projects to be progressed by the Council or in partnership with the Edinburgh Community Solar Co-operative.

#### ***Use EFE to progress heat network projects***

9.17. As set out in section seven, the original draft business plan for EFE envisaged the company playing a role in the delivery of heat networks in Edinburgh, noting the potential for the use of EFE to shield the Council from risk and enable the development of commercial opportunities to sell heat to the private sector. As set out in section seven, this potentially warrants further consideration.

9.18. There are various heat network projects at various stage of development in Edinburgh. Dialogue has been undertaken with internal and external stakeholders on the optimal model for facilitating the delivery of heat networks in Edinburgh. Two key options that have been identified are as follows:

9.18.1. A concession model, wherein the Council would grant a concession to supplier to design, build, finance, operate, and maintain a heat network in a defined area of Edinburgh. It is anticipated that this would draw upon the powers for zoning and permitting heat networks set out in the Heat Networks Scotland Act 2021<sup>4</sup>; and

9.18.2. A joint venture model, wherein the Council would enter into a joint venture with a supplier to collectively design, build, finance, operate, and maintain a heat network in a defined area of Edinburgh.

9.19. Early consideration has been given to models for supporting what is envisaged as a “network of networks” ultimately serving a substantial proportion of properties in Edinburgh.<sup>5</sup> Early dialogue with some suppliers has found a preference for a joint venture model, in which the Council would form a joint venture with a supplier which would then be granted a concession to design, build, finance, operate, and maintain a heat network in an area of Edinburgh.

9.20. In principle, therefore, there could be a role for EFE as the entity that would be utilised to establish a joint venture (or ventures) in order to design, build, finance, operate, and maintain heat networks. This would entail a supplier that had been selected as to partner with the Council on the delivery of a heat network(s) receiving an equity stake in EFE, with EFE then being granted a concession to deliver the heat network. The value imbued in this concession would be used as a basis on which to raise capital to deliver the heat network(s).

9.21. Analysis on the joint venture model for delivering heat networks has been undertaken on the Council’s behalf. The analysis found that the rationale for a joint venture should be clear and recommended soft market testing to gauge interest in a joint venture be undertaken, and noted the key to assess whether there were sufficient economic returns to make a joint venture attractive. The analysis identified the following benefits and disbenefits of the joint venture model:

9.21.1. **Benefits**

- The project can access private sector expertise.

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<sup>4</sup> It is noted that the regulatory regime around heat networks is still emerging.

<sup>5</sup> Prospective heat network zones in Edinburgh will be identified out in the Council’s emerging Local Heat and Energy Efficiency Strategy (LHEES).

- Private sector investment is leveraged into the project.
- Project risks are shared with the private sector.
- The ability of the Council to sell its stake can allow it to exit the project once established.
- Procurement can be streamlined if the partner is also a delivery company.

#### 9.21.2. *Disbenefits*

- Significant time and resource would be required to establish a joint venture.
- The Council's control is diluted.
- Securing a private sector partner would entail ensuring that the project made a sufficient return on investment, with potential implications for the prices charged to customers.
- Risks would be not totally transferred.
- Council resource may be required to manage the joint venture.
- Procurement risk would need to be managed to ensure the Council could purchase heat from the joint venture.
- Investment from the Council commensurate with its share of the vehicle would potentially be required.

9.22. An assessment of this option against the three principles is set out below:

9.22.1. *Rationale for EFE delivering* – it is judged that there is a rationale for this activity being delivered by EFE rather than the Council, as analysis undertaken on the Council's behalf and subsequent market engagement has indicated that joint ventures are considered to offer some advantages as a model for the Council facilitating the delivery of heat networks in Edinburgh. The use of EFE would enable the Council to take a stake in heat networks at arm's length.

9.22.2. *Competitive advantage* – it is judged that there is potential for EFE to secure a competitive advantage in this area given the Council's role as a major heat off-taker; as many proposed heat networks in Edinburgh have Council buildings (for example, schools) as anchor loads, the Council is well-placed to enable EFE to position itself in the heat network market of Edinburgh. It is further noted that the heat network ecosystem is considerably less mature than other area of the wider energy market and therefore offers greater opportunities for newer entrants to establish themselves.

9.22.3. *No staff requirement* – it is judged that the activity could be delivered on an in-house basis, drawing upon the experience of existing Council employees, making use of existing suppliers who have previously provided advice, and

ultimately entering into a joint venture wherein the private sector partner would bring expertise.

- 9.23. In summary, it is considered that this option could be attractive at this time as there is a rationale for EFE being involved, there is scope for EFE to develop a competitive advantage, and the activity can be delivered on an in-house basis. However, further, more detailed, assessment is required and should be considered alongside the business case work for heat networks currently underway. It is through that analysis that a role for EfE will be assessed.

***Use EFE to progress non-domestic energy efficiency projects***

- 9.24. The third and final principal workstream for EFE identified in the 2016 business plan is for EFE to work with public sector organisations to help support retrofitting of non-domestic properties across Edinburgh. As set out in the business plan, EFE is envisaged as providing “*monitoring and verification assistance [...] advice, support and a potential procurement route*”. In effect, EFE is envisaged as helping public sector organisations and businesses implement energy efficiency measures.

- 9.25. An assessment of this option against the three principles is set out below:

9.25.1. *Rationale for EFE delivering* – it is judged that there is limited rationale for this activity being delivered by EFE. Non-domestic energy efficiency projects pertaining to the Council’s own estate are already being progressed by Council officers, while other organisation will typically have their own strategies for retrofitting their estate. The ecosystem for retrofitting activity is relatively crowded with multiple government bodies, charities and private companies active in this sphere. Additionally, public sector bodies can access key funding sources unavailable to EFE such as the Scottish Public Sector Energy Efficiency Loan Scheme and Green Growth Accelerator.

9.25.2. *Competitive advantage* – it is judged that there is limited potential for EFE to secure a competitive advantage in this area. As noted above, there are multiple bodies already active in this area, and there is funding available that EFE is ineligible for. EFE would not be well positioned to play a lead role in supporting this activity relative to existing market players.

9.25.3. *No staff requirement* – it is judged that the activity would potentially be challenging to deliver on an in-house basis given the challenges associated with Council officers giving advice to other organisations on a fee basis.

- 9.26. In summary, it is not considered that this option is attractive at this time, primarily as it is not considered that the rationale for EFE being involved is strong, there is

not considered to be good scope for EFE to develop a competitive advantage, and the nature of the activity may be challenging to deliver on an in-house basis.

### ***Sell shares in EFE***

- 9.27. One of the options which Policy and Sustainability Committee requested be explored was to consider securing a delivery partner for EFE who would purchase 50% of the shares in the company.
- 9.28. It is judged by officers that it would be premature to appoint a delivery partner before the activities and remit of EFE are clear. In particular it would not be possible to arrive at a fair market valuation of a 50% share in EFE as the value of the company will fluctuate greatly depending upon what activities the company pursues and (in particular) the extent to which EFE’s status as the ESCo for Edinburgh means it is granted preferential or exclusive access to Council assets, contracts, etc. It is suggested that it would be necessary to agree the activities of EFE and the specifics of its relationship with the Council before it is possible to value the company accurately.
- 9.29. It is therefore considered that it is difficult to appraise this option in isolation. However, it is considered that this option could form part of the preferred option, as set out further in section 10.

### ***Use EFE to leverage funding***

- 9.30. Committee also requested that the option of using EFE to provide a platform for the Council to lever additional funding be considered.
- 9.31. As with the option to sell shares in EFE, it is considered that this is challenging as it is not clear at this stage what the funding would be used for. However, it is again considered that this option could form part of the preferred option, as set out further in section 10.

### ***Appraisal***

- 9.32. The results of the options appraisal are summarised in the below table:

<b>Option</b>	<b>1: Rationale for EFE delivering?</b>	<b>2: Competitive advantage?</b>	<b>3: No staff requirement?</b>
A. Wind-up EFE	–	–	–
B. Use EFE to progress solar PV projects	N	Y	Y

C. Use EFE to progress heat network heating projects	TBD	Y	Y
D. Use EFE to progress non-domestic energy efficiency projects	N	N	N
E. Sell shares in EFE	–	–	–
F. Use EFE to leverage funding	–	–	–

9.33. It is suggested that the preferred option of those derived from the business plan is C – to use EFE to progress heat network projects. A decision requires to be taken on whether to proceed with this option but it is proposed that a final decision be postponed until the business case work currently underway comes to a conclusion..

## 10. Next steps

### *Use EFE to progress heat network projects*

10.1. It is recommended that the Council continues to assess the benefits of using EFE to progress heat network projects. The next steps would be to, in due course:

- Write to the Board of EFE advising them of the current position and inviting them to remain in post; and
- Utilise the £190,000 of funding to develop heat network projects.

## **Annexe One: Review of UK local authority-owned fully licenced energy companies**

### **1. Robin Hood Energy Limited (company number 08053212)**

- 1.1. Robin Hood Energy Limited was established in 2015 as the UK's first local authority-owned energy company. It was founded by, and wholly owned by, Nottingham City Council which provided it with equity, commercial loans, and parent company guarantees. Its original remit was to address fuel poverty. It supplied gas and electricity to customers throughout the UK on a not-for-profit basis. It offered energy at lower prices than the "Big Six" energy suppliers and offered a 100% green energy fixed tariff.
- 1.2. As of 2018, the company had approximately 115,000 customers (of which 23,000 were in Nottingham), 170 employees, turnover of £97.9m, and was valued at £30m. By September 2020, the company had around 120,000 customers and 230 staff.
- 1.3. In the year ending March 2018, Robin Hood Energy lost £1.6m; in the year ending March 2019, Robin Hood Energy lost £23.1m. In October 2019, it was ordered by Ofgem to pay £9.5m of outstanding Renewables Obligations fees or have its licence revoked. In December 2019, Nottingham City Council installed a new leadership team to stabilise the company's finances. In August 2020, Nottingham City Council wrote off £24m of debt from Robin Hood Energy. In September 2020, the company made its workforce redundant and negotiated a transfer of its customers to British Gas; the company subsequent went into administration. It has been reported that Nottingham City Council lost a total of £38.1m.
- 1.4. The failure of Robin Hood Energy has been attributed to a lack of scale required to cover the costs of running the company and hedge against energy price fluctuations.

### **2. Bristol Energy Limited / BE 2020 Limited (company number 09135084)**

- 2.1. Bristol Energy was founded by Bristol City Council in 2015 with the aim of supplying locally sourced, low carbon energy.
- 2.2. In the 2017/18 financial year, Bristol Energy lost £11.2m. In April 2018, Bristol Energy lost a contract to supply energy to Bristol City Council. In August 2019, the company reported that it did not forecast making a profit for five years. As of May 2020, a total of £37.7m had been invested in Bristol Energy. In September 2020, Bristol Energy sold its 155,000 strong residential customer base to Together Energy for £14m, safeguarding 110 jobs.
- 2.3. Bristol City Council attributed the failure of Bristol Energy to market volatility. The Bristol Cable has attributed the failure to over-expansion resulting to rapid growth in staff costs and the company entering into insufficiently profitable contracts.

### **3. Victory Energy Supply Limited (company number 10301050)**

- 3.1. Victory Energy Supply Limited was founded by Portsmouth City Council in 2017 with the aim of providing low-cost renewable electricity and generating income. At the time of formation, it was suggested that the company could generate annual profits of up to £5m in return for an upfront investment of £8.1m.
- 3.2. In November 2018, following a change in administration, the decision was taken not to proceed with the company due to concerns around risks. In August 2019, Portsmouth City Council announced that it had been unable to secure a buyer. Nine staff employed by the company were made redundant. In July 2021, the company went in voluntary liquidation without ever having sold energy. Portsmouth City Council lost a reported £3.32m.
- 3.3. A report by PWC suggested that the company would require to sign-up 144,000 customers to break even and would need investments of £15.2m from Portsmouth City Council over four years. PWC suggested that only ceilings on tariffs meant only “Big Six” suppliers had experienced net margin growth, primarily due to certain high value customers.

### **4. Our Power Energy Supply Limited (company number 09134997)**

- 4.1. Our Power was a not-for-profit energy supplier founded in 2015 by a consortium of 35 organisations, including Fife Council, Stirling Council, and multiple housing associations, backed with £3.5 million from the Scottish Government and Social Investment Scotland.
- 4.2. Our Power aimed to purchase electric and gas at wholesale prices and sell them to tenants at tariffs up to 10% lower than the then “Big Six” energy suppliers, with a goal of supplying heat and power to 200,000 homes in Scotland by 2020. The company also aspired to develop renewable energy projects. The initial strategy of the company was for its members to appoint Our Power as the energy supplier for vacant properties owned by the consortium, meaning Our Power would be the incumbent supplier for incoming tenants.
- 4.3. Our Power incurred losses from its formation. It reported losses of £2.1 million in the year ending 31 December 2016 and £8.5 million in the year ending 31 December 2017. It raised additional capital from crowdfunding and loans from the Scottish Government.
- 4.4. Our Power was placed into administration in January 2019. Following a competitive process, Ofgem appointed Utilita Energy Limited as a supplier for Our Power’s domestic customers, which at that time totalled 31,000. The company had 75 staff.
- 4.5. It has been suggested that difficulties with adopting a new billing system contributed to the failure of Our Power, with large numbers of customers reportedly not being billed. Volatility in the wholesale energy market – requiring Our Power to post significant collateral with its energy wholesaler – was also attributed, as was nervousness from investors following a string of energy supplier failures.