

## Appendix A1.

**Title: Bristol Energy Limited Business Plan 2019/20 –2023/2024**

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### Background:

1. The Bristol Energy Limited (BE) was established via a detailed business case which resulted in the Cabinet decision of 7<sup>th</sup> July 2015 and has been trading on the open market since February 2016.
2. The process of governing the companies is principally with the Mayor (or his/her delegate) making “reserved matter” decisions as the Shareholder, following advice from the Shareholder Group. The approval of the BE business plan is a critical decision which is reserved to Cabinet, which agrees the direction of the company on an annual basis.
3. This report seeks approval of the 2019/2020-2023/2024 business plan, which is attached as Appendix A2 and Exempt Appendix J1. These documents refresh the Council’s original vision for the company in order to ensure the delivery of the Council’s objectives.

### Energy Market Context

4. It has been much reported that members of the public are paying too much for their energy, with the fuel poor (those least able to afford their bills) and the most vulnerable, (who tend to be least likely to switch), paying the most. 13.2% of Bristol households are thought to be in fuel poverty, (above the national average of 9.8%), meaning they cannot afford to heat their homes.
5. Continually rising energy prices put ever increasing pressure on low income families and households. Energy supply to local households and businesses is via the local electricity and gas networks. The current regulations mean that the generation, transmission, local distribution network and sale of energy to the end customer have to be managed separately. The six largest suppliers (the ‘big six’) own the majority of local distribution networks, many of the generation plants and also sell energy directly to the majority of UK customers.
6. The curve is turning and the energy market is diversifying. There are however only two municipally-owned energy supply companies in the UK and Bristol Energy (established in 2015) is one. This low level of municipal involvement in energy supply is considered to be due to the regulatory complexity and material start-up costs that come with participating in this sector.
7. There were 72 active suppliers in the domestic gas and electricity retail markets as of March 2018, this reduced to 69 up to September 2018. These consisted of the ‘big six’ suppliers and 63 other suppliers, mainly active in both gas and electricity. Between Q2 2011 and Q3 2018, the combined electricity market share of the large six suppliers dropped from nearly 100% to 75%.
8. This crowded market place has resulted in an oversupplied market with aggressive pricing strategies, increased regulatory burden and squeezed margins. In addition to this, the wholesale markets have been increasingly volatile with the market moving up to 8% in a single day.
9. From July to September 2018 there was a net decline in the number of active domestic suppliers for the first time since 2005, and between October 2018 and January 2019 a further seven licensed suppliers also exited the market. The failures are often due to cash flow, availability of collateral, inexperience, trading in short term and imbalanced markets, and selling below cost to grow the business quickly to offset high start-up costs.

## Bristol Energy performance

10. In spite of the market challenges, in the last 2 years Bristol Energy's business has grown significantly, with customer numbers now in excess of 165,000. The business has also achieved the following key metrics as at the end of 2018/19.
- 165,000 residential customer supply points and growing business customers
  - £168 pa. saving per customer (achieved through switching to BE), £2.76m savings delivered to date.
  - 12.0% of BE customers live in Bristol since launch.
  - Gross margin broadly in line with latest plan
  - Funding drawn down in line with business plan level for 2018/19
  - Customer service quality recognised as being the top 10 of the industry by independent bodies and surveys.
  - 103 FTE plus 3 apprentices living in Bristol (> than 12 months service)
  - In terms of delivery of social value, the company put back an estimated £7m into the local Bristol economy through a focus on local job creation, supporting staff volunteering days, and carbon reduction initiatives for example.

## Revision of core business plan, and diversification strategy

11. In recognition of the extremely challenging market conditions, Bristol Energy has been developing a robust diversification strategy and refreshed business and target operating model which is designed to enable the company to adapt and thrive in the current market conditions. There have also been a number of changes within the executive leadership & senior management within the business, which has focussed on ensuring the business has the skills and resource capacity required to support business transformation.
12. Areas of development in the core business plan include: refreshed margin projections and sensitivities; developing new revenue streams around white label opportunities; planned improvements in digital channels; and customer access and delivery of key programmes such as smart meter roll out and becoming a gas shipper. The latter is intended to bring benefits to the company and Council in relation to reducing the future trading credit requirements and associated parent company guarantees from the council.
13. In addition, the new business plan sees a refreshed emphasis on delivery of social value for the city, as well as achieving the Council's strategic objectives. The proposed strategic vision for the company is now focused on three goals:
- **Value:** Increasing total shareholder returns in both financial and social value.
  - **Sustainability:** Improving operational efficiency and effectiveness. Right sizing the business, optimising current operations, minimising risk and reducing the environmental impact, particularly focussing on the demonstration and delivery of low-carbon energy systems.
  - **Diversification:** To become a multi-product energy company, with a diversification strategy that involves working on new energy technologies combined with tariffs that are smart and sustainable from the social, environmental and economic points of view.
14. The company's objectives and strategy are set out in more detail in Appendix A1 and J1.
15. The final work stream which underpins the revised Bristol Energy strategy is in developing innovative products and services which complement the councils 'City Leap' initiative. This is the subject of a separate Cabinet report being considered on the 2<sup>nd</sup> April 2019. City Leap provides the context for refreshing the original objectives of Bristol Energy.
16. The City Leap cabinet report sets out the vision for the future local energy system and opportunity to

attract up to £1bn of low carbon, smart energy infrastructure investment in Bristol over the next 10 years.

17. The proposals give Bristol Energy an opportunity to build on one of their unique selling points as a municipally owned, city based energy supplier to unlock its potential in the future local energy system as a supplier of services.

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