

Business Case

Energy for Londoners Supply Company (EfLSCo)

June 2019

Version 2.7 – Final

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1 Executive Summary

1.1 Introduction

- 1.1.1 In his 2016 Manifesto¹, the Mayor of London committed to setting up a not-for-profit energy company. The current energy market serves most customers poorly, with high energy bills, confusing tariffs and low levels of customer service. **The problems in London are particularly acute; London has some of the lowest levels of switching in the country. The Mayor wants to make the market better serve the needs of London. He wants to offer fairer electricity and gas prices to households, particularly helping those in fuel poverty, with excellent customer service, better access to energy efficiency support and innovation.** The Mayor has decided to do this by working with an existing licensed energy supplier, selected through a competitive procurement process. The selected supplier will offer commission to the GLA. This purpose is not to generate income for general GLA spend and any surplus, after netting off running costs, will be reinvested into improving energy efficiency and fuel poverty alleviation.
- 1.1.2 The GLA, supported by an extended team of specialist advisers, has conducted an OJEU-compliant procurement process to identify a licensed energy supplier to partner with in the delivery of the Mayor's energy supply company. The preferred bidder has now been selected, meaning the value of commission payments per customer is now fixed, and the GLA has more developed thinking on its running costs and likely marketing expenditure. As such, it is now an appropriate time to refresh the business case for the Energy for Londoners Supply Company (EfLSCo)². The narrow financial business case for the GLA is essentially the product of any commission payments and customer numbers, netted off against GLA running costs. **The broader economic case includes the savings to customers, increased awareness of switching, encouraging people to switch who would not otherwise do so, fairer treatment of fuel poor customers and increased competition in London.**
- 1.1.3 This business case is required to inform the Mayor's Decision on appointing the winning bidder as a result of the procurement. A business case is also legally required for the setting up of a wholly owned GLA subsidiary to run the contract. **An earlier draft of this business case has been independently reviewed by a specialist consultancy (Baringa) who have supported the overall conclusions, made some helpful improvements to the estimates of costs and benefits and also assessed some of the broader risks and made recommendations to mitigate them.** This final version of the business case incorporates most of these improvements and recommendations. A summary of Baringa's recommendations and our responses to them is provided in the Appendix.

¹ http://london.laboursites.org/wp-content/uploads/sites/5/2018/02/x160668_Sadiq_Khan_Manifesto.pdf

² Note, EfLSCo is the current working name for the project. A final name will be selected ahead of the launch.
EfLSCo – Business Case

1.2 Proposition

1.2.1 The EfLSCo contract will be:

- For 4 years in the first instance with the possibility of an extension for up to 4 years
- A contract for the licensed supplier to supply London³ households with electricity and gas and offer void services, all under the “EfLSCo” brand, with fair prices and excellent customer service. They will also offer other services such as better support for the fuel poor, integration with energy efficiency and fuel poverty support and innovation to benefit consumers. This contract will be in the form of a framework agreement covering both EfLSCo services and void services. Legal advice is that the receipt of commission and spending of surplus would be regarded as ‘trading’ under the Local Government Act. As such, the GLA cannot enter into the contract itself but must do so by means of a GLA company. The contract will therefore be between the winning supplier and a newly-formed GLA subsidiary.
- The supplier will have to meet a number of Service Level Agreements (SLAs), with various penalties if not met, including ultimately the right to terminate if the performance is sufficiently poor.
- Commission will be payable from the supplier to the GLA subsidiary, either on acquisition or retention of EfLSCo customers.

1.2.2 Core to the **EfLSCo proposition is fair pricing, excellent customer service and innovation to support those in fuel poverty**. EfLSCo will be open to all Londoners, and will rely on gaining a customer base of able-to-pay consumers to ensure the company’s sustainability. However, EfLSCo will also provide a mechanism to support those in fuel poverty, **by offering fair tariffs from a trusted body and by ensuring customers are rolled onto the cheapest available tariff when their contract expires**. EfLSCo will further support those in fuel poverty by re-investing any profits into energy efficiency and fuel poverty alleviation and by providing customers with a gateway to access existing fuel poverty support programmes run by the GLA and London boroughs (see Box 1 on page 13 for further details).

1.3 Economic assessment

1.3.1 EfLSCo has the potential to bring a wide range of benefits to Londoners, both through direct financial benefits (i.e. energy bill savings) and indirect benefits such as simpler access to other GLA programmes and protection from hikes in energy price at the end of a contract. Similarly, the GLA can benefit both directly, through commission

³ Note it is usual for Local Authority White Labels to be geographically limited to the relevant area, given the reach of the Local Authority and the potential for the licensed supplier to agree similar arrangements with other Local Authorities. The only exception to this that we are aware of is that Islington’s Angelic Energy is available across London. However, unlike Local Authorities which have powers of general competence, the GLA is more restricted in what it can do. Section 30 GLA Act 1999 can be used to do things outside London but only where there is a tangible and direct benefit to London from doing so, as otherwise it would not promote the social/ economic/ environmental improvement of London. Although legally it may be possible to use this to argue that broadening beyond London was permissible, it was decided that the case for this was limited. In contrast, a fully licensed supplier needs to operate across GB, though prices can vary, particularly given the differing costs of supplying different regions.

payments, and indirectly, through better targeting of programmes and broadening reach at lower cost.

- 1.3.2 Many of these benefits cannot be quantified at this stage. Our economic assessment has therefore looked at the direct benefits and costs to consumers (bill savings and opportunity costs) and the direct benefits and costs to the GLA (commission payments and running costs).
- 1.3.3 **Under our baseline scenario⁴, EflSCo provides a net benefit of £37.9m to £38.6m over the 4-year contract. This is made up of £34.4m consumer benefits and £3.5m to £4.3m surplus revenue to the GLA, which can be reinvested into fuel poverty and energy efficiency schemes.** These figures are net of the operational running costs for the GLA. The range in benefit reflects uncertainty in the requirements for ongoing expenditure on awareness raising activity which may be needed to reach the modelled levels of customer acquisition. We have modelled two variants of our baseline scenario, one which includes a discretionary spend of £250,000 per year in years 2-4 to support awareness raising of EflSCo, and one which does not include this additional expenditure. The GLA has not committed to funding any activities to support customer acquisition beyond year 1, however our consultants Baringa have advised that some ongoing expenditure is likely to be required, to supplement the supplier's efforts, if we are to meet the desired level of acquisition in our baseline scenario. The exact level of spend on such activity past year 1's engagement campaign is difficult to assess at this stage. It would however be considerably lower than the original campaign spend; the spend would also be influenced by sought outcomes and would be carefully managed. We have incorporated £250,000 in our analysis as a benchmark⁵; the actual requirements for investment, and the level appropriate, should be assessed after year 1. It should be noted that in our modelling, customer acquisition has not been modelled as contingent upon this further expenditure (though in reality the two will be interdependent). We have modelled a particular rate of customer acquisition, and the spend on awareness raising and engagement activities should be assessed throughout contract life to determine what level of expenditure is required to meet the modelled rates of acquisition.
- 1.3.4 It should be noted that these figures do not incorporate expenditure related to set-up (including year 1 awareness raising and engagement budget), since this budget has already been approved by previous Mayoral Decisions (MDs) and will not need to be repaid by EflSCo. The net benefit figures calculated therefore reflect the actual surplus revenue which will be available for reinvesting into other fuel poverty and energy sufficiency schemes.⁶
- 1.3.5 In addition to our baseline scenario, we have modelled three alternative scenarios to test the sensitivity of the modelled benefits to our assumptions. The first sensitivity test

⁴ [REDACTED]

⁵ This value is based on benchmarking against other, similar sized suppliers, which found that ongoing awareness raising and engagement expenditure is generally around 25% of the cost of a launch campaign.

⁶ The net surplus does not deduct tax; tax deductions would be required if the GLA were to reinvest the surplus into internal projects.

investigates the impact of lower than expected customer acquisition. [REDACTED]

[REDACTED] The second sensitivity test looks at the impact of reducing customer savings over time. The third combines sensitivity tests one and two, to show the impact of low acquisition and lower customer savings. As with the baseline scenario, for each sensitivity test we have modelled two variants, one with no ongoing expenditure to support customer awareness raising and acquisition and one including a discretionary £250,000 amount in years 2-4. The outputs of the baseline and sensitivity tests are outlined in Table 1 below:

Table 1

| Total benefit over 4 years | | | | |
|-----------------------------|-----------------------------------|-----------------------------------|---|--|
| | Baseline | Sensitivity test 1: Low uptake | Sensitivity test 2: Low customer savings | Sensitivity test 3: Low uptake and low customer savings |
| Consumer net benefit | £34,360,000 | £12,240,000 | £24,710,000 | £8,710,000 |
| GLA net benefit | £3,510,000 to £4,260,000 | -£592,000 to £158,000 | £3,510,000 to £4,260,000 | -£592,000 to £158,000 |
| Total net benefit | £37,870,000 to £38,620,000 | £11,650,000 to £12,400,000 | £28,220,000 to 28,970,000 | £8,120,000 to £8,870,000 |

- 1.3.6 In two sensitivity tests (Sensitivity test 1 when costs to support customer acquisition are included and Sensitivity test 3 when costs to support customer acquisition are included) there is a modelled loss to the GLA. In reality, these scenarios are unlikely to be realised, as they combine both low uptake with high expenditure on customer awareness raising and acquisition. We would expect that this level of expenditure would lead to higher rates of customer acquisition; if it did not, the GLA could reduce its ongoing expenditure on activities to support acquisition to avoid EflSCo making a loss. In all other scenarios the GLAs costs are covered.
- 1.3.7 To assess the overall value for money of EflSCo we have also modelled the cost to benefit ratio for each scenario. This analysis incorporates total costs, including set-up and procurement costs, to assess the overall benefit from the GLA's total investment. For our baseline scenario, the cost benefit ratio is 1:8 to 1:9 (depending on the required level of expenditure to meet these levels of customer acquisition). This means for every £1 invested by the GLA, £8-£9 is generated in benefits to the GLA and consumers. In our worst-case scenario (sensitivity test 3) the cost benefit ratio is 1:2. Upon review of these financials, the EflSCo Steering Group, comprising Debbie Jackson, Martin Clarke, Emma Strain and David Andrews (TfL), considered this as acceptable value for money.

1.4 Financial assessment

- 1.4.1 The economic assessment outlined above considers the total quantifiable benefits of EfLSCo to consumers and the GLA. The financial assessment addressed here looks in more detail at the EfLSCo cashflow.
- 1.4.2 The operational running costs of EfLSCo to the GLA have been calculated as £548,000 - £569,000 per year (the range reflecting increases to salaries to in line with inflation over the life of the contract). As per the economic assessment, for the cashflow modelling we have developed two variants of each scenario, one with no additional costs beyond the running costs and one which includes an additional £250,000 discretionary spend per year to support awareness raising and customer acquisition from years 2-4, although the exact level required will be assessed throughout contract life, and will be subject to further approval.
- 1.4.3 [REDACTED]
- 1.4.4 [REDACTED]

Table 2

| Cumulative net income | | | | | |
|---|-----------|-----------|------------|------------|------------------------------------|
| | Year 1 | Year 2 | Year 3 | Year 4 | Breakeven point |
| Scenario 1A: Baseline (no supporting acquisition activity) | £53,000 | £991,000 | £2,444,000 | £4,259,000 | Month 11 of first year |
| Scenario 1B: Baseline (including supporting acquisition activity) | £53,000 | £741,000 | £1,944,000 | £3,509,000 | Month 11 of first year |
| Scenario 2A: Low uptake (no supporting acquisition activity) | -£341,000 | -£437,000 | -£277,000 | £158,000 | Month 9 of fourth year |
| Scenario 2B: Low uptake (including supporting acquisition activity) | -£341,000 | -£687,000 | -£777,000 | -£592,000 | Does not break even within 4 years |

1.4.5 The financial assessment looks at the ongoing costs of EflSCo. This does not include the set-up costs, for which separate budget has already been allocated. The total set-up cost of EflSCo up to the point of launch (and inclusive of the year 1 awareness raising and engagement campaign) is expected to be £2,440,000.

1.5 Changing market environment

1.5.1 The energy market is changing rapidly. Over the last 7 years there has been significant growth in the number of new suppliers in the market, with the market share of the 'Big 6' suppliers dropping from 99% in 2012 to less than 73% in 2019. In addition to evolving market competition, new regulation has also influenced the market. In particular, the introduction of the price cap for standard variable tariffs (SVTs) in January 2019 is influencing suppliers' business models.

1.5.2 The price cap on SVTs has been introduced to reduce the potential for suppliers to overcharge disengaged customers who have been rolled onto default tariffs. The cap is set at a level which should reflect the real costs of energy provision for an efficient supplier, thereby preventing profiteering. However, the cap is not intended to stifle market competition. It includes an allowance for headroom and profit, meaning suppliers can still compete effectively below the cap. **From the first 3 months of operation, there has still been a significant gap between the cheapest tariffs on the market and the price cap level, meaning savings can still be made by switching. At the end of March 2019, the saving for an average customer switching to an EflSCo tariff would have been £204.**

1.5.3 Changes in the level of the cap should track the real costs of supplying energy, meaning it will rise and fall with changes in wholesale costs and policy costs. Since lower-cost

tariffs will be responding to the same market forces, the potential savings are unlikely to vary significantly due to changes in the cap level (although there may be short term fluctuations, as the price cap is only changed every 6 months so may lag market changes).

- 1.5.4 However, the price cap may lead to an overall narrowing of the market over time, gradually reducing the differential between SVTs and lower cost tariffs. This is because prior to the implementation of the cap many suppliers subsidised their low-cost tariffs with high cost SVTs. By capping SVTs, the possibility for this cross-subsidy is reduced, meaning low cost tariffs must also rise. The long-term effects of this on the market is uncertain. As such, within the sensitivity testing of our economic model we have modelled the impact of a potential narrowing of the market over the next 4 years. Under this scenario, consumer benefits are still expected to be almost £25m over 4 years.

1.6 Recommendation

- 1.6.1 The Mayor is recommended to (in MD2482):

- i. Authorise the setting up of a wholly-owned GLA subsidiary to hold the EfLSCo contract.
- ii. Authorise this subsidiary to enter into a contract with Octopus Energy Ltd for an initial 4 years with the possibility of a subsequent extension of up to 4 years as per the procurement conducted.
- iii. Agree to the allocation of GLA funds (from the remaining budget available for EfLSCo set up) to cover the running costs of the GLA subsidiary until it is profit making, though the expectation is that these funds will be paid back from commission payments and ongoing running costs will be covered by commission payments.

2 Business Case details

| | |
|--------------------------------|--|
| Project Name | Energy for Londoners Supply Company (EfLSCo) |
| Project Sponsor | Debbie Jackson |
| Project Manager | Stephen de Souza |
| Service description | EfLSCo will provide a GLA-branded electricity and gas supply offering to householders in London. The underlying service will be provided by a licensed electricity and gas supplier, selected by a procurement process. The GLA will work to raise awareness of EfLSCo, work to ensure engagement of London Boroughs and Housing Associations and give the supplier details of energy efficiency and related schemes that they can help promote. |
| Partner organisation(s) | TfL Commercial |

3 Strategic Case

3.1 The proposal

- 3.1.1 Following the Mayor of London's Manifesto commitment to establish "*a not-for-profit company providing a comprehensive range of energy services*", the GLA commissioned advice from specialist energy consultants Cornwall Insight on the business case for either a White Label Plus solution or setting up a new licensed supplier from scratch:
- a. **Fully licensed company:** under this option the GLA would establish itself as a fully licensed energy supplier. This would involve registering a new company, including functions to meet regulatory requirements. The company would be responsible for marketing and acquiring customers, all IT requirements and ongoing customer services.
 - b. **White Label plus:** under the white label plus option, the GLA would partner with an existing fully licensed energy supplier that could deliver the GLA's social and environmental objectives⁷. The existing energy supplier would be responsible for the supply of energy, and all regulatory compliance and risk related to that. The "plus" means the GLA negotiating its terms for the supply of energy, including tariffs and other environmental outcomes. We would be responsible for branding and work with the appointed supplier on customer acquisition (similar to how, for example, M&S operate their White Label, which they transferred last year from SSE to Octopus).
- 3.1.2 The Cornwall report concluded that either could achieve the Mayor's objectives and that a White Label type solution would be quicker to deliver, require less GLA investment and be less risky. Subsequent developments, including supplier failures, the price cap⁸ and further investment required by Bristol Energy (though Nottingham's Robin Hood is now breaking even) have confirmed this view of the high risks in setting up a new supplier.
- 3.1.3 Given the size of London, and the profile of the Mayor, it was thought that the GLA should be able to secure greater flexibility to set tariffs and secure value-added services of benefit to Londoners than would be possible in traditional White Label partnerships. The Mayor therefore agreed to the recommendation in June 2017 that the GLA should tender for a partner to deliver this energy company, to focus on fairer energy prices for all Londoners, especially the fuel poor, and announced this publicly in the draft London Environment Strategy (August 2017). This decision was subsequently confirmed in the final version of the London Environment Strategy (May 2018).

⁷ This is in contrast to traditional 'white label' schemes such as those pursued by British Gas with Sainsbury's and the SSE arrangement with Marks and Spencer. Such arrangements are not much more than re-branding and do not offer much control to the owner of the brand.

⁸ Note, there are in fact two price caps: one for vulnerable customers and the subsequent one for all Single Variable Tariffs. For simplicity, this paper calls them both "the price cap".

Box 1**How EfLSCo will help the fuel poor**

The tender documents envisaged that that the fuel poor would be helped in the following ways:

- An enduring lower-cost tariff, with fair prices guaranteed through the pricing construct (see Box 2)
- A more sympathetic approach to vulnerable customers and those in fuel poverty through proactive measures to support these customers, such as ensuring accessibility to services and signposting to support
- Re-investment of profits into fuel poverty alleviation
- A gateway to other GLA programmes which may offer support for eligible households (e.g. Warmer Homes)
- Provision of innovative services to help customers gain greater control over their energy use.

Now that we have a preferred bidder we can detail what the bidder will offer:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

- 3.1.4 The GLA subsequently tested the Mayor's draft desired outcomes with potential suppliers by publishing a Prior Information Notice (PIN) and holding a supplier day towards the end of 2017. The GLA then started a formal procurement process in May 2018. The tender focusses on securing competitive energy prices for householders (largely by a benchmark on prices which will ensure they remain fair at all times, though bidders found this challenging; the benchmark is set out in Box 2 below), better support for those in fuel poverty, excellent customer service and other value-added services, including integration with wider energy programmes and innovation.
- 3.1.5 The tender was based around the following eight objectives:
- i. **Competitively priced electricity and gas tariffs** – as defined in the box below
 - ii. **Customer service and branding – excellent customer service** given the poor record in this sector
 - iii. **Innovation** – to help customers
 - iv. **Integration with other energy programmes** – acting as a gateway to programmes run by the GLA and others
 - v. **Data access** – so that customer data can be used to inform the design of future interventions
 - vi. **Financial** – commission payments, where any surplus will be reinvested in energy efficiency and fuel poverty programmes
 - vii. **Facilitating a possible future transition** to a successor upon expiry of the scheme – so the GLA can retain its customers beyond this contract
 - viii. **Void services** – for London Boroughs and Housing Associations. This involves switching empty properties onto EFLSCo supply during void periods between tenancies in Local Authority and Housing Association properties and, where possible, installing smart meters during the void period.

Box 2

Pricing Benchmark

This is challenging to construct, particularly because the cheapest tariffs at any one time tend to be loss leaders, following the “tease and squeeze” model of acquiring customers with an attractive fixed rate for the first year and relying on many not switching away when the tariff subsequently becomes less competitive. **A benchmark based on the cheapest tariff would therefore not be sustainable.** Instead we have a triple lock:

- suppliers bid to offer to be in the top x% of tariffs, where ‘x’ cannot be higher than 10, and the lowest ‘x’ bid scores the most marks in the evaluation
- there is an additional factor which ensures that such commitments remain competitive if the number of tariffs in the market changes substantially
- suppliers also bid on what profit margin they will make and are committed to open book pricing over the life of the contract.

3.2 The case for change

3.2.1 Alignment with GLA objectives/priorities

3.2.1 As mentioned in the previous section, this initiative originally stems from the Mayor's manifesto commitment. The London Environment Strategy and the associated Fuel Poverty Action Plan both see EFLSCo as an important element to help achieve their objectives, particularly on delivering fairer prices and helping to alleviate fuel poverty. In time, EFLSCo could evolve (see Section 3.2.3) to encompass other GLA energy programmes, and to help to market energy efficiency programmes.

3.2.2 Improvement of current service delivery arrangements

3.2.2 The current UK energy market is dysfunctional, with most customers (particularly those who have never switched or switch rarely) paying too much for their gas and electricity. At national level, this has been recognised with successive national Government initiatives, notably the Competition and Markets Authority inquiry into the sector, followed by the legislation requiring Ofgem to implement a price cap from January 2019. This has seen a shift in Government policy from simply encouraging people to switch (with regular switchers likely to get a better deal) to trying to limit excessive prices. However, even with the price cap, there are many better deals available and many tariffs are not subject to the cap (the cap applies to the default Standard Variable Tariff not to fixed tariffs).

3.2.3 The problem in London is particularly acute:

- London has some of the lowest levels of switching in the country. A recent study by Citizens' Advice found that of the 10 local authorities with the lowest switching rates in Britain, 7 were in London⁹
- London has a high proportion of households on pre-payment meters (PPMs), around 22% of London households are on PPMs compared to 17% across Britain as a whole. PPMs tend to have higher priced tariffs than credit meters, and can lead to self-disconnection of fuel poor households
- Around 10% of Londoners, equating to 341,000 households, are in fuel poverty.

3.2.4 Despite recent national political interest in this area, these problems persist. The price cap, introduced in January 2019, provides some protection for customers on the most expensive standard variable (SVT) tariffs. Nonetheless, SVT rates are still significantly higher than the cheapest fixed term deals available (the differential is often over £100 a year). This gap is set to widen during the second price cap period: the price cap increased by £117¹⁰ in April 2019, and within weeks all the Big 6 suppliers confirmed that they would raise their prices in line with this increase. Cornwall Insight have reported that as the cap was being phased in for 1 January the gap between their measure of the cheapest average tariff type (small supplier fixed tariffs) and large supplier SVTs was £67/year. The equivalent gap in mid-March between the 1 April cap

⁹ Switching data from Electralink: <https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/yorkshire-and-humberside-named-energy-switching-heartland-of-britain/>

¹⁰ This £117 increase is the Ofgem figure based on averaging across regions and average household consumption. The actual increase on the same basis for London is £123.53. uSwitch estimate that the figures in London would be £130 (11.1% increase) for a low-income large family and £203.34 (11.5%) for an affluent family in London.

level where large supplier SVTs are moving to and the current average cheapest tariff type (medium supplier fixed) was £187/year. Further information on the price cap and how this may influence the energy market and customer savings can be found in Box 3.

- 3.2.5 The EfLSCo proposal aims to improve this service offering by ensuring a fair price for consumers, guaranteed by the triple lock pricing mechanism (see Box 2 in Section 3.1). By providing a trusted brand with excellent customer service, linked to broader GLA energy and fuel poverty programmes, EfLSCo aims to engage householders who are traditionally less engaged with the energy market (who often have most to gain through switching because they are most likely to be stuck on poor value default tariffs).
- 3.2.6 The GLA could choose not to act, and leave it to the market, i.e. rely on switching and the price cap. Whilst the Government is increasingly intervening in this market (the CMA inquiry and then the introduction of legislation mandating Ofgem to introduce the price cap), the fact that London continues to face more acute problems (see paragraph 3.2.3) provides justification for the GLA to intervene. The GLA could pursue less ambitious approaches (e.g. promoting collective switching or working with London Boroughs on such initiatives). However, while such approaches are beneficial, they tend not to reach those who most need the help and EfLSCo will also provide value added services in addition to fairer prices.

Box 3

The Price Cap

The Price Cap for Standard Variable Tariffs was announced in November 2018 and came into effect from 1 January 2019. The cap applies to all **default** tariffs, i.e. any tariff which a customer is placed on automatically if they do not actively make a choice about their tariffs (by switching or refreshing at the end of their contract). The cap does not cover:

- Fixed tariffs which the customer has chosen to join (note, 'default' fixed tariffs are included, but are rare)
- Green tariffs, even if they are an SVT, if the customer has actively chosen it

As such, the majority of people affected by the price cap are those who have not switched supplier recently and have been rolled onto a default tariff.

The price cap is a cap on the unit rate of energy, not a cap on the overall bill. This means customers may have annual bills greater than the price cap depending on their energy consumption, payment type and location. The level of the cap is based on a 'typical domestic energy customer with medium usage', which is defined as 12,000kWh per year gas consumption and 3,100kWh per year electricity consumption. This means consumers with higher energy usage than this will pay more than the cap.

The level of the price cap is revised every 6 months, in April and October. The level is calculated as the costs required for an efficient supplier to provide energy. This is done by a bottom-up calculation which accounts for: wholesale energy costs, network costs, smart metering costs, policy costs, operating costs, a headroom allowance, supplier profit and VAT. The 'headroom allowance' accounts for uncertainty in the costs and ensures suppliers are able to compete at levels below the cap. This means that there are still many tariffs available which are significantly cheaper than the cap.

The method of calculation for the price cap and data sources used are fixed. Variations in the cap will therefore only reflect a **real change in the cost of supplying energy**, for example due to changes in wholesale costs or policy costs. As such, changes in the level of the price cap should track changes in the overall energy market, although there may be a lag due to the 6-month review cycle.

Impact of the price cap on the market

The price cap prevents profiteering by suppliers who place disengaged customers on high cost default tariffs. It is anticipated that the cap will reduce the prevalence of ‘tease and squeeze’ tariffs, in which consumers are lured in by a cheap (sometimes loss-leading) fixed term tariff and then moved to a very expensive default tariff when their contract expires. By capping the top-end of the market, there is therefore also likely to be an increase in tariffs at the bottom of the market, as the lowest cost tariffs, which were effectively subsidised by inflated SVTS, are removed. This narrows the gap between the cheapest tariffs and SVTs. Nonetheless, the price differential is still significant.

Changes to the price cap level reflect changes in the cost of energy provision. A lowering of the price cap therefore would not necessarily reduce savings, as it would indicate reduced wholesale costs meaning fixed tariffs would also drop in price. Future changes to the price cap level are therefore unlikely to significantly lower the potential savings for customers switching from an SVT to an EFLSCo tariff. Some variations may occur due to the lag in changes to the price cap, since the price cap only changes every 6 months whilst the wholesale market moves continuously. Nonetheless, Ofgem have highlighted that there is a risk that as the market evolves under the price cap and suppliers adapt their business models the differential in costs between fixed price and standard variable tariffs may converge. There will always be a differential, since the cost of serving SVT customers is higher than the cost of serving fixed term customers (due to increased levels of risk), but the extent of potential convergence is unknown.

All calculations within this business case have been done using data from March 2019, after the price cap came into effect. The calculations therefore account for the impact of the price cap on the energy market. In addition, as part of our sensitivity testing we have modelled further narrowing of the market (as seen through gradual reductions in consumer savings over time) to assess the impact this could have on the impact of EFLSCo.

3.2.3 Potential scope for further development/scalability

- 3.2.7 The initial scope of the tender for a partner to provide energy supply services to EFLSCo is based around the provision of domestic electricity and gas for a period of 4 years, by working with an existing licensed supplier. The Agreement also includes the provision of a voids service (to switch vacant properties onto EFLSCo supply), which can be called-off by Local Authorities and Housing Associations within Greater London. There is therefore the potential for EFLSCo to be scaled to incorporate voids services for all interested Local Authorities and Housing Associations.
- 3.2.8 Whilst the tender covers an initial period of 4 years, there is provision within the contract for this to be extended for a further 4 years, if the partnership proves

successful. Furthermore, the tender sets out provisions for transfer of customers at the end of the contract period to another supplier. This leaves open the opportunity for the GLA to establish its own fully licensed energy supply company, to which these customers would be transferred. Alternatively, customers could be transferred to a different supply partner under a new similar arrangement. The transfer of customers is not something that has traditionally been built into such arrangements and can be difficult as the default is for customers to stay with the licensed energy supplier. The GLA therefore made it very clear in the specification that it wanted to retain its customers beyond the contract lifetime and left it open to bidders to propose how to do this. Our preferred bidder has proposed two promising solutions and, subject to some further work, the GLA will need to decide which of these is its preferred way forward.

3.2.9 There will only be limited opportunities to vary the above within the current contract because of the scope of the procurement.

3.2.10 However, there are clearly a number of ways in which EFLSCo could develop in future:

- i. The simplest continuation would be to re-procure a similar service, either in time for the end of the first 4-year period, or in time for the end of the first extension. Even in this case, the tender would be likely to differ from the current one, both because of learning from this contract and because of changes in the electricity and gas markets (e.g. the more widespread rollout of smart meters, electric vehicles and associated infrastructure and that the price cap is time-limited).
- ii. Another option, which the Mayor has publicly said he will keep under review, would be for the GLA to set up its own fully licensed supplier to deliver EFLSCo, similar to the companies founded by Bristol and Nottingham councils. This would be a considerable undertaking in terms of procuring the necessary systems and office space, recruiting specialist staff and making capital available. This would also have a lead time of several years, therefore to keep this option open a view would need to be taken before the end of the first 4-year contract term.
- iii. Another possible expansion would be to work outside London, though this probably only likely as part of option 2 above (i.e. the GLA setting up its own licensed supplier).

3.2.11 The above are all potential evolutions of the project, but this business case is not dependent on them.

3.2.4 Benefits and risks

Benefits

3.2.12 The potential benefits of EFLSCo vary for different market players. We have therefore considered benefits to each market player separately: to consumers, the energy market and the delivery partners (GLA and the Supply Company).

Consumer benefits

- **Direct financial benefits:** The triple price lock on tariffs means that customers switching to EFLSCo will always receive a fair energy price. Our projected saving for

customers switching to EFLSCo is £204 per year. Please see Section **Error! Reference source not found.** for more details on how these figures are derived.

- **Indirect financial benefits:** Introduction of a new supplier with competitively priced tariffs will increase competition in the London energy supply market, which may help to lower overall market prices. This brings potential benefits to all customers who switch, even if they do not switch to an EFLSCo tariff.
- **Increased switching:** The increased attention on switching through marketing activities around EFLSCo and associated publicity is likely to lead to overall higher switching rates in London (not just to EFLSCo), bringing customer savings to a wider audience. In particular, the targeting of customers who are traditionally disengaged with the energy market (including through work with Local Authorities and Housing Associations) will bring the benefits of switching to those Londoners who could benefit from it most. Our market research has found that these disengaged customers do not respond to traditional marketing efforts employed by most energy companies. However, they are more likely to respond to direct information from trusted intermediaries, such as their Local Authority, which would be one of our key routes to engagement. London currently has the lowest switching rate in the country; in 2018 only 16.3% of households in London switched supplier. By contrast, the region with the highest proportion of switchers was Yorkshire and Humberside, at 21.1%. This shows there is considerable potential to increase switching rates in London.
- **Renewable energy:** The winning bidder will supply 100% renewable electricity to all EFLSCo customers.
- **Access to other programmes:** By using EFLSCo as a gateway to other GLA and local Borough fuel poverty and energy efficiency programmes, customers will have simpler, smoother access to programmes which they may otherwise be unaware of. Integration with GLA programmes in this way was a requirement in the tender for EFLSCo. The supply company intends to use a data-driven approach to identify eligible customers and seamlessly link them to appropriate GLA programmes.
- **Customer protection:** EFLSCo consumers will be protected from price hikes at the end of their contract period, which are typical of a 'tease and squeeze' business model. Under EFLSCo, customers will be moved to the cheapest comparable tariff at the end of their contract, giving them longer term price protection. This is particularly beneficial to vulnerable consumers who may be less likely to switch regularly.
- **Protection for vulnerable customers:** Alongside protection from price hikes, vulnerable customers will also benefit from additional support, through a well-trained customer service team trained to identify and proactively support customers in vulnerable circumstances, alongside the other measures outlined in Box 1.

Market benefits

- **Increased competition:** The addition of a new, competitively priced supplier in the London market will contribute to overall market competition.
- **Increased switching rate:** The marketing efforts around the EFLSCo launch will raise overall awareness of switching and is likely to increase switching rate to all competitively priced suppliers.

GLA benefits

- **Targeting:** Access to customers through EfLSCo will allow for better targeting of other GLA programmes, ensuring they can more cost-effectively reach their target audience. This will reduce delivery costs whilst broadening programme reach. The current Warmer Homes programme, which provides deep energy efficiency retrofits for eligible households, is a good example of the effectiveness of using other programmes to improve targeting. Boroughs and community groups which are part of the Fuel Poverty Support Fund are able to refer households to Warmer Homes. This has led to higher quality applications, with only 14% of applications rejected or dropping out. By Contrast, the Better Boilers programme, which had no such referral mechanism, saw a rejection and drop-out rate of 45%.
- **Data:** Access to data on consumer characteristics and consumption patterns will allow for better design of intervention programmes going forward.
- **ECO funding:** Introducing a London-only supply company should help to increase the proportion of Energy Company Obligation (ECO) funding distributed in London. London has historically been significantly underrepresented in receipt of ECO funding; as of September 2018, there were only 42 households per 1,000 households in receipt of ECO measures in London, compared to an average of 72 households per 1,000 households in Britain as a whole. Our supplier is particularly interested in working with the GLA and London boroughs to identify ECO3 properties through the LA-Flex allocation, which allows Local Authorities to put forward properties which are in need of retrofit but may not meet benefits eligibility requirements. They envisage this as a potential route increase ECO3 funding in the private rented sector, which is traditionally hard to access (but has a high proportion of fuel poor residents).
- **Financial:** While the GLA is not primarily interested in making a surplus, the scheme is likely to make a surplus which can be recycled by the GLA into programmes that will benefit Londoners by reducing fuel poverty, improving energy efficiency and supporting vulnerable customers.

Risks

3.2.13 The key risks, as seen in the procurement phase of the project, are summarised below, drawing on the risk register. The risks in the operational phase are dealt with in more detail in Section 7.3 of the Management Case.

Key risks (summary of project risk register)

| Risk | Mitigation |
|---|---|
| Service provider fails or does not deliver what we want (see the following boxes on market risks and on the consequences of supplier failure) | <ul style="list-style-type: none"> • Financial standing verified by GLA Finance and TfL according to criteria developed with external advice. • Specification includes requirements on hedging strategy (i.e. to lock in prices and margins in advance and reduce the potential for unanticipated loss). • Contract has a mechanism (rectification plans and profit retention) in the event of underperformance. |
| Poor customer uptake | <ul style="list-style-type: none"> • Incentives aligned – supplier only makes money if it's a success |

| | |
|---|---|
| | <ul style="list-style-type: none"> • Research based customer awareness and pre-acquisition activities to: (i) drive up-front awareness of the new EFLSCo brand; (ii) take consumers to the point of conversion/switching to drive initial customer numbers. • London borough and key stakeholder engagement; seven boroughs have already signed letters of intent committing to work with us on reaching their residents (especially those in fuel poverty) and switching their voids. The joint number of households for these boroughs alone is approximately 750,000. |
| Procurement is delayed or fails because of challenge to process or non-compliant bids | <ul style="list-style-type: none"> • Working closely with TfL commercial, legal, external lawyers and Ofgem, to comply with all regulations and minimise risk of challenge. • Ensuring our procurement runs according to regulation. We have had ongoing monitoring through TfL Procurement and MOPAC auditing and high-level governance through a senior Evaluation Board that endorsed all key decisions throughout the process. • Market engagement and competitive dialogue has allowed us to run through our asks in detail with the bidders and therefore led to us appointing a supplier based on a fully compliant bid. |

Changing context of the energy market

The energy market has evolved significantly over the last decade:

- There has been big change in industry structure in last 7 years, with the Big 6 losing substantial market share and around 60 new entrants joining the market. The Big 6 together had around 99% market share until 2012; by March 2019 they had below 73% (72.7%). However, no supplier apart from the Big 6 currently has more than 5% market share, though seven are between 1% and 5%. The Big 6 tend to offer poorer value with a higher proportion of customers on default tariffs (with non-Big 6 suppliers averaging 39% compared to 54% for the market as a whole). This growth in the number of suppliers in the market is helping to stimulate competition and make available lower prices to customers who engage with switching.
- 3 of these new entrants have over 1 million customers and a further one is close to this level, although most are much smaller. One of these larger entrants was bought by Shell at the end of 2017. It continued to operate under the First Utility brand until March 2019 when it was rebranded as “Shell Energy”. The 250,000-customer barrier, above which various obligations apply, may artificially constrain companies to stay below this barrier. Equally, this provides an incentive for companies to go through this barrier quickly if they do go over it.
- There has been a rise in the number of White Label suppliers: in July 2018 Cornwall Insight reported 16 white label suppliers now active in the domestic market, 12 of which had entered over the last two years. 10 of these white labels are Local Authorities, which now seems the preferred route rather than setting up a licensed supplier from scratch. No Local Authority has followed the early examples of Bristol and Nottingham in setting up their own supplier despite some (notably Birmingham, Manchester and Portsmouth) investing considerable effort in exploring this route.
- Sixteen suppliers have gone out of business in the last few years, with most failures happening in the past year or so. By 12 March 2019, 3 suppliers (Economy Energy, Our Power and Brilliant Energy) had already failed this year. This has occurred for a variety of reasons. Some have suffered from system failures or poor customer service. Others have relied on business models which were not sustainable following implementation of the price cap. Most of these failed suppliers have had relatively small customer bases, although there have been some failures amongst the larger small suppliers, notably Spark Energy (290,000 customers) and Economy Energy (235,000 customers).
- The price cap has reduced the potential margin available for suppliers from customers who roll-off fixed tariffs, reducing the viability of ‘tease-and-squeeze’ pricing – where customers are tempted to the supplier on below-cost tariffs for a year and then are rolled onto higher priced SVT rates where the supplier makes their margin. These tariffs are based on an assumption that a certain percentage of customers will fail to make the switch in future years. There are also accusations that the Big 6 and some of the larger newer entrants use these static SVT customers to either fund new growth or to mask inefficiencies in their businesses.
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- Our preferred bidder has lobbied in favour of the price cap, having built their business on the premise of fair pricing. As such, they do not anticipate the price cap to negatively impact their own business model as has been the case with some small competitors.

Supplier sustainability

The GLA finance team have conducted financial due diligence on our preferred supplier and its parent company, both of which have been rated as low risk. However, in a worst-case scenario if the supplier were to suffer insolvency, customers would still be protected:

- Customers would continue to be supplied without interruption.
- Ofgem would activate their Supplier of Last Resort (SoLR) provisions and appoint an alternative supplier to take on the failed supplier's customers. Customers would not lose any credit with the failed supplier; credit would transfer over. There is no guarantee the customer will remain on the same terms, but in practice they probably would be for some months (one such process resulted in a guarantee of current rates and terms, and one resulted in a 9-month guarantee).
- The GLA could choose to negotiate a replacement EfLSCo arrangement with the new supplier if it wishes (although there would be no obligation on the new supplier to do so).
- The GLA has built financial mechanisms into the contract which oblige the supplier to pay the GLA if they were to break the contract (including through insolvency). This payment would cover any re-procurement costs.

Other possible market risks are:

- More stringent future regulation from Ofgem could accelerate a supplier's decline into financial distress. We know that Ofgem are under pressure to regulate the financial stability of small suppliers. However, unless such regulations are draconian, they are only likely to accelerate an inevitable decline rather than cause it.
- It may be that the demanding nature of the EfLSCo contract causes a supplier's decline. Through the dialogue process, the nature of the SLAs (in particular the tariff pricing SLA) was discussed in detail to ensure the suppliers fully understand their commitments and could better forecast their performance to ensure the contract will be a worthwhile investment for them and will not damage their business. We are confident that through this process the suppliers gained a strong understanding of their obligations and subsequently would bid in a financially sustainable manner. We have also conducted due diligence checks on both the supplier and its parent company. Unlike the examples of Carillion or Capita, energy suppliers are not reliant on winning public sector bids, nor are they likely to bid low and hope to make money on variations, so this scenario is unlikely.

3.2.5 Constraints and dependencies

3.2.14 The key **constraints** on the project are:

- Timing.** The Mayor has repeatedly stated his desire to deliver the benefits of this project to Londoners as soon as possible. Indeed, one of the reasons for choosing this route rather than the GLA setting up its own fully licensed company from the outset, was that this would be quicker, so it is desirable to do so quickly.

Switching rates tend to vary seasonally, peaking as winter starts because consumption and therefore bills rise with attendant publicity. While, switching rates have recently shown less seasonality, it is desirable to launch a new energy company in time for winter.

These considerations led to the Mayor deciding in February 2019 that EflSCo should be launched as quickly as possible, targeting December 2019.

- ii. **Procurement law.** As set out in Section 5.1, the GLA is following the EU Competitive Dialogue process, which has constrained the way bidders are assessed and the ability to change requirements as the process has developed. There will be ongoing constraints, notably on changes to the scope of the contract post-procurement. This needs to be seen in the context of the risk of legal challenge, not only from unsuccessful bidders but also from incumbents seeking to defend their current market share. A number of suppliers have withdrawn at various stages of the procurement process, mentioning specific demands of the specification, both to do with the challenging nature of the benchmark and the challenge of making profit on other aspects. This makes it all the more important that the contract is finalised and then managed in a way that is consistent with the specification to minimise the risk of successful challenge on the grounds that the GLA has altered its requirements.
 - iii. **Electricity and gas market regulations.** Retail electricity and gas is a highly regulated sector, subject to a licensing regime enforced by Ofgem, and a high level of political attention and Government intervention (notably the recent introduction of the price cap, protection for vulnerable consumers, environmental schemes and the ongoing delayed roll out of smart meters). This regulatory burden will almost entirely be faced by our chosen Service Provider as they, not the GLA, hold the electricity and gas supply licences, and will constrain what they are able to do for us (e.g. costs resulting from Government policy will need to be passed through to customers and any price controls will need to be followed).
- 3.2.15 This business case is concerned with the decision to enter into a contract with a licenced electricity and gas supplier to deliver EflSCo. There are a number of related projects, managed by the same team, that are required to make this a success:
- i. **Branding.** The GLA contracted branding agency Now in February 2019 to carry out market research and to develop a name and brand for “EflSCo” (note this is the working title until a consumer facing brand has been developed). This is on the critical path for mobilisation of EflSCo, as the Service Provider will need to develop the website and communications materials with our chosen brand.
 - ii. **Marketing.** The GLA is also procuring a specialist marketing agency to market the chosen brand and appointed a preferred bidder in May 2019. Again, this work will be on the critical path so we are ready to market when we launch “EflSCo”. Further detail on customer awareness can be found in section **Error! Reference source not found..**
 - iii. **Setting up a GLA owned subsidiary.** This is covered in more detail as part of the Management Case in Section 7.1. Legal advice from specialist external lawyers is that

the GLA needs to contract with the Service Provider through a subsidiary rather than directly as the GLA, because the receipt of commission and spending of surplus would be considered 'trading' under the Local Government Act and so can only be done through means of a subsidiary. The Mayor needs to approve the setting up of this subsidiary and this will then be set up as a Company, registered for tax, with appointed Directors and on the GLA Finance System. Again, this work is on the critical path.

- iv. **Engagement.** The Project Team is running an engagement workstream, to engage: (1) London Boroughs and Housing Associations, both to encourage them to use the voids framework and to raise awareness or signpost EfLSCo to their residents and/or tenants; (2) key stakeholders and NGOs to support the GLA's work in raising awareness and encourage switching. This work will help to ensure the success of the project particularly by helping to reach the fuel poor.
- v. **Other.** The GLA will also need to develop systems and processes to make the best use of the customer data that it will have access to, and will need to develop a database of energy efficiency and related schemes that it wants the service provider to help market (i.e. the integration objective). However, both of these pieces of work are about getting best value from the initiative rather than being critical to its success.

3.2.16 There are also a range of projects within the Mayor's broader energy and fuel poverty programmes that have dependencies with EfLSCo, though none of them are critical for its success. They include:

- The energy efficiency and fuel poverty projects run by the Energy Efficiency Delivery team
- The smart metering projects run by the Smart team.

4 Economic Case

This section has been redacted to protect commercial confidentiality of the bidder

5 Commercial Case

5.1 Procurement strategy

- 5.1.1 The procurement strategy was developed by TfL commercial, with close input from the GLA Project Team, and was scrutinised and approved through TfL Governance. Key points include:
- The strategy summarised the early market testing carried out informally by the GLA, building on the Cornwall Options report. The GLA had discussions with energy suppliers who might be interested in working with the GLA and with some of the suppliers that it would need to work with if it chose to set up its own licensed supplier to gain a comprehensive understanding of the pros and cons of the different approaches and what the market was likely to be able to deliver.
 - Following legal advice, the GLA decided to follow an OJEU compliant procurement process. There are arguments that such a process was not required (because the GLA is not actually buying anything) and other Local Authorities have not gone down the route of a full OJEU process, though some have followed an open procurement process that is partly similar to the one that we have followed. However, it was decided to follow this process given the likely size of the contract (the potential customers numbers were multiplied by average customer revenue to give potential turnover figures), the profile and size of London and the consequent risk of legal challenge.
 - The next key decision was which OJEU process to use. The GLA decided to follow the Competitive Dialogue process, to allow requirements to be fine-tuned in response to what the market responded with, particularly because the GLA was being far more ambitious than other similar Local Authority contracts (in terms of a more demanding pricing benchmark, the ability to offer bespoke tariffs and the value added services) and dialogue was the best way to understand the relationship between what the GLA was asking for in terms of value-added services and price (i.e. tariffs offered to consumers). This decision was vindicated by the fact that those bidders who were selected for dialogue said they found the requirements (notably the pricing benchmark) extremely challenging and were keen to explore what flexibility the GLA could offer to mitigate this challenge. Dialogue was also valuable to clarify the GLA's requirements and highlight areas where their written bids may not have done justice to what they said they could offer in discussion.
 - The strategy also set out the proposed contractual arrangements (see next section).
 - The strategy also summarised the more formal market engagement carried out. A PIN was issued in November 2017 followed by a supplier engagement event in December 2017. Further to publishing the PIN, the GLA received expressions of interest from 47 organisations. The supplier engagement event was attended by 30 organisations (25 of which were specifically energy suppliers). As part of the PIN process, the GLA also issued a questionnaire which along with gaining further market information, also directly asked who would be interested in tendering for the opportunity. Subsequently 13 of the circa 50 suppliers in the market responded to the questionnaire which was considered a relatively successful response rate by TfL Commercial. These responses helped inform the detail of the tender documents.

- The procurement strategy also set out the principles for evaluation which were detailed into an Evaluation Strategy which was also scrutinised and approved through TfL Governance and approved by the Deputy Mayor.

5.2 Contractual arrangements

- 5.2.1 The draft contract takes the form of a framework agreement against which the GLA would call-off the EflSCo service and London Boroughs would call off the void services. The contract duration is for the maximum term of eight years for the framework agreement with an initial call-off contract for four years and a further optional call-off contract for up to an additional four years. The contract has been drafted by specialist external lawyers, drawing on standard TfL terms and conditions, modified and expanded for the specialist nature of this contract. Bidders were invited to mark up any desired changes to the contract as part of the dialogue process and there has been intensive discussion over various detailed terms with bidders. The GLA have agreed various changes to accommodate commercial concerns, without altering the substance of the contract. The GLA believes that the contract published with the invitation for best and final offers on 28 February should be acceptable to all bidders.
- 5.2.2 The contract includes a detailed performance management regime, to ensure that the GLA can incentivise the Service Provider to improve performance. There are 27 Service Level Agreements (SLAs) covering the performance of our Service Provider as part of the contract management function. For the vast majority of SLAs the GLA will receive a monthly report from the service provider and (subject to auditing a sample of the data to check its credibility) it will be clear whether or not they are meeting the SLA; others will be dependent on external reports; the most complex is the pricing benchmark and work associated with changes in the basic tariff. Underperformance will generally result in the need for the Service Provider to provide a rectification plan. In some cases, there will be the possibility of profit retention or refunds to affected customers, with persistent poor performance resulting in a GLA right to terminate.

6 Financial Case

This section considers the direct financial costs and revenue of EflSCo to the GLA. It should be noted that GLA expenditure is limited to the costs associated with contract management and internal governance. All other costs related to the running of EflSCo will be borne by the Supply Partner.

6.1 Resource requirements

6.1.1 Set up costs

6.1.1 The project has an initial allocation of £4m capital budget. Of this, £2.39m has been allocated through formal approvals to cover procurement and set up cost. In addition, further costs will be incurred in the set-up of the company as a legal entity. This is anticipated to cost up to £30,000 (this additional budget will be incorporated in the forthcoming MD).

6.1.2 This will bring the total set-up costs of EflSCo to **£2,420,000**.

Table 3

| Approved budget | |
|--|-------------------|
| External legal expertise | £390,000 |
| Various energy market expertise | £392,000 |
| GLA and TfL resources | £342,000 |
| Brand development and consumer research | £316,000 |
| Launch campaign | £950,000 |
| Sub-total | £2,390,000 |
| Additional set-up costs (pending approval) | |
| SPV set-up costs | £30,000 |
| Total | £2,420,000 |

6.1.3 The remaining capital budget is yet to be allocated as this will be assessed following contract signature and launch, in line with operational requirements. If necessary, this budget could be used to cover cashflow during the early months of operation until EflSCo is profit-making (at which point any 'borrowed' money could be paid back).

6.1.2 Running costs

6.1.4 The ongoing resource requirements for the management and running of EflSCo are:

- **Staff time:** resource will be required for the proactive contract management of EflSCo. This will involve monitoring compliance with the SLAs, contract management and internal GLA work to maintain public accountability (FOIs etc.) and to maximise integration with other GLA programmes (thereby maximising added value). As a commercial enterprise, EflSCo will need to be resourced appropriately,

with appropriate level of seniority, capacity and skillset to ensure the company can be managed effectively and respond at an appropriate pace to work effectively within a competitive commercial environment. This work will therefore require several posts (which will all be subject to HR evaluation):

- A Grade 13 Senior Commercial Manager to manage the contract
- A Grade 10 Project Manager
- A Grade 9 Analyst
- Additional time will be required from GLA staff in terms of accountancy, management, governance, HR etc. This has been costed as one FTE equivalent Grade 8 role, although in reality the work will be done by a spread of people at different grades. We have also included an additional 0.2 FTE resource to cover staff time on any additional activities to support customer acquisition (approx. 1 day per week).

For all staff costs, the mid-point of the 2018/19 salary grades has been used, with a 2% inflation per year.

- **SPV overheads:** overheads recharged by the GLA to the SPV have been costed at £26,100 per FTE staff as a desk charge.
- **External energy consultancy:** we will maintain external retail energy market expertise on call to assist with SLA management as required. We have estimated this cost at a maximum of £3,000 per month throughout contract life.
- **External legal consultancy:** we will maintain legal expertise on call to provide legal advice as necessary. We have estimated this cost as a maximum of £3,000 per month throughout contract life, though in reality the requirement for legal advice is likely to reduce over time.
- **Audit:** £10,000 per year has been included for auditing.
- **Contingency:** we have included an additional 10% on the total annual cost as contingency.

Table 4

| | Year 1 | Year 2 | Year 3 | Year 4 |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| G13 Commercial manager (1 FTE) | £103,000 | £105,060 | £107,161 | £109,304 |
| G10 Project manager (1 FTE) | £71,000 | £72,420 | £73,868 | £75,346 |
| G9 Analyst (1 FTE) | £63,000 | £64,260 | £65,545 | £66,856 |
| Indirect GLA Support (1.2 Grade 8 FTE per annum) | £69,600 | £70,992 | £72,412 | £73,860 |
| External energy consultancy | £36,000 | £36,000 | £36,000 | £36,000 |
| External legal consultancy | £36,000 | £36,000 | £36,000 | £36,000 |
| Desk charge/overheads (4.2 desks) | £109,620 | £109,620 | £109,620 | £109,620 |
| Audit | £10,000 | £10,000 | £10,000 | £10,000 |
| Contingency | £49,822 | £50,435 | £51,061 | £51,699 |
| Total | £548,042 | £554,787 | £561,667 | £568,685 |

6.1.5 Beyond an initial launch campaign, marketing activities associated with customer acquisition will be borne by the Supply Partner. It is possible that the GLA may choose to invest in further customer awareness raising to support acquisition activities throughout the lifespan of the contract, depending on the success of EfLSCo. However, this will be discretionary, and will depend on customer uptake throughout the contract (see Section **Error! Reference source not found.** for further information). For the purposes of our financial modelling, we have created two variants of each scenario, one of which **assumes no ongoing costs** for the support of customer awareness raising and acquisition (variant A) and one which **assumes an ongoing, discretionary investment of £250,000 per year** to support awareness raising and acquisition in years 2, 3 and 4 (variant B).

6.2 Financial benefits

This section has been redacted to protect commercial confidentiality of the bidder

7 Management case

7.1 Programme and project management plans

- 7.1.1 The GLA has been working with TfL Commercial & Legal since summer 2017 on developing the procurement approach to this project, with Eversheds Sutherland engaged as external expert legal advisers. TfL and our external legal advisers advised on the procurement route and detailed Procurement and Evaluation Strategies were signed off by senior TfL committees. The Evaluation Board has been the main governance mechanism for the EflSCo procurement. It was chaired by the GLA Interim Executive Director for Development, Enterprise & Environment and includes the TfL Commercial Director. Now that the procurement process has resulted in a winning bidder, the Evaluation Board has come to a natural end.
- 7.1.2 Once EflSCo is operational, there will be a monthly Executive Director chaired Working Group, comprising appropriate representatives from the Environment Unit, Marketing, TfL Commercial and the EflSCo subsidiary itself. The detailed governance arrangements in contract life are covered in the paper to the Deputy Mayor dated 28 February 2019 which was approved by her on 3 March.
- 7.1.3 In the gap between the end of procurement and mobilisation, the GLA has set up a Steering Group for the project, which follows naturally from the Evaluation Board and will then slim down into the Working Group overseeing mobilisation and operations.
- 7.1.4 The purpose of the EflSCo Steering Group is to ensure:
- the **necessary range of interests across the GLA are engaged** in the success of the EflSCo project
 - that **the Mayor is presented with a comprehensive and robust business case** for the project
 - **that key risks are properly considered and mitigated.**
- 7.1.5 The EflSCo Steering Group consists of:
- Interim Executive Director Development Enterprise and Environment (Chair)
 - Executive Director Resources
 - Interim AD Environment
 - AD External Affairs
 - TfL Head of Commercial

The EflSCo Steering Group has overseen the development of this business case and endorses it and the recommendations to the Mayor.

7.2 Approach to management and delivery of benefits

7.2.1 Legal position

- 7.2.1 Legal advice is that these arrangements, specifically the receipt of commission and the spending of any surplus, would be regarded as “trading” under the Local Government Act. This brings the following legal requirements:
- i. The GLA itself cannot enter into the contract with the Service Provider and may only do so by means of a GLA company.

- ii. The GLA (i.e. the Mayor) is required to prepare and formally approve a “business case” in support of the proposed exercise of its trading powers. The formation of a company or other corporate body by the GLA is Reserved Mayoral Matter and so a decision normally reserved to the Mayor himself, and this decision is intended to be taken by the Mayoral Decision to which this Business Case is Annexed.
- iii. The “business case” is defined in legislation as “a comprehensive statement as to—
 - (a) the objectives of the business,
 - (b) the investment and other resources required to achieve those objectives,
 - (c) any risks the business might face and how significant these risks are, and
 - (d) the expected financial results of the business, together with any other relevant outcomes that the business is expected to achieve

These aspects are all comprehensively covered in this document.
- iv. The GLA must recover the costs of any accommodation, goods, services, staff or any other thing that it supplies to the GLA Company.

7.2.2 Setting up a subsidiary

7.2.2 Given this legal advice, we propose to set up what is known as a GLA managed company (i.e. a company that is fully integrated into GLA decision-making) to enter into the contract with the Service Provider. The following will be its Company Directors:

- Mayor’s Chief of Staff
- Deputy Mayor for Environment and Energy
- Executive Director, Development Enterprise and Environment
- Senior Member of the Environment Team (the Assistant Director and/or Head of Unit)

7.2.3 Following the recommendation of Baringa, who have peer reviewed this business case, we will also look to appoint Non-Executive Directors to provide expertise in the following areas:

- Cutting edge energy retail expertise
- Senior borough representative
- Senior marketing expertise

7.2.4 Following the Mayoral Decision, this subsidiary will be set up as a company limited by shares. The subsidiary will use GLA staff and facilities and will be charged for them by the GLA. It will also receive the commission payments from the Service Provider.

7.2.3 Operation of the subsidiary

7.2.5 The main task of the subsidiary will be to manage the contract with the Service Provider. The paper on the subsidiary covers the contract management in some detail, including the need to delegate the approval of tariff changes (which is also covered in the

Mayoral Decision). The paper also recommends the development of a more detailed Operating Manual for the subsidiary.

7.2.4 Activities to support customer acquisition

- 7.2.6 As set out in the published tender, the Service Provider will be responsible for customer acquisition and retention and the GLA subsidiary can participate in awareness raising and engagement to support the supplier. Following publication, it was subsequently agreed that the GLA would lead on consumer branding development and associated pre-acquisition activity¹¹.
- 7.2.7 The traditional white label marketing model is based on the licensed energy supplier providing energy services and the brand owner (in this case the GLA) leading on marketing activities. During dialogue with the two bidders we made clear that we expect marketing investment and responsibility to sit with the Service Provider. We therefore anticipate greater investment in marketing by the supplier than would be expected in a traditional white label model, due to the structure of the framework agreement. The framework agreement places responsibility for overall customer acquisition with the supplier; this means the supplier is responsible for providing a customer facing sign-up portal and in-bound telesales team.
- 7.2.8 The supplier will also be responsible for developing and delivering a marketing strategy to drive customer acquisition, which will be approved by the GLA and reviewed on an annual basis. This will detail annual marketing activity, targets and objectives and will provide a breakdown of proposed marketing spend by channel. The exact timing of the initial annual marketing plan will be confirmed with the supplier during mobilisation and we will propose that the annual marketing plan will be drafted by the supplier and approved by the GLA in May 2020, taking into account a detailed evaluation of the success of the launch campaign.
- 7.2.9 Our intention is to launch and continue to manage the subsidiary as a commercial business with a strong consumer brand, and as such have considered relevant commercial energy company benchmarks in the design of our approach. In order to reach our desired levels of acquisition, Baringa recommend that some additional expenditure by the GLA will be required on brand awareness and activities to support customer acquisition. Recent benchmarking of UK energy companies ranging from the Big 6 to much smaller players such as Robin Hood and White Rose Energy have revealed ongoing spend on efforts to compete in a crowded and changing market. This includes not only large launch campaigns, but multi-channel “refresher” campaigns beyond the launch year. Based on this benchmarking, we estimate that ongoing expenditure of around £250,000 per year (just over 25% of the initial £950,000 launch campaign spend) on campaigns to support customer acquisition would be an appropriate benchmark for EFLSCo.
- 7.2.10 We have consulted with our contracted legal team on funding options for the ongoing paid support for acquisition via a variety of different mechanisms, if we decided to make direct investment from the EFLSCo surplus. They confirmed that the contract

¹¹ Briefing to the Deputy Mayor for Environment and Energy and the Mayoral Director, External and International Affairs in December 2018 (EFLSCo Marketing Approach Alignment, 1 Dec 2018).
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framework does not allow us to grant outright funding to the supplier, nor does it allow to “return” commission payments to the supplier to fund ongoing activities. Both of these options would pose a procurement risk. Their recommended mechanism is that we retain funding and control of the ongoing expenditure on activities to support customer acquisition internally within the subsidiary.

- 7.2.11 There are **two options** to address Baringa’s recommendation regarding boosting customer brand recognition and supporting acquisition. Either the subsidiary could invest in pan-London ‘refresher’ activities, building on and recycling materials from the year 1 launch campaign, or the subsidiary could invest more heavily in local engagement strategies, working with the boroughs. For the former, pan-London awareness campaigns could be designed to keep the brand top of mind with target consumers. These would adapt existing creative assets from the launch campaign and invest in select engagement channels. To deliver this, the subsidiary team (which would include part-time resource dedicated to this) would work with the GLA contracted media agency (Wavemaker) or with TfL Procurement to appoint an agency. The subsidiary team would then need to manage the agency contract who would develop refresher activities based upon existing assets. This would then run in Year 2, and each subsequent year of operation, with appropriate approvals and internal decisions. This approach would allow the subsidiary team to retain oversight for the ongoing campaigns, thereby ensuring the subsidiary would be the ongoing owner of the consumer brand. This would allow the GLA reputational control and alignment of messages accordingly.
- 7.2.12 The alternative to running refresher campaigns is to increase investment in local-level engagement efforts, working with the London boroughs. We anticipate that some level of borough engagement will occur in all scenarios. Indeed, we have already held one borough workshop, and have further engagement activities scheduled prior to launch. However, to reach our desired customer acquisition levels without additional pan-London customer awareness campaigns, greater investment (in terms of both cost and staff time) would be required to bolster local level engagement. This could include, for example, funding for on-the-ground engagement at local community events. A detailed engagement plan, specifying specific channels available within each borough and what efforts and funding would be needed to utilise these, would need to be developed. This would require close working with the boroughs to utilise their existing engagement routes or, where appropriate, develop new ones.
- 7.2.13 Both approaches have their advantages. Pan-London awareness activities are likely to reach a large audience of potential switchers. Learnings from the launch campaign could be used to refine engagement channels and target audiences to ensure the expenditure is used most effectively to support acquisition. Local engagement efforts will be more effective at reaching hard-to-engage groups, who may benefit most from switching, thereby bringing significant social benefits. However, such efforts are more resource intensive, so are likely to yield considerably lower acquisition levels for the same investment. Local engagement will also be heavily reliant on working with the London boroughs, who may have limited staff resource to help drive this engagement, meaning the GLA would need to invest in staff to support engagement while relying on the goodwill of the boroughs.

7.2.14 In both cases, it is not possible to say at this stage how much additional investment would be required in either pan-London activities or local engagement to deliver our desired customer levels. The appropriate level of investment should be reassessed following the first year of operation, once the impact of both the year 1 customer awareness campaign and the year 1 borough engagement efforts can be assessed. Any ongoing investment in either pan-London or local engagement activities is discretionary and should be kept under review. Within our economic modelling, we have included a variant on all scenarios which includes a discretionary £250,000 investment to be spent on activities to support customer acquisition (whether pan-London awareness activities, local engagement or a combination).

7.2.15 In addition to the customer awareness efforts and borough engagement, the GLA subsidiary could also continue to seek to utilise channels such as the GLA press office and Mayor of London social media accounts to continue to drive interest in the company and supplement any paid media.

7.3 Approach to risk management

7.3.1 The risks to the project from now onwards can be classified into three categories:

- i. Risks from this decision to contract signature
- ii. Risks from contract signature, through mobilisation to launch
- iii. Ongoing risks in the operational phase (i.e. from launch onwards)

7.3.2 These risks and their mitigations are addressed below.

Risks from this decision to contract signature

| Risk | Mitigation |
|---|--|
| Failure to agree a final contract with the winning supplier | <ul style="list-style-type: none"> • Dialogue has allowed the GLA to clarify the specification and detailed contractual terms and we believe we have accommodated the main concerns. Room for further amendment is very limited and this will be made clear to the selected supplier. Within this, there are two issues that are outstanding from dialogue and need to be resolved before contract signature: <ol style="list-style-type: none"> 1. The GLA needs to decide which of the supplier's proffered two options for customer transfer it prefers. 2. The GLA and the supplier need to agree terms for the possible use of the supplier's proprietary software beyond the lifetime of the contract. |

7.3.3 Other risks during this time are:

- Supplier bankruptcy
- Procurement challenge

which are dealt with under operational risks.

Risks from contract signature, through mobilisation to launch

| Risk | Mitigation |
|--|---|
| Delays due to the GLA not being able to make key decisions quickly enough or other key work (e.g. branding or marketing) not being ready in time | <ul style="list-style-type: none"> • Detailed project plan builds in time to take decisions and will be used to make the consequences of delay clear. • Project plan includes dependencies and contractors will be tightly managed. |
| Delays due to Service Provider | <ul style="list-style-type: none"> • Procurement has probed their intended planning and past experience shows that they can move quickly so delay on their part is unlikely • Joint project management |

7.3.4 Again, the other risks during this time are:

- Supplier bankruptcy
- Procurement challenge

which are dealt with under operational risks.

Ongoing risks in the operational phase (i.e. from launch onwards)

| Risk | Mitigation |
|---|--|
| Supplier bankruptcy | <ul style="list-style-type: none"> • Financial standing verified by GLA Finance and TfL according to criteria developed with external advice. • Specification includes requirements on hedging strategy (i.e. to lock in prices and margins in advance and reduce the potential for unanticipated loss). • Ultimately if the supplier does fail, customers will not lose out – their electricity and gas supply will continue, and their account will be moved to another supplier by Ofgem. The GLA could then try to negotiate a new arrangement with the new supplier. |
| GLA capacity and capability to manage contract | <ul style="list-style-type: none"> • Project Team working with HR on appropriate job description for contract manager • Budgeted for ongoing specialist support |
| Supplier fails to make sufficient margin and therefore does not cooperate | <ul style="list-style-type: none"> • Our preferred supplier has shown how much they value the contract by persisting through a long and rigorous procurement process, materially increasing their offer through competitive dialogue • Detailed clarifications through dialogue show that supplier has invested a considerable amount of senior management time in understanding the implications of our contract for them • Supplier reputation is on the line |
| Regulatory risk | <ul style="list-style-type: none"> • The regulatory risk is largely with the service provider rather than the GLA • Monitor regulatory developments, noting that all suppliers are likely to be impacted equally and that our pricing benchmark is relative to other suppliers. • One particular regulatory risk is that, given the high number of recent supplier failures, Ofgem are likely to introduce more stringent requirements on the financial standing of suppliers as licence conditions, both on market entry and on an ongoing basis. However, given the financial checks the GLA has undertaken, the size of our chosen supplier and its backing by a financially strong parent, it is unlikely that these more stringent requirements will have a material |

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| | impact on our chosen supplier. Indeed, they may indirectly benefit it by driving less sustainable competitors from the market. |
| Legal challenge to procurement process | <ul style="list-style-type: none"> • Ensure contract is awarded and then operated in line with the originally published specification, taking legal advice as necessary. This is a real risk given that a number of suppliers have withdrawn from the process, citing the challenging nature of our requirement and the possibility of incumbent suppliers wanting to defend their market share. |
| Customer Acquisition lower than expected | <ul style="list-style-type: none"> • Incentives aligned – supplier only makes money if it's a success • Research based customer awareness and pre-acquisition activities to: (i) drive up-front awareness of the new EFLSCo brand; (ii) take consumers to the point of conversion/switching to drive initial customer numbers. • London borough engagement strategy; seven boroughs have already signed letters of intent committing to work with us on reaching their residents (especially those in fuel poverty) and switching their voids. The joint number of households for these boroughs alone is approximately 750,000. |
| Customer Service | <ul style="list-style-type: none"> • This is a key requirement in specification and the winning service provider has a very good record • See also next row |
| Supplier defaults on other SLAs | <ul style="list-style-type: none"> • Contract has a mechanism (rectification plans, profit retention and ultimately the right to terminate) in the event of underperformance. |
| Supplier needs to be terminated | <ul style="list-style-type: none"> • This is a partly unmitigated risk due to the length of time (approximately a year) it would take to procure an alternative service provider |
| Reputational risk | <ul style="list-style-type: none"> • The above risks (especially poor customer numbers, poor customer service or other poor performance and supplier failure) all mean reputational risk for the Mayor and the GLA. This will be mitigated by careful contract management. |
| Political risk | <ul style="list-style-type: none"> • A change in administration could result in the need to change or cancel the contract. Termination without cause is allowed but would incur costs. Changing the contract would be more difficult given the risk of procurement challenge. |

7.4 Monitoring during implementation

7.4.1 The monitoring throughout implementation will take two forms: monitoring of SLAs and monitoring of customer reach (uptake levels and types of customer reached).

7.4.1 Monitoring of SLAs

7.4.2 The Agreement with the supplier includes 27 Service Level Agreements covering various aspects of customer service, billing accuracy and tariff setting. 22 of these will be reported on a monthly basis by the supplier. These reports will be system generated, i.e. the service provider will use customer management or billing systems to generate the data automatically. From this, it will be clear whether the SLA is being met. The remaining 5 SLAs are benchmarked against external data, and so will be reported against less frequently. For example, the SLA for complaints per 1,000 customers is based on the levels reported by Ofgem on a quarterly basis, and the SLA on customer satisfaction scores are benchmarked against performance in the Which? Survey which is

published annually. These SLAs will therefore be monitored at a frequency appropriate to the data availability.

7.4.3 Once the data has been received, the contract manager will determine whether any further action is necessary. The detail on response to each SLA will be developed in our “operating manual”, but in essence will consist of:

- Performance is better than the required level – no further action necessary, but the contract manager may wish to take internal action (e.g. publicising success) or discuss with the supplier if performance levels are met but there is a declining trend
- Performance below trigger level – the contract manager will consider any mitigating information and report as necessary with recommendations for action. Actions include requests for a rectification plan and/or temporary profit retention depending on the SLA and severity of the breach.

7.4.2 Monitoring of reach

7.4.4 The GLA will also monitor customer uptake and customer characteristics. This will include, for example, number of customers by borough, number of customers by payment method (credit or prepayment), number of customers added to the Priority Services Register, number of customers eligible for/referred to other GLA programmes. The exact variables monitored and frequency of monitoring will be agreed with the service provider during mobilisation. We anticipate the majority of variables will be system generated allowing for monthly reporting without placing additional burden on the service provider.

7.5 Post implementation evaluation arrangements

7.5.1 Throughout implementation we will develop annual evaluation reports to assess the impact of EfLSCo. This will contain information on the actual costs and benefits delivered to customers, i.e. the actual bill savings experienced, opportunity costs and avoided tariff hike costs. Where possible, this will be based on actual consumer data (e.g. information regarding their previous tariff compared to EfLSCo). Where this data is not available, we will calculate estimated costs/savings from market data for the relevant year.

7.5.2 The evaluation report will also include detail on the commission received by the GLA and how this has been spent. The impact of any charitable donations will be assessed.

7.5.3 Throughout implementation, the supplier is required to carry out engagement events to obtain direct feedback from customers. The findings of these events will also be assessed in the annual evaluation report, with recommendations for future changes.

7.6 Contingency arrangements/exit strategy

7.6.1 The Agreement with the supplier contains a range of rectification measures should SLA tolerances be exceeded. For any failure to meet an SLA, the supplier must produce an SLA Rectification Plan (SRP), detailing the remedial action they will take to rectify the failure and to prevent its reoccurrence. In addition, a Performance Management Model will be used. This includes two further steps which can be taken in addition to the SRP:

- Temporary profit retention – a value per customer which is incurred on a pro-rata basis for the time period that the SLA is in breach of its target

- Customer rebate – value payable to each customer affected by the SLA failure

These mechanisms are only applied once certain trigger thresholds are exceeded.

- 7.6.2 If SLAs are consistently breached, the contract may be terminated. Each SLA has an associated 'SLA Failure Point' based on the SLA priority. If the combined points for multiple failures exceeds 120 in any one month, the contract will be terminated.
- 7.6.3 Termination of the contract may also occur under a range of other circumstances, including:
- If the supplier or the GLA is subject to an insolvency event
 - Termination for convenience on behalf of the GLA
 - If the supplier or the GLA commits a material and persistent breach of the contract
- 7.6.4 The exact exit strategy will be dependent on the nature of the termination. If termination is due to the actions of the GLA, the supplier will retain EFLSCo customers; the customers are unlikely to see any immediate change to their service provision. If termination is due to a failure of the supplier, the GLA may choose to re-procure and transfer customers to a new supplier. If termination is due to insolvency, customers will be transferred to an Ofgem selected Supplier of Last Resort (see Section 3.2.4).

8 Conclusions

8.1 Conclusions

1. The procurement has concluded with a winning bid that exceeds the minimum score and provides an offer that is attractive and likely to meet the Mayor's objectives. This Business Case shows that it is likely to result in income for the GLA that can be reinvested in energy efficiency and fuel poverty programmes and considerable savings for Londoners who switch to EfLSCo. Officers therefore recommend that a contract should be entered into with the winning bidder.
2. Given the lead times involved in procuring an alternative supplier (in the event of poor performance or supplier failure) the GLA should give consideration, subject to sufficient resources being available, to generating a revised specification to save time in the event of a re-procurement.
3. The review by Baringa of this Business Case has resulted in a number of improvements to this Business Case, a number of suggestions for due diligence and review and more major recommendations that should be considered further in respect of:
 - a. Consideration of spend to support customer acquisition beyond the first year, which the GLA should review after the first 6 months of operation;
 - b. Ensuring that the GLA builds sufficient commercial experience and market expertise into the contract management, which is currently being considered by Environment Unit management;
 - c. Ensuring the GLA engages sufficiently with London Boroughs, which is the subject of a separate workstream.

9 Appendix 1: Baringa recommendations

The main recommendations from the Baringa report have been extracted in the table below. This shows Baringa's perceived risks, recommendations for mitigation and the GLA response to this.

| # | Risk Category | Risk | Likelihood (H/M/L) | Recommended mitigation | GLA Response |
|---|---------------|---|-----------------------|--|---|
| 1 | Strategic | White label delivery model inhibits ability to innovate in rapidly changing market | H | Extend scope of Governance framework, including strengthening Board with market expertise. Ensure contract with white label supplier provides optionality for proposition development and delivery in or outside of core contract. | <p>We have incorporated into the business case the inclusion of Non-Executive Directors on the board, to include director(s) with cutting edge market expertise. Finding someone with appropriate expertise may be difficult, as we would need to ensure they are active but do not have any conflicts of interest.</p> <p>In addition, market expertise is currently provided by our contracted energy expert, who has worked as part of the team since Autumn 2017, and has experience working with white labels and new entrants. He will assist during mobilisation. We have budgeted for ongoing support from a similar expert. See also 4. The core contract provides for innovation and supplier are one of the most innovative suppliers in their own right. The innovation in their bid will be contractualised.</p> |
| 2 | Strategic | Reliance on price comparison websites to deliver customer acquisition does not deliver objective to engage vulnerable and fuel poor resulting in their switching from | H | Enhance brand and marketing focus and budget in conjunction with broader engagement with the Boroughs to ensure proactive engagement with target consumers, supporting them to switch. | <p>Within our modelling, we have accounted for an option for ongoing expenditure of up to £250,000 per year in years 2-4 to support customer acquisition, with this level to be reviewed throughout contract life based on its impact on acquisition. This will cover either paid pan-London customer awareness activities or support to boroughs.</p> |

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|---|-----------|---|---|---|--|
| | | penal SVTs to competitive EfLSCo tariffs. | | | <ol style="list-style-type: none"> 1. Paid activities: Baringa have endorsed our year 1 spend (“This budget should be sufficient to create a positive bow wave of awareness and engagement with EfLSCo.”) and said we should budget for future years. In the light of the launch campaign, customer take up in the first few months, the GLA will review the need for future (year 2 and beyond) ongoing supporting activity whether that be spend on pan-London activities or other support to boroughs, noting that it may be funded from commission payments. We acknowledge Baringa’s recommendation for an ongoing marketing expenditure equivalent to the launch campaign (around £950,000 per year). However, based on our own market research and marketing expertise, and looking at the expenditure of other, similarly sized energy companies, we believe that any ongoing refresher campaigns should be lower cost than the launch campaign, since they will utilise more targeted channels and repurpose existing brand materials. 2. Engagement with London Boroughs and Housing Associations: we have ensured through early engagement that LAs and HAs are aware of our plans and we will step up engagement once we can share with them more of the details of the offer, to turn their interest into definite commitments to use the voids service and help market to their residents and tenants. We are developing an engagement strategy to ensure boroughs are as involved as possible prior to launch. This strategy will be a live document which will evolve over time as engagement progresses. This engagement is covered in the specification. |
| 3 | Strategic | Boroughs are not adequately engaged in | H | Develop and accelerate Borough engagement | See 2 above; we have already held a borough workshop and presented at various borough and HA forums and have further |

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| | | EfL business to promote and support EfLSCo tariffs and propositions and support targeting of vulnerable and fuel poor consumers. | | programme. Embed Borough representation in Governance structure to align priorities and engagement. | workshops scheduled throughout summer 2019. Several boroughs have expressed commitments and/or interest in supporting EfLSCo. We are developing an engagement strategy to progress borough (and HA) engagement prior to launch as soon as we can be more definite about the EfLSCo proposition See 4 below on Board composition regarding involving borough representatives on the Board. |
| 4 | Strategic | Governance and leadership may not be sufficiently robust to ensure development and delivery of EfLSCo's core objectives in the rapidly changing energy market. | H | Enhance Board structure with market expertise in the form of Non-Executive or advisory representation. | The GLA had originally envisaged that the Board would be made up of GLA personnel only, with market expertise contracted in as it has been with the procurement (see 1 above). To enhance this further additional expertise has been included within the business case. We would therefore look to include the following external expertise within the board: <ul style="list-style-type: none"> • Cutting edge energy retail expertise. • Senior Borough representative. • Senior marketing expertise, given the importance of this to success. |
| 5 | Brand & reputation | Reliance on third party for delivery of customer experience results in damage to the GLA or Mayoral reputation | M/H | Tight management of contract SLAs as outlined in the business case. Due diligence of supplier's internal systems and processes to gain comfort over their ability to deliver the required standards of performance prior to contract signature. | We have budgeted for a commercial manager (G13), project manager (G10) and analyst (G9) to ensure we have sufficient expertise and resource to proactively manage the contract SLAs. Most (but not all) of the SLAs will be reported on monthly by the supplier and the project team will monitor performance against them, escalating as necessary. The GLA also has the ability to audit what is behind the numbers reported by the supplier. The winning bidder has a reputation for providing excellent customer service, and its current white label has a Trustpilot score of 9.5. Based on a series of external customer service awards and ratings, we have confidence in the bidder's ability to provide a high level of customer service but will monitor this closely. |

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|---|------------|---|-----|---|--|
| | | | | | The use of EfLSCo branding is subject to EfLSCo's approval and guidelines under the Call Off Contract. |
| 6 | Financial | Customer acquisition targets may not be achieved | M/H | Enhance brand and marketing focus and budget in conjunction with broader engagement with the Boroughs to ensure proactive engagement with target consumers motivating them to switch. | See 2 |
| 7 | Commercial | White label contract may not be sufficiently robust to manage and mitigate inherent risks | M/H | Ensure contract adequately addresses key commercial and regulatory risks-including: | |
| | | | | - Customer transition | See 11 below. |
| | | | | - Marketing | See 2 above |
| | | | | - Triple lock 'comparable' tariff definition | Extensively discussed during dialogue with considerable input from external legal advisers. The definition of "comparable" clarified in discussion and in writing so we are confident that we have a common understanding with supplier. |
| | | | | - Risk management & pricing policies | The GLA has rights to check on risk management and supplier needs to be transparent with the GLA on their pricing (this is a contractual requirement). |
| | | | | - Smart metering roll out | Supplier has provided details of their smart metering plans and, as a tech-focussed company, are keen to roll them out and make the most of them. |

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| | | | | - Integration of innovation from 3 rd parties | See 1 above. |
| | | | | - Financial sustainability | <p>Supplier is required on a monthly basis to confirm that it is not insolvent and has sufficient working capital reserves. Supplier is exceeding their own customer acquisition targets and has been passed by GLA Finance. They reported:</p> <ul style="list-style-type: none"> - The bidding company remains in the category of low risk, [REDACTED] - [REDACTED] - [REDACTED] - [REDACTED] - [REDACTED] - [REDACTED] - [REDACTED] - [REDACTED] - [REDACTED] - [REDACTED] - [REDACTED] - The parent company remains consistent with previous credit rating, [REDACTED] indicating very low credit risk. - There were no significant changes to note against the financial criteria previously used during the original DD work carried out. |

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| | | | | | <ul style="list-style-type: none"> - There are no major areas of concern for this company. - Based on the creditsafe reports there are no significant changes to report. |
| 8 | Operational/ Management | Lack of experienced capability to continue to develop EfLSCo's market offering in light of developing market conditions | M/H | Plan to enhance market expertise either through permanent appointment(s) or advisory support. | As 1, we have access to energy market expertise and as 4 we could add to this with non-executive expertise. We also intend to recruit a skilled senior contract manager, and have increased our staffing budget accordingly. |
| 9 | Management | Lack of expertise to challenge and validate tariff creation and risk management processes of the white label supplier | M | Plan to enhance market expertise either through permanent appointment(s) or advisory support. | As 1, we have access to energy market expertise and have always envisaged using this to ensure that tariff creation and change proposals are justified against the costs provided as part of the bidding process and to make the most use of the open book accounting that the supplier is contractually obliged to follow. |
| 10 | Commercial | The supplier may not be able to operate sustainably whilst delivering the obligations of the EfLSCo contract | M | Strengthen 'early warning' reporting via contract management processes. Develop an EfLSCo business continuity plan in the event that the supplier is financially stressed or fails. | <p>As 8, we will recruit a senior, skilled commercial contract manager who will be able to use the contractual levers to put in place the necessary processes. The framework agreement incorporates 'early warnings' through the Performance Management Model.</p> <p>If the supplier fails, the Ofgem process will ensure that customers are protected. The GLA will find it difficult to procure an alternative supplier quickly but we do not think this risk can be further mitigated.</p> |
| 11 | Operational | Any future transition away from the white label supplier may result in the loss of material numbers of customers. | M/L | Ensure the GLA satisfies itself that the contract provides for a detailed process for transition, including alignment with | Baringa have rightly flagged this as a key issue. However, they were not aware of our selected supplier's offer of putting EfLSCo customers onto a separate licence which should ease the transition. We have discussed how the process would work and we are intending to finalise detailed arrangements before contract signature. |

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|----|-----------|--|---|---|---|
| | | | | supplier's regulatory obligations. | |
| 12 | Financial | The GLA does not make a return on its investment | M | Proactively use Governance model and performance monitoring to identify early warning signals and implement remedial actions. | The GLA making a financial return is not the primary motivation. Even with very low numbers of customers there should be positive economic benefits when considering the wider benefits to consumers. In our baseline scenario, we have modelled a cost : benefit ration of between 1:8 and 1:9. Even in our worst case scenario, the cost : benefit ratio is 1:2, showing there is nonetheless an economic benefit to society. |