

**From:** [redacted]  
**Sent:** 10 January 2019 18:01  
**To:** Minister for Energy, Connectivity and the Islands  
**Cc:** [redacted]  
**Subject:** Public Energy company - note of meeting 19 December

[redacted]

Officials met Mr Wheelhouse to update on the development of the public energy company ambition and also connections to the consumer agenda. In particular we discussed engagement with COSLA on offer to work in partnership to deliver the ambition and links to the wider energy efficiency agenda, development of the outline business case and the recent EEFW Committee report into a 'publicly owned energy company.' We also discussed the Ofgem price cap and the developing Energy Consumer Action Plan. In both contexts we identified the importance and ongoing work to maximise linkages to the fuel poverty, islands and rural agendas.

[redacted]

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**PUBLIC ENERGY COMPANY MEETING WITH MR WHEELHOUSE**  
**19 December 2018 2pm**

1. Update on engagement with COSLA
2. Update on outline business case
3. Parliament
4. Consumer linkages  
Ofgem price cap  
Energy Consumers Action Plan
4. Next steps

## **Tender Specification - Outline Business Case for Public Energy Company**

### **Contract Manager**

[redacted]

### **Section 1 – Background & Context**

The First Minister has publicly set out the Scottish Government's aspirations for a public energy company; particularly in terms of tackling fuel poverty through the offer of a fair price for energy supply. Through the creation of a public sector led energy supplier to enter the wider supply market it is also anticipated that wider benefits will be obtained through the public sector's trusted image to raise the profile of switching supplier and obtaining better tariffs.

Building on the strategic outline case (SOC) published in April 2018 the Scottish Government has developed its thinking on how such a public energy company could be developed. To best balance risks and opportunities, and align with the Energy Strategy's local energy principle, a Local Authority led model would be preferable.

The Outline Business Case (OBC) will assess the best way in which the Scottish Government could work with Local Authorities to deliver the public energy company.

### **Section 2 – Scope**

This work will prepare an OBC for how the Scottish Government could support Local Authorities develop the public energy company and the optimal model for the resulting company.

This will be conducted along the lines of HM Treasury Green Book guidance and will build on the Strategic Outline Case, <http://www.gov.scot/Resource/0053/00533962.pdf>, and subsequent consideration and development of options. The 5 Cases method should be used, providing detail on the potential Strategic, Economic, Financial, Commercial and Management cases.

The OBC will;

- Identify the spending option which optimises value for money (VfM);
- Prepare the intervention for procurement;
- Provide sufficient information to put in place the necessary funding arrangements and management arrangements for successful delivery;

### The Strategic case

The Outline Business Case will develop the strategic case in the SOC to set out the spending objectives of establishing a Public Energy Company and update the case as required to reflect the increased focus on locally delivered solutions.

The strategic case of the OBC will detail the case for change, including the scope, constraints and dependencies of a Public Energy Company, high level outputs, impacts on stakeholders, including energy consumers and particularly those in fuel poverty, and highlight strategic risks as well as proposals for mitigation or management.

### The Economic Case

The SOC presented a number of options for delivery, the Economic Case of the OBC will provide a more detailed analysis of the options with a focus on variations of the 'federal model' described in the SOC

The OBC will build on the options presented in the SOC to identify a preferred option and to assess potential VfM, affordability and achievability and to identify/update critical success factors.

Options for the delivery arrangements for a public energy company could include:

- Do nothing – which will provide a baseline but help highlight the impact of the current situation on fuel poverty, this may consider whether existing and planned public sector activity reduces the need for a separate body (“business as usual”);
- Providing support directly to Local Authorities to engage in White Label energy supply activity by March 2021;
- Establishing a Local Authority led, publicly-owned body to support local government White Label energy supply activity by March 2021;
- Assessing the scope to broaden the activity of this body, possibly from 2023 onwards, into direct supply activity linking into generation and economic development (“federated plus”).

The Scottish Government offer to Local Authorities to develop a supply company could include:

- Facilitating the overcoming of barriers (substantive or perceived) felt by local authorities – e.g. risk associated with investment; skills and capacity.
- Facilitating cross council working to optimise resources while spreading work load and risks.
- Marketing/ branding support
- Maximising synergies with existing work with local authorities.
- Consistent requirements on Local Authorities to maintain high levels of customer, operational and environmental standards.

From such an initial focus the level of public sector activity is expected over time to lead both to the delivery of local energy systems and to associated economic development opportunities.

As part of its assessment, the OBC should consider whether a target number of customers may be required to establish a financially sustainable scheme. It should consider existing models such as Hebridean Energy and Our Power.

Market assessment should consider recent decisions by the CMA and Ofgem – i.e. since the SOC was undertaken. It should consider both domestic and SME business customers.

The OBC should include a detailed description of business scope and service outputs/requirements including;

- Consideration of governance and appropriate roles and responsibility.
- Likely costs and benefits to individual partners, not just local authorities; including additionality associated with existing schemes and responsibilities.

From the shortlisted options a preferred way forward should be highlighted based on net present costs/net present value findings, benefits appraisal, risk assessment and sensitivity analysis. The optimal structure – e.g. community interest company, for the organisation should be investigated and identified.

#### The Commercial Case

This case will assess whether the proposed Publicly Owned Energy Company is attractive to Local Authorities in order for them to take up the offered support. Furthermore it will assess whether the resulting Local Authority supply company/companies would be attractive to the retail energy market, can be procured and is commercially viable.

This will include an exploration of the scope, risks and timescales for the Public Energy Company.

At least two public consultation events should be carried out during October/November with the purpose of gathering public and stakeholder views to inform the development of the OBC. These events should cover both a Central Scotland and more Northern geographical area.

Analysis of the commercial models of existing suppliers which prioritise social benefit, e.g. Bristol Energy, Ecotricity, Robin Hood, Our Power, and what lessons are applicable to the shortlisted options will strengthen this commercial case.

#### The Financial Case

Overall affordability should be included in the Financial case. Affordability analysis should set out the costs of the Public Owned Energy Company and sources of funding.

The financial case would address the set up costs and include an assessment of the on-going operating costs and taxation issues – e.g. VAT, direct tax. Accounting and classification for a Public Energy Company should also be explored.

The case will allow Scottish Government to be able to clearly demonstrate the Scottish Government's potential required financial commitments and which budgets these would call on.

The case will include potential capital requirement, and potential impact on income and expenditure accounts.

### The Management Case

The Outline Business Case will develop the management case for supporting a Local Authority led energy supply company, including the management of tensions or synergies associated with existing schemes and responsibilities. This should include outline arrangements required for:

- Programme and project management;
- Change management;
- Benefits realisation; and
- Risk management.

### **Section 3 – Knowledge & Experience**

Subject areas where it would be particularly useful to have prior knowledge & experience to develop this Outline Business case include:

- Energy policy with particular focus on energy supply models, relevant regulations, the retail energy market including current and future trends in energy delivery, consumer needs and the issues facing those in fuel poverty.
- Local authority project delivery, including potential governance structures, local authority financing and resourcing arrangements .
- Financial and commercial assessment.
- Other relevant evidence on expertise regarding factors which will affect delivery of the Public Energy Company.

This may be demonstrated through examples of previous work, evidence of relationships with key stakeholders and/or other evidence as necessary.

### **Section 4 – Required Outcomes and Key Deliverables**

Upon completion of the Outline Business Case the Scottish Government would expect to be in a position to consult on the identified VfM solution with a view to progressing to a full business case that will provide a fully-costed approach.

The Scottish Government will require:

1. Consultation events will be held during October/November, the winning bidder will input into the design of these events, assist with facilitation and incorporate findings into the on-going OBC.
2. An interim draft report delivered at week 10 to allow Scottish Government review and comments before finalising.
3. A written report, written in plain English, covering the scope as set out above.
4. An oral briefing to Scottish Government officials.

During development of the Outline Business Case we expect the successful contractor to work closely with the Scottish Government to identify and manage the impacts and dependencies that the document will have across the Scottish Government

Five meetings will be held with Scottish Government officials to advise on progress at around fortnightly intervals with a timetable to be agreed to meet requirements.

## Section 5 - Contract Period

The timeline for the project will be 10 weeks, with key milestones outlined in the following table:

Week	1	2	3	4	5	6	7	8	9	10	11	12
Inception Meeting with Steering Group												
Inception Meeting report signed off by Steering Group												
Analysis												
Consultation events												
Progress Meeting with Steering Group												
Draft Report												
Revisions												
Final Report												
Oral Briefing to Steering Group												

Contractors intending to submit tender submissions should note the following key dates:

- Deadline for receipt of questions relating to the tender: 8 August 2018 at 15:00
- Deadline for receipt of tender submissions: 17 August 2018 at 15:00
- Anticipated date of contract award: 27 September 2018
- Contract completion date: 7 December 2018

The contract may be extended for up to two weeks with the agreement of Scottish Government Contract Manager. Any request to extend should be received by the Scottish Government at least two weeks before the initially arranged contract completion date.

## Section 6 – Invoicing & Payment

Add in from [redacted] form

### Evaluation Criteria

The Scottish Government must be satisfied that each potential contractor has the appropriate capabilities and resources available to undertake the work to our requirements and provide the necessary services.

The process that the Scottish Government uses to select its contractors is a competitive one. Your tender submission should be written to address the requirements outlined above and should demonstrate how it meets the following evaluation criteria:

Price/Commercial – 30% weighting

- Price (the overall cost of the work including all fees, costs, expenses and VAT).

Technical Questions – 70% weighting

- Your understanding of the project requirements, as set out in detail at section 2

- A methodology that will most effectively deliver the project objectives and requirements within our required timescales; and
- The authority of allocated personnel, their relevant skills and technical capability

Further information on the criteria used for assessment is available in the Technical Questions document.

All bids will be evaluated against the Technical Questions criteria being marked in the range 0 – 4, with 0 being non-compliant and 4 being outstanding.

Assessment of tenders will be carried out by representatives of the Scottish Government's Public Energy Company Unit with input from other Scottish Government Directorate's as required.

## Section 8 – Key Risks and Responsibilities

The following key risks have been identified for this contract:

RISK	Possible Cause(s)	Probability	Impact	Mitigation
New supplier doesn't have enough time to implement new contract	Timescale slip	Medium	Medium	Implementation period to be factored into timeline
Tenders not of sufficient quality	Uncertainty from contractors on requirements	Low	High	Robust selection and award criteria and comprehensive specification
Legal challenge – The awarded contract may be delayed in the event of a challenge from an unsuccessful bidder	Legal challenge	Medium	Medium	Ensure an compliant process and bidders de-briefs are comprehensive. Ensure ITT docs are well thought through
Lack of Robust Exit Strategy/ business continuity Planning if the contract is terminated during its term.	Poor exit strategy/poor execution	Medium	Medium	Ensure that the successful bidder complies with the framework Exit clauses
Poor performance from successful bidder	Poor supplier performance after award	Low	High	Ensure that within the ITT there is a schedule referring to the successful bidders providing and regularly updating an exit strategy/continuity plans. Good contract management in place
Are the requirements technically/operationally clear and unambiguous to allow bidders to respond effectively – impact on time/resources	Poorly worded and unclear requirements	Medium	High	Contract and suppliers conditions built in to the ITT, all parties to hold contract meeting and reviews at-least monthly
Awarded contract not effectively managed by the all parties – impact on costs/ recourses	Poor post contract award	Medium	High	Ensure that requirements are clearly set out and in simple terms to allow bidders to understand what is being asked for in their submission. Good relationship building and contract management

Invoicing/billing – successful bidder/sub-contractors	Poor and unacceptable /late invoicing	Low	Medium	Ensure invoices are received on time are clearly detailed to ensure that the pricing agreed matches the invoices provided. Invoice are electronic and timely
Spiralling costs	Lack of financial/supplier management	Medium	High	Establish lines of communications/regular meetings/invoicing accuracy/contract management. Budget watching