Our Power Community Benefit Society Ltd statement to Social Impact Bond Investors – February 2019

The Board of Our Power Community Benefit Society Ltd confirmed to investors on 25th January 2019 that Our Power Energy Supply Ltd had ceased trading and, on 31 January, the company went into administration following completion of the Ofgem supplier of last resort process.

Our Power Energy Supply Ltd was a wholly owned subsidiary of Our Power Community Benefit Society and all investment raised by Our Power was to the Community Benefit Society (CBS) with the funding on-lent to Our Power Energy Supply.

The Directors of Our Power CBS have regrettably decided to put the CBS into administration as there are no assets or value remaining to service the borrowing, including the social impact bond. This decision has only been taken after every possible alternative outcome had been exhausted.

As of 31st January, Our Power Community Benefit Society has outstanding debts of £21.3m and cash in the bank of c£60k.

Our Power Energy Supply was the trading company and the retained value in Our Power Group sits as customer debt, that is the money still owed to the business by its customers, in Our Power Energy Supply. Secured lenders will make some recovery of their investment through a floating charge (i.e. monies that will be paid to the lender if money is recovered from the business) over all of the companies in the Group however the value of the customer debt is significantly less than the value of loans from the secured lenders. With deep regret, we do not believe that the social impact bond investors will recover anything from their investment.

Social Investment Tax Relief

The Social Impact Bond was eligible for SITR and there is no withdrawal of this relief due to Our Power CBS insolvency.

Investors who are eligible for SITR on their investment and have not yet claimed this relief are still able to claim.

Unfortunately, there is no additional tax relief for capital losses on the bonds. This will be the case for both the SITR and the non SITR investors.

Market Conditions

Our Power is the thirteenth energy supplier to fail since January 2018. These failures are unprecedented in the market and the table below shows how these have materialised over 2018 affecting both large and small independent suppliers:

Domestic supplier market exits, 2018 to date

Supplier	Date of exit	Method of market exit	Publicly reported domestic customers
Future Energy	Jan 2018	Green Star Energy appointed as SoLR	10,000
Flow Energy	May 2018	Acquired by Co-operative Energy	130,000
Gen4U	Jul 2018	Octopus Energy appointed as SoLR	500
Iresa	Jul 2018	Octopus Energy appointed as SoLR	95,000
Affect Energy	Aug 2018	Acquired by Octopus Energy	20,000
Electraphase	Aug 2018	Administration. All customers switched away	<100
Usio Energy	Oct 2018	First Utility appointed as SoLR	7,000
Snowdrop Energy	Oct 2018	Transferring customers to Nabuh Energy	6,000
Extra Energy	Nov 2018	Scottish Power appointed as SoLR	108,000
Spark Energy	Nov 2018	Ovo Energy appointed as SoLR and acquires operating group Spark Energy Ltd	290,000
One Select	Dec 2018	Together Energy appointed as SoLR	33,000
Economy Energy	Jan 2019	Ovo Energy appointed as SoLR	235,000

Source: Cornwall Insight

The extent of the issues across the energy supply sector became public after August 2018 when the retail price cap was announced and when all suppliers were required to make a Renewable Obligation payment to Ofgem. In total, 34 suppliers failed to make payments in August, including Our Power and this showed the fragility of the sector. Our Power subsequently made the payment in full. The impact of this payment on other suppliers was greater and they failed at that point or shortly afterwards.

What has happened to Our Power?

The Bond was raised against the energy supply business plan that showed that the business would go into profit in 2020 with any additional working capital reaching a peak debt of £23m in 2021. During this period, there was a risk that if the company failed, there would be insufficient assets to pay all creditors.

Draft Management Accounts for Our Power Energy Supply for the year to date to the end of December 2018 (against customer number of 31,000 households and c54,000 meter points), show:

Revenue:	£20.5m
Costs of sales:	£22.6m
Loss after interest and taxation:	£8.5m
Cash at bank:	£620k

During 2018, a number of significant and unforeseeable events occurred with a cumulative detrimental impact on our business. Although these were set out in our communication of 25th January, we provide further detail below:

Forced System Change

In February 2018, we were given 180 day notice from our billing system provider that they were withdrawing the product from the market and were terminating the contract. Although we were able to implement a successful system change over the summer, this caused a significant delay in

our ability to get bills out to customers. As we entered the winter period this meant that a gap emerged between our revenues and our cost of sales which had an impact on cashflow. By the end of December 2018, we had largely caught up on billing and were finalising direct debit statements although our revenue collections remained behind plan due to the billing catch up.

This system-change also meant that we could not significantly grow the customer base through the summer/autumn period. We were required to notify Ofgem of our system change and as part of the risk mitigations, we were required to moderate our customer acquisition. At the same time, for the period that we were unable to produce bills, we received negative social media comments which further dampened our ability to grow our customer base through switching.

Wholesale Market Conditions

As has been widely reported, the wholesale gas and electricity markets have been subject to extreme volatility that has taken considerable amount of cash out of the business. This has manifested through increasing cash requirements from Spring 2018 through to the end of the year. Alongside this price volatility, we have seen a number of wholesale trading houses (businesses that buy and sell gas and electricity to energy supply companies)withdrawing products and services from the market which ultimately made it impossible for us to gain an improved line of credit without a form of guarantee, which we were unable to secure.

Regulatory Price Cap

The introduction of regulated price caps meant that tariffs were set for six-month periods and could not be priced above the cap while at the same time, wholesale costs were variable. The cap is now, in effect, across the whole customer base and it is expected to become harder to gain customers as tariffs become more closely aligned. Price caps were first introduced for prepayment customers in 2017 and a cap for standard variable tariffs was announced in the summer of 2018 for implementation from 1st January 2019.

This has caused investors to look more negatively on the retail supply sector and has further negatively impacted on the availability of lines of credit from wholesale traders.

On 7th February 2019, Ofgem announced that it was increasing the cap from 1st April in recognition of the state of the wholesale energy market.

Mitigations

Throughout this period, we took any and every action that we could to mitigate each of these issues. These included:

- Implementing the new billing system and bringing in additional resource to speed up production of bills. We also worked with industry experts to maximise cash recovery;
- Using automated intelligence (robots) to process direct debit accounts to bring them up to date as quickly as possible;

- Putting in place two price rises through 2018 in April and October, as well as significantly increasing the tariff for customers coming off our first fixed rate tariff in recognition of the challenges in the wholesale market;

- Working closely with our members to continue transferring properties to use Our Power as the energy supplier when those properties became vacant despite the system change;
- Continuing to grow our membership base, securing partnerships with local authorities and we won a number of contracts for void management services with English housing associations with 150k housing stock, all of which would have accelerated growth in 2019;
- Using all of our networks to attempt to gain an improved trading position;
- Seeking additional short-term funding and guarantee to underpin wholesale trading;
- Negotiating a consolidation with other energy suppliers.

Fundraising

In October 2018, Our Power Community Benefit Society raised an additional £5m working capital from existing secured funders. This funding was expected to provide enough working capital to take us through to March 2019 and at that point we were confident that we would be able to pay interest on the Bond and did not consider that Bond Investors were at risk.

We were in extensive and advanced discussions with a new investor for up to £3m with an investment decision due to be made in early February which, had it been approved, would have meant that we had no further funding requirements until the Bond was refinanced. We were also working with our existing funders to restructure their investment to permit us to use a range of financial instruments to bring in alternative investment.

As part of the £5m fundraise, we revised the budget for the last quarter of 2018 and 2019. This took into consideration customer numbers, wholesale price impact, regulatory changes and recovery from the billing system change. This budget showed Our Power reaching a profit-making position in 2021, a year later than previously planned.

During this fundraising process, we went through a number of independent reviews of the business undertaken by EY and Cornwall Insight and this was followed by a management review undertaken by Johnston Carmichael Chartered Accountants. None of these reviews questioned either the fundamental proposition or the viability of the business while recognising the changing retail energy market and the increased risk profile.

Cash flow pressure

In the middle of December, it became clear that we would need a cash injection to see us through to the funding decision in February, largely due to the delay in cash collections and due to the extreme impact of wholesale volatility which had a negative swing of c£1.6m in the amount of money we had to pay to cover potential losses that our wholesale traders would incur if we went out of business and they had to sell our future energy contracts with them at a loss, known as collateral requirement, between mid-October and mid-December. Throughout this period, we continued to try to achieve improved trading terms for wholesale trading which was unsuccessful in large part due to the recent failures and significant market players exiting trading with smaller suppliers. We made a request to our existing funders for bridge finance and/or a

guarantee to underpin our trading arrangements and they confirmed on 11th January that they were not in a position to provide this.

In December, we had also opened up merger/consolidation discussions with two other energy supply business with a short-term goal of accessing their trading arrangements which would have immediately released cash back into Our Power Energy Supply.

We accelerated discussions with one of the energy supply businesses that we had been in negotiations with on the sale of Our Power Energy Supply with Our Power Community Benefit Society continuing as a white label supplier with a revenue stream based on customers secured from our social housing members and other partnerships. This would have allowed us to repay over time some, if not all, of the investments in Our Power.

Osborne Clark and KPMG were engaged by the Directors as advisors to ensure that decisions were made to try to achieve the best interests of creditors.

During this time cash management was reported to the Directors on a daily basis. Revenues continued to be received through customers paying by pre-payment, direct debit and on receipt of bills. Payment on bills and recovery of outstanding bills continued to be slow however post-Christmas, payments were increasing daily. Wholesale energy costs continued to be paid on a daily basis. We managed payments to other creditors.

The anticipated trade sale with the other supplier collapsed at 5pm on 24th January following an intensive process and the Directors then had no choice but to trigger Administration.

On the 24th January, Our Power Energy Supply had £362k cash and creditor liabilities of £830k (excluding loans and the bond).

Financial Schedule of month end cashflow October 2018 to January 2019

	Oct-18	Nov-18	Dec-18	Jan-19
Revenue Received	1,677,640.32	1,799,719.19	1,733,780.68	1,909,811.75
Energy Costs	-2,649,728.08	-2,098,234.97	-3,424,361.57	-1,933,989.44
Collateral	-301,000.00	-496,405.00	86,154.23	-193,135.00
Other Operating Costs	-122,627.74	-182,797.16	-462,456.08	-461,274.50
Staff Costs Paid	-284,299.48	-306,794.22	-240,523.58	-128,057.96
VAT rebate	177,088.67	153,690.53		406,058.02
Funding Costs		-12,899.78	-13,641.14	
	-3,180,566.63	-2,943,440.60	-4,054,828.14	-2,310,398.88
New Loan	2,500,000.00	2,481,388.48		
Net Cash Movement in Month	**997,073.69**	**1,337,667.07**	**-2,321,047.46**	**-400,587.13**
Cumulative cash movement	**997,073.69**	**2,334,740.76**	**13,693.30**	**-386,893.83**

As shown above, the cashflow negative impact of collateral across October to January was £904,385k – this has been the single biggest issue for Our Power over this period.

It should be noted that at the beginning of October 2018, Our Power Energy Supply Ltd had a mark-to-market upside of £800k meaning that we were not required to post collateral. The extent of the swing in the market to the end of January was therefore c£1.705m in total.

The negative cashflow spikes for Energy Costs in December 2018 and for Other Operating Costs in December 2019 and January 2019 were due to delayed payments being made to creditors once additional funds from our investors came into the business.

Administration

The advice that the Directors were given was to separate the administration of Our Power Energy Supply, an English registered company, and Our Power Community Benefit Society which is a Scottish Society registered with the Financial Conduct Authority.

Ofgem plays an important role when an energy supply business gives notice that is going to cease trading under an Administration. They step in to transfer customers to a new supplier chosen through a competitive process known as 'Supplier of Last Resort'. Utilita were appointed as the Supplier of Last Resort on 30th January. The company therefore formally entered administration on 31st January.

The Directors of Our Community Benefit Society, which holds all investment liabilities with minimal assets, decided on 8th February to put the Group into administration.

The Directors of Our Power deeply regret the impact of the business failure on Bondholders. Social enterprises have a role to play in providing sustainable business solutions and we sincerely hope our challenges do not impact on confidence in the wider sector and investment opportunities. The trading conditions for energy supply businesses in 2018 were extremely volatile. Having survived through 2018 and going into 2019, the Directors were confident that if a short-term funding solution was secured the business fundamentals were strong enough for the business to survive as an independent supplier or as part of a consolidated business. This failed at the last minute and Directors then had no option but to take the company and subsequently the Group into Administration.