

MY LITTLE ENERGY EARNER

Electricity and gas are two core energy resources for schools and a high priority for SBMs. We review the latest trends from the UK energy market and ask the experts what options are on offer when it comes to costs and contracts – they weigh up best practice and outline what to avoid

With the Christmas lights safely returned to their boxes and said boxes squeezed into a not so neatly stacked cupboard, schools are ready to begin the new year! The scene in classrooms and corridors will, sadly, be less decorative of course but SBMs will rejoice that power outlets and extra adapters are no longer being hijacked to light up every corner of the school. They will also be interested to know that the energy market is witnessing a significant upturn in the number of business and domestic customers switching provider – with energy regulator, Ofgem, estimating that 5.5 million switches took place between January and September 2016. By way of comparison, this figure represents a 28% increase on the same period in 2015.

REPORTING REFORMS

Despite this clear level of improvement in competition the 2016 energy market reforms report from the Competition and Markets Authority (CMA) confirms that the traditional 'big six' continue to operate with relatively expensive tariffs compared to newer, smaller energy providers. In its June 2016 *Energy market investigation: summary of final report* the CMA underlines the extent to which prices have soared and suggests that providers have fallen short of customers' expectations. 'Domestic [UK] price increases have far outstripped inflation over the past 10 years and there have been concerns about levels of profitability – and standards of service appear to have deteriorated.' For some schools there remains a distinct possibility that, owing to outstanding arrangements between a 'big six' supplier and a local authority, they will be tied to contractual obligations which will ensure energy expenses are relatively high.

A media source from SSE told *Education Executive* about their approach to managing school business and the options on offer. "The types of energy contracts available to schools will depend on their consumption. The larger, more complex estates are more likely to need flexible tariffs but, for most schools, a straightforward energy supply tariff, priced for the duration of the contract, would suffice." The source added that business is usually conducted between SSE and a broker or Third Party Intermediary (TPI) on behalf of the school rather than directly with an SBM.

If such an approach seems less than ideal for SBMs from both a practical and financial point of view there are other, more business-friendly options available. That is not to suggest, however, that direct enquiries to a potential provider or comparing energy prices is not worthwhile. In fact, these solutions should be at the forefront of an SBM's mind – especially those who have good reason to suspect something is amiss with their energy bills.

BIGGER NOT ALWAYS BETTER

It should also be pointed out that another cost-effective solution could be to secure new business with a smaller energy firm. Kevan Walsh, co-founder of Zenergi, explains key differences between smaller providers and their 'big six' counterparts. "Smaller energy suppliers tend to be more nimble. They have been set up to improve the offer made over the last two decades by the 'big six' which could be deemed to be like prehistoric dinosaurs in their approach to both service and billing," he says. "Smaller suppliers have much more progressive and user-friendly web interfaces as they have embraced the modern IT infrastructure. The only downside is that when they are successful at gaining lots of new business they tend not to be able to cope with it and so service can sometimes suffer." ▶

Power and influence of the big six – Taken from the Competition and Markets Authority's *Energy market investigation: summary of final report*

"Together, the Six Large Energy Firms currently supply energy to just under 90% of the domestic customers in Great Britain and generate about 70% of total electricity generation in Great Britain. They are all partially vertically integrated in respect of electricity (i.e. they are all active in both generation and retail) and Centrica is vertically integrated in respect of gas (i.e. it is active in both generation and upstream production). Both SSE and Scottish Power also have interests in electricity transmission and gas and electricity distribution."

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Smaller providers have a vested interest in pointing to the shortcomings of their rivals but we've seen that independent observers like Ofgem and the CMA have gone to great lengths to publicise these shortcomings too. In this sense, SBMs should be mindful of such narratives when conducting their own investigations into energy-saving measures.

Tonik Energy has extensive experience in the energy consumer market and plan on working with schools in the future. Laura Hall, their marketing manager, says that energy contracts stand out as a priority when it comes to saving money. "Buying energy carefully can save a school, on average, five per cent of their energy costs. Schools are able to choose either a fixed or flexible deal, which work in a similar way to mortgages," she says. "Fixed contracts secure a rate between one and four years, and make for easier budgeting. On the other hand, a flexible contract doesn't give a fixed price but allows more detailed management of energy costs if the market price changes."

The flexible contract option will be of particular interest to SBMs as energy market reforms – 30 separate measures ordered by the CMA in December 2016 – will be introduced to market during 2017 and 2018. As the CMA states, "These [measures] will drive down costs by increasing competition between suppliers and help more customers switch to better deals, whilst protecting those less able to benefit from competition. They will also bring in technical and regulatory changes to modernise the market and ensure it works in consumers' interests."

So, with a series of seemingly ground-breaking reforms imminently set to take place – alongside a chastised 'big six' – SBMs are well-placed to take advantage of the energy market to suit their schools' needs. One significant drawback remains control being exerted by deals signed on a school's behalf by local authorities and brokers but that should in no way prevent SBMs from being part of the discussion or, at the very least, raising concerns about any changes made to costs or contracts. ■

Kevan's top tips on what SBMs should avoid when managing energy contracts

1. Ask your agent (LA, broker, consultant) how they procure the energy and what strategies they have in place to secure best value; also how much commission is included.
2. When evaluating offers, do so on the same day and on the same basis/tariff – e.g. what does the offer include/not include and is it fixed or flexible? In other words, are you going to have any nasty surprises part way through the contract?
3. Once a contract is signed with a changed supplier make sure there is no debt on the current contract as this can trigger an objection which means your contract may not start and the school will slip onto an expensive default rate.
4. If you are able to read the meter do so on changeover day as many readings between suppliers are wrong which can cause a headache up to 24 months down the line when an actual reading is eventually taken. In any case, always take regular readings on electricity, gas and water meters.
5. Even though there is an accepted +/-three per cent error rate on energy invoices make sure you validate invoices to check that:
 - consumption is as expected;
 - the rates are as signed for with no extras, or plainly wrong;
 - available capacity is not too excessive;
 - the VAT levels are correct (five per cent in academies, foundation and church schools) as this negates the need to pay Climate Change Levy.

Laura's recommendations for school energy conservation

- A school's furniture is often rearranged. Make sure thermostats, radiators and vents aren't blocked and that filters are regularly cleaned.
- Check temperatures – the recommended temperature for classrooms is just 18°C and for corridors and areas of high activity (e.g. sports halls) it is 15°C. Areas with very young children or low activity and special needs schools are recommended to have temperatures at around 21°C.
- Look at the thermostat once a month to make sure settings are correct.
- Insulate boilers, hot water tanks, pipes and valves to help with heat loss; it's relatively cheap and can reduce the risk of burst pipes in colder months.
- Install a seven-day timer. This comes into its own when a school only needs to be heated at specific times, such as in the evening if the school is occupied for community activities.