

TITLE OF REPORT: Electricity Tariffs for Gateshead HEIGHTs Project

REPORT OF: Anthony Alder, Acting Strategic Director, Communities and Environment

Purpose of the Report

1. To approve the electricity tariffs chargeable to residents of the Gateshead HEIGHTs project

Background

2. The Gateshead HEIGHTs (High Rise Energy Infrastructure for Gateshead Housing Tenants) project has installed new district heat and/or power systems to 7 High Rise Housing blocks in the Town Centre and Harlow Green.
3. Power supply to customers in Barford and Stretford Courts is due to commence early in 2019, and the starting power tariff needs to be approved.

Proposal

4. The power tariffs for Barford and Stretford Courts to 31 March 2020 have been set as follows:
 - The Council aims to provide the lowest tariff on the market for customers.
 - Power tariff for 2019/20 is proposed at 14.86 p/kWh, with a standing charge of 18.61 p/day.
 - All tariffs are inclusive of VAT

Recommendations

5. It is recommended that approval is given to agree the power tariffs for 2019/20 of 14.86 p/kWh, with a standing charge of 18.61 p/day inclusive of VAT.

For the following reasons:

- (i) To ensure cost savings are delivered to residents of the HEIGHTs scheme.
 - (ii) To ensure the HEIGHTs scheme recovers its operating and construction costs over its lifetime.
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Contact: Anthony Alder Extension: 3402

Policy Context

1. On a local level, the proposals will contribute to the delivery of many targets within Vision 2030, strategic interventions within “Making Gateshead a Place where Everyone Thrives”, the Council’s Climate Change Strategy and other Council strategies and commitments, specifically:
 - Helping to alleviate fuel poverty for residents, by providing lower cost heat;
 - Reducing energy consumption and carbon emissions of homes and public buildings in the borough.
 - Reducing carbon emissions of homes and public buildings.
2. The proposal will also accord with the provisions of the Corporate Asset Strategy and Management Plan 2015 – 2020. In particular; ensuring that the Council’s properties are fit for purpose and the continuous improvement of the sustainability of the Council’s assets;

Background to Gateshead HEIGHTs

3. The Gateshead HEIGHTs project has installed low-carbon heat and power generation plant in seven high rise blocks in Gateshead, to reduce carbon emissions of those homes, and reduce energy costs for residents, as follows:
 - Regent Court – heat only supplied direct to tenants from town centre district energy scheme.
 - Ripley, Willerby, Acomb, Bedale, Angel courts – heat only, supplied from Ground Source Heat pumps.
 - Stretford, Barford – heat and power supplied direct to tenants, from combined heat and power generation plant.
4. The project was funded by the Council’s Housing Revenue Account, using £4.5m grant from the European Regional Development Fund.
5. As a result of the Council’s objectives for the project, and the terms of the funding:
 - EU funding rules mean the scheme cannot make a profit.
 - The Council wants to reduce tenants and leaseholders energy costs by at least 10%
 - The Council needs to fully recover its investment over the lifetime of the scheme
6. In February 2018, heat tariffs were set for the scheme, which estimated that in the first year, would deliver a saving of more than 10% to residents from the new heat supply alone.
7. New heating systems were installed, with heat supply to residents commencing from May 2018 and completing in December 2018. A total of 620 homes now receive heat under the Gateshead HEIGHTs scheme.

8. In addition, from early 2019, the Council will become the electricity supplier to 154 homes within Barford and Stretford Courts, which has the potential to provide further benefits to residents of these blocks. To facilitate this, the Council has contracted with Emrgnt Ltd and Robin Hood Energy, to enable the electricity supply to be managed in line with UK electricity regulations (as approved by Cabinet on 18 December 2018).

Proposed Power Tariffs

9. The Council aims to become the electricity supplier to customers in Barford and Stretford Courts, and has recently appointed contractors to provide the ancillary services (metering, billing, and compliance with electricity regulations) required to achieve this.
10. As for all Gateshead HEIGHTs sites, revenues from selling power are required to cover ongoing operation and maintenance costs, and to recover the Council's initial investment in the scheme.
11. For technical and safety reasons, the Council will migrate all customers onto its supply contract initially, to allow the new private-wire electricity distribution systems in the blocks to be commissioned, and the old systems decommissioned.
12. Unlike heat, electricity supply is regulated, and under regulations customers have the right to choose their supplier, even on private wire networks. Once the system is commissioned, customers can move away to another supplier if they so choose, therefore in setting tariffs the Council seeks to offer the lowest tariff on the market to incentivise customers to stay.
13. At the time of this report, the 5 cheapest 12-month fixed price tariffs are listed in Appendix 2 and have an average price of 15.65 pence per kilowatt hour, with a 19.6 pence per day standing charge. An average is taken, as there is variability in the tariff structures, between the unit rate and standing charge.
14. Whilst residents at these blocks have already benefited from savings of more than 10% from the new heat tariffs, the proposed power tariff for Barford and Stretford Courts is set to provide further savings for 2019/20, by being 5% lower than the average of the cheapest 5 tariffs, as follows:
 - Power tariff to 31 March 2020 is proposed at 14.86 p/kWh, with a standing charge of 18.61 p/day.
 - All tariffs are inclusive of VAT
15. As with heat tariffs, power tariffs will be revised annually on 1st April each year, in line with market variations in power prices.

Alternative Options

16. **Set lower power tariffs.** In this scenario, whilst residents would benefit from reduced bills, the Council is unlikely to recover its costs.
17. **Set higher power tariffs.** In this scenario, the Council would be able to repay the scheme costs quicker and have more financial reserves in the event that future income generation was lower than expected, but could face potential grant

clawback from ERDF. Also, savings to residents would be reduced or removed, which would severely impact on the satisfaction that residents would have for the scheme.

Consultation

18. The Cabinet Members for Environment and Transport and Ward Councillors have been consulted and support the proposals.

Implications of Recommended Option

19. Resources:

(a) **Financial Implications** – The Strategic Director, Corporate Resources, confirms that the power tariffs proposed in this report are consistent with those included within the approved business case and ensure the scheme complies with the ERDF grant funding conditions..

(b) **Human Resources Implications** – Scheme administration will be provided by existing staff within Energy Services, and specialist services have been procured.

(c) **Property Implications** - The scheme is part of a scheme to provide a modernised heating system for 7 tower blocks included in the scheme including new wet distribution systems, radiators and heat meters within resident's flats. It will also provide low carbon heat and power.

20. **Risk Management Implications** – The power tariff will determine the amount of revenue received by the Council, and the level of costs for residents. Tariffs have been set to achieve the optimal balance between the two, reducing risks of Council undercovering costs, and risk of residents choosing other suppliers.

21. **Equality and Diversity Implications** – The heat and power supplies will be offered to all tenants across the named blocks, with tenant liaison services supporting the engagement of all customer groups, including all equality and diversity groups. Customers will be allowed to register as vulnerable, to benefit from additional protection (e.g. increased emergency credit)

22. **Crime and Disorder Implications** – None.

23. **Health Implications** –The quality and standard of maintenance of the properties and the heating scheme will contribute to the health and wellbeing of the tenants.

24. **Sustainability Implications.** - The scheme will reduce domestic carbon emissions in Gateshead by reducing energy consumption and replacing existing heating with lower carbon alternatives.

25. **Human Rights Implications** - Nil

26. **Area and Ward Implications** - The scheme is in Chowdene Ward in the South area.

Background Information

27. ERDF Low Carbon grant funding applications, Cabinet Report, July 2016. ERDF grant award, Nov 2016, Fabric Scheme contract award, March 2017. Heat tariff setting, Feb 2018. Licenced supplier contract award Dec 2018

Appendix 2. Power tariff tables

Available tariff, through price comparison sites as of January 2019

Supplier (12 month fixed, single rate tariff)	Standing Charge, pence per day	Tariff, pence per kWh	Annual bill (assuming 2,000 kWh/yr)
Bristol Energy	19.77	15.66	£385
Octopus	21.37	14.84	£375
PFP	18.29	15.89	£385
npower	15.54	16.49	£386
Green energy network	23.00	15.36	£391
Average Top 5	19.59	15.65	£384
Discount to apply	5%	5%	5%
Barford / Stretford tariff	18.61	14.86	£365