

TITLE OF REPORT: Energy Tariffs 2022-23 for Gateshead HEIGHTs

REPORT OF: Peter Udall – Strategic Director Economy, Innovation and Growth

Purpose of the Report

1. To seek approval for the following energy tariffs for HEIGHTs project residents for 2022/23:
 - Heat tariffs for all HEIGHTs residents
 - Electricity tariffs for HEIGHTs residents at Barford and Stretford Court
2. To seek approval for an additional review of the tariffs after six months due to the fluctuating energy market.

Background

3. The Gateshead HEIGHTs (High Rise Energy Infrastructure for Gateshead Housing Tenants) energy scheme supplies heating via district heating systems to seven High Rise Housing blocks in the Town Centre and Harlow Green (Regent Court, Ripley and Willerby Court, Acomb and Bedale Court, Barford and Stretford Court). It also supplies two of these seven blocks with electricity (Barford and Stretford Court).
4. Under heat and electricity supply agreements with residents, the Council is required to revise tariffs annually from 1st April, in line with changes to the wider domestic energy market.
5. The energy markets have seen unprecedented price increases and instability over the past 12 months and there continues to be uncertainty as to when the market will stabilise.
6. In October 2021 the new Ofgem price cap was announced and prices were increased by 34% for heat and 20% for power. A further 54% increase to the price cap from April 2022 was confirmed on 3 February 2022, by Ofgem.
7. Although heat networks are not required to adhere to Ofgem's price cap, we have taken the decision to ensure our prices remain below the current price cap, to ensure full cost recovery and no more, so that we can limit the price increases faced by our residents.

Proposal

8. The below tariffs are for 1 April 2022 to 31 March 2023. All tariffs are inclusive of VAT.

9. The heat tariffs have been set as follows:
- 5.457p/kWh for Regent Court residents (an increase of 50%)
 - 10.575p/kWh for Harlow Green residents (an increase of 35%)
 - We continue to not apply a standing charge for the heat supply
10. The impact that this will have on the average resident's heating bills is as follows:
- An average annual increase of £70 per year for Regent Court residents.
 - An average annual increase of £79 per year for Harlow Green residents.
11. The electricity tariffs for residents at Barford and Stretford Courts have been set as follows:
- Standing charge: 24.94p/day (an increase of 6.43p, 34.74%)
 - Unit rate: 19.05p/kWh (an increase of 5.74p, 43.13%)
12. The impact that this will have on the average resident's electricity bill is as follows:
- An average increase of £138 per year, which is an average weekly increase of £2.66 (in addition to increase in heating bill)
13. These increases remain below the current market price, and are the lowest that can be set, whilst still recovery scheme operating costs. We further propose that the tariffs should be reviewed in six months due to the current instability of the energy market. The review will begin in July 2022 with, if necessary, a report to Cabinet in September 2022 detailing and changes to the tariffs to be agreed. Any tariff changes agreed at this review would apply from 1st October 2022 – 31st March 2023 in line to maintain our current annual review process

Recommendations

14. It is recommended that approval is given:
- (i) To the heat and electricity tariffs proposed, to communicate these HEIGHTs residents, and to apply these for the period 1st April 2022 – 31st March 2023.
 - (ii) For the tariffs to be reviewed in six months and any necessary adjustments to the tariff agreed through a further Cabinet report.

For the following reasons:

- (i) To comply with heat and electricity supply agreements in place with customers.
- (ii) To ensure the HEIGHTs scheme recovers its operating and construction costs over its lifetime.
- (iii) To ensure HEIGHTs customers continue to pay fair and market reflective prices for their heating and electricity.

Policy Context

1. The HEIGHTs project continues to contribute to the delivery of many targets within Vision 2030, strategic interventions within the Council's Thrive Agenda, the Council's Climate Change and Net Zero Strategy and other Council strategies and commitments, specifically:
 - Helping to alleviate fuel poverty for residents, by providing low cost heat and electricity
 - Reducing energy consumption and carbon emissions of homes and public buildings in the borough and
 - Improving the quality and comfort of heating systems by replacing aged, inefficient systems such as night storage heaters.

Background to Gateshead HEIGHTs

2. The Gateshead HEIGHTs project installed low-carbon heat and electricity generation plant in 7 high rise blocks in Gateshead, to reduce the carbon emissions and energy costs of these homes:
 - Regent Court – heat only, supplied direct to residents from town centre district energy scheme.
 - Ripley, Willerby, Acomb, Bedale, Angel courts – heat only, supplied from Ground Source Heat pumps.
 - Stretford, Barford – heat and electricity, supplied from combined heat and electricity generation plant.
3. 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.
4. A further 108 Barford and Stretford Court residents are now supplied electricity, with supplies commencing in October 2019 and completing in February 2020. Unlike the heat supply, under UK energy regulations residents can choose whether they want to be supplied electricity by Gateshead Council or by a different supplier.
5. All customers have smart prepayment meters, and only pay for the heat or electricity they use. They can top up in a variety of ways – at their nearest prepayment card outlet, over the phone or internet, or via standing orders.

Proposed Heat and Electricity Tariffs

6. Under the terms of the heat supply agreement between the Council and each customer, heat tariffs are revised annually on 1st April, in line with increases or decreases to the market price for their previous heating fuel (gas for Regent Court residents, and electricity for Harlow Green residents).
7. Electricity prices are also revised annually on 1st April, in line with increases or decreases to the market price of electricity.

8. In previous years, retail energy prices for customers have always been below Ofgem's energy price cap, and been used for benchmarking. This year, due to the large increase in energy tariffs, the Ofgem price cap is setting the lowest tariffs on the market, and is the benchmark for our tariff increases. In October 2021 the price cap was increased by 34% for heat and 20% for power, and from April 2022, a further 54% increase will take place.
9. Our price increases are below the current price cap from April 2022. Due to the unprecedented situation in the energy market, the Council is proposing for the first time not to pass through the full benchmark increase due from April 2022, but, for this period only, to keep tariffs as low as possible.
10. This decision has been taken to support our residents by minimising the financial impact on their bills. Forecasts of scheme costs and income show that at this level, the Council can still recover its operating costs. However, this remains sensitive to market volatility, and hence we are also proposing to review the tariffs in six months, and if required, update tariffs from 1st October 2022, ahead of the winter period, when consumption is greatest.
11. For Regent Court, as shown in Appendix 2, the proposed heat tariffs for Regent Court are:
 - 5.457p/kWh (an increase of 50% from last year)
 - Benchmark used remains gas price (previous heating fuel for the block)
12. The heat tariff for Harlow Green residents is as follows:
 - 10.575p/kWh (an increase of 35% from last year)
 - Benchmark used remains single rate power price (previous heating fuel for block)
13. The Council will also maintain the policy of not levying a standing charge for heat customers.
14. For the electricity tariff, as shown in Appendix 2, the average of the top five cheapest suppliers in the market are used, with a discount of 5% applied. This is because residents can choose to be with a different electricity supplier, so it is essential Gateshead Council's tariffs are competitive.
15. In previous years these tariffs used for comparison have been 12-month fixed tariffs, however due to the current energy markets these are not available, therefore the tariffs used for comparison are variable tariffs, which follow the Ofgem Price Cap. Therefore, the tariffs will increase, and will be as follows:
 - Standing charge: 24.94p/day (an increase of 6.43p, 34.74%)
 - Unit rate: 19.05p/kWh (an increase of 5.74p, 43.13%)
16. Full details of the calculation of tariffs are given in the table in Appendix 2. This also shows the bill residents can expect to pay in 2022/23 compared to 2021/22.
17. Going forward, the Council does bear the ongoing risk that energy price increases could mean operating costs are not fully recovered. For this reason, tariffs will be reviewed again before 1st October 2022, and if necessary, revised again.

Further financial support

18. The Government announced a package of financial support measures alongside the energy price cap increases:
 - a. £200 repayable loan to customer in October 2022
 - b. £150 rebate on council tax
19. Some of our HEIGHTs customers may not benefit from the former discount, not having regular energy suppliers. Hence, when the loans are due to come into force in October 2022, the Council will assess and consider offering similar support packages, when it undertakes its next tariff review in October 2022

Alternative Options

20. **Set lower tariffs:** The Council could set lower tariffs than inflation, if it chooses to, however given the current energy market and future projections, the tariffs above are the lowest the Council can set, and still recover all running costs of the scheme.
21. **Set higher tariffs, in line with April 22 price cap:** Under the heat supply contract, the Council could set tariffs higher in line with the further 50% price cap increase expected from April 22. If we were to include this further increase, the tariffs would be as below:
 - Regent Court - 102% increase, or an annual increase of £142 per year.
 - Harlow Green 80% increase or an annual increase of £181 per year.
 - Barford and Stretford Court – ca. 110% increase or an annual increase of £374 per year.
22. These increases would be significant and challenging for residents, and hence for this year only, the Council has chosen to set tariffs at below the market increase.

Consultation

23. The Leader, Deputy Leader, and Cabinet members for Housing and Economy, and Environment and Transport have been consulted on these proposals, and support the recommendations to Cabinet.

Implications of Recommended Option

24. Resources:

- a) **Financial Implications** – The Strategic Director, Resources and Digital, confirms that the heat tariffs proposed represents the optimal way for the Council to meet its objectives of reducing resident fuel costs, but still recovering the Council's costs of operating the scheme.
- b) **Human Resources Implications** – Scheme administration will be provided by existing staff within Energy Services.
- c) **Property Implications** - The scheme continues to provide a modernised, lower carbon heating and electricity system for the HEIGHTs tower blocks

including new wet distribution systems, radiators and heat meters within resident's flats.

25. Risk Management Implication – The Council does bear the ongoing risk that energy prices increases could mean operating costs are not fully recovered. For this reason, tariffs will be reviewed again before 1st October 2022

26. Equality and Diversity Implications - None

27. Crime and Disorder Implications – None

28. Health Implications - Ensuring residents have lower than market price tariffs for their heat and power can encourage them to continue to use their heating as normal, potentially averting cold home related health problems

29. Climate Emergency and Sustainability Implications - The report continues to support the successful operation of these low carbon heat networks, supporting carbon emission reductions for homes.

30. Human Rights Implications - None

31. Ward Implications - The scheme is in the Chowdene and Bridges Ward.

Background Information

32. HEIGHTS Heat Tariffs 2021-22, Cabinet, February 2021

Tariff Calculation 2022/23

Heat Tariffs

	Harlow Green	Regent Court
Benchmark	Single rate	Gas
2021/22 benchmark, (p/kWh)	16.69	2.91
Price Cap – Oct21, (p/kWh)	20.80	4.07
Price Cap – Apr22, (p/kWh)	28.34	7.37
2022/23 Benchmark - for full cost recovery, (p/kWh)	22.53	4.37
% change	35.0%	50.0%
2021/22 tariff (p/kWh)	7.833	3.638
2022/23 tariff (p/kWh)	10.575	5.457
2021/22 bill	£226	£140
2022/23 bill	£306	£210
Increase	£79	£70

*Note: these bill estimates are based on heat use recorded via customer meters throughout 2020, averaged across the six blocks.

Electricity tariffs

Benchmark	Standing charge	Single rate
Average 2020/21 benchmark - (p/kWh)	19.68	14.17
Price Cap – Oct21 (p/kWh)	24.88	20.80
Price Cap – Apr22 (p/kWh)	45.34	28.34
Average 2021/22 benchmark (p/kWh)	26.25	20.05
% change	33%	41%
2021/22 tariff (p/kWh) - with 5% discount	18.51	13.31
2022/23 tariff (p/kWh) - with 5% discount	24.94	19.05
2021/22 bill	£334	
2022/23 bill	£472	

*Note: these bill estimates are based on electricity use recorded via customer meters throughout 2020, averaged across the two blocks.