

**TITLE OF REPORT: Winter 2022-23 Energy Tariffs 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 Winter 2022/23:
  - Heat tariffs for all HEIGHTs residents
  - Electricity tariffs for HEIGHTs residents at Barford and Stretford Court
2. To outline budget pressures beyond 1 April 2023

### **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). The scheme 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 1<sup>st</sup> April, in line with changes to the wider domestic energy market. In February 2022, Cabinet agreed to limit the increases to customer tariffs, well below the market increase. Cabinet also agreed to a further review tariffs from 1 October 2022, given increasing energy costs nationally.
5. In September 2022, the UK Government announced the Energy Price Guarantee, which will fix the price of domestic gas and electricity at 10.3 p/kWh and 34p/kWh until 30 September 2024. Whilst heat networks are not required to adhere to the Energy Price Guarantee, we have taken the decision to ensure our prices remain in line with, or below, this price cap so that we can limit the price increases faced by our residents.

### **Proposal**

6. The below tariffs are for 1 November 2022 to 31 March 2023. All tariffs are inclusive of VAT. They have been set using benchmarks in line with the new Energy Price Guarantee, to ensure customers tariffs are at or below the market rate.
7. The heat tariffs have been set as follows:
  - 12.10p/kWh for Regent Court residents (122% increase)

- 14.36p/kWh for Harlow Green residents (51% increase)
  - Maintaining the policy of no standing charge for the heat supply, which represents an average saving of £100 per year to heat customers.
8. The impact that this will have on the average resident's bills is as follows:
- An average annual increase of £256 per year for Regent Court residents, from £210 to £495 which is an average weekly increase of £4.91.
  - An average annual increase of £109 per year for Harlow Green residents, from £306 to £415 which is an average weekly increase of £2.10.
9. The electricity tariffs for residents at Barford and Stretford Courts have been set as follows:
- Standing charge: 43.7p/day (increase of 66%)
  - Unit rate: 32.3p/kWh (increase of 61%)
10. The impact that this will have on the average resident's bill is as follows:
- An average increase of £207 per year, which is an average weekly increase of £3.98
11. While these increases are significant, customer tariffs are still below the Energy Price Guarantee as follows:
- Regent Court customers do not pay any standing charges
  - Power tariffs for Barford and Stretford include a 5% discount below the market
  - Harlow Green heat tariffs are lower than economy 7 tariffs, and customers benefit from a more controllable, efficient heating system, than previous storage heaters.
12. The Council will receive support under the Energy Bill Relief Scheme towards its own energy costs for operating the HEIGHTs scheme, until 31 March 2023. Beyond that date, unless energy markets drop considerably, it's forecast that the Council won't recover its operating costs, and will incur costs of up to £0.25m per year from April 2023 until tariffs can be reset.
13. To mitigate these potential costs, it's proposed that the Council lobbies government directly to request further support for operators of heat networks supplying domestic customers, to match the support given to licenced suppliers of gas and power under the Energy Price Guarantee.
14. We will bring further proposals for tariffs beyond 1 April 2023, to February 2023 Cabinet, once the level of government support beyond that date is known.

## **Recommendations**

15. It is recommended that Cabinet:
- (i) Approves the heat and electricity tariffs proposed, to communicate these HEIGHTs residents, and to apply these for the period 1<sup>st</sup> November 2022 – 31<sup>st</sup> March 2023.
  - (ii) Agrees to continue reviewing tariffs every six months.
  - (iii) Agrees to lobby government for additional financial support to operators of

heat networks that serve domestic customers.

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 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. 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.
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 February 2022, Cabinet agreed to start reviewing tariffs every six months, due to significant changes in energy prices seen this year, as well as for the first time choosing to increase tariffs well below the market increase, to limit increases to customers.

## **The Energy Price Guarantee**

9. Until September 2022, the UK operated an Energy Price Cap, which limited the price energy supplier could charge for gas and power to the current market price. The Council had recently switched to using the Price Cap to set its own tariffs.
10. Due to further energy price increases this year, the UK Government has replaced the previous Ofgem Price Cap (which was used to set the last tariffs from 1 April 2022) with the Energy Price Guarantee. This limits the cost of gas and power to domestic customers to 10.3p/kWh for gas and an average of 34p/kWh for power (an average price is given for power, because customer can still choose split rate tariffs, like Economy 7, or electric vehicle charging tariffs).
11. Significantly, the Energy Price Guarantee will remain in place until 30 September 2024, fixing prices for 2 years (in contrast to the Ofgem Price Cap, which was being updated every 3 months until its close).
12. The Government is providing financial support to licenced suppliers of gas and power to domestic customers, to meet the costs suppliers will incur by holding tariffs to the Energy Price Guarantee. However, operators of heat networks to domestic customers will not receive support after 1 April 2023.

## **Proposed tariffs**

13. We now propose to set tariffs in line with the new Energy Price Guarantee. Customers have been protected with lower than market tariffs from 1 April 2022, as agreed by Cabinet in February 2022, but the financial cost of operating the scheme so far this year requires the Council to revert to tariffs in line with market rates.
14. For Regent Court, as shown in Appendix 2, the proposed heat tariffs are:
  - 12.10p/kWh for Regent Court residents (122% increase)
  - Benchmark used remains gas price (previous heating fuel for the block) which under the Energy Price Guarantee is 10.3 p/kWh, before converting to heat (using a boiler efficiency factor of 85%)
  - The Council will also maintain the policy of not levying a standing charge for heat customers, saving a further ca. £100/yr to each customer
15. The heat tariff for Harlow Green residents is as follows:
  - 14.36p/kWh for Harlow Green residents (51% increase)
  - Benchmark used remains single rate power price (previous heating fuel for block), which under the Energy Price Guarantee has increased by 51% since April 22, compared to the previous Price Cap
  - The Council will also maintain the policy of not levying a standing charge for heat customers.
  - This rate remains below the Economy 7 night rate, that customers would have been paying with their previous night storage heaters.
16. For Barford and Stretford electricity customers, the electricity tariff, as shown in Appendix 2, the Energy Price Guarantee of 34p/kWh and 46p/day standing charge is 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. Therefore, the tariffs will increase, and will be as follows:

- Standing charge: 43.7p/day (increase of 66%)
- Unit rate: 32.3p/kWh (increase of 61%)

17. 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 those estimated in April 2022.

18. The Council is still exposed to the market price of energy needed to operate the schemes. At present, the Energy Bill Relief Scheme will provide support to the Council's gas and power costs for running the scheme until 31 March 2023. However, no support is currently provided beyond that. The current forecast of net operating costs for the HEIGHTs blocks is shown below.

Site	2022-23 forecast	2023-24 forecast
Ripley/Willerby	-£0.004	£0.038
Acomb/Bedale	£0.009	£0.046
Barford/Stretford	£0.033	£0.065
Regent Court	£0.036	£0.098
<b>Total</b>	<b>£0.074</b>	<b>£0.247</b>

19. The target for the HEIGHTs blocks is collectively to at least recover all costs. Due to holding tariffs well below market from April – September 2022, whilst energy prices continued to rise, the Council has incurred net costs this year. The support provided from October 2022 – March 2023 will limit this further, but the Council's net cost is forecasted as £0.074m this year.

20. Without ongoing support beyond 1 April 2023, forecasted net costs increase to £0.25m in 2023-24. It is proposed that the Council lobbies the UK Government for further support to heat networks supplying domestic customers, to ensure the Council is not impacted by honouring the Energy Price Guarantee to its customers. Supporting heat networks in this way is likely to be a very small overall increase to the cost of the Energy Price Guarantee, and heat networks remains a key strategy in the Governments zero carbon heat strategy, which have been supported strongly.

21. Proposals for tariffs beyond 1 April 2023, details of any further support and the financial impact on the Council will be brought to Cabinet for consideration in February 2023.

### **Alternative Options**

22. **Set lower tariffs:** The Council would not recover all running costs of the scheme, and the current operating costs would increase further.

23. **Fix tariffs now beyond 31 March 2023:** At present, this would be in line with the Energy Price Guarantee, but would increase net operating costs if the Energy Price Guarantee remains, and operating costs increase

## Consultation

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

## Implications of Recommended Option

### 25. Resources:

- a) **Financial Implications** – The Strategic Director, Resources and Digital, confirms that the proposed heat tariffs for 2022-23 ensure prices remain in line with, or below, the UK Government Energy Price Guarantee and will limit the price increases faced by residents, but introduce £0.074m of unbudgeted costs for 2022/23. In the absence of financial support from Government for heat network providers beyond 31 March 2023, the financial implication of not increasing tariffs again until 1 October 2024 would lead to an unbudgeted increase in costs to the Council of £0.25m per year for 2023/24 and 2024/25.
- 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.

26. **Risk Management Implication** – The Council does bear the ongoing risk that energy price increases could mean operating costs are not fully recovered.

27. **Equality and Diversity Implications** - None

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

29. **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

30. **Climate Emergency and Sustainability Implications** - This report sets tariffs to ensure the ongoing operation of these low carbon heat network remains financially viable for the benefit of the residents.

31. **Human Rights Implications** - None

32. **Ward Implications** - the scheme is Chowdene and Bridges Ward.

## Background Information

33. HEIGHTS Energy Tariffs 2022-23, Cabinet, February 2022

## APPENDIX 2: Tariff Calculation Oct 2022 - March23

### Heat Tariffs

Benchmark	Harlow Green	Regent Court
Apr22 Price Cap (p/kWh)	28.34	7.37
Apr22 HEIGHTs benchmark (p/kWh)	22.53	4.37
Apr22 Price Cap (p/kWh)	28.34	7.37
Oct 22 price guarantee (p/kWh)	34.00	10.30
HEIGHTs Oct23 benchmark - for full cost recovery (p/kWh)	30.60	10.30
% change	35.8%	135.7%
Apr22 tariff (p/kWh)	10.575	5.457
Oct22 tariff (p/kWh)	14.363	12.105
2021/22 bill, £/yr*	£306	£210
2022/23 bill, £/yr*	£415	£466
Increase, £/yr	£109	£256

\*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 (p/day)	Unit rate (p/kWh)
Price Cap - Apr 22	45.34	28.34
Apr22 benchmark used (43% below market)	26.25	20.05
Price Cap - Oct 22	46.00	34.00
Oct 22 benchmark used (5% below market)	43.70	32.30
% change	66%	61%
Apr22 tariff	26.25	20.05
Oct23 tariff	43.70	32.30
Apr22 - annual bill est*	£598	
Oct23 - annual bill est*	£806	

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