

TITLE OF REPORT: 2024-25 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 2024/25:
 - Heat tariffs for all HEIGHTs residents
 - Electricity tariffs for HEIGHTs residents at Barford and Stretford Court

Background

2. 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).
3. 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. Since February 2023, approval has been given by Cabinet to revise tariffs quarterly if required.

Proposal

4. To address ongoing cost pressures from inflation and higher energy prices to operate the scheme, heat tariffs will be held at current rates into 2024-25, to work towards full cost recovery by 2025-26.
5. The proposed heat tariffs (including VAT) from 1 April 2024 are
 - 9.89p/kWh for Regent Court residents (no reduction)
 - 11.08p/kWh for Harlow Green residents (no reduction).
6. The proposed power tariffs (including VAT) from 1 April 2024 for Barford/Stretford Court will be as follows:
 - Standing charge: 55.10p/day (9% increase)
 - Unit rate: 22.89p/kWh (16% reduction)
7. The impact that this will have on the average resident's bill is as follows:
 - No change to heat bills
 - Power bills reduced by £70, which is an average weekly reduction of £1.35.
8. We continue to use delegations to revise tariffs in line with this every quarter, with consultation through relevant Portfolios.

Recommendations

9. It is recommended that approval is given to the heat and electricity tariffs proposed, to communicate these to HEIGHTs residents, and to apply these for the period 1st April 2024 – 31 March 2025, with reviews each quarter.

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, and as soon as possible, after changes to the energy price cap.

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Policy Context

1. The HEIGHTs project continues to contribute to the delivery of many targets within the Council's Corporate Plan, 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, serving 620 homes, 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. Since April 2022, the energy crisis has massively increased energy tariffs across the UK. The Council was able to delay increases to tariff during 2022, protecting residents from price rises. From October 2022, tariffs have been set in line with Ofgem's Energy Price Cap, which is the maximum amount that energy companies can charge for each unit of energy if you're on a standard variable tariff.
4. In April 2023, the Council further revised tariff setting, to allow quarterly revisions to tariff, in line with quarterly updates to the Ofgem price cap.
5. The target remains for the schemes to charge tariffs in line with benchmarks to keep resident bills as low as possible, ensuring the Council covers its full operating and management costs for the scheme, and delivering carbon savings for residents and the Council.

Proposed 2024-25 tariffs

6. Operating costs and energy markets have changed considerably since 2018 – the scheme faces the extra challenge of a volatile energy market, as well as increases to operating costs and standing charges from inflation. Also, for price certainty, the Council purchases a proportion of the energy needed to operate these schemes in advance.
7. As a result, the Council needs to hold heat tariffs at their current heat tariffs into 2024-25. While this delays passing through reductions in energy tariffs to customers, it is consistent with the Council's approach at the start of the energy crisis where the Council delayed passing through increases. Averaged over the period, customers will still have received energy at or below the market rate.
8. It's noted that the Council only seeks to achieve full cost recovery and will still review the tariffs on a quarterly basis, to reduce these further whenever possible.

9. Despite not being able to reduce heat tariffs into 2024-25, residents are still benefiting from the scheme as follows:
- a. No standing charges are levied on the heat supply
 - b. Residents still see approximately a 15% saving compared to before the scheme, when:
 - i. they used night storage heater and Economy 7 electricity, prior to the scheme (Harlow Green)
 - ii. Or when they had inefficient gas boilers, and a gas standing charge (Regent Court)

Tariffs and charges

10. The proposed heat tariffs from 1 April 2024 are
- 9.89p/kWh for Regent Court residents (no reduction)
 - 11.08p/kWh for Harlow Green residents (no reduction).
11. For Barford and Stretford electricity customers, the electricity tariffs will be as follows:
- Standing charge: 55.10p/day (9% increase)
 - Unit rate: 22.89p/kWh (16% reduction)
12. The estimates of annual costs to residents (for an average heat/power consumption) compared to last year are as follows:

Annual cost of energy	Harlow Green - Heat	Regent Court - Heat	Barford / Stretford - power
Current	£321	£380	£ 729
From Apr-24	£321	£380	£ 659

13. It is also proposed that tariffs continue to be reviewed and revised quarterly, as previously agreed by Cabinet in February 2023.

Financial implications

14. The Council's target is for the schemes to fully recover their costs. With the proposed tariffs, we are still forecasting a £25k overspend in 2024-25, but will meet full cost recovery by 2025-26
15. We have not sought to achieve full cost recovery in 2024-25, as that would have required tariff increases to customers. The Council is still locked into high energy tariffs, due to purchasing 50% of its 24-25 energy needs at higher tariffs last year. Conversely, the Energy Price Cap continues to fall, reducing resident tariffs. This should correct itself in 2025-26, when the scheme is forecast to be at full cost recovery.
16. If the Council did not hold the tariffs into 2024-25, the overspend would be £62k in 2024-25, and full cost recovery would not be met by 2025-26.

Alternative Options

17. **Set higher tariffs:** The Council could have sought to pass full costs to residents, but this would have seen annual bills increase by £50/yr, or 15%. The tariff changes proposed ensure customers bills stay broadly the same as last year.
18. **Set lower tariffs:** The Council would not recover all running costs of the scheme and the current net operating costs would increase further, which is not affordable.

Consultation

19. The Housing and Economy portfolio has been consulted on these proposals and support the recommendation to Cabinet.

Implications of Recommended Option

20. Resources:

- a) **Financial Implications** – The Strategic Director, Resources and Digital, confirms that the proposed tariffs for 2024/25 will result in a £0.25m forecast overspend over all the schemes, working toward full cost recovery by 2025/26. Noting the schemes will be moved from the General Fund to the HRA.
- b) **Human Resources Implications** – Scheme administration will be provided by existing staff within Energy and Design 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.

21. **Risk Management Implication** – The Council continues to bear the ongoing risk that energy price forecasts could change and mean that operating costs are not fully recovered.

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

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

24. **Health Implications** - ensuring residents have a competitive tariff for their heat and power can encourage them to continue to use their heating as normal, potentially averting cold home related health problems.

25. **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.

26. **Human Rights Implications** - None

27. **Ward Implications** - the scheme is in Chowdene and Bridges Ward.

Background Information

28. HEIGHTS Energy Tariffs 2023-24, Cabinet, February 2023