

Executive Board – 22nd November 2022

Subject:	Enviroenergy Tariff Increases for 2023
Corporate Director(s)/Director(s):	Frank Jordan, Corporate Director for Residents Services Wayne Bexton, Director for Environment and Sustainability
Portfolio Holder(s):	Councillor Sally Longford, Portfolio Holder for Energy Environment and Waste Services
Report author and contact details:	Antony Greener, Head of District Heating and Waste Strategy antony.greener@nottinghamcity.gov.uk
Other colleagues who have provided input:	
Subject to call-in:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Key Decision:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Criteria for Key Decision:	
(a)	<input type="checkbox"/> Expenditure <input checked="" type="checkbox"/> Income <input type="checkbox"/> Savings of £750,000 or more taking account of the overall impact of the decision
and/or	
(b)	Significant impact on communities living or working in two or more wards in the City <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Type of expenditure:	<input checked="" type="checkbox"/> Revenue <input type="checkbox"/> Capital If Capital, provide the date considered by Capital Board Date: N/A
Total value of the decision:	£2.5 million
Wards affected:	St Anns, Dales, Mapperley, Castle, Meadows
Date of consultation with Portfolio Holder(s):	25 th October 2023
Relevant Council Plan Key Outcome:	
Clean and Connected Communities	<input type="checkbox"/>
Keeping Nottingham Working	<input type="checkbox"/>
Carbon Neutral by 2028	<input checked="" type="checkbox"/>
Safer Nottingham	<input type="checkbox"/>
Child-Friendly Nottingham	<input type="checkbox"/>
Healthy and Inclusive	<input checked="" type="checkbox"/>
Keeping Nottingham Moving	<input type="checkbox"/>
Improve the City Centre	<input type="checkbox"/>
Better Housing	<input type="checkbox"/>
Financial Stability	<input checked="" type="checkbox"/>
Serving People Well	<input checked="" type="checkbox"/>
Summary of issues (including benefits to citizens/service users):	
Nottingham City Council owns and operates a District Heating Scheme and a Private Wire Network under the name “Enviroenergy”. Customer charges for the provision of heat and/or power are reviewed annually. The report sets out recommendations for heat and power supply charges applicable from 1 st January 2023, mindful of the Energy Prices Bill, the wholesale costs of energy and the increasing operating costs of the District Heating Scheme and Private Wire Network.	

Does this report contain any information that is exempt from publication?

An appendix to the report is exempt from publication under paragraph 3 of Schedule 12A to the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) and, having regard to all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information. It is not in the public interest to disclose the information because it contains confidential pricing information relating to the provision of energy to commercial customers of the district heating and private wire networks.

Recommendation(s):

- 1** To set domestic heat tariffs at a daily standing charge of 0.3572 pence per day, and a Unit Charge of 0.0824 pence per kilowatt hour, applicable from 1st January 2023
- 2** To set domestic electricity tariffs at a daily standing charge of 0.3680 pence per day, and a Unit Charge of 0.2722 pence per kilowatt hour, applicable from 1st January 2023
- 3** To set commercial heat tariffs to rates detailed in the Exempt Appendix, applicable from 1st January 2023, unless otherwise determined by the supply contract in place.
- 4** To set commercial electricity tariffs to rates detailed in the Exempt Appendix, applicable from 1st January 2023, unless otherwise determined by the supply contract in place.
- 5** To delegate authority to the Director of Environment and Sustainability, in consultation with the Portfolio Holder for Energy, Environment and Waste Services, the Director of Legal and Governance and the Corporate Director for Finance & Resources to vary tariff charges as necessary to achieve statutory compliance with potential future legislative change regarding energy prices.

1. Reasons for recommendations

- 1.1 Energy Prices for customers of the Council's District Heating and Private Wire Networks are determined and applied annually from 1st January each year. Prices are determined through a combination of contractual indexation mechanisms, benchmarking the cost of energy against counterfactual wholesale energy markets and the expenditure required to operate and maintain the Combined Heat and Power plant and distribution networks providing energy to customers.
- 1.2 The recommendations also take account of the Council's fuel poverty and carbon neutrality ambitions and reflect what is considered to fair and reasonable proposals.

2. Background (including outcomes of consultation)

- 2.1 Following OFGEMs Energy Price Cap announcement on 26th August 2022, the Government introduced a series of protections against energy prices. The Energy Prices Bill provides the legislative footing needed to ensure that people and businesses across the UK receive support with their energy bills this winter through the Energy Price Guarantee for domestic consumers and Energy Bill Relief Scheme for businesses and non-domestic properties.
- 2.2 On 21st September 2022, government set a cap of £0.1004 per kWh for gas (prepayment) and £0.34027 per kWh for electricity (standard credit) for domestic consumers across the East Midlands. Whilst daily Standing Charges

are not capped, the guarantee requires energy suppliers to not charge more than £2,500 per household for a dual fuel (gas and electricity) average consumer. Therefore, the average Standing Charges for gas and electricity have remained static at £0.28 per day for gas and £0.46 per day for electricity.

- 2.3 The Government also responded to calls to extend energy cost relief to the commercial sector by also announcing an Energy Bill Relief Scheme: help for businesses and other non-domestic customers on 21st September 2022, with subsequent updated information to provide further clarification of this scheme up to 10th October 2022, including confirmation that these guarantees mostly do not apply to non-domestic customers of district heating and private wire networks.
- 2.4 It is therefore important to note that District Heating and Private Wire customers are not subject to the price protections offered by the Energy Price Guarantee, or the Energy Bill Relief Scheme and there are no restrictions on District Heating or Private Wire providers in determining their tariff structures and charges. However, powers in the Bill will ensure that heat networks benefiting from the Energy Bill Relief Scheme pass through cost savings to their consumers.
- 2.5 Applicability of different indexing options and government guarantees to determine a 2023 pricing strategy for Enviroenergy is not completely clear. To further protect consumers, new powers to help sever the link between high global gas prices and the cost of low-carbon electricity have also been introduced through a new temporary Cost-Plus Revenue Limit in England and Wales. This will reduce the impact of unprecedented wholesale prices on consumers and the taxpayer by introducing a revenue limit, curbing the amount low carbon generators can make from the wholesale prices for fossil fuels. The exact scope of the Cost Plus Revenue Limit remains unclear and subject to consultation but it does not apply to profits – it's a revenue cap which will allow low carbon generators to recover costs as well as costs linked to investment and risk profile and is likely to be effective from March 2023.
- 2.6 The recommendations in the report therefore include an ability to vary customers prices if required at a future point in time to ensure that the Council complies with future statutory requirements brought about through additional legislative change by delegating powers to change appropriate tariffs as necessary to appropriate officers.
- 2.7 For most customers, the Council is contractually obligated to provide 30-days' notice to both domestic and commercial customers of its intention to increase charges. Where not required such notice constitutes best practice and is therefore strongly advised.

3. **Proposals**

3.1 Domestic Tariffs

- 3.2 There are 5,056 domestic customers that are supplied heat via the district heating network. 80% are on prepayment meters requiring them to apply credit to their account in advance to draw heat, whilst 20% pay via direct debit.
- 3.3 There are 109 domestic customers occupying flats within the Atrium building on Waterfront Plaza, with electricity supplied via the Private Wire Network.

These are not prepayment customers, but credit billing, with some paying via direct debit or upon receipt of bill.

- 3.4 Setting tariff increases for domestic customers requires a balance between policy objectives including the objective to eradicate fuel poverty across the city, whilst increasing revenues where possible to cover the increasing costs of operating and maintaining the scheme.
- 3.5 For benchmarking purposes, charges applied to district heating customers can be compared to the price of gas as the counterfactual alternative solution available to most domestic properties for delivery of their heating and hot water requirements. For electricity supply, benchmarking is more straight forward.
- 3.6 The following table compares the Government Energy Price Guarantees (EPG) for gas and electricity for an average East Midlands domestic customer as defined by the [BEIS Energy Price Guarantee: Regional Rates](#), with current domestic district heating and private wire electricity charges.
- 3.7 Whilst there are no specific limits for Standing Charges within the EPG, the figures presented are indicative upper limits where rebates would start to apply to overall bills for an average household if maximum unit rates were also applied:

	Government Energy Price Guarantee (from 1 st Oct 2022)			Current Enviroenergy Domestic Charges 2022		
Utility	Standing Charge per day	Unit Charge per kWh	“All in” rate per kWh	Standing Charge per day	Unit Charge per kWh	“All in” rate per kWh
Gas	£0.3572	£0.1004	£0.1113	£0.3226	£0.0652	£0.0914
Electricity	£0.4600	£0.34027	£0.3982	£0.2268	£0.1509	£0.2029

“All in” rates are a combination of standing charge and unit charge based on the average annual consumption for each customer set.

- 3.8 It is clear from the table that by comparison with the national Energy Price Guarantees for domestic customers, there is headroom to increase charges to Enviroenergy’s domestic customers. In assessing options, it is important to note that supply of district provides 100% useful heat by comparison to provision of heat from gas boilers typically operating at 85% efficiency.

3.9 Options for increasing Domestic Heat Tariffs

- 3.10 The table below presents options for increasing charges with a rationale for each. All options apply the calculated maximum Standing Charge for gas in line with the Government’s Energy Price Guarantee, with the exception of Option 6 which advocates applying RPI to both the current Enviroenergy Standing Charge and also the current Enviroenergy Unit Charge.

Option	Description	Average %age Increase
1	Apply the OFGEM gas price cap rates announced on 26 th August 2022.	73.56%
2	Apply the Energy Price Guarantees’ maximum calculated Standing Charge and increase the maximum EPG Unit Charge by 15% for district	58.08%

	heating efficiency.	
3	Apply both the Energy Price Guarantees' maximum calculated Standing Charge and the EPG maximum Unit Charge.	41.60%
4	Apply the calculated "All-In" cost per kWh determined by the Energy Price Guarantee	21.84%
5	Apply the Energy Price Guarantees' maximum calculated Standing Charge and increase the current Unit Charge by 20%	17.30%
6	Apply the Retail Price Index (RPI) to both the Standing Charge and Unit Charge	8.61%

3.11 An analysis of these options is presented in the table below:

Domestic Heat Tariff Options	Standing charge per day (£)	Unit Charge per kWh (£)	"All in" Rate for average customer* (£)	"All in" %age Increase for Average Customer	Increase per week for Average Customer
1. OFGEM Price Cap	0.3572	0.1296	0.1586	73.56%	£5.82
2. EPG + 15% on Unit Charge	0.3572	0.1155	0.1444	58.08%	£4.59
3. Maximum EPG rates	0.3572	0.1004	0.1294	41.60%	£3.29
4. Composite EPG All-In Rate	0.3572	0.0824	0.1113	21.84%	£1.73
5. EPG Standing Charge + 20% increase on Unit Charge	0.3572	0.0782	0.1072	17.30%	£1.37
6. RPI	0.3569	0.0721	0.1011	10.64%	£0.84

*Based on average Enviroenergy domestic customer consumption

Recommended option

3.12 The recommendation presented is for **Option 4** which price matches the "All In" rate per kWh calculated to match the gas Energy Price Guarantee when applied to an average East Midlands domestic gas consumer. In other words, based on average consumption, Enviroenergy customers would pay the same price per unit of energy as those on gas supply once the Standing Charge cost is factored into the total cost. However, the benefit to district heating customers is the comparative efficiency of district heating and gas boilers, a contributory factor towards why an Enviroenergy customer consumes less heat energy than their gas counterparty, and therefore why their annual heating costs also remain lower than the national average.

3.13 The additional cost recommended is an additional 3½p per day on the Standing Charge and 1¾p per kWh on the Unit Rate. This represents an

overall increase of 22% for the average Enviroenergy customer, with an additional weekly cost of £1.73 per week.

3.14 If the recommendation is accepted, the average domestic district heating customer will have an annual predicted heating cost of £500, compared to the EPG cost for the same volume of gas, at £582. The fact that the average gas consumer uses 7,500 kWh of energy more per year than the average district heating customer reduces their “All In” costs to the same overall unit rate, despite their overall heating bill being much higher. For district heating customers, a higher than average consumption of district heat would reduce the “All In” unit cost, whilst lower than average consumption would increase it, albeit a higher proportion of this income is still secured as a Standing Charge.

3.15 Options 1 to 3 are rejected on the basis that the composite “All-In” rates per kWh exceed those of the domestic gas Energy Price Guarantee, and Options 5 and 6 are rejected because they do not generate sufficient additional income to offset rising operating and maintenance costs of the scheme.

3.16 Options for increasing Domestic Electricity Tariffs

3.17 Whilst the customer base is relatively small (109 customers), current domestic electricity tariff charges for Enviroenergy customers reside significantly below the government Energy Price Guarantee for electricity. Options to increase domestic electricity tariffs are presented in the table below.

Option	Description	Average %age Increase
1	Apply OFGEM price cap discounted by 15%.	152.2%
2	Apply the calculated “All-In” cost per kWh determined by the Energy Price Guarantee	96.2%
3	Apply a 20% reduction to the Standing Charge and Unit Rate determined by the Energy Price Guarantee	75.7%
4	Apply a 50% uplift to both the current Standing Charge and Unit Rate	50.0%

3.18 Enviroenergy domestic power customers have no option but to remain with Enviroenergy unless the owners of the Atrium building meet the cost of establishing a separate connection to the National Grid which would enable other market providers to sell them power which would be at the full Energy Price Guarantee detailed in Option 2.

3.19 The following table presents an analysis of the financial impact of each of the options if applied to the current domestic electricity customer base:

Domestic Heat Tariff Options	Standing charge per day (£)	Unit Charge per kWh (£)	“All in” Rate for average customer* (£)	“All in” %age Increase for Average Customer	Average increase per customer per week
1. OFGEM price cap minus 15%	0.4359	0.4117	0.5117	152.2%	£9.45

2. Composite EPG All-In Rate	0.4600	0.2927	0.3982	96.2%	£5.98
3. EPG Standing Charge and Unit Rate minus 20%	0.3680	0.2722	0.3566	75.7%	£4.70
4. 50% increase on current rates	0.3402	0.2264	0.3044	50.0%	£3.10

*Based on average Enviroenergy domestic customer consumption

Recommended option

3.20 The recommended option is **Option 3**. Compared to the market, this price increase still provides value for money to customers as it is 20% below the Energy Price Guarantee. The Standing Charge therefore increases by 14p per day and the Unit Rate by 12p per kWh. Overall, this is a 75% increase over current costs, at an additional average weekly cost increase of £4.70.

3.21 Commercial Tariffs

3.22 Proposals regarding commercial tariff increases are provided in an exempt appendix to this report.

4. **Other options considered in making recommendations**

4.1 Alternative options for tariff setting are set out in the analysis presented above.

5. **Consideration of Risk**

5.1 It is possible that Enviroenergy customers will reduce their energy consumption because of the tariff increases recommended in a drive for greater efficiency, but also affected by affordability. Contingency for reduced heat and power sales has been factored into the table below which identifies an additional potential income of **£2.486m** that could be generated by adopting the recommendations detailed in the report in 2023-24, with potential for an additional **£0.900m** in Quarter 4 of 2022-23.

Tariff	Budget 2022-23 (£m)	Forecast 2023-24 (£m)	Forecast 2023-24 (£m)	Forecast Q4 2022-23 (£m)
Commercial Heat Sales	-3.257	-4.591	-1.334	-0.557
Commercial Electricity Sales	-2.135	-2.898	-0.763	-0.203
Domestic Heat	-1.727	-2.093	-0.366	-0.134
Domestic Electricity	-0.035	-0.058	-0.023	-0.006
Total Income	-7.154	-9.640	-2.486	-0.900
Total Utility Expenditure	3.603	5.162	1.573	0.212
TOTAL	-3.551	-4.478	-0.913	-0.687

5.2 However, the table shows that the net financial benefit for Enviroenergy is reduced overall by an increasing cost of utilities and associated operating costs (gas, electricity import and steam) are similarly subject to wholesale market price increases. These utilities are essential to operate the District Heating Scheme and Private Wire network to ensure that customer energy demand can be delivered 24/7/365, subject to limited periods of essential maintenance. When these additional costs are factored in, the application of the tariff increases set out in the report provides a net financial benefit to the Council forecast as **£0.913m** in 2023-24 and **£0.687m** in Quarter 4 of 2022-23.

6. Finance colleague comments (including implications and value for money/VAT)

6.1 This report seeks approval of an annual heat and power tariff increase from 1st January 2023.

6.2 This Tariff increase is required due to both the volatility of global wholesale energy prices, and the RPI inflationary figure applied to steam delivered from the Eastcroft Incinerator.

6.3 Commercial tariffs

Most commercial customers are increased at individual contract indexation provision, the rest being government Energy Bill Relief Scheme (which applies to all businesses from October 2022). This requires regular review. As such, tariff increases as detailed in the report and allowing for contingencies in demand, will generate an additional £2.097m of income for 2023-24, and an additional £0.760m in Q4 of 2022-23 from commercial customers.

6.4 Domestic tariffs

Matching the Government's Energy Price Guarantees "All- In" rates for households is supported as it is standard guidance and requires regular review. Allowing for a reduction in demand, this will generate an additional £0.366m of income for 2023-24, and an additional £0.134m in Q4 of 2022-23.

6.5 Setting tariff increases for domestic customers requires a balance between policy objectives to eradicate fuel poverty across the city, whilst increasing revenues where possible. Selecting Option 4 for Heating is in line with the government guidance and is approved, showing value for money. This represents an overall increase of 22% for the average Enviroenergy customer, with an additional weekly cost of £1.73 per week.

6.6 Selecting option 3 for Electricity this price increase still provides value for money to customers as it is 20% below the Energy Price Guarantee. Overall, this is a 75% increase over current costs at an additional weekly cost of £4.70.

6.7 The sensitivity analysis accounts for an anticipated reduction in demand and shows that this model is robust. However, the RPI and inflationary figures are increasing daily with unpredictability in the wholesale energy markets and customer usage requirements, so this tariff increase is supported.

Paul Rogers, Commercial Finance Business Partner (Growth and City Development). 17th October 2022

7. Legal colleague comments

- 7.1 This report seek approval for a heat and power tariff increase for commercial and domestic customers with effect from 1st January 2023.
- 7.2 Both commercial and domestic customers are supplied with heat and/or power pursuant to supply agreements.
- 7.3 As mentioned in the report, for commercial customers the majority, but not all, supply agreements contain indexation clauses with the option to increase tariffs with effect from 1st January each year. It is proposed to apply the tariff increase to all commercial customers. Some supply agreements contain a freeze on rates whilst others have different provisions for tariff increases, for example taking effect on a different date. For these commercial customers, a tariff increase with effect from 1st January 2023 may be challenged and, if pursued, that challenge is more likely to be successful than not.
- 7.4 For domestic customers, the standard clause in the supply agreement provides a wide discretion to vary the charges “upon reasonable notice”. In exercising this discretion, the Council needs to take into account all relevant information and disregard irrelevant information. Relevant information will include the prevailing cost of living issues, all linked Council initiatives, projects, etc and Government initiatives, or the principles thereof even if they are not directly applicable to a District Heating Network. What is “reasonable notice” should also be considered in the same way and, as a starting point, might be to give as much notice as possible.
- 7.5 In addition to the private law considerations above, the Council must still comply with its public law obligations in making this decision. This includes following the correct procedure, ensuring that the decision is evidence-based and rational, taking into account relevant considerations and discounting irrelevant considerations, acting with a proper purpose and ensuring that any decision is proportionate.
- 7.6 The report proposes to make certain exceptions, primarily based on the legal status of a customer being charitable. The rationale and evidence for applying an exception needs to be clear and capable of consistent application. Further, should other customers either join the District Heating Network who meet the criteria for the exception, or the circumstances change so existing customers meet the criteria, the exception needs to be applied in a consistent and transparent way.

Anthony Heath, Senior Solicitor, Contracts and Commercial. 19th October 2022.

8. Other relevant comments

8.1 Not Applicable

9. Crime and Disorder Implications (If Applicable)

9.1 Not Applicable

10. Social value considerations (If Applicable)

10.1 As detailed in the report

11. Regard to the NHS Constitution (If Applicable)

11.1 Not Applicable

12. Equality Impact Assessment (EIA)

12.1 Has the equality impact of the proposals in this report been assessed?

No

Yes

Attached as Appendix 1, and due regard will be given to any implications identified in it.

13. Data Protection Impact Assessment (DPIA)

13.1 Has the data protection impact of the proposals in this report been assessed?

No

A DPIA is not required because:
Customer information retention is already covered by a DPIA and the report does not contain personal information.

Yes

14. Carbon Impact Assessment (CIA)

14.1 Has the carbon impact of the proposals in this report been assessed?

No

A CIA is not required because:
The carbon impact of operating the District Heating Scheme are reported separately elsewhere. The Nottingham District Heating Scheme offset 21,410 tonnes of CO₂e in 2021 through supplying low carbon heat and power to its customer base, by comparison to a standard supply to this same customer base through gas and power national grids.

Yes

15. List of background papers relied upon in writing this report (not including published documents or confidential or exempt information)

15.1 None

16. Published documents referred to in this report

16.1 Energy Prices Bill