

Executive Board – 21st November 2023

Subject:	Enviroenergy Tariff Increases for 2024
Corporate Director(s)/Director(s):	Colin Parr, Corporate Director for Communities, Environment and Residents Services
Portfolio Holder(s):	Councillor Corall Jenkins, Portfolio Holder for Environment, Waste Management, Open Spaces and Parks
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:	Alex Rayner, Senior Account and Business Development Officer alex.rayner@nottinghamcity.gov.uk
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: Additional income to Enviroenergy of £1.409 million, offset by additional expenditure of £0.400 million. In addition, to account for internal recharges to NCC customers, this decision will show an overall improved MTFP position of £0.595m by comparison to the 2023-24 base budget.	
Wards affected: St Anns, Dales, Mapperley, Castle, Meadows	
Date of consultation with Portfolio Holder(s): 16 th November 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 operating through the Enviroenergy cost-centre. 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 2024, mindful of the regulatory framework of the Energy Prices Act 2022 applicable to consumers of gas and electricity, including district	

heating schemes. These protections ensure discounts are applied to customers, irrespective of wholesale energy trading prices where regulation prescribes. Additionally, Enviroenergy directly administers Council action to deliver its Fuel Poverty Strategy by ensuring that domestic energy users, including customers of district heating, receive all the financial support available to meet the cost of heating and powering their homes. In 2023 alone, through the Household Support Fund, the Council has awarded over £477,000 in the form of fuel vouchers to help the city's most vulnerable customers meet the rising costs of energy. In calculating tariffs for 2024, consideration has also been given to the operating and maintenance costs of the District Heating Scheme and Private Wire network itself. Application of the recommended changes presented in the report will improve the net Enviroenergy cost centre position by £1.009 million but improve the net MTFP of the Council in 2024-25 by £0.595 million, due to many Council buildings also being customers of the heat and private wire networks, and whilst subject to the recommended increases described in the report, will need to internally resource these increases appropriately.

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 £0.3123 per day (Inc VAT) and retain a Unit Charge of £0.0824 per kilowatt hour (Inc VAT), applicable from 1st January 2024, inclusive of an EBRS discount of £0.03 per day.
- 2** To set domestic electricity tariffs at a daily standing charge of £0.5254 per day (Inc VAT) and retain a Unit Charge of £0.2858 per kilowatt hour (Inc VAT), applicable from 1st January 2024.
- 3** To set commercial heat tariffs to rates detailed in the Exempt Appendix, applicable from 1st January 2024, 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 2024, unless otherwise determined by the supply contract in place.
- 5** To delegate authority to the Corporate Director for Communities, Environment and Residents Services, in consultation with the Portfolio Holder for Environment, Waste Management, Open Spaces and Parks, the Director of Legal and Governance and the Corporate Director for Finance & Resources to vary heat and power supply contracts and tariff charges from time to time as necessary to protect the commercial risk exposure of the Council.

1. **Reasons for recommendations**

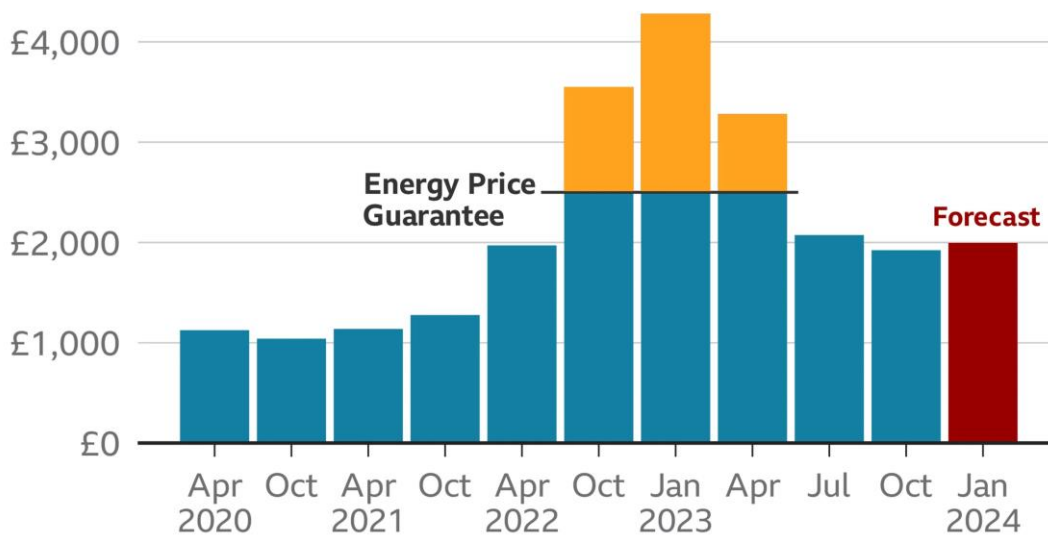
- 1.1 Energy Prices for both commercial and domestic customers of the Council's District Heating and Private Wire Networks are determined and applied annually from 1st January each year. Prices are determined through a combination of contractual indexation mechanisms, benchmarking the cost of energy 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 recommended tariff changes for 2024 also take account of the latest Energy Price Guarantees and payments received under the Energy Bill Relief Scheme.

2. **Background (including outcomes of consultation)**

- 2.1 The Energy Prices Act 2022 provides a legislative footing to ensure that people and businesses across the UK receive support with their energy bills through an Energy Price Guarantee determined by OFGEM for domestic consumers of gas and electricity on a quarterly basis, and an Energy Bill Relief Scheme for businesses including district heating schemes, with a requirement for district heating schemes to pass through any relief received against the cost of energy purchases to its customer base.
- 2.2 On 25th August 2023, OFGEM set the latest price cap of £0.0654 per kWh for domestic gas (prepayment) customers, and £0.2632 per kWh for domestic electricity (prepayment) customers (Inc VAT). The price cap for Standing Charges is capped at £0.3423 per day for gas, and £0.5254 per day for electricity. These rates came into effect on 1st October 2023.
- 2.3 It is important to note that District Heating and Private Wire customers are not subject to the price protections offered by these Energy Price Guarantees, but that rebates received under the Energy Bill Relief Scheme must be passed through to district heating customers. Whilst there are no restrictions on District Heating or Private Wire providers in determining their tariff structures and charges it is an important comparable benchmark for determining domestic district heating tariffs and previous recommendations for domestic tariffs have benchmarked pricing based on this standard.
- 2.4 Enviroenergy tracks wholesale energy prices in real time in order to propose recommendations for domestic heat tariffs for customers on the district heating network for 2024. The conflicts in Ukraine and potential escalation of tensions in the Middle East are creating a reaction in this market such that wholesale prices are increasing again in recent days. The result is that leading market analysts predict an increase in the price cap for the period January – March 2024, albeit formal OFGEM announcements will not take place until November.

How the Ofgem price cap has changed

A typical household's energy bill*



*For a typical household on a price-capped, dual-fuel tariff paying by direct debit

Source: Ofgem/Cornwall Insight

BBC

- 2.5 Due to the current uncertainty and volatility of wholesale energy prices, the recommendations in the report include an ability to delegate future tariff changes to officers to vary customers prices from time to time, if required, in order to ensure that the Council is responsive to wider energy market pricing and complies with potential additional legislative controls as determined by OFGEM.
- 2.6 Additionally, and to support our most vulnerable customers, Enviroenergy directly administers Council action to deliver its Fuel Poverty Strategy by ensuring that domestic energy users, including customers of district heating, receive all the financial support available to meet the cost of heating and powering their homes. In 2023 alone, through the Household Support Fund, the Council has awarded over £477,000 in the form of government fuel vouchers to help residents meet the rising costs of energy.
- 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. On that basis, communications to customers must be dispatched on or before 1st December 2023.

3. Proposals

3.1 Domestic Tariffs

- 3.2 There are 5,026 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 mostly prepayment customers, but with some paying via direct debit or upon receipt of bill.

- 3.4 Setting tariff increases for domestic customers requires a balance between Council policy objectives including the objective to reduce fuel poverty across the city, whilst increasing revenues where possible to cover the increasing costs of operating and maintaining the District Heating Scheme. The Household Support Fund will continue to support the Schemes most vulnerable customers through direct financial support with the launch of its fourth phase in November 2023.
- 3.5 For benchmarking purposes, charges applied to district heating customers can be compared to the price of gas (with a factor built into recognise the superior efficiency of district heating provision by comparison to gas). 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 [OFGEM Energy Price Guarantee](#), for the period covering October to December 2023, which is the latest available data.
- 3.7 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:

Utility	Government Energy Price Guarantee (from 1 st Oct 2023)			Current Enviroenergy Domestic Charges 2023		
	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	£0.3423	£0.0654	£0.0758	£0.2810	£0.0824	£0.0909
Electricity	£0.5254	£0.2632	£0.3271	£0.3863	£0.2858	£0.3328

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

- 3.8 The table illustrates that by comparison with the national Energy Price Guarantees for domestic customers for the period October to December 2023, our 2023 unit charges exceed the latest published Energy Price Guarantee Unit Charge. However, the anticipated increase in the Unit Charge cap, applicable from January 2024, is likely to bring our current Unit Charge in line with the new cap when it is announced in November. In assessing options, it is important to note that supply of district heating provides 100% useful heat by comparison to provision of heat from gas boilers typically operating at 85% efficiency.
- 3.9 Options for Domestic Heat Tariffs
- 3.10 The table below presents options for changing domestic heat tariffs in the context of inflationary pressures the Energy Price Guarantee.

Option	Description
1	In anticipation of an increase in the January 2024 Energy Price Guarantee, keep domestic Unit Charges the same as current 2023 charges, whilst increasing the Standing Charge in line with the October Energy Price Guarantee

2	Apply the October Energy Price Guarantees' unit charge, but increase the daily standing charge in line with RPI (All items)
3	Apply both the October Energy Price Guarantees' unit charges and standing charges
4	Apply the October Energy Price Guarantees' unit charges with a percentage increase for the efficiency of heat, and apply the October Energy Price Guarantee Standing charges

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 change for Average Customer	Change in price per week for Average DH Customer
1. Keep current unit charge, but adjust standing charge in line with latest published Energy Price Guarantee	0.3423	0.0824	0.1102	4.74%	£0.43
2. EPG unit prices, current standing charge +RPI	0.2971	0.0654	0.0895	-14.92%	-£1.35
3. OFGEM EPG Rates	0.3423	0.0654	0.0932	-11.43%	-£1.04
4. EPG rates with + 15% on Unit Charge	0.3423	0.0752	0.1030	-2.11%	-£0.19

Recommended option

3.12 The recommendation presented is for **Option 1**. These prices match the latest caps for Standing Charges for gas under the October to December 2023 Energy Price Guarantee but retain the current Enviroenergy Unit Charge in anticipation of an increase in the current Energy Price Guarantee from January 2024. The retained benefit for domestic district heating customers is that each unit of energy, in the form of heat, goes further for them because their heating system operates at higher levels of efficiency than a typical gas boiler and customers are not exposed to annual gas boiler maintenance costs.

3.13 The recommended option applies an initial adjustment of the Standing Charge of 6p per day to increase it to £0.3423 per day, whilst freezing the current Unit Charge. However, in order to pass through the rebates accumulated by Enviroenergy under the EBRS for gas purchases required to supplement steam supplied during 2023, which have to be passed through to customers, (a total of £55,185), a reduction of 3p per day is applicable to this standing charge, so bringing it down to £0.3123 per day.

3.14 Applying this adjustment to comply with EBRS rebates represents an overall increase of £11.46 per annum for each average domestic customer on their heating bill, equivalent to a £0.22 per week increase, or a 2.42% increase in their heating costs compared to 2023.

Domestic Heat Tariff Options	Standing charge per day (£)	Unit Charge per kWh (£)	"All in" Rate for average customer* (£)	"All in" %age change for Average Customer	Change in price per week for Average DH Customer
1. Keep current unit charge, but adjust standing charge in line with latest published Energy Price Guarantee	0.3123	0.0824	0.1078	2.42%	£0.22

3.15 If the recommendation is accepted, the income derived from domestic heat customers during 2024-25 is forecast to increase by £57,577 above 2023-24 base budget.

3.16 Options 2, 3 & 4 are rejected on the basis that they are not equitable with the latest energy price cap market intelligence and it is fair and equitable to use this information to set charges.

3.17 Options for increasing Domestic Electricity Tariffs

3.18 The tariff update for the Private Wire Domestic Electricity customers last year brought their tariffs to a similar level to national electricity customers, but with a 20% reduction in the capped rates. Options to change the domestic electricity tariffs are presented in the table below.

Option	Description
1	Keep current Enviroenergy tariff
2	Apply October OFGEM price cap for Standing Charge and retain existing Unit Charge
3	Apply OFGEM price cap discounted by 15%

3.19 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.

3.20 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 Electricity Tariff Options	Standing charge per day (£)	Unit Charge per kWh (£)	"All in" Rate for average customer* (£)	"All in" %age change for Average Customer	Average change per customer per week
1. Keep current Enviroenergy Tariff	0.3863	0.2858	0.3346	0%	£0
2. OFGEM price cap	0.5254	0.2858	0.3521	5.25%	£0.98
3. OFGEM price cap minus 15%	0.4569	0.2289	0.2864	-14.36%	£-2.67

Recommended option

3.21 The recommended option is **Option 2**. This applies the latest OFGEM price cap guarantee for Standing Charges for electricity suppliers whilst retaining the current Unit Charge. The Standing Charge therefore increases by 14p per day whilst the Unit Rate remains unchanged.

3.22 Based on average electricity consumption, this represents a 5.25% increase in costs for our typical domestic electricity customer, equivalent to an additional £50.91 per year, or £0.98 per week, and increasing overall income for Enviroenergy by £5,549.

3.23 Commercial Tariffs

3.24 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 Application of tariff increases in 2023 has resulted in reduced energy consumption compared to previous years, and to date, 2023-24 has been generally milder than the previous year which also dictates customer heat and power requirements. As customers strive to meet the cost-of-living crisis, further reductions in energy consumption are forecast, and contingency is built into the MTFP forecasts presented for 2024-25. The impact of the recommended tariff changes on the Enviroenergy cost centre are illustrated by the table below:

Income	2023-24 Base Budget	2023-24 (P6) Forecast	2023-24 Variance to Budget	Proposed 2024-25 Base Budget	Proposed Variance to 2023-24 base budget	Proposed Variance against P6 forecast
Commercial Heat	-£4,105,930	-£4,219,948	-£114,018	-£4,497,799	-£391,869	-£277,851
Domestic Heat	-£1,729,300	-£1,729,300	£0	-£1,786,877	-£57,577	-£57,577
Commercial Power	-£2,650,740	-£2,722,832	-£72,092	-£3,104,361	-£453,621	-£381,529
Domestic Power	-£62,151	-£62,151	£0	-£67,700	-£5,549	-£5,549
Export	-£3,499,810	-£3,999,810	-£500,000	-£3,999,810	-£500,000	£0
ROCs and REGOs	-£718,360	-£718,360	£0	-£718,360	£0	£0
INCOME	-£12,766,291	-£13,452,401	-£686,110	-£14,174,907	-£1,408,616	-£722,506
Steam charges	£2,889,580	£2,889,580	£0	£3,095,860	£206,280	£206,280
Gas charges	£728,830	£778,830	£50,000	£593,830	-£135,000	-£185,000
Electricity import charges	£876,680	£826,680	-£50,000	£826,680	-£50,000	£0
Operation & Maintenance	£6,100,457	£6,047,172	-£53,285	£6,478,865	£378,408	£431,693
EXPENDITURE	£10,595,547	£10,542,262	-£53,285	£10,995,235	£399,688	£452,973
TOTAL ENVIROENERGY CONTRIBUTION	-£2,170,744	-£2,910,139	-£739,395	-£3,179,672	-£1,008,928	-£269,532

5.2 Overall, the recommended tariff changes show a forecast increase in revenue for Enviroenergy of **£0.909 million**, with an additional **£0.500 million** attributable to electricity export, assuming current income from the sale of exported electricity can be retained into 2024-25 (subject to contract). This

income is offset by increases in operational and maintenance costs of the District Heating Scheme and Private Wire Network. Other factors including contractual changes applicable to steam prices and profiled gas and electricity import costs for 2024-25 show an overall improved Enviroenergy position of **£1.009 million** by comparison to the 2023-24 base budget. This also represents an improvement of **£0.270 million** above the current 2023-24 Period 6 forecast.

5.3 Several Enviroenergy customers, for both heat and power supply, are internal Council properties including the Council House, Loxley House and the Victoria Leisure Centre. Whilst the recommendations for tariff increases apply to all customers, there is no net improvement in the financial balance of the Council's overall MTFP for internal customers as expenditure on energy bills will match the improved income of Enviroenergy. For heat, the additional income generated from Council properties is forecast to equate to **£0.195 million**, and for power supply, **£0.219 million**, totalling **£0.414 million**. If the recommendations are accepted, the net overall improvement to the Council's MTFP for 2024-24 is therefore **£0.595 million**.

5.4 To consolidate income the service is currently updating its commercial heat and power supply contracts in preparation for OFGEM regulation expected during 2024 offering greater protection for consumers of energy attached to district heating schemes. The new contracts secure revenue for the Council through introducing standing charges for commercial customers calculated as a "Use of System" charge, whilst offsetting these charges by offering a lower unit price for the actual energy consumed. In the shorter term, the application of these contracts may reduce revenue, but will continue to provide surpluses to the MTFP whilst reducing commercial risk. It is recommended that such changes to contracts be executed through delegated authority to the Corporate Director of Communities, Environment and Residents Services.

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 2024

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 Overall, the recommended commercial and domestic tariff changes show a forecast increase in revenue of £0.909m, with an additional £0.500m attributable to electricity export, assuming current income from the sale of exported electricity can be retained into 2024-25 (subject to contract). This bringing a total increase in revenue of **£1.409m**.

6.4 However, this income is offset by increases in operational and maintenance costs of the District Heating Scheme and Private Wire Network, contractual changes applicable to steam prices and profiled gas and electricity import costs, totalling **£0.400m**.

6.5 Several Enviroenergy customers, for both heat and power supply, are internal Council properties including the Council House, Loxley House and the Victoria Leisure Centre. For heat, the additional income generated from Council

properties is forecast to equate to **£0.195 million**, and for power supply, **£0.219 million**, totalling **£0.414 million**.

- 6.6 This shows an overall improved MTFP position of **£0.595m** by comparison to the 2023-24 base budget.

Sejal Mistry, Senior Commercial Finance Business Partner (Environment and Sustainability). 1st November 2023

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 2024.
- 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 2024 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 appears to allow the Council to meet its obligations under the Energy Prices Act 2022, in particular the requirement to pass on energy price support to end users.

Anthony Heath, Senior Solicitor, Contracts and Commercial. 19th October 2023.

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 15,313 tonnes of CO₂e in 2022 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 Act 2022