

APPENDIX 1 – DRAFT HEAT METERING POLICY

Background

The Heat Networks (Metering & Billing) Regulations were introduced in 2014 with amendments made in December 2015 and November 2020. The Regulations require the Council installs heat meters in some properties connected to district and communal heating. Wherever heat meters are installed, the Council should use these to bill customers for the amount of heat consumed rather than charging a fixed share of the overall heating cost of the block or estate.

What do the Regulations say?

The Regulations impose certain duties upon heat network operators (like the Council), such as:

- The duty to install heat meters and temperature control devices (in certain circumstances)
- The duty to ensure installed heat meters are working properly
- The duty to bill customers based upon actual consumption and to provide suitable billing information at regular intervals (at least annually)

Why do we need a heat metering policy?

There are different types of heat meters and different ways of calculating tariffs, issuing bills, and collecting payments, all of which could be compliant with the Regulations. The Council's heat metering policy is about understanding and committing to the best way to deliver heat metering in Southwark, in view of the housing stock that we have and informed by the residents we have. We want to deliver a compliant system but also one that is fair to all parties, protects vulnerable residents and is cost-effective to deliver.

Policy Decisions

Installation

The Council is supportive of the installation of individual heat meters and is aware of the significant benefits they can bring. These include fairer charging, an incentive to energy efficient behaviour, carbon savings and reduced bills. Independent studies show that savings of 20% are typically achieved through consumption based billing.

At a time of elevated energy prices, a cost of living crisis and a climate emergency, heat metering will help many of our residents. Other benefits include improved network operational data and outage data leading to better management and fairer compensation.

We are aware there are also risks associated with heat metering, for example some residents may under-heat their properties to save money (with a flat billing system there is no incentive to do this). This could cause residents and properties to become cold, which in turn can lead to condensation and mould issues as well as physical and mental health impacts.

Ultimately, the duty to install heat meters is governed by the Regulations, which the Council must comply with, but we will also do our best to do this in a way which avoids unintended consequences. The Council's duty to install meters under the Regulations is determined by "Cost Effectiveness Tests" which we must carry out every four years and this process specifies where meters need to be installed.

In properties where we need to install heat meters we will contact residents to let them know and will keep them informed throughout the process, including working with them through any changes in our processes, such as to charging and payments.

Sheltered housing, care home facilities and certain other settings are classed as exempt under the regulations and do not need to have heat meters installed. The Council does not intend to bill residents in these settings according to consumption, though we may install meters in some circumstances to aid performance monitoring of a wider network.

Data collection

Wherever possible the Council intends to always install "smart" heat meters that can be read remotely. This avoids the need for residents to provide meter readings, or for the council to employ a team of officers to physically collect readings. It also provides the opportunity for automated compensation payments in the event of an outage, and will be helpful for improving network operation. Data flows will be fully encrypted and stored securely in line with all data protection requirements.

In instances where meters either do not have remote reading capability or where this capability fails, the Council will seek to repair or replace the capability. In the meantime, however, physical meter readings may need to be used to calculate consumption and residents should provide access to allow readings to be taken. Residents who do not provide access in these

instances may be charged at an assumed 90th percentile consumption rate until a reading is taken or until the remote readings are reinstated.

Credit billing vs pre-payment

There are two standard ways of arranging heating bills. The first method is often called “credit billing” and involves the heat supplier allowing “credit” to its heat customers so heat usage and payment are decoupled. This means that if a customer falls into arrears they are not automatically cut-off from receiving heat. It also allows the heat supplier (e.g. the Council) to smooth heating bills out between the summer and winter periods which can be beneficial.

The second common method is normally called “pre-payment” and involves residents making payments into a dedicated account for their heating before they can use heat. When the account is in debt a valve closes to prevent heating being used, until it is “topped up” above zero. The advantage of these systems is that they help customers not to fall behind on payments, but it can cause problems if payments are not set up to take place automatically, and it can be difficult to smooth payments between summer and winter. These systems also require extra items to be installed (the valves and additional communication equipment) which makes the installation more costly.

Residents have told us that they would prefer the credit billing approach. In light of that feedback the Council intends to primarily use a credit billing system. This should protect against vulnerable customer’s heating going off and is also beneficial in that it enables smooth summer and winter payments. This type of system also gives the Council the option of delivering its own metering and billing in-house rather than relying upon external provision, necessary for pre-payment solutions, which is more costly

However, the Council already has some pre-payment systems operating in the borough, and as it can be difficult to change system these may continue until meters need renewing. In addition, we are not foreclosing the option of using pre-payment systems in certain circumstances where it is deemed necessary or beneficial (e.g. to prevent or reduce individual customer debt levels).

Tariff calculation and charges

Once a heat meter has been installed in a property the Council will collect consumption data for all dwellings connected to a boiler house and utilise this information, along with gas, electricity, metering and management costs to calculate a network-specific heat tariff. This will include a daily standing charge containing the heating fixed costs (such as gas bill standing charge)

and a variable element for each unit (kWh) of heat consumed. Where block-level meters have been installed, these will also be used to further disaggregate costs creating a block-specific heat tariff.

Homeowner heat consumption charges will be based upon their network-specific or block-specific heat tariff, multiplied by their individual consumption, plus the daily standing charge.

For tenants a borough-wide tariff will be calculated using the same cost inputs resulting in a daily standing charge and a variable heat (kWh) charge. Weekly charges will be set for each tenanted property individually by looking at their consumption over the previous twelve months and applying the borough-wide tariff to that figure to produce an estimated annual cost, and a weekly charge that would recover that amount smoothly over the year. If consumption is higher or lower than predicted (as it almost always will be due to fluctuating weather), the weekly charge would be adjusted accordingly the following year to keep the tenant's heating account balanced. For new tenancies, average consumption will be assumed based upon bedroom weighting for calculating the first year's weekly charges.

Change of resident

When tenancies terminate, a final balance of the individual's heating account will be calculated. This may result in a charge or rebate being applied to a tenant when they move out. Homeowner service charges will be handled in the same way as currently when a property is sold.

Payment methods

For tenants, smooth weekly charges will be applied in the same way as for non-metered properties, just that charges will be specific to each property. All payment methods currently available will continue, including:

- Direct debit
- Standing order
- Debit or credit card (either online or over the phone)
- Paypoint outlets

For homeowners, the same method will be used to calculate the estimated annual fee. This will be communicated to homeowners in the usual way as an estimated service charge and then adjusted at the end of the year based upon actual consumption when the actual service charge bill is prepared.

Legacy systems

Where heat meters have been installed outside of the standard retrofitting process (e.g. when a building was built) which do not integrate with the council's in-house billing process, it may be necessary to continue using an external metering and billing service provider. In this cases, the tariff setting procedure will be identical to that described above, but charges may be applied on a pre-payment basis rather than credit billing, and the payment methods available may differ.