



Heat Tariff Policy

1.0 Purpose and scope

This policy outlines the framework for how Notting Hill Genesis (NHG) will set and review heat tariffs.

The policy allows for NHG to ensure recovery of the full cost of the heat service provided to heat network customers, while keeping costs as low as possible for customers.

The policy applies to heat networks managed by NHG, and excludes networks managed by Energy Service Companies (ESCOs) or third parties (S106).

This policy is applicable to residential heat network customers across all tenures.

Tariff setting

The heat tariff

The heat tariff will reflect the cost of producing and supplying heat to customers. It will be made up of two elements:

- 1) The variable charge – the price of each kilowatt hour of heat supplied by NHG.
- 2) The standing charge – a fixed charge irrespective of consumption based on all fixed costs of delivering the heat service to customers. This amount is charged daily.

The cost of maintaining the heat network is met through a combination of service charges and rent contributions. The table below details how the costs for producing heat are recovered.

Balancing expenditure

Table 1 sets out the costs incurred to supply heat to customers and how each type of expenditure should be recovered.

Table 1 – balancing heat network expenditure

NHG's expenditure	Tenure	Means of recovery
Bulk gas utility bill – unit rate	Leasehold and Rented	Heat tariff variable charge
Bulk gas utility bill – daily standing charge	Leasehold and Rented	Heat tariff standing charge
Heat metering and billing service - admin / management costs)	Leasehold and Rented	Heat tariff standing charge
	Leasehold	General service charge

Electricity to run the heat network – pumps etc	Rented	Compliance budget
Operation and maintenance of central plant – adjusting controls, servicing, responsive repairs	Leasehold	General service charge
	Rented	Compliance budget
Maintenance of secondary network (distribution pipework, heat interface units (HIUs), underfloor heating (if applicable) connections, and metering/billing installations within individual properties) – servicing and responsive repairs	Leasehold (where HIU has not been demised)	General service charge
	Rented	Compliance budget
Maintenance of tertiary network (radiators, underfloor heating (if applicable), and pipework within individual properties) – responsive repairs	Leasehold	Not applicable – leaseholder responsibility
	Rented	Compliance budget
Capital replacement – costs of replacing plant at end of life	Leasehold	General service charge
	Rented	Compliance budget

Section 11 of the Landlord and Tenant Act 1985 and Section 116 of the Landlord and Tenant Act 1988 excludes repair and maintenance costs from the standing charge for shorthold tenants. These costs should be funded by net rent.

Setting the charges

We will set tariffs accurately and fairly, ensuring costs are kept as low as possible and that only the cost of providing the heat service is passed on to customers.

Heat tariffs for each scheme will be based on actual income and expenditure. For new developments sites, the initial heat tariff will be estimated.

The variable charge

A universal variable charge will be calculated by taking the unit cost of the gas supply (before tax) and dividing it by annual heat sales from each heat network. A heat price will be calculated for all heat networks and the average used as the universal variable charge.

$$\text{heat price} = \left(\frac{\text{price of gas per kWh}}{\text{annual heat sales}} \right)$$

If annual heat sales are unknown, we will use the efficiency of the heat network (gas consumption / resident consumption) to calculate the variable charge. Where efficiency is unknown, efficiency will be estimated using the average efficiency across NHG heat networks.

For new developments, an efficiency of 65% will be used, as we would expect new networks to have a higher efficiency.

One variable rate will apply to all customers and tenures equally and will be the same for all heat customers whether receiving a pre-payment or credit billing service.

Bad debt provision will not be factored into the variable charge. Instead, debt will be recovered via the debt recovery policy.

The standing charge

The costs of all services required to supply heat will be included in the service charge, as per table 1, with full costs passed on directly to customers.

The standing charge may include the following elements:

- Metering and billing charge;
- Utility standing charge billed by energy provider;
- Administration charge – either NHG or a third party;
- A proportion to recover underpayments.

The fixed charge will be the same for all heat customers, whether on a pre-payment meter or standard meter.

Heat bills and billing information will be set out in a clear and transparent format so that a customer is able to see how their tariff is calculated, including a charging schedule setting out a list of cost components that make up the fixed charges and variable charges even if charges are not attributed to individual components.

General service charge

The heat network team provide annual costs of the operation and maintenance services to the housing operations teams for the general service charges to be accurately set and reviewed annually as part of the annual service charge reconciliation process. This includes all elements of the general service charge, included in table 1.

Unmetered heat networks

Where individual heat meters are not installed at heat network schemes, all costs of the heat service are recovered via the service charge or rent. The process for setting the charges is not included in this policy and is currently in review to ensure compliance with Heat Network (metering and billing) Regulations.

Major works

Where major works are taking place at heat networks and meter readings are unavailable, customers may be offered a fixed rate while works are carried out. The fixed rate will be calculated using the average annual heat use for each property size, as follows.

(Average annual heat use (1 bed / 2 bed / 3 bed) kWh x universal variable rate)
+ standing charge

Bulk charging

Where NHG provide heat in bulk to a third party such as a joint venture partner, the tariff will be calculated using the method set out in the section on variable charge and standing charge above. However, the cost of maintenance of the central plant and secondary network will be included in the standing charge.

VAT

NHG pays a reduced rate of 5% VAT on gas purchasing, which will be charged to residents on the variable charge.

NHG pays 20% VAT by the providers of services in relation to the heat supply, such as billing contractors. As this service relates to a reduced rate taxable service, namely the provision of heat, NHG recover 15% VAT from HMRC, leaving 5% to be passed on and charged to customers on the standing charge.

Tariff review

A tariff review for all heat networks will be carried out annually, with the ability to review the tariff six monthly if it is deemed necessary to ensure correct charges are being passed on. Income and expenditure will be reviewed six months after the tariff is set. If heat network income falls below expenditure, the tariff will be amended.

Review process

The tariff review will apply to both variable and standing charges and will review all elements associated with providing the heat service, as set out in table 1, by gathering information about relevant income and expenditure at each heat network during the previous year.

The charges should be adjusted for the next year to ensure expected expenditure is covered as accurately as possible.

The variable charge will be recalculated using the formula above, by using the known/anticipated costs of gas for the coming year and the annual heat sales and system performance from the previous year.

The heat supply agreement and/or heat fact sheet will include information regarding the tariff review process and timetable in a clear and transparent way.

We will provide at least 31 days' notice to all customers in writing of any changes in heat tariffs.

Housing Operations teams will be notified of each tariff review and provided information to assist with resident queries.

Customer communication

The provision of information setting out tariffs will be in line with Heat Network (Metering and billing) Regulations and all subsequent regulation.

Initial heat tariffs will be included in pre-sale information and heat supply agreements and/or heat fact sheets.

Heat tariff affordability and benchmarking

Keeping costs as low as possible and at a similar level to other domestic customers is important to NHG.

We will carry out robust energy procurement, ensuring we buy our gas at competitive rates.

We will ensure that our heat networks are run as efficiently as possible by operating and maintaining our networks effectively and ensuring new heat networks are well designed and in line with industry standards. Our operation and maintenance contracts include heat network efficiency targets that must be regularly met. These targets ensure that network efficiency is maintained or improved.

Where network efficiency is poor, NHG will carry out planned improvement works to increase network efficiency, as part of our sustainability action plan.

Where a heat network efficiency is lower than average due to poor design and maintenance, NHG may use an average efficiency of 40% to calculate the heat tariff. This would result in NHG subsidising a proportion of the heat charges for customers.

We aspire to keep customers' annual heat charges at a similar or lower rate than a domestic gas or electricity customer and will benchmark costs against other G15 housing associations who operate heat networks to ensure prices are fair and comparable.

Reference

Heat Network (metering and billing) regulations

Landlord and Tenant Act 1985 and 1988

Document control

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