



Board

24 March 2009

District and Group Heating

Report by Chair of Time Limited Committee

Decision	Area Implications	All
<p>Executive Summary</p>	<p>A Time Limited Committee (TLC) was set up in September 2006 to consider the way forward for the district and group heating (DGH) schemes across the City due to increasing fuel costs and increasing deficit on these schemes as not all increases had been recharged to recipients.</p> <p>A review was carried out on the systems and it was recommended that meters were installed in the properties. This would support the installation of controls that was being carried out as part of the Modern Homes Programme (MHP) and enable customers to be charged in full for the heating they used.</p> <p>Atkins was appointed in January 2009 as Technical Consultants and will be presenting their findings and proposals the Time Limited Committee on 19th March 2009 and Board will be given a verbal update.</p> <p>This report updates Board on the work carried out to date and requires Board to make provision for key decisions that will be required outside of the Board timetable to facilitate the commencement of work in Summer 2009.</p>	
<p>Recommendations</p>	<p>Board is asked to:</p> <ul style="list-style-type: none"> • Agree the proposed programme of works for metering. • Agree to delegate authority to the Chair of YHN and the Chair of the TLC to make relevant decisions which may be required outside of the Board timetable. 	

	<ul style="list-style-type: none"> • Agree in principle to the proposal to “blend and extend” for future purchase of gas and delegate decision making responsibility to Chair of YHN with the Chair of the TLC
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Business Implications	
YHN Mission and Strategic Objectives	<p>The work to the DGH schemes would contribute to:</p> <ul style="list-style-type: none"> ▪ Support and care to communities ▪ Refurbishing and building homes
Value for Money/Efficiencies	<ul style="list-style-type: none"> • Historically not all of the increased fuel charges have been passed on to residents in properties supplied by DGH schemes. As a result the balance on this account is running at an increasing deficit. The charges have not been passed on in full due to shortcomings with the systems and the residents inability to control the heating • By installing meters and controls the residents will be able to control how much heat they have, and only pay for what they use. In similar schemes elsewhere in the country there have been reductions in bills of around 30%. • The introduction of metering will mean that the full cost can be recharged to the residents; the heating will not be on for 24 hours a day meaning that the systems can run more efficiently and the cost of the meter installation can be recouped through the standing charge. • The controls will be installed via the MHP using contractors procured under our partnering framework.
Resources (financial, property, technological or human)	<ul style="list-style-type: none"> • There will be a cost to acquire the meters which could be recouped over the long term through a standing charge. • The costs for the billing system would depend on the approach recommended but could be leased or bought outright. The approach to billing could also have an

	<p>impact on whether extra resources are needed in YHN to facilitate this.</p> <ul style="list-style-type: none"> • The controls are being installed and funded as part of the MHP.
Impact on Services/Performance	<ul style="list-style-type: none"> • There is agreement that meters and controls need to be added to the DGH systems to ensure that residents can manage their own use of the heating and YHN can bill for the heat they use rather than a charge related to the size of their property as this is inequitable. • Some of the systems are on for 24 hours a day at a high temperature. With the introduction of meters and controls there is forecast to be a reduction in the heat used which can in turn mean a reduction in the overall temperature maintained in the system which would reduce running costs and improve overall efficiency. • Detailed analysis will be carried out on all systems to ensure there is no negative impact from the introduction of meters and controls.
Outcomes for tenants/leaseholders	<ul style="list-style-type: none"> • The tenants, leaseholders and freeholders who live in properties that are supplied by DGH will see an increase in controllability of their heating systems and, in the majority of cases, a reduction in the bills as they will be charged for what they use. • The current approach to charging on a pooled basis across the city is not an appropriate approach as some systems make a surplus while others make a deficit. Introducing actual charging will ensure that we do not go against the terms of the leases held by our leaseholders where it states they should be charged their “due proportion” or an actual charge.
Risk (reputation, relationship)	<ul style="list-style-type: none"> • If we do not introduce meters, controls and a billing system we will have an increased deficit as we will not be able to continue passing on the increased fuel charges without improving the systems • There is a risk that the introduction of meters

	<p>and controls in properties where there are elderly residents may put them into fuel poverty as they are used to having heat 24 hours a day.</p> <ul style="list-style-type: none"> • If we do not introduce an appropriate charging method we could be taken to a Tribunal by leaseholders and forced to change our charging approach.
Environmental	<ul style="list-style-type: none"> • By the introduction of meters and controls we can improve the efficiency of the DGH systems and they will use less fuel and reduce the impact on the environment.
Legal Implications	<ul style="list-style-type: none"> • As assessment will be done of how we can introduce meters into freehold and leasehold properties to ensure we are working in accordance with the lease and terms of DGH.
Equality and Diversity	<ul style="list-style-type: none"> • The current methodology of charging by size of property is inequitable as it does not consider who lives in the property, whether they work or what their needs may be and it doesn't take into account any winter fuel payments that residents may receive. • Introducing a charge based on actual usage will ensure a more equitable approach in the future.
Stakeholder Involvement/Consultation (planned or already carried out)	<ul style="list-style-type: none"> • The DGH TLC has local councillors as members along with a leasehold representative. • Consultation on installation of controls has been carried out with some schemes as part of the MHP and Queens Court have been consulted over meter installation due to replacement of their system. • A further tenant and Leaseholder survey has been carried out as part of the work of the Time Limited Committee and further details are within this report.
Background papers	<p>Board Papers: 26 September 2006</p>

	19 December 2006 27 March 2007 22 May 2007 24 July 2007 29 January 2008 December 2008
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District and Group Heating

1. Introduction

- 1.1 As the Time Limited Committee (TLC) for District and Group Heating continue to meet, it was felt that given some of the complex and financial issues being debated that Board were updated and consulted on some of the key matters.

2. Issues for Boards consideration

2.1 Energy price trends

Each year management has to make the decision of what price to purchase gas for the Byker District Heating system. The price for other energy contracts is negotiated by Newcastle City Council as part of larger contracts to achieve the most favourable price.

There has been much volatility in the wholesale gas market over recent years. Energy price inflation primarily as a result of oil price increases has led to a significant price increase on our gas contracts. The Byker gas contract which was agreed in October was a 72% increase on the previous contract. The other gas contracts have also had above inflation increases.

Board will be aware that oil and gas prices have increased significantly to record levels worldwide over the last year.

The wholesale gas market has been particularly volatile. The price on the wholesale gas market has increased significantly since October 2007 and when the contract was agreed which increased the cost of gas to the Byker District Heating Scheme by over 72% for 2009/10.

The contract from 1st December 2008 is for 3.082 p/kwh (per Kilowatt Hour). The previous contract was for 1.794 p/kwh.

2.2 Gas Price Fluctuations

As can be seen from Appendix 1 the gas price has moved dramatically over the last year. In the first 6 months of 2008 the price increased by 87%. The current price is 23% below the market price at the point when the Byker contract was fixed.

There are many reasons for these price fluctuations. Gas prices are related to oil prices. A major use of gas is in electricity generation for which electricity generation by oil can be substituted. Oil is priced in dollars so currency fluctuations have a knock on impact on gas prices.

Gas supply can also be impacted by interruptions such as the

Russians cutting off supply to Europe or loss of supply capacity through damage to gas pipes or gas storage. The UK produces some gas itself but also relies on supplies from Norway and through the inter-connector with mainland Europe. In addition there are facilities to supply through liquid gas. Liquid gas supplies use bulk tankers which will sail to wherever the highest price can be obtained.

The UK gas price is more volatile than its European neighbours because of the shortage of storage facilities and the lack of regulation in the market.

Additional volatility occurs over the year with demand pressures. The wholesale gas price is traditionally higher over the winter months when demand is greater. In the summer when there is low demand there have been rare occasions when users are paid to use gas due to the oversupply and a lack of storage.

Supply of oil and gas can be influenced by weather events, accidents and international tensions. Demand for gas will have eased off recently due to economic turndown; this should be reflected in future bulk gas prices. However the price will also be effected by currency fluctuations, In particular the £ against the \$.

2.3 **Options available**

The Byker gas contract has traditionally been fixed for 12 months from December each year. At this point in the gas year the severity of the winter and therefore potential pressures on demand are unknown. The price we pay is for the year with the supplier taking account of projected changes in price to come up with a composite price.

It would be possible to buy gas on a variable basis taking the daily price for the amount used. This would increase the risk of the cost of gas not meeting the budgeted cost. There would also be a large increase in administration costs.

Another option could be to change the date from which the gas contract is negotiated. An April contract may be after the winter peak demand but would be too late to influence the budget process.

A further option is to blend and extend. This is where we can take advantage of the drop in wholesale gas prices to renegotiate a drop in the amount we pay now. We will still pay for the contracted gas but we will add an additional amount of gas at the cheaper price. The price will be averaged over the extended period. In other words we will take advantage of the cheaper price now but will see less of a drop in price at the next renegotiation. This option would be useful if we felt gas prices were likely to rise again or if we wanted to change the starting date for the contract or if we wanted to reduce the cost pressures in the current year.

Management will keep in touch with our advisors to assess these options to obtain the best result for the Byker gas contract.

2.4 Questions for Board to consider

- Should we consider changing the date when we buy gas?
- When should we buy the second year?
- Is Board happy with the principle of blend and extend?

3. Tenant and Leaseholder survey

3.1 The recent survey of tenants and leaseholders was largely inconclusive in relation to installing meters, with the largest group of respondents from the Byker estate, followed by tenants of sheltered schemes and then those from bungalows.

Respondents from sheltered schemes were concerned about the upheaval and the levels of control

Respondents from the Byker estate were split in their opinions on the costs of the heating and only 15% were in favour of meters and were also concerned over controls

Respondents from bungalow schemes are concerned about the costs and the upheaval

3.2 There was a common theme running through the responses regarding the level of knowledge and understanding about metering and YHN will need to respond by challenging the myths about meters increasing the cost of heating and will need to demonstrate the cost savings to the majority of users. The intention will be to produce an information handbook on District and Group heating showing the various controls that can be used and giving advice on energy efficiency as well as a section on frequently asked questions and benefit advice.

Experience of other District and Group Heating schemes meter installations in places such as Oldham has demonstrated significant advantages to tenants and leaseholders in terms of reduced costs so YHN will seek to use such examples in the handbook and frequently asked questions paper.

4. Programme update

4.1 Background

4.2 In January 2009 Atkins were appointed as technical consultants commissioned to research the available options in the market place for the management and installation of meters and controls in our district and group heating schemes and to recommend a programme identifying the best way forward to achieve this.

4.3 Information provision

- Atkins was provided with the previous technical reports undertaken by Newcastle University and Wolfenden and the supporting information identifying a proposed meter installation programme.
- An initial meeting was held 27 January 2009 with YHN Technical Officers to discuss the details of each scheme and to highlight those where it is believed quick wins can be made by installing meters and controls in sites that contribute most to the overall budget deficit.
- Atkins agreed to survey these and to report back to the Time Limited Committee with a recommended programme.

4.4 Progress to date

There are some key decisions to be made in the coming weeks which may impact on YHN's ability to start on site in the Summer of 2009.

Atkins will deliver their final report by 27th March 2009 following completion of their site surveys on 16th March 2009.

The TLC will receive this report and will be required to make decisions on the proposed tender documents by 13th April 2009 with the intention to go to tender in May 2009 which will allow a start on site in July 2009. The view of the TLC is that a start on site in Summer 2009 is critical in terms of metering and the impact on tenants and leaseholders which could prove beneficial to the progress of future metering across the City.

For Board's information, a proposed programme of works is attached at Appendix 2 and a programme of future modern homes work is attached at Appendix 3

4.8 Expansion of Cruddas Park district heating system

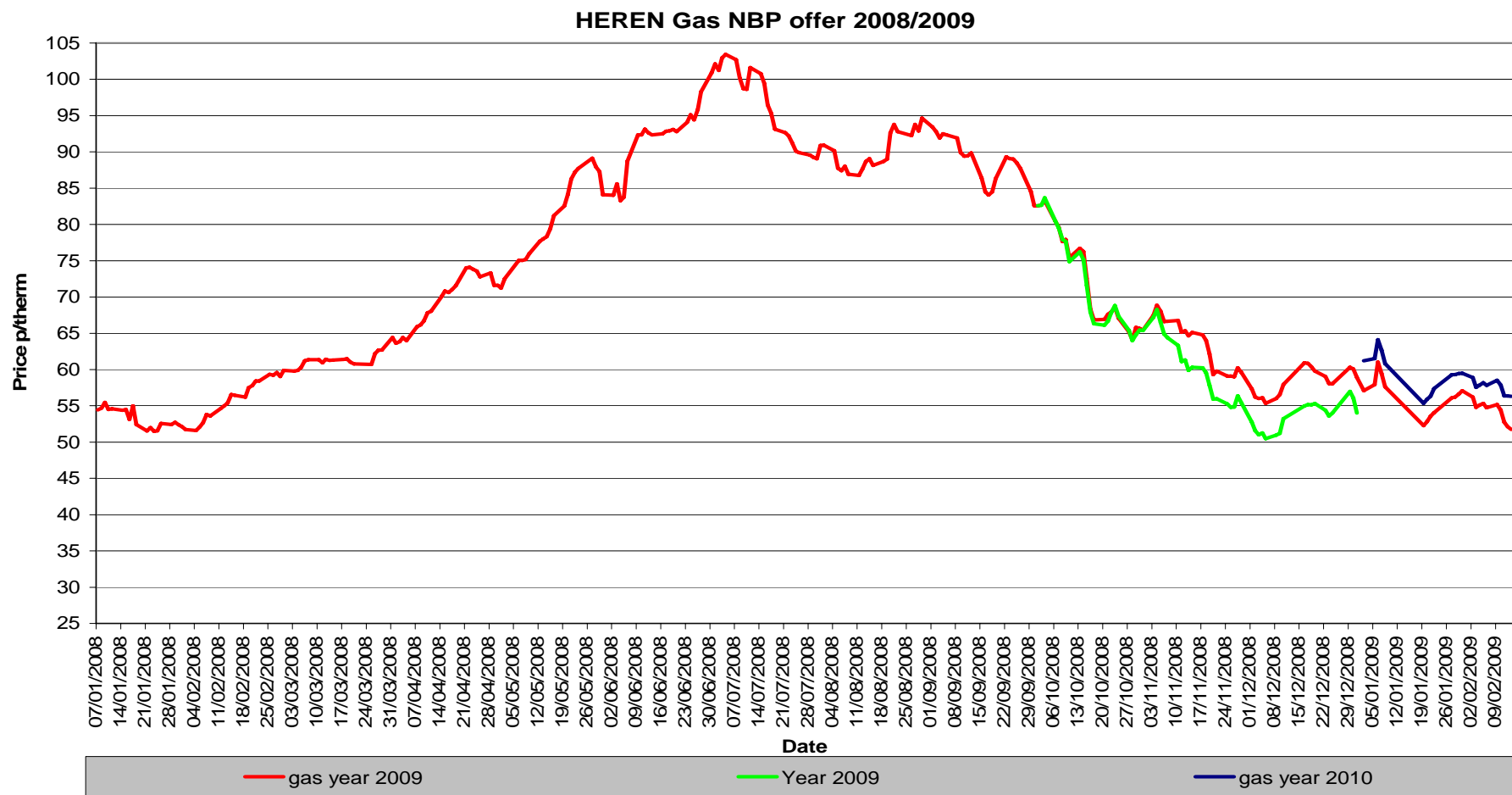
In relation to the Cruddas Park regeneration scheme, Board should be aware that as part of this scheme, consultants have prepared a specification for the expansion of the existing District and Group Heating system from Cruddas Park House to supply 10 Multi Storey blocks in the vicinity. The work which will involve installing additional communal Bio Mass boilers in the existing boiler house is currently being procured.

4.9 Renewal of district heating scheme at Queens Court

The current heating installation programme to the properties is due to be completed in October and a new Bio Mass boiler will be commissioned and put into operation in November 2009.

4.10 **Questions for Board to consider**

- Is Board happy to go to tender?
- Is Board happy with the proposed timescales?
- Can Board delegate authority to the Chair of YHN along with the Chair of the Time Limited Committee to progress with the work programme should the timescales not meet with future Board dates?



Appendix 2

Programme of Work

<u>Description of Work</u>	<u>Duration</u>	<u>Start</u>	<u>Finish</u>
Energy Meter Selection			
Interview Meter Suppliers	9 Days	03/02/09	13/02/09
Draft Out Report	15 Days	16/02/09	06/03/09
Issue Draft Report to YHN	5 Days	09/03/09	13/03/09
Update Report for Final Issue	10 Days	09/03/09	20/03/09
Issue Final Report to YHN	5 Days	23/03/09	27/03/09
Scope of Services			
Scope of Services Drafted	25 Days	02/02/09	06/03/09
Client Review Scope of Services	5 Days	09/03/09	13/03/09
Scope of Service Agreed	5 Days	16/03/09	20/03/09
Issue Request for Information	4 Days	03/02/09	06/02/09
Asbestos Reports	20 Days	03/02/09	02/03/09
Existing Drawing Information	20 Days	03/02/09	02/03/09
Modern Home Upgrades	30 Days	03/02/09	16/03/09
Agreed Site Survey with YHN	10 Days	03/02/09	16/02/09
Start Site Survey	20 Days	17/02/09	16/03/09
Contract			
Agreed Scope with YHN	10 Days	16/02/09	27/02/09
Design/ Proposals	30 Days	02/03/09	10/04/09
Contract Documents	10 Days	13/04/09	24/04/09
Tender	20 Days	27/04/09	22/05/09
Tender Return	1 Day	22/05/09	22/05/09
Tender Analysis	5 Days	25/05/09	29/05/09
Tender Review by YHN	10 Days	01/06/09	12/06/09
Appointment	2 Days	11/06/09	12/06/09
Mobilisation	15 Days	15/06/09	03/07/09
Contractor on Site	60 Days	06/07/09	25/09/09
Complete on Site	0 Days	25/09/09	25/09/09

Appendix 3

Programme of future modern homes work

Location	Start date	Completion date
Byker Phase 1	1 November 2008	1 January 2010
Queens Court	1 July 2008	1 January 2010
Welbeck Green	2010/11	To be confirmed
Monckchester Green	2010/11	To be confirmed
Kingston Green	2010/11	To be confirmed
Viewforth Green	2010/11	To be confirmed
Fullwell Green	2010/11	To be confirmed
Buxton Green	2010/11	To be confirmed
Byker (remaining)	On Hold	To be confirmed
Group Heating OAP bungalows (Citywide)	2011/12	To be confirmed

As controls must be installed either prior to or at the same time a meter is installed it is intended to carry out the meter installations in conjunction with the above modern homes programme.