

Heat Metering Policy

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Version: 01

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 to install 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.

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 want 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 based on estimated consumption 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 (i.e. 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” or “pay as you go” 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 is 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.

From the consultation exercises undertaken we know that residents generally prefer the credit billing approach. The Council intends to primarily use a credit billing system which will remove the risk of vulnerable customers’ heating going off and will enable smooth summer and winter payments. This approach also enables the Council to deliver its own metering and billing in-house rather than relying upon external billing agents.

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 is installed in a property the Council is required to charge according to consumption. For both tenants and homeowners, the charges will be based upon a heat tariff including a daily standing charge and a variable element.

According to the terms of the leases, homeowners must pay a share of the costs of running their particular heat network. This means a unique tariff will need to be calculated for each heat network with heat meters installed. Homeowners’ estimated service charge bills, issued at the start of the financial year, will be based upon this unique tariff and an estimate of the amount of heat likely to be consumed by the homeowner throughout the year (in most instances this will be based upon historic consumption for the property in question). A few months after the end of the financial year, homeowners receive an actual service charge bill to reconcile any differences between actual and estimated costs. At this point the tariff may need to be adjusted slightly (to reflect for example any variation in gas costs) and the actual heat

consumption will be applied, to determine the actual cost of supplying heat to the homeowner.

Tenants *without* a heat meter pay for their heating via a borough-wide ‘pool charge’ based only on their property size and heating type (space heating, hot water or both). This reflects the fact that tenants do not have choice over where they live, so are charged the same across all district heated estates.

In accordance with this principle, a borough-wide tariff will be implemented for tenants with a heat meter. This tariff will be calculated each year to reflect current energy prices and the cost of running the district heating systems. Individual tenants will then have unique weekly charges set to recover the estimated annual charge smoothly over the year (in most instances the annual estimate will be based upon historic consumption for the property in question). Since tenants do not receive ‘actual’ or ‘reconciliation’ bills at the end of a financial year, their heating charges will instead be balanced out by increasing or decreasing their weekly charges. It is intended that this will normally happen only once per year, but where actual consumption is significantly different to the projected figure, adjustments to the weekly charge may need to happen more frequently.

Due to the fact that newly built council homes have higher rent levels, it may be necessary to have a separate borough-wide tariffs for these properties only, to avoid penalising residents in these homes.

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 consumption based heat charges will form part of the wider estimated and actual service charge bills, and accordingly the same payment methods will be available.

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 these cases, the tariff setting procedure will be the same as described above, but charges may be applied on a pre-payment basis rather than credit billing, and the payment methods available may differ.