

# London Borough of Southwark Response to Questions on the Energy Crisis and Price Cap – Tenants

## Introduction

Understandably, many Southwark residents are concerned about rising inflation and the cost of living. Across the board, daily items have become more expensive which is placing a strain on everyone's finances. Energy is just one part of this picture, but an important part. Whereas general inflation has increased to around 10% recently, wholesale energy prices have increased by much more than that and in response Ofgem has increased the energy price cap substantially.

District Heating customers are not covered by the domestic energy price cap, however although the rates that the council pays for gas increased substantially in April 2022 they are still well below the new energy price guarantee levels, and are currently fixed until April 2023. However, despite our below market rates, heating charges will need to increase to cover the gas price rises.

## What is the energy price cap and the new energy price guarantee?

Ofgem has historically set a price cap to limit how much energy companies could charge customers who failed to shop around for the best deal. This mainly limited how much energy companies charged for their most expensive rates. Due to sharp increases in wholesale energy prices, most suppliers now charge at or around the maximum allowed under the price cap.

The cap is normally referred to in terms of an annual energy bill for an average user. In reality, there isn't an annual price cap but a cap on what energy companies can charge people for their standing charge (pence per day for being connected to the service) and for each unit of energy used (pence per kilowatt-hour<sup>1</sup> or p/kWh). **So the price cap doesn't limit how much you pay overall – if you use more energy, you'll pay more.**

The energy price cap was set to increase on 1<sup>st</sup> October 2022 from £1,971 per year to £3,549 per year – a huge 80% increase, which is why so many are concerned about the affordability of their energy bills. However, in September the government intervened to create a new "Energy Price Guarantee" which supersedes the price cap. This will limit average bills to £2,500 – an increase of 27% compared to the previous cap. Though high users will still pay more and low users less.

The table below shows what the energy price cap and price guarantee is in terms of standing charges and unit rates. The figures are for those paying by direct debit. Other payment methods have slightly different figures.

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<sup>1</sup> 1 kWh is the amount of energy used in an hour by a 1,000 Watt (or 1 kW) appliance running continuously.

		Previous Price Cap @ 1 April 2022	Energy Price Guarantee 2 years from 1 October 2022	Southwark Unit Rate 1 April 2022 – 31 March 2023 <i>average</i>
Gas	Unit rate (pence per kWh)	7.37**	10.3	5.5
Gas	Standing charge (pence per day)	27.22	28.0	*
Electricity	Unit rate (pence per kWh)	28.34**	34.0	21.0
Electricity	Standing charge (pence per day)	45.34	46.0	42.0

*\*District heat networks have one large gas meter which incurs a higher standing charge that is split amongst all residents. This is financially similar or less to individual standing charges for people with their own domestic meter.*

*\*\*Price cap increased by a further 12% in October 2021.*

[More information about the Energy Price Guarantee can be found on the UK government website.](#)

### Energy Bill Support Scheme

In addition to the price guarantee, the government is also providing a £400 benefit spread over winter 2022-23 via the Energy Bill Support Scheme. **This benefit is available to all domestic customers including those on district heating.** Most people will receive this benefit automatically via their electricity supplier, regardless of whether they pay by direct debit or via prepayment.

### How does this affect residents on district heating?

For those who do not purchase gas for heating directly, but instead are served by one of the council's district or communal heating systems, the situation is slightly different. The £400 energy bill support scheme money will be paid to you in the same way, but the energy price cap will not directly affect you. Instead, the council buys all of the gas for its district systems through our corporate account.

## Frequently Asked Questions

Will my heating charges increase this/next year?

It is inevitable that district heating charges will have to rise substantially to meet the exceptional energy cost pressure currently being experienced and new charge rates are currently being assessed.

Will my heating and hot water costs be capped by the government?

The price cap announced by the government for domestic users doesn't apply to communal heating systems, whereas the more recently announced caps on business use do apply. However, it is important to note that the rate that is being paid for gas by residents on communal systems is substantially lower than the capped amount. See previous table.

Note that the cap applies only to gas and electricity costs, not to the full cost of heating and hot water, which includes the cost of repairs, maintenance and management of the system, the cost of which is subsumed within tenant's rents.

When will I start to pay higher fuel costs in my heating and hot water charges?

Charge rates are generally reviewed as part of the annual rent and budget setting process and effective from April each year. However, for 2022-23, cabinet agreed to review charges mid-year given the volatility in energy markets and this option is currently being assessed.

How do Southwark's corporate gas costs compare with what domestic users are paying?

The below table compares the kilowatt hour rate that the council pays (which is reflected in the communal heating charges), with the capped domestic rates and the government's price guarantee.

	<b>Previous Price Caps @ 1 April 2021, 1 October 2021, 1 April 2022</b>	<b>Energy Price Guarantee 2 years from 1 October 2022</b>	<b>LB Southwark corporate rate 2021-22</b>	<b>LB Southwark corporate rate 2022-23</b>
Gas unit rate (pence per kWh)	3.3, 4.1, 7.37	10.3	1.96	5.5

What happens in the next financial year?

The government is currently capping business prices until April 2023. Further announcements will be made within the next few months to say what assistance will be available beyond that point.

My heating is provided by SELCHP. How am I affected?

Some of our housing estates have heat networks which are primarily run on waste heat from the South East London Combined Heat and Power (SELCHP) plant. Since heat in these networks does not come from gas, price rises are linked to the Retail Price Index (RPI) instead. Energy costs across the entire heat network are pooled and tenants pay a fixed rate depending on the type of heating they have and the size of the property, to ensure no one is disadvantaged.

My block is not very well insulated. Am I paying more than residents in newer, better insulated properties?

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Can I still get the government support of £400 as I'm on district heating and I don't have my own meter?

The government is paying the £400 via the account associated with your electricity meter and this will be automatically added back to your account. If you do not have your own electricity meter, then please see the government website link below for more information.

Further information and support

In addition to the Energy Price Cap and Energy Bill Support Scheme there are some other sources of additional funding available to those on certain benefits, of pensionable age, or with a disability. [Links to each of these areas of support are available towards the bottom of the Energy Bills Support Scheme webpage.](#)