1. Summary

1.1 This report presents for noting a review of the SDEN Operational Policies initially approved at the Sutton Shareholdings Board on 16 November 2015. It was required at that meeting that a review of the policies need be undertaken by the company no later than two years after initial agreement. This is to ensure that the Company can commence operations in line with these policies.

1.2 SDEN in its operations will have a number of key points where it both interacts with its customers as well as accounts for revenues received for new developments. These require specific policies to ensure there is clarity on these issues and to set clear guidelines for the Directors of SDEN to follow.

1.3 The SDEN Operational Policies have been reviewed and at this time no updates are required. Therefore the current policies are presented to the Sub Committee for noting and will not be amended. They will be reviewed again in accordance with the timescale as set out in each policy.
2. **Recommendations**

2.1 That the Sub-Committee note the SDEN pricing policy as attached in Appendix A.

2.2 That the Sub-Committee note the SDEN debt recovery policy as set out in Appendix A.

2.3 That the Sub-Committee note the SDEN connection charge policy as set out in Appendix A.

2.4 That the Sub-Committee note the SDEN disaster recovery plan as set out in Appendix A.

3. **Background**

3.1 Following the Council’s decision in July 2013 to set up an Energy Services company, detailed work has taken place to prepare operational policies. These policies had been prepared wherever possible to match industry good practice. These policies were then approved at the Sutton Shareholders Board (formerly Opportunity Sutton Limited Subcommittee) on 16 November 2015.

3.2 This paper contains an appendix with the approved policies which are described in further detail below.

3.3 When making charges to consumers for heat (residential and commercial) it is important to be clear on both the way charges are set and also what measures are taken if those charges are not paid by those consumers. Therefore SDEN has developed company policies which deal with both of these issues.

4. **SDEN Policies**

4.1 These policies are reserved matters under the Shareholder Agreement. Review periods are indicated within the policies.

4.2 SDEN aims to protect all of its customers and in particular it’s most vulnerable. SDEN recognises that some of their customers for reasons of age, health, disability or severe financial insecurity, may be unable to safeguard their personal welfare or the welfare of other members of their household.

4.3 Therefore vulnerable customers who are struggling to pay their bills will be evaluated on an individual case-by-case basis to ensure the most appropriate support is identified for each customer.

**SDEN Pricing Policy**

4.4 In setting the SDEN Pricing Policy we have aimed to set a fair and transparent pricing arrangement which matches with industry norms and can be readily conveyed to consumers.
4.5 As a general principle SDEN will develop its prices to offer parity and where possible a saving against the alternative whole life cycle cost of heat that the consumer would otherwise pay for heat supplies from a standard alternative heat source in their own building or dwelling. This is known as the “avoided cost” heat price setting methodology.

**SDEN Debt Recovery Policy**

4.6 In setting the SDEN Debt Recovery Policy we have created a structure which we believe it fair to both the consumer and the company. It is fair to the consumer because the policy contains a process which is not only in line with industry standards but also not does aggressively chase payment. Instead it reminds consumers when payments are late and only as a very last result is legal action taken and supplies suspended. In this policy we also take account of vulnerable customers to ensure that they are given special assistance with payments plans etc.

**SDEN Connection Charge Policy**

4.7 A further element of our charges are the lump sums paid by commercial consumers/developers that we connect to the SDEN network. These are called Connection Charges. Whilst the exact level of charge will be site specific and set via individual negotiation it is important that we are clear how these payments are treated in the accounts of the business once received. Therefore the third policy in Appendix A sets out the SDEN Connection Charge Accounting Policy.

4.8 This policy sets out a non-aggressive and financially prudent method for accounting for these connection charges over the period of the agreement with the consumer, which matches the depreciation of the network asset.

**SDEN Disaster Recovery Plan**

4.9 Once customers are being charged for heat we need to make sure that supplies are maintained and therefore the final SDEN policy in Appendix A is the Disaster Recovery Plan. This sets out how SDEN (via its specialist sub-contractors) will operate the scheme to ensure that if heat supplies are interrupted, they are restored in the minimum possible time either from permanent sources or temporary boilers brought to site.

4.10 Again this policy considers special treatment for vulnerable customers as well as compensation to consumers for their loss of heating.

4.11 We have endeavoured to set all of these policies to be fair and reasonable and match with industry norms.

5. **Issues**

   **Risk Register**
5.1 The Risk Register, appended to the SDEN Performance Report, has been amended since the previous Sutton Shareholdings Board on 14 June 2017 and is appended in change mark form to show the changes made.

6. Options Considered

Performance Update

6.1 A regular Performance Report is created and shared with the Sutton Shareholdings Board. The latest report is dated May 2017 to July 2017.

7. Impacts and Implications

Financial

7.1 In July 2013, the London Borough of Sutton’s Strategy and Resources Committee (S&R) approved the Conceptual Business Case for the development of a district heating network in Sutton, with funding of £4.5m.

7.2 A detailed Financial Model for the Phase 1 Scheme was presented to the Housing, Economy and Business committee in March 2015. This demonstrated a positive cash flow of £1.54m from delivery of the scheme.

7.3 The Financial Model has been revised to take account of the latest information on likely costs and revenues. As a result of the revisions the model shows an improved net positive cash flow on core assumptions of £1.64m. A review of the revised model by KPMG has taken place and no material issues were raised.

Legal

7.4 The billing and payment obligations of a Heat Supplier under a District Heat Network is governed by the Heat Network (Metering and Billing) Regulations 2014/3120 (“the Regulations”). SDEN will need to ensure that its billing processes are compliant with the Regulations.

7.5 The Explanatory Memorandum to the Regulations (paragraph 7.11) also require the Heat Supplier to notify the Authorised Person/Scheme Administrator with regard to the status of the implementation and billing procedures, including debt recovery policy, may need to form part of the report under the Regulations.

7.6 SDEN may need to consider the reputational aspects of disconnecting heating to a consumer under the Debt Recovery Policy.
8. **Appendices and Background Documents**

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<th>Appendix letter</th>
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<tr>
<td>A</td>
<td>Sutton Decentralised Energy Network Operational Policies</td>
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**Background documents**

None

**Audit Trail**

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**Consultation with other officers**

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<td>Legal</td>
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<td>Padma Srinivasan</td>
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<tr>
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