APPENDIX A

Sutton Decentralised Energy Network (SDEN)

Company Policies

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SDEN Pricing Policy (Including Tariff Setting)

1. Aims and Objectives

SDEN aims to provide a high quality service for customers to use to meet their heating and domestic hot water requirements within their building or homes. To achieve this SDEN will be operating on a commercial basis to deliver returns to its shareholder.

Therefore SDEN will operate a fair pricing policy where customers’ heat charges are set to offer price parity and where possible a cost saving against the alternative whole life cycle cost of heat that each customer would otherwise pay. However, it will not offer heavily discounted supplies of heat to any consumer or group of consumer.

This objective is consistent with the method of heat pricing operated by the existing major private sector organisations operating in the heat service market and that endorsed by the Government.

2. Price Setting Methodology

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. The alternative method of setting prices i.e. to simply recover whatever costs SDEN incurs is known as “cost recovery” and is seen as bad practice. This is because it does not encourage the development of efficient or cost effective energy generation and distribution systems.

This avoided cost method is also consistent with the way heat charges levied by other schemes across the UK as well as the forthcoming national Heat Price Comparator for residential schemes. This method will generate a heat price which compares the costs of heat from SDEN with a basket of alternative costs including:

- Fuel
- Boiler operating and maintenance costs
- Boiler repair costs
- Boiler replacement costs

which would have otherwise been incurred by the customer.

3. Pricing for Residential and Commercial Customers

SDEN will be entering into contracts to supply heat to both residential and commercial customers.

For residential customers SDEN will set a standard heat price which applies across all developments connected to the SDEN network. This will ensure that there is a
consistent heat price across all residential developments because differential pricing for residential customers on the same heat network (who will have had no part in negotiating the price they pay) is seen as unfair and difficult to justify.

For commercial customers the heat prices and the levels of savings will be set on a case by case basis. This is because the combination of elements which make up the alternative whole life cycle cost of heat for each customer will vary widely, depending on their energy demands/consumptions, age of boiler and approach to boiler maintenance.

Once this alternative whole life cycle cost is developed for each customer, the starting point will be to offer price parity due to the low carbon nature of the heat supplies from SDEN. However, if required to secure the connection a saving will be offered during the negotiations but this will be minimised and will not exceed the level which results in that connection failing the financial hurdles (i.e. Internal Rate of Return – IRR) required to obtain the necessary investment required to link that consumer to the scheme.

4. Energy Tariffs

Once a heat price is set then this will be separated as follows:

- fixed charges – an equal charge across each month of the year
- variable charges – a charge levied on the p/kWh of heat supplied

Whilst ESCO financial good practice dictates that the level of total fixed charges should be set to at least recover all of the fixed operating costs on a monthly basis to ensure positive cash flows across the year, it is important to recognise that a very high proportion of the total energy charge being comprised of fixed charges will not encourage energy efficiency in customer’s premises, because benefits from reducing their consumption will have less impact. Therefore these considerations will be taken into account when setting the specific tariffs in a fair and reasonable manner.

5. Policy Review

A review of this policy will be undertaken by the Company and if required report to the Shareholders on any proposed changes no later than 2 years from the date it is first agreed.
SDEN Debt Recovery Policy (Including suspension and disconnection of supplies)

1. Aims and Objectives

SDEN will operate a fair debt recovery policy which at its full extent could include suspension or disconnection of heat supplies to consumers for non payment.

The objective of this policy is to balance the recovery of heat revenues by SDEN, with minimal write off for bad debt whilst not operating a debt collection process which appears to be overly rapid, unfair or excessively aggressive, all of which could lead to a poor customer experience.

2. Debt Recovery Procedure including Suspension and Disconnection of Supplies for Non Payments

There will be a different debt collection procedures for residential and commercial consumers, with the commercial consumer procedure set to fit with typical industry payment runs.

Commercial Procedure

I. Heat invoices will be raised with a due date of 20 days from date of invoice.

II. Where payment is not made within this period two statements will be issued during the period leading up to 60 days from date of invoice.

III. If no payment is received, following a period of 60 days from the date of invoice a letter will be issued to advise that unless payment is received within the next 14 days SDEN will issue a notice that supplies will be disconnected.

IV. If no payment is received in the 14 day period after this date a notice of disconnection of supplies, within 7 days, will be issued.

V. If no payment is made during that final 7 day period then supplies will be isolated and SDEN will commence court proceedings for recovery of the sums due.

VI. Once payments have been received in full, supplies will be reconnected and a reconnection charge levied to cover SDEN's costs of restoring supplies.

Residential Procedure

SDEN will operate the following debt collection procedure, and may disconnect the heat supply and suspend obligations to make supplies available to residential consumers only when the following process has been followed in full.

I. first Reminder Letter where payment of the charges are at least five days (5) day overdue.

II. second Reminder Letter no less than ten (10) days after the first Reminder Letter where payment of the charges are still overdue.
III. third Reminder Letter no less than seven (7) days after the second Reminder Letter where payment of the charges are still overdue,

SDEN shall not suspend heat supplies unless SDEN has issued (or arranged to be issued) the Reminder Letters in accordance with the timeframes set out above and tried to contact the resident at least twice by phone during this period to notify the resident of the outstanding charges.

The third Reminder Letter will provide the resident with ten (10) days’ advance notice of suspension.

If payment is not made within this 10 day period then supplies will be suspended.

It the resident does not pay their charges within three days after SDEN sends the third Reminder Letter then SDEN can charge a Debt Processing Charge to cover SDEN's costs of processing each Reminder Letter sent to that resident and managing the collection of their outstanding charges. This will be a fixed fee and will be set out in the residential heat supply agreement with their tariffs.

Where SDEN suspends supplies then, provided the resident pays their outstanding charges in full, SDEN will restore supplies within 24 hours of such payment being made but may ask for a deposit (of up to three months fixed charges) to cover future non payment.

If no payment is made after 40 days from suspension and SDEN have sent at least two (2) further Reminder Letters, SDEN will then send a final Reminder Letter which will provide thirty (30) days’ advance notice of termination of that individual residential supply agreement.

When this point is reached SDEN may then choose to commence court proceedings for the recovery of outstanding heat charges but this will be decided on an individual basis depending on the level of outstanding charges and expected costs to recover these sums.

Vulnerable customers need to be considered under this policy and therefore SDEN will maintain a register of vulnerable customers and proactively work with these customers to offer payment plans and other payment solutions to mitigate any payment difficulties which may arise.

3. Policy Review
A review of this policy will be undertaken by the Company and if required report to the Shareholders on any proposed changes after one year from the date of first invoices being raised by SDEN to ensure that the policy aims and objectives are being met.
Following this initial review the next one will take place after a period of 5 years.
SDEN Connection Charge Accounting Policy

1. Aims and Objectives
When making heat service connections to buildings or developments a connection charge may be levied by SDEN to that customer as a lump sum capital payment. This sum will be typically set to offer either the same cost or a saving against the capital costs that the consumer would have otherwise expended on heat generation plant (renewal or newly constructed) for their building/development if they did not connect to SDEN.

The objective of this connection charge policy is to set out how these charges (and the costs incurred in making these connections) will be treated in the audited profit and loss accounts of the company.

2. Treatment of Connection Charges
A connection charge will always be treated a positive cash flow in the period when it is received. However, the cash treatment and the treatment in the profit and loss account do not have to match and nor do the costs expended to make that connection.

The proposed policy for SDEN is one which matches prudent accounting practice with a long term view of the project using matching principles and is in line with the treatment used in the current financial model as follows.

All costs associated with making that connection are capitalised and then depreciated in accordance with the SDEN depreciation policy (e.g. 25 years straight line for plant and equipment). The connection charge is then taken into revenues in the profit and loss account but split equally over the life of the customer supply agreement. This is seen as a prudent and reasonable approach and matches revenues and costs over the period of the agreement.

3. Policy Review
A review of this policy will be undertaken by the Company and if required report to the Shareholders on any proposed changes no later than 2 years from the date it is first agreed.
SDEN Disaster Recovery Plan

1. Aims and Objectives

Heat supplies made by SDEN must have a very high level of resilience in terms of availability across the year. When connecting each new consumer SDEN will ensure that it has sufficient boiler plant to meet the peak heat loads (where these are in excess of any waste heat supplies) or back up requirements (where the waste heat supplies are off line).

However, there may be unlikely events that either part or all of this boiler plant is not available when required or there may be a fault in the SDEN network. As a result of this heat supplies to consumers will be affected. This will result in low heating flow temperatures which could (depending on the time of day and year) result in residents being unable to heat their dwellings to the temperature they desire or an inability of the heat exchange equipment in their dwellings to be able to produce domestic hot water at acceptable temperatures.

Therefore the aim of this Disaster Recovery Plan (DRP) must be to make sure that in these situations any deficiencies in heat supplies are restored as rapidly as possible.

2. The Plan

The hot water flow temperature across the SDEN network will be monitored at all times. Where this falls below set tolerances an alarm will be raised on the SDEN control system and SDEN's operations contractor will respond to this alarm and rectify the fault.

Where the fault is so major, e.g. a boiler house fire/catastrophic failure of a significant number of boilers or a break in the SDEN network and it is clear that heat supplies will not be restored within a period of 8 hours then the management of SDEN will operate this DRP in conjunction with SDEN's operation contractor as follows (once the system has been made safe which must always be the first priority):

I. Identify which of the planned temporary boiler plant sites could be used for temporary boiler plant brought to site and connected to the SDEN network to restore heat supplies to the required level.

II. Arrange for this boiler plant to be brought to site and connected as soon as practically possible and ideally within an 8 hour and no longer than a 24 hour period.

III. Operate and maintain this boiler plant until heat supplies have been restored from the permanent plant and equipment or alternative equally secure solution has been put in place.

IV. Where, despite SDEN's reasonable endeavours, heat supplies are not available for more than 8 hours either from the normal or temporary sources of heat then:
A. vulnerable customers will be offered electric heaters for their use until heat supplies are restored.

B. compensation payments will be made to all customers which will be set to reflect prevailing industry standards.

To be able to operate the DRP SDEN shall prior to the connection of each consumer:

I. Identify suitable locations for the connection of such temporary boiler plant under a series of different failure scenarios.

II. Ensure that at these agreed locations space is allowed for such temporary plant as may be connected to restore supplies under these scenarios and utility/network connections are also available at these points which are suitable for connection of these boilers.

III. Put in place a call off contract with a boiler hire company(s) to make available within the timescales set out above the necessary boiler plant to respond to these scenarios.

3. Review of the Plan

A review of this DRP will be undertaken by the Company and if required report to the Shareholders on any proposed changes no later than 2 years from the date it is first agreed.