

# Camden Leaseholders' Forum

## Guide: Gas Pricing and Suppliers

(last updated 8<sup>th</sup> February 2017)

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## Introduction

We get a number of queries regarding gas pricing and requests as to whether we can give advice to people having to pay for Camden Council gas when they would prefer to buy gas off the general market. There is little information easily accessible about this, so we've decided to delve into a little bit of history to provide some background about the causes of the current situation.

The long and short of the current situation appears to be, though, "well, I wouldn't start from here if I were you(!)". Read on to find out how we got here in the first place and what the options are.

## The Basics

Energy prices to the consumer comprise three elements:

- Fuel costs (represented by the price of gas);
- Transmission costs (the gas network to Camden's meter, and then potentially from there to your meter which may be Camden's or belong to the Transco (see below));
- Government on-costs to cover taxes; green schemes for gas users; and schemes for those in fuel poverty.

In the words of the London Energy Project (more of which later on):

*Energy is a supply category that presents complex strategic and highly technical operational management challenges:*

- *Approximately 50% of supplied electricity and 75% of supplied gas costs are regulated by government*
- *There is very little choice between large/powerful suppliers, delivering varying levels of service*
- *Administration costs are high, with close to 100,000 electricity and gas meters to manage across London*
- *Mandatory carbon regulations are burdensome and expensive*

So, quite large swings in the cost of gas will have far only a small impact on the overall cost to you (as a consumer) as the above costs are a high proportion of the overall total.

## History

British Gas can mark its history as beginning in 1812 when [The Gas Light & Coke Company \(GLCC\)](#) was set up after royal approval by George III while Britain was still at war with Napoleon. Fast forward to 1948 when Clement Atlee's Gas Act, started to nationalise the industry and created 12 regional gas boards, ending the GLCC and setting the precursor to British Gas.

Camden was created in 1965, and came under Labour control in 1971. It then began a major expansion of its council housing, constructing new estates and installing utility supplies to them.

## Today

In 1994 British Gas was restructured into two different parts: "Transco" (now [National Grid](#)), transporting and storing gas and "British Gas", selling gas. Since then other companies have been encouraged to enter the market and resell gas (using the National Grid network) in competition with British Gas.

Under current legislation, there is a division of who owns the distribution network; who may repair it (basically very carefully controlled and licensed contractors); and who pays for the repairs (ultimately, gas consumers or some sub-group amongst them).

Camden Council was given an offer it felt unable to refuse. In return for lower gas prices before 1994, it agreed to take over responsibility for the gas network from British Gas. That deal survived the 1994 changes, so Camden still has its own gas network serving many (but not all) of its own properties. Currently there are 393 separate gas installation pipelines owned and operated by Camden Council (including 6 which have been capped and are no longer in use). In total there are 131 residential gas networks and more networks to non-residential properties. This all adds up to 55km meters of pipework in total. We are not aware of any other local authority in such a position, and as explained in the Appendix, there is little realistic possibility Camden will be able to dispense with the deal it made. But, the fact that Camden "owns" network does not mean it is free to do what it pleases with repairing it or replacing it.

Camden's residential networks supply heat, hot water or cooking gas or combinations of these, sometimes alongside the National Grid network. There are many variations in delivery (more details of which can be read in Camden Leaseholder Service's [Service Charge Guide](#)).

Non Camden Council owned properties are typically (but not exclusively) fed by the National Grid network to the domestic meter.

## Maintaining Camden's Network/Passing Control to National Grid

Why does Camden Council still maintain their own gas network? In their own words:

*"We have been looking into the potential to divest the Camden Network to a private provider for some time now but it is proving extremely difficult to do it".*

*"Organisations such as National Grid and the other main distributors would require a complete upgrade of the network to current standards before accepting it. This would have a significant capital cost – I have no doubt that our leaseholders would not be pleased at having to meet it."* (Pat O'Neill, Head of Service Delivery at Camden Council in a written answer to Camden Leaseholders' Forum back in 2014).

## Per Unit Comparisons

OK, so Camden supply the gas. Why can't we compare the price of a standard British Gas unit, against the price of a Camden Council gas unit, to see how cost effective (relatively cheap or expensive) Camden are?

At one stage, the government got interested in fuels savings, and encouraged local authorities to band together to buy in bulk, and demonstrate savings. The local results included the [London Energy Project](#) (LEP) founded in 2006 and the [LASER energy buying group](#) founded in 1989. But, savings? The LEP is quoted earlier in the document; at the time of writing, and a decade after being founded, it is nowhere close to being able to compare costs, and it says it not sure if it is worthwhile trying.

And the situation in Camden in particular? *"Benchmarking is almost impossible on heating charges as you are often not comparing like for like, each heating system is different. Large local authorities will have old systems which are not energy efficient, there may be nothing wrong with the systems but compared to more modern boilers they are expensive. As well as the boilers pipe work could be old so there are more repairs and heat loss."* (Mike Edmunds, Head of Leaseholder Services in a written answer to Camden Leaseholders' Forum back in 2014, with our emphasis).

As an aside, we would argue that benchmarking of some elements is possible in areas such as regulation of pipelines fees and how Camden control their maintenance costs. Interestingly it's an argument often used by incumbent monopolies, that benchmarking isn't possible; in sectors with competition the argument is used less often!

There's another variable going on too. Camden Council buys their gas in advance on a long-term contract. Like buying gas via a comparison website, sometimes this means that the market is timed right and they lock in a cheap price, but unfortunately there is no guarantee that they might time the market incorrectly and buy at a more expensive rate. In the long run a statistician would say that this particular issue (of timing the market) balances out. Camden adds that they do bulk buy so hopefully getting a cheaper rate – whether this balances out the various issues mentioned above, is a different matter.

## Individual Conversions (e.g. for single properties)

It's worth answering this particular point: Camden Council do not do individual conversions. Simply put: it's too expensive and may have knock-on effects elsewhere. The example they give is one person on an estate has National Grid for cooking gas, but Camden Council gas for heating. If the leaseholder swaps over, and then has heating via a combi-boiler, this puts a lot more pressure on the system than cooking gas. i.e. Converting one property over might be ok, but the existing infrastructure wouldn't support an entire estate. Why should one property swap when the others then won't be able to?

Camden Council are prepared to consider entire estates swapping, but this needs the involvement of the TRAs and the agreement of tenants and leaseholders as well as the financial figures being justifiable to Camden Council. Some estates have enquired about this and, as far as we are aware, these discussions are still on-going at least 4 years later! (correct as of August 2016)

## Conclusion

In essence the existing National Grid/British Gas system is priced based on a modern efficient network, whereas the costing for the Camden Council network doesn't match those standards so has a different cost base (could be more, could be less!).

If Camden wanted to bring their network up to National Grid standards, the one-off cost of doing this might outweigh any potential advantages of being on the national network. That said, if you are getting other associated infrastructure upgraded (e.g. a heating system replacement/upgrade to your block/estate), then further investigation can be worthwhile as it might become easier/cost efficient to transfer the local supply to the National Grid at that stage.

## Appendix: Written Answers from Camden Council

### Written question asked by Camden Leaseholders' Forum

From the June 2014 meeting: What comparisons/benchmarking exercises have taken place to compare the existing heating systems to other similar systems around London/the country, in terms to cost at point of residents' use. Are there any further exercises (comparisons/benchmarking) scheduled to take place?

### Answer from Pat O'Neill, Head of Service Delivery at Camden Council

I think there are some other public sector housing providers who manage their own networks but they are very few in number.

We have been looking into the potential to divest the Camden Network to a private provider for some time now but it is proving extremely difficult to do it.

Organisations such as National Grid and the other main distributors would require a complete upgrade of the network to current standards before accepting it. This would have a significant capital cost – I have no doubt that our leaseholders would not be pleased at having to meet it.

Record information identifies that there are 393 separate gas installation pipelines owned and operated by LBC. This equates to approximately 55 kilometres of gas installation pipeline. Six of the gas installations are no longer in use and have been capped.

131 residential gas networks are registered in Camden's Gas Safety Case although a greater number are recorded on LBC's licence to convey gas.

Each separate gas installation is interconnected into a public gas distribution network via a gas 'service pipe'. This service pipe (not owned by LBC) is terminated in an emergency control valve (ECV) immediately up-stream from the installation gas meter assembly.

The gas meter assemblies are owned and operated by a Gas Shipper.

The cost of upgrade would be substantial – not to mention the disruption to road infrastructure and the upheaval caused by decommissioning and recommissioning individual installations.

On top of the pipework we have 194 boiler houses serving 13,400 residents on district heating systems so managing a change of gas network would be significant risk.

Residents on bulk supply seem to forget the fact that they are not subject to normal market forces in respect of the price of gas – we get economies of scale in buying in bulk and these are transferred directly to residents. Any organisation that would be likely to have an interest in taking the networks off our hands would want to recover the costs – probably through an annual charge and they would certainly not provide the gas at cost.

Just a short note on combination boilers: There is an as yet unquantified risk with combis in relation to their demand for gas at fire up and the potential for upstream gas starvation. In short they have a short term higher immediate demand for gas at fire up than a conventional boiler. Sufficient combis linked to the same supply pipe could therefore potentially cause gas starvation upstream. We'd have to do a lot of work in calculation of the risk and whether or not the existing network has capacity before wholesale installation of combis.

### Answer from Mike Edmunds, Head of Leaseholders Services at Camden Council

Benchmarking is almost impossible on heating charges as you are often not comparing like for like, each heating system is different. Large local authorities will have old systems which are not energy efficient, there may be nothing wrong with the systems but compared to more modern boilers they are expensive. As well as the boilers pipe work could be old so there are more repairs and heat loss. We are a member of a bench marking group and are likely to do some more work with the group when 2013/14 costs are completed in October on average costs for different size units.

### Appendix: More information about Camden Leaseholders' Forum

We are a volunteer group representing all the leaseholders in Camden Council properties and freeholders paying service charges to Camden Council. We scrutinise Camden Council proposals, examine working practices and lobby on behalf of leaseholders to Camden Council.

More information is available at <http://www.leaseholdersforum.org.uk>

If you know of anyone who would like to receive regular updates from us, please direct them to <http://www.leaseholdersforum.org.uk/mailling-list> where they can sign up. Subscribers can also adjust preferences by clicking on the link at the bottom of any email we send.