

## Heat networks: ensuring sustained investment and protecting customers Consultation Response January 2019

This response to the has been drafted by Southern Housing Group, and is supported and counter-signed by 5 other housing associations:

- Catalyst Housing
- Hyde Group
- London & Quadrant Housing Trust
- Octavia Housing
- Walsall Housing Group

Collectively, we represent over 25,000 homes on heat networks: on our own metered and unmetered schemes as well as those at arm's length on S106 sites.

We welcome the move towards regulation for heat networks. As social housing providers, good customer service and protection is paramount to us. Many of us are 'accidental' heat providers, with the role thrust upon us by the nature of our developments and local planning policy. We operate our schemes on a not-for-profit basis and have better, more direct and trusted relationships with our customers, differentiating us from private providers.

A significant proportion of heat networks, particularly at a communal heat network level. We recognise that further consultation on these regulations will take place throughout 2019 and we urge BEIS to ensure that the social housing sector is will represented in these discussions.

### Decarbonisation

#### **Q1. Do you agree that a heat networks market framework should support the use of low carbon heat sources? Please explain.**

Yes, we agree that the use of low carbon heat sources should be supported by a heat networks market framework. As housing associations, we support the transition to a low carbon economy and know this will require a new way of thinking, at scale. London is leading the way in this with the introduction of the new London Plan, the use of SAP10 and the phasing out of gas CHP on air quality grounds. What is still unclear to us however is what our other options are. What is the 'best' low carbon heat source for us and our customers? How do they fit together and complement each other? What are the risks? And is the supply chain well enough developed to support their ongoing maintenance? A market framework will go some way in answering some of these questions and provide confidence for the sector to invest beyond gas-fired systems.

#### **Q2. Which cost-effective approaches could be used to deliver low carbon heat networks projects?**

In addition to our response above, we think 4th generation heat networks will also have a key role to play: low temperature systems, hybrids incorporating heat pumps, sourcing waste heat, etc.

## Ensuring Sustained Investment into the Sector

### **Q3. To what extent do you agree with our characterisation of demand risk?**

We agree with the demand risk characterisation in terms of consumption risk and connection risk. With regard to connection risk, we would add connection charges: we are seeing some very high and uncontrolled connection charges in the market which either putting people off and/or holding them over a barrel. Connection risk is also compounded over uncertainty around reliability and efficiency of the network and concerns regarding levels of customer service. Done right, regulation could help to set aside some of these concerns and so see greater uptake of connections.

With regard to counterparty risk, the CMA Market Report has shown that on average heat network customers pay less than non-heat network customers. Heat customer liquidity should therefore be no more of a risk than it is for gas/electricity networks.

We strongly support BEIS' analysis that regulation should be proportionate, given that the additional costs will ultimately rest with heat network customers.

### **Q4. How could government and industry address demand risk, especially connection risk and consumption risk?**

(No response)

### **Q5. Are there particular areas where government can collect and distribute data that will effectively mitigate the consumption risk?**

Government could consider approaching heat providers directly to access actual consumption data, to provide a rich data source to help benchmark and build the evidence base for future heat policy, for example number of bedrooms, bathrooms, u-values, etc. Data models used in other countries where heat networks are already well developed could also be assessed.

### **Q6. Which of the approaches set out to address connection risk (demand assurance, heat zoning, concession schemes) would you consider to be most effective and why?**

See Q3 regarding our concerns about connection risk

### **Q7. What other approaches to addressing connection risk should we consider? Please provide details.**

(No response)

### **Q8. Do you agree that we should consider granting greater access, maintenance and development rights to heat networks?**

For heat networks belonging to social housing providers, consideration needs to be given to the Landlord and Tenant Act which gives responsibility for providing heat and hot water to landlords: if access is outsourced this could create problems. Housing Associations will have to ensure they have effective contract managers in place to manage ESCO providers: guidance would be welcomed to help the sector understand what terms and conditions should be included in ESCO Concession Agreements to ensure protection.

### **Q9. What are the most important types of access, maintenance and development rights needed?**

(No response)

## Ensuring consumer protections

### **Q10. Do you agree that the scope of the heat networks market framework should extend to non-domestic consumers?**

Yes, we agree that non-domestic heat network customers should benefit from the same or similar protections to domestic customers, to reflect the existing protections they have for electricity and gas.

### **Q11. Can you provide evidence of issues specific to non-domestic heat networks consumers?**

From our experience, most small commercial tenants (e.g. commercial units on the ground floor of a residential development) prefer to establish their own autonomous approach to heating and so are left off the network. This in turn makes for simpler management and less risk (both financial and commercially) for housing associations as the network operator, although we realise this all impacts on the efficiency and financial performance of the network.

Whilst mandating commercial consumers to connect to heat networks via planning would potentially create wider roll out and more event loads, it should be noted that this will create additional management capacity for 'accidental' heat providers such as housing associations.

### **Q12. Do you agree that a minimum level of performance and quality standards should be mandated for existing networks as well as new networks? What would you expect this to include?**

In principle we agree that all networks, both new and existing, should meet the same minimum level of performance and quality standards across whole remit of CP1.

We are encouraged by BEIS' recognition that "some existing schemes, and smaller ones in general, could face financial and practical difficulties in meeting increased standards" and that "we will consider carefully the implications of introducing mandatory requirements on small and existing schemes and the extent to which the consumer benefit is outweighed by the implementation costs". This applies both to the implementation of minimum standards and the reporting on them.

85% of heat networks are communal heating. We suspect many of these are in social housing schemes, designed and built to much poorer standards than those we have now. Overall there has been a strong drive and support from BEIS to develop new schemes, but this appears to have ignored the long tail of existing schemes that are not delivering the promised benefits of heat networks to our customers. Unless these schemes are addressed, they risk undermining the reputation and market for heat networks more widely. As social housing providers at the vanguard of district heating, we are aware of the flaws in these systems and are pro-actively working to correct them, but this takes both time and money. And while we fully support the principle of customer protection, particularly for vulnerable customers, a pragmatic approach must be taken.

A further barrier to addressing these older schemes is a lack of specialist technical knowledge about heat networks. Outside of a few experts which our sector relies heavily upon, we are left with only generalist M&E contractors on our frameworks who design the systems with little specialist knowledge or real life experience. We need an upskilling of industry knowledge and expertise, not least to help ensure that the upgrades of all these systems are carried out and installed to a high quality. The Regulations for example could require all designers, installers and maintenance engineers of heat networks to have undergone accredited CP1 training within an agreed timescale (eg 2 years), and for ongoing performance monitoring and reporting be carried out at all schemes. To support this, independent, accredited training courses aimed at the industry would have to be

developed, perhaps in a modular format to match the CP1 disciplines and to allow for refresher and on-going learning.

A realistic timescale for meeting any minimum standards. Obvious component replacement lifecycles (e.g. HIU's, heat meters, metering & billing units and plant room) should be included to reduce significant and burdensome additional costs for non-profit organisations such as housing associations. As a sector we would welcome financial and/or practical support from BEIS to help achieve minimum performance and quality standards. This could include subsidising/financing scheme reviews and improvement works with savings reported back to BEIS.

**Q13. How could information on heat networks and related services be better provided to relevant consumers, both during property transactions and through billing?**

We believe transparency is king. In particular:

- Customers should be told at the earliest opportunity that their new home is on a heat network (eg on the initial advert) and be given information so they can understand what this means for them (eg you cannot switch providers).
- The heat tariff should be explained to customers, so they understand what is included and excluded (eg maintenance costs), as well as the difference between standing and unit/variable costs. Any changes in the tariff should be communicated to customers in writing with at least one months' notice.
- In fact, we would go beyond this. Although we understand competition needs to be encouraged in the market as far as it can, we would support the simplification / standardisation of tariff approach across all heat networks to allow for fair comparison by both customers and the new regulator. We would also encourage heat network operators to publish their tariffs on a public website for the same reasons and to demonstrate how they are providing value for money: transparency at this level would help to hold heat network operators to account.
- Like electricity and gas customers, heat network customers should also be able to compare their heat/hot water usage to historic data, such as the previous month, quarter or year. This could be on a bill or statement, or for Pay As You Go customers through their in-home display or customer account.
- Customers should also understand who is responsible for what in their heating system: where does responsibility lie for the operation and maintenance of each element of the scheme and what compensation they can expect if something goes wrong. Performance reporting by the heat supplier would bring further transparency to this.
- Clear and easy to understand customers complaints and vulnerable customer policies are also critical.