



Heat Networks: Building a Market Framework Precis of the BEIS Consultation: Deadline 1st June 2020

This precis has been written with social housing providers in mind. It aims to give a full picture of the consultation but does not claim to be flawless. The full consultation and proposals can be found at <https://www.gov.uk/government/consultations/heat-networks-building-a-market-framework>

Purpose

The consultation covers two main areas:

1. Legislative changes to give heat network developers equivalent statutory rights and undertakings to other utilities through a licencing arrangement.
2. Making sure market expansion is accompanied by consumer protections to ensure people receive good quality outcomes at a fair price.

1. Regulatory Framework Overview

The consultation outlines the features of a regulatory framework for heat networks:

Feature	Detail
Clear	The framework should provide clarity to industry and consumers about which activities are regulated and who is responsible and/or accountable for implementing them.
Principle-based	Requirements of the framework should, in the main, be outcome-focused rather than prescriptive.
Proportionate	Requirements imposed by the framework should be reasonable and necessary for securing good outcomes for consumers, on both quality and cost, while supporting market growth.
Enforceable	The framework should allow the Regulator to target inspections and interventions on higher risk businesses/activities, minimising burdens on well-performing networks/businesses.
Flexible	The framework should allow innovative business/delivery models to emerge and give the Regulator scope to determine appropriate dispensations or exemptions in cases where requirements may be disproportionately onerous.

The framework will cover all domestic customers and micro-businesses (fewer than 10 staff). Non-domestic customers are better able to negotiate specific terms and so do not need the same protections, although they will be covered by technical and decarbonisation standards.

A small change in the definition of a heat network is proposed, to include ambient loop networks. Ground source heat pumps with a shared ground-loop are out of scope.

It is proposed that Ofgem become the heat network operator as they already exist and have significant experience. There are also benefits to having a single energy regulator.

The proposed regulatory model

The proposed regulatory model is for general authorisation with optional licence for rights and powers. General authorisation, where networks notify the regulator rather than apply for a licence, is lighter touch and therefore less expensive. This model may mean the regulator may rely on consumer complaints to identify when things go wrong.

All heat networks would be covered by an authorisation to operate. There would be additional, optional licence arrangements for those entities requiring rights and powers (see below).

The heat supplier or network operator would become the regulated entity from the point of operation, as they are most likely to have direct relationships with the end customers. They would be required to notify and secure authorisation from the regulator for each of their schemes at the point at which they become operational.

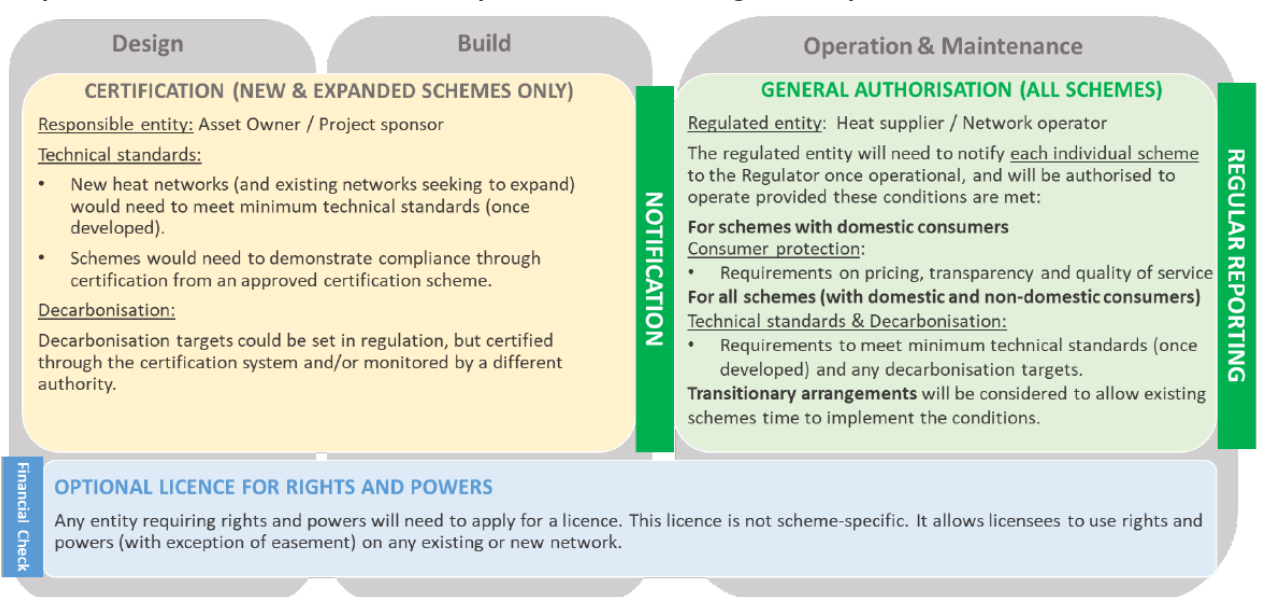
Authorised schemes would report yearly and pay an annual fee proportionate to their size. BEIS wishes to align this with existing reporting under the Metering and Billing Regulations to avoid any duplication.

New schemes would have to demonstrate that they have been developed in compliance with any prescribed technical standards.

The consultation also recognises that heat networks can be very different in terms of scope and size, from very large mixed-use networks to very small communal schemes. There may be a case for a de minimis threshold, exempting very small communal schemes or mixed-use schemes with only one or two dwellings connected. It is also suggested that larger schemes (eg more than 2000 customers) could be subject to increased levels of scrutiny such as technical or decarbonisation standards at the build phase or additional consumer protection requirements once operational.

Transitional arrangements may be put in place for smaller networks who will be less readily able to meet the regulatory requirements straight away.

Graphic: General authorisation with optional licence for rights and powers



BEIS want the regulation to be flexible enough to allow for new business models to emerge, eg a PipeCo funding model, and are interested on ideas as to how this could work.

With regard to enforcement, BEIS wants to make sure smaller entities are not unduly burdened by regulation. Ofgem will be given powers to levy fines and take legal action to ensure compliance. Fines will be proportionate and only imposed once non-financial measures have been tried. The regulator will also use pricing transparency provisions to make sure fines are not unreasonably being passed through to the consumer. Penalties imposed will be proportionate to the scale of all heat networks controlled by the regulated entity rather than the scale of individual networks. However, it is also envisaged that authorisations for individual networks could be revoked for non-compliance rather than the portfolio wide authorisations or licences. The consultation also recognises that fines may not be appropriate for not-for-profit schemes: alternative enforcement approaches are being considered.

The Energy Ombudsman is considered best placed to be the independent ombudsman for consumer complaints about heat networks, to be paid for by the regulated entities based on the number of complaints made. However, BEIS are interested to learn if in some cases it may be appropriate to refer complaints to the Housing Ombudsman. They are also considering whether a statutory consumer advocacy role should be established, as is the case for energy, water and postal consumers through Citizens Advice and Citizens Advice Scotland.

Step-in arrangements are proposed where the regulated entity becomes insolvent and where there is significant and persistent poor performance by the regulated entity, for example through repeated excessive pricing or due to historical technical deficiencies. Step-in arrangements are likely to vary depending on factors such as the network assets, prolonged poor performance, or the ownership model.

These regulations will apply to England and Wales, although decarbonisation measures are devolved to the Welsh Assembly. Heat policy is devolved to Scotland. The proposals do not extend to Northern Ireland. It is also noted that the Metering & Billing Regulations may have to be amended in the future to align with these and the Scottish regulatory proposals.

2. Protecting Customers

“We want heat network consumers to be well informed about their heating and cooling, receiving good quality service at a fair price and have ready access to redress should things go wrong.”

i) Transparency

The consultation proposes that suppliers make pre-contractual information available to consumers online, both direct to consumers and shared with developers and estate/letting agents. As a minimum this is expected to include the age and type of heat network system, the contractual arrangements in place, a summary of terms of service, and price information, including estimates of annual costs.

The provision of information during residency will also be regulated and monitored, to include the provision of a heat supply agreement or equivalent and information regarding billing, billing frequency and back-billing.

ii) Pricing

Any intervention must be proportionate, balancing the need to address pricing issues with imposing the least possible burdens on heat network suppliers. It is proposed that the regulator be given powers to mandate and enforce suppliers to publicly disclose their fixed charges, tariffs and unit prices, and provide clear explanations about how prices are set for consumers. This could be achieved either through publication of prices on suppliers' websites, by regular reporting to the regulator, or both. It is anticipated that the regulator will develop a system for reporting, monitoring and benchmarking prices to acknowledge different prices for different types of schemes but also deliver maximum benefits for consumers. The regulator is also expected to establish upfront pricing requirements such as cost allocation (eg what costs can be recovered through fixed and variable charges). Whole life costings during the design and build phases of new networks are encouraged: this is likely to form part of the technical standards.

Given that heat network consumers are unable to switch their supplier, it is proposed that the regulator be given powers to investigate disproportionate prices (compared to systems with similar characteristics or the prices expected to be paid for alternative heating systems). The aim would be to lower the consumers' cost: if this was not possible the regulator could consider the suitability of switching to alternative low carbon heating solutions. The regulator will also be able to introduce rules/guidance to ensure prices are set in a fair and consistent way. The Secretary of State will be able to introduce price regulation in the future (eg price caps) but it is not proposed for now.

iii) Quality of Service Standards

An outcome based approach to service standards is proposed. This would be more flexible than mandated minimum standards, encourage alternative approaches to compliance and encourage operators to take more responsibility and be more adaptive to changes in the market.

Outcome-based quality of service standards

Desired Outcome	Example Measure
Consumers are clear about the terms and conditions of their heating service (including many of the issues identified below)	Heat supply agreements
Consumers understand when there will be a planned interruption to their supply, and required periods of notice their supplier needs to give them	Outages and Notice periods
Consumers understand who to contact to report faults and emergencies and what response times they can expect	Customer helpline
Consumers understand how to make a complaint and what response times they can expect	Complaints handling policy and procedure
Consumers understand how to access independent arbitration services such as the Energy Ombudsman if they are unhappy about their service or how a complaint has been handled	Access to independent redress
Consumers understand who is eligible for guaranteed service payments and in what circumstances, the level of any compensation offered and when it will be paid	Compensation arrangements
Consumers understand how heating supplies will be assured in the event of a supply or network failure	Step in arrangements

Vulnerable consumers are identified and clear about available support, including protection they will be offered in the event of a supply failure	Vulnerable/priority consumers register
---	--

Heat network owners are encouraged to consider joining and learning from the work of the Heat Trust now to help build the reputation of the industry, prepare organisations for meeting future regulatory requirements and will ensure consumers can benefit from improved standards of service in the interim.

iv) Technical Standards

The consultation supports mandated technical standards to ensure that the new, larger schemes are designed and built to a high quality. They need to take account of different development types and local circumstances, apply proportionately to scheme size and capacity and avoid unfairly burdening the smallest operators. It is not considered practicable to impose retrospective minimum build requirements on those networks already operating, although there is merit in phasing in minimum technical operating standards where these could be reasonably expected to improve consumers' outcomes.

Adopting CP1, developing PAS or a BS standard, and extending the Building Regs are all considered. However, the preference is for a regulated certification scheme for regulated entities to demonstrate their network was designed and built in compliance with technical standards. This would be achieved through assurance schemes, monitored by a body such as UKAS. Demonstrating compliance would be required for new schemes only: further work needs to be done on if/how this could be applied to network extensions or existing schemes.

3. Rights and Powers

The consultation proposes that heat network companies can apply for licences to become a statutory undertaker with rights and powers similar to the electricity, gas, water and telecoms markets:

- Access rights by easements: permanent access rights to the land, registered at the Land Registry in order to ensure future landowners adhere to it).
- Street works: powers to excavate the roadways to develop assets
- Rights to lay pipes under the roadway
- Permitted development rights: for example, to install or replace pipes or electricity cabling or to erect small temporary structures, machinery or apparatus
- Linear obstacle rights: such as over railways lines, tramways or canals.

It is not proposed that heat networks become statutory consultees as this would be disproportionately burdensome. Instead, the government will strengthen guidance for developers on who should be consulted when starting a new development.

4. Decarbonisation of heat networks

Heat networks have an integral part to play in the UK meeting their net-zero carbon target by 2050. As part of the market framework, BEIS intends to introduce requirements on heat networks to make information available to consumers about their energy performance and the share of low-carbon heat sources that they use. Under the Future Homes Standard, new heat networks will be encouraged to install large heat pumps from 2025 and in some circumstances connect to waste heat sources. Larger heat networks may also be required to report its heat source technology as part of the move towards the regulation of carbon emissions.