



## Heat Networks: Building a Market Framework Policy Asks from the Social Housing Sector, March 2021

The Heat Network is a peer group of social housing providers who meet to discuss and share good practice about district and communal heating. We bring together our own communal heat experiences and share the lessons we've learnt with colleagues across the sector through our [website](#).

We currently have 23 housing association and 4 local authority members, as well as representation from the National Housing Federation. Collectively, we represent over 87,000 homes on more than 2100 networks, 15% of all heat networks as defined by BEIS and 18% of all customers. Members additionally have another 261 schemes in the pipeline which will serve over 46,000 new dwellings.

The Heat Network has been actively engaged in the development of regulation in heat networks over the last two years, responding to consultations on both the Metering and Billing Regulations and the Market Framework. We also participate in the BEIS Market Framework Stakeholder Board.

**We are writing this open letter to BEIS as representatives of the social housing sector**, a relatively quiet voice in the consultation process but one which is responsible of a large proportion of the UK's heat networks: the HNMBR Impact Assessment puts this at 30% although we suspect it to be higher. It's important that the voice of those who manage heat networks for customers are heard alongside those who sell products and service for profit.

**We are supportive of regulation for the heat network sector and strongly agree that customers should be offered protection equivalent to the gas and electricity markets.** We know and welcome the fact that heat networks are part of a low carbon future and this is the chance to create a regulatory framework that will, if we get it right, enable everyone to have trust and confidence in heat networks. We are also fully aware of how complex the heat network market is and how complicated regulation will be.

**Social housing providers (local authorities and housing associations) typically choose to run heat networks on a cost recovery basis.** Heat supply is frequently set up as a landlord's service (eg in leases) and we are prevented from making a profit by the Landlord and Tenant Act. Generally, there is no surplus/profit margin in our operating models and heat networks are not infrequently run at a loss. Heat networks are only a small part of what we do, with their management often tagged onto an asset or environmental role with responsibilities split across the organisation. Many social housing providers have become 'accidental energy suppliers.' Compared to the UK heat network portfolio market as a whole, a larger proportion of our heat network customer base is lower income. This means we are very focussed on ensuring heat tariffs and costs are kept as low as possible.

We were encouraged by the updates from BEIS at the February 2021 Stakeholder Board on how they are working to address the high costs of regulation and to find a proportionate regulatory approach for the 'long tail' of smaller communal schemes. This letter outlines and re-emphasises our position and concerns with regard to the development of the regulatory framework:

1. **The cost of regulation must be kept low.** This means it must be as close to the cost of gas regulation (£2/customer/year) as possible. Not-for-profit heat network operators will have to pass the **entire cost** of regulation on to their residents: there is no buffer for us to absorb any of the costs. High costs of regulation will also make municipal district energy schemes financially unattractive to new customers joining the network.
2. **Heat networks is only a very small part of what we do.** They usually make up less than 10% of our portfolio and are just a small part of the service we offer to our residents. As noted in the February 2021 Stakeholder Board paper, this often means we lack the dedicated money or resource to manage heat networks in terms of technical, contractual or compliance expertise.
3. **Considering us at entity level is not appropriate**, again because heat networks are such a small part of what we do. Local authorities with multiple municipal schemes could fall foul of a fee structure that apportions higher costs of regulation to larger heat network operators. Fines at an entity level may also

unfairly penalise us. All these costs will have to be passed through to customers, impacting them harder too.

4. **BEIS needs to better understand the various legal models under which heat is supplied in the UK, particularly under landlord services.** Considerable consumer protection already applies in these schemes and we believe there is considerable scope for conflict and misalignment between any new regulations and our existing obligations as landlords under the Landlord and Tenant Act and Leaseholder Reform Act. Given the ‘landlord’s services’ sector will represent a significant share of the market but will also be highly fragmented into numerous small schemes, does the cost of regulating this sector bring enough benefit over the existing protections? A better understanding is also required of the different ways in which tenants and leaseholders can and should be charged for heat. We also need more clarity on the impacts and implications for Section 106 schemes where a housing provider manages a small number of the total dwellings.
5. **We manage a lot of the ‘long-tail’ of heat networks serving less than 100 units,** many of them older stock. These schemes make up a large proportion of heat networks and often heat charging arrangements are constrained by pre-existing agreements. Whilst we welcome the provisional phased approach to regulation of the wider market, we believe the regulatory road map for social housing providers in the heat sector remains unclear. We recommend that BEIS seek to issue guidance to the sector on the legal mechanisms for charging that landlords can currently utilise and to what extent customer care provisions can be tightened up under these arrangements.
6. **It is unclear how step-in arrangements would practically work in the social housing sector and small schemes generally.** We believe the proposed arrangements would be an expensive duplication of existing consumer rights under the Leasehold Reform Act and could conflict with the obligations under the Landlord and Tenant to charge on a cost recovery basis. We need to understand who would take the assets on, what the commercial and practical arrangements would be, the impact this would have on our customers and how this would affect Section 106 schemes.
7. **More needs to be done to help consumers understand heat networks.** This will be encouraged by increased transparency and higher service standards. However, we would welcome centrally agreed key messages regarding the new regulation so all heat network customers are offered consistent information.

Heat suppliers in the social housing sector need to be listened to in this area of policy development. We have long-term relationships with our customers and long-term management responsibilities for our heat networks. We can provide data and insights that can help shape the new market framework so it is fit for purpose for all. We would welcome further discussions with BEIS regarding the points made above and to help you understand our position as small-scale, not-for-profit heat networks suppliers.

#### The Heat Network Membership:

A2Dominion	Metropolitan Thames Valley	Southern Housing
Camden Council	Network Homes	Southwark Council
City of London	Notting Hill Genesis	Sovereign Housing
Clarion Housing Group	Octavia Housing	Stockport Homes
Great Places	One Housing	Swan Housing
Haringey Council	One Manchester	The Guinness Partnership
Home Group	Optivo	The Riverside Group
Hyde Group	Peabody	VIVID Homes
L&Q Energy	Places for People	Worthing Homes