

Email to heatnetworks@energysecurity.gov.uk and heatnetworksregulation@ofgem.gov.uk

January 22, 2025

To whom it may concern,

Consultation Response: Heat Network Regulation: Implementing Consumer Protections

Scottish Renewables is the voice of Scotland's renewable energy industry. Our vision is for Scotland leading the world in renewable energy. We work to grow Scotland's renewable energy sector and sustain its position at the forefront of the global clean energy industry. We represent over 350 organisations that deliver investment, jobs, social benefits and reduce the carbon emissions which cause climate change.

Our members work across all renewable energy technologies, in Scotland, the UK, Europe and around the world. In representing them, we aim to lead and inform the debate on how the growth of renewable energy can help sustainably heat and power Scotland's homes and businesses.

Scottish Renewables welcomes the publication of these consultations. The consumer protections arising from the Energy Act 2023 must rapidly pass into regulation to facilitate the deployment of heat networks and maintain investor confidence.

In responding, we highlight these key points:

Key industry concerns include the regulatory and cost burden on a nascent heat networks sector and how these regulations will correspond to the development of Scottish regulations through the Heat Networks (Scotland) Act 2021.

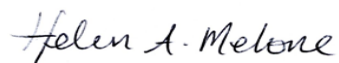
Industry expects utility status to bring conditions aligned with the gas and electricity standard licence conditions. The proposals in these consultations go beyond these standard conditions. The growth of the heat networks sector is essential for ending the UK's exposure to volatile gas prices and achieving our net zero commitments. Imposing more demanding conditions than the gas and electricity standard licence conditions will inhibit heat network deployment by imposing a disproportionate regulatory burden on a nascent sector.

We welcome the focus on shared ground loops and ambient loop networks, as this component had been missing from previous discussions. However, discussions do not acknowledge the differences between communal heating using shared ground loops and larger district heating schemes using ambient loops. Shared ground loops and ambient loop networks fundamentally differ and require different regulatory arrangements.

A one-size-fits-all approach that does not accommodate the diversity of heat networks will undermine progress to date and inhibit further deployment. Conditions should be proportionate to the current scale of heat networks and develop in iterative stages as heat networks grow in scale until their regulation reaches parity with the gas and electricity standard licence conditions.

Scottish Renewables would be keen to engage further with this agenda and would be happy to discuss our response in more detail.

Yours sincerely,

A handwritten signature in cursive script that reads "Helen A. Melone".

Helen Melone

Head of Heat & Solar

Scottish Renewables

Consultation Questions

1. With reference to the draft authorisation condition on definitions, do you agree or disagree with the definitions for network types (domestic and microbusiness, nondomestic, industrial, self-supply)?

Draft authorisation condition 23 is currently a long, unstructured list of definitions. Its usability would be improved if it were structured with boxes for relevant information, such as heat network types. In addition, the definition of 'non-domestic' is missing from this list.

The glossary for this consultation document does not currently convey the potential size of district heat networks. The current definition states that a district heat network is a type of heat network in which heating, cooling or hot water is supplied to two or more buildings or persons in those buildings.

Economies of scale will be essential for delivering affordable low-carbon heat. The long-term strategic aim of heat policy should be to support the development of city-wide heat networks. The definition should be expanded to include this ambition and acknowledge the need for heat networks to grow significantly in scale.

2. With reference to proposed consumer protection measures in this consultation, are there any measures that in your view are not relevant to heat networks using shared ground loops and individual consumer heat pumps? If so, what measures and why?

We are pleased to see specific questions on shared ground loop systems; however, the document assumes that all shared ground loop systems must install individual heat meters.

New heat networks that use different business models are emerging, contrary to this assumption. The need for individual heat meters should be caveated so it only applies where such meters are necessary for the functioning of the shared loop system. The proposed measures must be flexible to accommodate business models that do not require individual heat meters to operate.

3. Are there proposed consumer protection measures that in your view should be tailored to suit shared ground loop technology and if so, how?

Yes. A mechanism that gives consumers the same level of protection but does not mandate a heat meter must be developed.

Shared ground loop networks may need to meter the ambient temperature to guarantee that systems are working, and these may be used instead of heat meters in each property.

4. In applying consumer protections to a heat network using shared ground loops and individual consumer heat pumps, in your view should there be differentiation between

networks which charge a fee to access the loop, networks that do not charge a fee, and SGL networks that utilise other ambient heat sources in addition to boreholes?

No comment

5. With reference to the draft authorisation condition on definitions, do you agree or disagree with the definition for bulk supply?

6. Do you agree or disagree with our proposals to apply some consumer protection measures to bulk supply activity? Please provide evidence and reasons for your response.

We are concerned about the principles for regulating bulk heat supply. If a heat network has unbundled its heat generation and distribution and different companies operate these, putting consumer protection measures onto bulk supply would make sense. However, if the heat network's generation and distribution are managed by one company and are part of the energy mix or provided as waste heat, this is overly restrictive. Regulation may be a barrier to the participation of those heat sources and limit the wider decarbonisation benefits of multiple low-grade heat sources.

7. Do you agree or disagree with the proposed protections for non-domestic heat network customers? Please provide evidence to support your views, or evidence of the potential impacts.

We agree that protections should be extended to non-domestic heat network consumers. District heat networks can supply heat and hot water to multiple types of consumer, both residential and businesses. Therefore, consumer protections should apply to all.

8. Do you agree or disagree with the proposed definition of an SME for the purposes of heat network regulation?

We agree with the proposed definition of an SME, which should correspond to how SMEs are defined in the gas and electricity license conditions.

This is a new definition of Small Business Customer. We agree it should be adapted to refer to kWh of heat per year rather than gas.

9. Do you agree or disagree with the proposed approach to 'supply to premises' conditions?

Under 'scope,' the consultation document notes that *"any newly deployed heat network and subsequent connections would require the installation of heat meters under the Heat Network (Metering and Billing) Regulations 2014, which we intend to reform and implement through the upcoming Market Framework regulations. Details about new requirements for existing heat network will be set out in the upcoming consultation for a Heat Network"*

Technical Assurance Scheme". If respondents agree with this proposed approach, existing heat networks will be expected to align with the HNTAS, even though details of this have not yet been published.

We recommend segmenting existing heat networks and gradually transitioning them toward complete amalgamation by 2027.

Deemed contracts are a welcome addition to policy. When someone moves into a property connected to a heat network, the heat network operator can have a deemed contract with that customer on published terms. It can be challenging for heat suppliers to manage this process, particularly where properties are owned rather than rented (as the latter may be dealt with through contracts with the landlord). The deemed contract process should be revised to make it simpler and easier to enforce.

However, Ofgem and DESNZ's expectations regarding whether this is similar to a domestic supply contract are unclear. Should this apply before a customer moves in, and if so, what would they expect? This could be interpreted as not providing supply contracts in advance if we can do deemed contracts. Also, should this be provided to the customer upfront, or could it be published on the developer's website?

10. Do you agree or disagree with our proposed approach to the Standards of Conduct?

Yes, we agree with the proposed principles-focused approach to the Standards of Conduct.

11. Do you currently engage with your consumers on a regular basis?

No comment, Scottish Renewables is a trade body and we do not operate a heat network.

13. Do you agree or disagree with our approach to a principle on the security of supply?

Yes, we agree. However, as the HNTAS has not yet been published, we cannot fully answer this question.

14. Do you have any views on the high-level fair pricing framework discussed in the Fair Pricing section and in Annex 3 of this document?

We are concerned that excessive prices are being applied to heat networks. The example given is a standard licence condition 20A of the Generation Licence (the Transmission Constraint Licence Condition). This is excessive compared to gas and electricity, and we question why heat networks are expected to demonstrate higher levels of consumer protection than other heating utilities.

Ofgem's expectations for heat network companies need to be clarified. The consultation also provides little detail about how Ofgem proposes to address issues, such as the variability in cost stacks, that are particular to individual heat networks.

As we have said in our answers to the shared ground loop questions, not all district heat networks use heat metering. The delivery model for each separate heat network determines this.

In the drive to decarbonise heating, gas is no longer the counterfactual; it is electric heating or a heat pump. This must be more apparent in the high-level fair pricing framework and the soon-to-be-published pricing consultation.

15. Do you agree or disagree with our proposal to extend the scope of fair pricing to all non-domestic consumers?

Yes, we agree with this proposal.

16. Do you agree or disagree with our proposed overall approach to vulnerability, adopting the existing Ofgem definition for gas and electricity consumers but combining this with targeted protections for heat network consumers, where needed, through the authorisation conditions?

We agree with the first part of the proposed approach to vulnerability: adopting the existing Ofgem definition for gas and electricity consumers. However, the additional requirements for adding financial vulnerability to this approach without adding it to gas and electricity is unjustified. If financial aspects of vulnerability are to be added, this should apply to all utilities.

17. Do you agree or disagree with our proposed protections from disconnection? Please give reasons or supporting evidence for your answer, and clearly outline any alternative proposal.

This is another point where heat network regulation is proposed to differ from gas and electricity regulation. Heat networks should not have higher protections, and therefore a greater regulatory and cost burden, than gas and electricity.

18. Do you agree or disagree with our proposal to align with gas and electricity PPM protection rules?

Heat networks should have the same obligations as gas and electricity, including pre-payment meters.

19. Do you think it is appropriate to go further than gas and electricity PPM protections? If you have an alternative approach, please set this out, including how this would impact on debt management and the recovery of costs.

No, it is not appropriate to go further than gas and electricity pre-payment meter protections; heat networks should have the same obligations as gas and electricity.

20. Do you agree or disagree with our proposal to explore options to mitigate the impact of unrecoverable debt arising from prohibitions on disconnecting consumers, or installing pre-payment meters, for protected consumers? If yes, please provide any views you may have on approaches for doing so.

21. Do you agree or disagree with our self-disconnection proposals?

22. Can you provide any evidence of the impacts these proposals could have on suppliers, particularly smaller suppliers?

These additional proposals will have significant cost impacts on existing heat networks, particularly smaller networks. The design of such proposals must consider the nascency of the heat networks sector and acknowledge they are currently much smaller in scale than incumbent gas and electricity infrastructure.

26. Do you agree or disagree with our proposed compensation levels that broadly align with existing practice in the sector (Heat Trust levels)?

We agree with aligning to the existing Heat Trust levels for compensation, as they are a good starting point for growing the sector.

27. We welcome feedback from those that place Guaranteed Standards on external contractors through contract, on the requirement to take best endeavours to update existing contracts to align with our standards and compensation levels or provide feedback on what would be an appropriate transitional period to update contracts.

28. Do you agree or disagree that we should extend certain Guaranteed Standards to protect non-domestic consumers? Would the proposed standards be a reduction in protection, and would they reduce a non-domestic consumers ability to negotiate their own standards? We welcome feedback on our proposal to introduce the standards as a minimum for non-domestic consumers, providing the opportunity to go beyond.

29. Do you agree or disagree with our proposed approach to apply Overall Standards of Performance to heat networks operating on a not-for-profit business model?

30. Do you agree or disagree with the proposals for including additional information on consumer bills? If you agree, what timescales could you reasonably implement these changes?

Any proposals for including additional information on consumer bills must also apply to gas and electricity consumers' bills. Providing this additional information will be challenging to achieve, particularly for fuel source carbon emissions. If heat networks use standardised billing processes, varying the information for different bills would create additional software and resource costs.

The environmental impacts of the heat generation and the carbon emissions will be tricky to achieve because each heat network is unique. However, it would be helpful for consumers to see carbon emissions on heat network bills and how low they can be.

31. Do you agree or disagree that we should further explore the proposal on unbundling heat from other service charges, noting this may require legislative change to be implemented?

We have concerns with a blanket approach to fixed-rate charges. Heat with rent and flat rate charges seem to be conflated in the consultation. For flat rate systems, there may still need to be exemptions on a case-by-case basis, mainly where there is a risk that it would increase costs for fuel-poor customers.

For organisations operating ambient loops, metering and billing may also not be cost-effective for customers, e.g., the cost of administering metering and billing may be greater than the payment of a small, fixed charge to access the networks. This could occur when the bulk of the heat costs relate to the operation of the heat pump. This may need further economic analysis, but it likely relates to the separate consultation exercise on metering rather than the unbundling proposal in this consultation.

35. Do you agree or disagree that we should seek to align with HNTAS technical standards/metering rules to give networks adequate time to meet regulatory requirements?

We agree; however, having an early view of these standards would have been helpful before this consultation.

41. Do you agree or disagree with the proposed financial monitoring requirements, including the metrics and the frequency? If you disagree, please provide further details and/or alternative suggestions.

42. Do you agree or disagree with the structure and contents of the proposed Operations/Supply Continuity Plan? If you disagree, please provide feedback such as additional material you consider should be required or other suggested changes.

We are generally supportive of ongoing financial monitoring to prevent operator failure and the operations/ supply continuity plans, which may facilitate an easier transition.

43. Are you aware of examples of, or do you already have in place, this type of contractual step-in arrangement, to enable a replacement entity to continue to operate a heat network?

There are parallels with Carbon Capture Utilisation and Storage schemes, which use step-in processes; however, these are on a different scale.

In the electricity and gas sectors, Ofgem has a pre-determined list of companies to be approached to take on the customers of failed companies in case of financial insolvency. This is termed the Supplier of Last Resort. This is achieved using the meter point number. There is no transfer of physical assets.

Should a heat network operator fail, step-in arrangements would require the transfer of physical assets. A transfer scheme with the power to transfer assets would require valuation and have similarities to a compulsory purchase. If the Government steps in, there is a danger that the costs could be recovered from consumers' bills.

We are less supportive of continuing with contractual step-in arrangements and funding a last resort mechanism. The contractual step-in is already challenging to achieve in many cases, and it is not clear how Ofgem might regulate multiple step-in arrangements any given supplier has in place to ascertain whether they could feasibly deliver on them.

Potentially, there could be centralised contractual step-in terms that multiple parties could sign up to enable step-in rather than each supplier negotiating bilateral terms. This would need to be administered, which would come at a cost, but perhaps could be done alongside the potential last-resort direction mechanism.

Draft authorisation condition questions

A.5. Does the authorisation condition, 'Ongoing Fit and Proper Requirement', reflect the policy intent?

The list of specific items that make up the 'Ongoing Fit and Proper Requirement' is the most extended list our members have seen. This list is detailed in the draft authorisation conditions appendix at 05. Compliance assessments will be very onerous and costly for existing and smaller heat networks.

More than one person in a company would have to do the 'fit and proper person' test, whereas in the authorisation consultation, Ofgem plans to require one point of contact for a heat network company.

The 'fit and proper person' test would be an ongoing assessment, so these costs must be more explicit.

A.6. Does the authorisation condition, 'Provision of Information and reasoned comments to the Authority', reflect the policy intent?

Condition 7 is an obligation to tell the regulator what it expects to know. Companies need to form their own views of what circumstances they will report on. There are practical concerns here for company directors, who will need to be conscious of the risk of reporting to the regulator, which then responds with increased focus on a particular area. There must be a refreshed and continuously developed understanding of Ofgem's expectations in this circumstance.