

# **Citizens Advice Response to BEIS's document on Heat Networks: Ensuring Sustained Investment and Protecting Consumers**

The logo for Citizens Advice, featuring a dark blue speech bubble shape with the words "citizens" and "advice" stacked vertically in white lowercase text.

**citizens  
advice**

# Introduction

---

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination. Since 1 April 2014, the Citizens Advice service took on the powers of Consumer Futures to become the statutory representative for energy consumers across Great Britain.

The service aims:

- To provide the advice people need for the problems they face
- To improve the policies and practices that affect people's lives.

The Citizens Advice service is a network of nearly 300 independent advice centres that provide free, impartial advice from more than 2,900 locations in England and Wales, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups.

In 2017, Citizens Advice Service helped fix 163,000 energy problems through our local network and 61,000 through our Consumer Service Helpline. Our Extra Help Unit specialist case handling unit resolved 8,367 cases on behalf of consumers in vulnerable circumstances, and their Ask the Adviser telephone service handled 2,593 calls from other advice providers in need of specialist energy advice.

Since April 2012 we have also operated the Citizens Advice Consumer Service, formerly run as Consumer Direct by the Office for Fair Trading (OFT). This telephone helpline covers Great Britain and provides free, confidential and impartial advice on all consumer issues.

This document is entirely non-confidential and may be published on your website. If you would like to discuss any matter raised in more detail please do not hesitate to get in contact.

# Summary

---

Citizens Advice welcomes the opportunity to present our views in response of BEIS's paper on ensuring sustained investment and protecting consumers for heat networks. Citizens Advice has consistently called for heat network consumers to benefit from the same protections as gas and electricity consumers, and are pleased that BEIS is showing the intent to give the consumers these much needed protections.

We particularly welcome that consumer protections have not been considered in isolation. Effective heat networks market framework must tie together an attractive investment proposition with robust consumer protections. Investors need assurances of a stable and desirable product, having strong consumer protections helps to prevent negative experiences in the market.

However, Citizens Advice has concerns over the proposed timeframe for the introductions of these protections. There is increasing interest in heat networks as a no-regrets option in the decarbonisation of heat, and a rollout of schemes to assist in the development of networks such as the HNIP. Given the Business Secretary's speech last year over the need for agile and responsive regulation<sup>1</sup> we would hope that the framework for regulation would be brought in swiftly, in anticipation of the greater numbers of consumers moving into properties served by heat networks.

Citizens Advice is broadly in agreement with the proposals laid out in the paper. One key area of concern is the scalability of the options. Heat networks are diverse in size and operation, ensuring that there are options for sustained investment and protection for consumers that can work for all heat networks is an essential but challenging task.

---

<sup>1</sup> Greg Clark / BEIS [After the trilemma - 4 principles for the power sector](#), 2018

# Response

---

## Decarbonisation

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

The decarbonisation of heat is essential to meeting the 2050 carbon targets. We see low carbon heat networks as a key mechanism to help deliver this.

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

[No response]

## Ensuring Sustained Investment into the Sector

Q3: To what extent do you agree with our characterisation of demand risk?

We agree in principle with the characterisation of demand risk, however feel that the risks are of different proportions depending on the scale and type of the scheme. For instance, the demand risks of retrofitting a site to include a heat network versus creating a heat network alongside a new build are very different.

Citizens Advice recommends that BEIS consider creating more detailed characterisations of the different demand risks for the different models of heat networks. Ultimately heat network consumers pay for investment (whether that's via bills or standing charges) and its important to understand how this varies between the different models.

Q4: How could government and industry address demand risk, especially connection risk and consumption risk?

The government and industry need to consider the effects of increasing energy efficiency measures on reducing demand on the network. It is essential that any action taken to ensure demand, should not negatively impact the ongoing measures to improve efficiency.

Ensuring continuity of supply to the end user should be considered in any regulations introduced to address demand risk. For instance at present the gas networks do not have legal or license requirements to reconnect a CHP as a priority, despite the end users possibly being domestic users who, if they were not connected through a heat network, would be on the priority services register.

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

Any data generated by the consumer has a value. Consumers need, want and expect transparency and control of their data<sup>2</sup> Consumers should have transparency of where their data is being used, for what purposes and by whom. Consumers should also have the right to data portability, i.e. the ability to access data about themselves and share or use it for their own benefit. Any data that is being shared on a consumer level should be either opt-out to ensure that consumers have some say over how it is used or used in anonymised form.

Citizens Advice considers the current smart meter privacy framework for gas and electricity supply<sup>3</sup> data to be appropriate for meter-level data, and similar principles should be applied for Heat Network consumers. These principles allow access to detailed consumer data while also incentivising those who want access to the data to offer a consumer benefit in exchange, this could be in the form of new services based on that data or lower prices reflective of any savings they were able to realise by using it.

Publication of anonymous aggregated data may be of benefit to help assess consumption demand and profiles for Heat Networks. However, the government should be mindful of the data reporting process to avoid being too onerous for smaller Heat Networks.

Energy performance certificates (EPCs) could be an additional useful source of data for Heat Networks to assess potential demand, especially when retrofitting existing properties. Our thoughts on the changes required for EPCs to be more effective are set out in detail in our response to the BEIS and MHCLG consultation in October 2018<sup>4</sup>.

---

<sup>2</sup>

<http://webarchive.nationalarchives.gov.uk/20140728011208/http://www.consumerfutures.org.uk/reports/smart-and-clear-customer-attitudes-to-communicating-rights-and-choices-on-energy-data-privacy-and-access>

<sup>3</sup> Standard Licence Condition 47 for Electric and Gas supply licences.

<sup>4</sup> Citizens Advice [Response to BEIS and MHCLG call for evidence on EPC's](#), 2018

## 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?

Citizens Advice does not believe that any one approach, to the exclusion of others, would be the right strategy. As set out in our response to question 3, we believe that there will be different challenges and approaches required for the various sizes and types of networks.

The ADE's Industry Heat Network Task Force Report<sup>5</sup> recommends Demand Assurance on primary pipework: this could be an effective strategy -however there needs to be a clear outline on how price controls and costs will be allocated. Demand Assurance could provide a useful mechanism for ensuring guaranteed standards on the network. Consideration needs to also be given to how this would work on the differing scales and models of heat networks. Demand Assurance may not be as appropriate for small scale heat networks.

Concession schemes can lead to concerns over a company holding a monopoly for a long-term contract. In this consultation, the government highlights the need to ensure a strong consumer framework to improve consumer confidence. The potential for escalating costs and poor performance is a considerable risk. The use of a concession scheme does not reduce the consumption risk, there is no guarantee that the forecast for the network would be met. This can risk consumers being tied into greater costs than anticipated for a long contract, if a heat network recuperates costs from a smaller than anticipated demand.

Heat zoning, to an extent, should be considered for the wider future heat strategy as there will not only be one technological solution for decarbonisation of heat. Different local areas will have different constraints and opportunities for rolling out lower carbon heat solutions. Using heat zones, planners can identify where heat networks are the best placed solution, or where other technology may be more appropriate (e.g. individual heat pumps or hydrogen networks) and liaise with the appropriate networks where needed (such as DNOs or GDNs if network upgrades are required). The creation of heat zones could also help local authorities to meet their climate change commitments by ensuring cost effective and efficient decarbonisation of heat in their area.

However, how a heat zone is implemented and the level of autonomy the local area has both need to be seriously considered. It is our view that some form of strategic national oversight will be essential to ensure a consistent approach is taken across the country, whilst still enabling local diversity. There will also be a need for close consideration of how the heat zoning strategy would be implemented in Scotland and Wales.

---

<sup>5</sup> The ADE, [Shared Warmth](#), 2018

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

There will be a need to have different mechanisms for the various sizes and types of heat networks (such as thresholds for supply points, or energy output). There also needs to be a consideration for how connection risk is addressed for retrofitting in comparison to new builds.

If alternative models are considered, such as a regulated asset base model, it will be essential to establish and agree a shared understanding of what constitutes a realistic cost across different models and sizes of networks.. Given the potential varying scale and type of heat networks, a consistent benchmark or model for realistic costs may not always be achievable.

Citizens Advice recommends the government consider developing some underlying principles which would be applied to any schemes implemented to mitigate consumption risk. We have developed some principles for price controls<sup>6</sup> and have been applying them to our the current Ofgem price control (RIIO-2). The four principles that are particularly relevant to heat networks are;

1. The value of any unspent funding for infrastructure projects is returned to consumers promptly and in full.
2. Industry business plans and regulatory decisions are directly informed by consumer (including future consumer) feedback and research.
3. Companies are required to publish complete information on their performance, financial structures, gearing and ownership.
4. Innovation funding and incentives support consumers in the transition to a low-carbon future, particularly those consumers in vulnerable circumstances.

Regarding the second principle, the 'enhanced stakeholder engagement' model being implemented under RIIO-2 offers some useful examples of how this added layer of scrutiny and legitimacy might be applied to heat networks regulation. There will be significant learnings to be had from this RIIO-2 approach over the following 12 months, and we encourage Ofgem to review these with the intention of incorporating (or sharing with the relevant regulator) a similar but appropriate approach for heat networks.

Regarding the third principle, consumers should always know where their money is going when spent on essential services. Annual reporting requirements should be transparent enough to assess company performance on components including tax and finance, providing an accurate picture of how heat networks are performing, how they are providing value for money and whether they are delivering an efficient and fair service.

---

<sup>6</sup> Citizens Advice [Will Ofgem's next price control really deliver for consumers?](#), 2018

Whichever model is chosen, adequate consumer protections should be included in case a heat network provider fails. If the provider were to get into trouble there needs to be a process whereby someone can take over with minimised socialised costs and the consumers not losing supply.

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

[No answer]

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

[No answer]

## Ensuring consumer protections

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

It is our view that that micro-business consumers should have the same protections as domestic consumers. Money Advice Trust has found that many micro-businesses have no prior formal training before setting up their company<sup>7</sup>. Through our Consumer Service we often find the lines are blurred between business and domestic cases, for instance when the consumer lives in a flat above their business<sup>8</sup>. The current definition of micro-business also should be looked at for heat consumers, as it only offers the definition in terms of kWh of electricity or gas consumption and not heat consumption<sup>9</sup>.

Gas and electricity micro-business consumers call our Consumer Service helpline for advice and assistance. The most frequent issues are with debt, disconnections, change of tenancy problems and issues around vulnerability. At present, they do not receive the same level of protection as domestic consumers and we are calling on Ofgem to do more to protect them<sup>10</sup>. This is an opportune moment to ensure that the same inequalities do not occur within Heat Networks.

Non-domestic consumers in gas and electric also have the benefit of being able to switch supplier if they are not happy with the service or pricing. This is not always possible within Heat Networks.

---

7

<http://www.moneyadvicetrust.org/researchpolicy/research/Documents/Supporting%20Small%20Businesses%20with%20energy%20debt%20report%20and%20recommendations.pdf>

<sup>8</sup> <https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/GPG%20SME%20Debt.pdf>

<sup>9</sup> <https://www.ofgem.gov.uk/key-term-explained/micro-business-consumer>

<sup>10</sup> Citizens Advice, [Priorities in the non-domestic market](#), 2018



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

[No response]

## 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?

Citizens Advice agrees that there should be some minimum standards of performance and quality in networks.

There are a number of consumer issues which can result in severe consumer detriment, and would benefit from a more prescriptive regulatory approach (for instance with debt collection, disconnections and dealing with vulnerable consumers). For the broader performance and standards a principles based approach would potentially be most practical, in order to capture the complexity of the heat network market whilst ensuring a good consumer outcome. The compliance and monitoring frameworks for these standards will be essential to ensure that companies are delivering for consumers.

Citizens Advice recommends BEIS consider strict minimum standards for situations which put consumers in vulnerable situations with their heat supply: for instance when there is a fault in the supply or with topping up a prepayment meter.

Any consumer protections should be applied to both new and existing networks, a consumer should not be disadvantaged by where they are living - especially given many existing heat networks are serving social housing. However we appreciate technical performance based metrics may be more complicated to retrospectively apply to existing networks.

Regulation will have a cost, BEIS should be mindful of the resource implications for both the regulator and the existing heat networks to implement stringent requirements, as these costs will ultimately fall on consumers. BEIS should also be mindful of using comparative standards from the gas and electric markets. A lot of the regulation is based on competitive incentives, which would not be applicable for heat networks.

Comparability is important for heat networks, to be able to identify a well performing one versus one that is failing. For the electricity and gas market Citizens Advice produces a Star Rating of energy suppliers providing to over 25,000 meter points<sup>11</sup>. The rating looks at complaints performance to third parties (The Citizens Advice Consumer Service, the Extra Help Unit, and Ombudsman Service: Energy), billing accuracy and timeliness, call waiting times, commitment to voluntary schemes and switching

---

<sup>11</sup> Citizens Advice, [Domestic energy supplier customer service comparison](#), 2019

performance. A heat network rating system would be useful to identify key areas where networks were underperforming relative to their peers, and help potential customers make a more informed decision before moving into properties on the systems.

Although most heat network pricing is comparable to the cost of using gas for heating, this comparison may not be applicable or practical in the future. It is our view that there should be some form of assessment of value for money and regular price review within each heat network. This could consider the level of profit earned, based on the costs specific to that network, as well as a comparison to the cost of alternatives to a heat network.

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

Citizens Advice has previously written about our concerns on transparency of information with heat networks<sup>12</sup>. Heat network customers should be provided with information upfront, and be able to easily access it when needed (for instance, on a suppliers website).

Ofgem has recently brought in new principles around customer communications<sup>13</sup>. Some of these principles would work well for heat networks, especially in regards to billing. The new principle from Ofgem states that suppliers have to provide billing *“in a Form and at a frequency that is sufficient to enable that Domestic Customer to understand and manage the costs associated with their Tariff and the[electricity/gas] they consume”*. By moving away from prescriptive requirements and putting the onus on suppliers to ensure it is appropriate for the consumer, it should ensure a better outcome for consumers.

There should also be a requirement on the estate and lettings agents to provide the relevant information as part of the sales or letting process. This should be provided alongside the EPC to ensure consumers can make an informed decision when choosing where to live. The heat network should also be aware that most consumers are unaware of how heat networks work, the welcome pack should include key information and highlight the differences from conventional heating arrangements. For vulnerable consumers additional assistance should be provided to help the consumer understand any important aspects of their supply.

Fundamentally, it is essential that heat network customers have a clear and consistent customer journey. Where the heat network is different from the housing provider a clear division of responsibility should be established. Through our Consumer Service

---

<sup>12</sup> Citizens Advice, [Turning up the heat on heat networks](#) and [Heat network customer deserve better customer service](#)

<sup>13</sup>Ofgem, [Decision to to modify the electricity and gas supply licences to introduce five narrow principles and remove certain prescriptive customer communications rules](#), 2018

we have seen complaints whereby the consumer is passed from housing provider to heat network as neither want to take responsibility for the issue.