

# Heat networks: building a market framework

Response from Citizens  
Advice.



# Introduction

Citizens Advice welcomes the opportunity to respond to this important and timely consultation on the regulation of heat networks in the UK. The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. 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. Last year we advised over 130,000 people and over 25,000 people saved money because of our advice. We also offer specialist support to the people who need our help the most through the Extra Help Unit, where last year we helped over 9,000 people.

Citizens Advice has been concerned for some time about the potential and actual detriment being experienced by consumers of heat networks. In 2015, prior to the notifications under the Heat Metering and Billing Regulations and prompted by contacts from heat network customers, we began a programme of research to better understand heat networks and the experiences of their consumers. Since then, and despite the lack of readily available or accessible data, we have commissioned and published a variety of research documents highlighting the issues faced by heat network customers<sup>1</sup>. Our findings led to Citizens Advice calling for the Competition and Markets Authority (CMA) to undertake an investigation into heat networks.

Over the past 5 years, Citizens Advice has represented consumers on numerous academic, government and industry steering groups related to the ongoing development of heat networks. While not being the statutory consumer representative for heat consumers, we felt compelled to work to try and improve outcomes for heat network customers where we could.

Citizens Advice was part of the initial stakeholder group advising on the development of the voluntary consumer protection scheme that would go on to become the [Heat Trust](#). Citizens Advice and Citizens Advice Scotland then went on to be the only members of the steering committee that represented the interests of consumers once the scheme was live.

In 2017, Citizens Advice was invited to join the Heat Networks Task Force convened by the Association for Decentralised Energy (ADE) to engage with industry to think about how a way forward to regulation might best be developed for the sector. This culminated in the publication of [Shared Warmth](#)<sup>2</sup>

---

<sup>1</sup> Citizens Advice, [Energy Policy Research pages](#)

<sup>2</sup> ADE, [Shared Warmth](#), 2018

in January 2018. The publication outlined a number of recommendations to the government for the regulation of the heat network sector.

Therefore, this consultation is particularly welcome and at a time where a national pandemic threatens the way of life for so many, greater protections for consumers couldn't be more necessary. These protections are especially important for those who have less choice over their energy use in an essential services market which is crucial for health and wellbeing.

One particular area that is not touched upon in the consultation is the creation of a statutory consumer advocate for people on heat networks. As the statutory energy consumer advice provider and advocate we work closely with the regulator on issues ranging from networks guaranteed standards to billing customer service/complaint handling standards, debt and disconnection. We also have a specific duty to support and advocate on behalf of consumers in vulnerable circumstances. These issues are all relevant to heat networks. Whilst we understand that they cannot all be covered in the consultation at this stage, we look forward to discussing them in finer detail with the regulator and government at the appropriate time. Citizens Advice is concerned that without a strong, statutory consumer advice provider and advocate, heat network developers and suppliers will not be adequately held to account nor will consumers be at the centre of future developments in this sector.

# Regulatory framework overview

## Consumers covered by the proposed heat network regulatory framework

### **Q1. Do you agree with the inclusion of micro-businesses within consumer protection requirements?**

Yes, we support the inclusion of microbusinesses at this stage. In the retail energy market supply licence conditions place requirements on suppliers to ensure they treat micro-business consumers fairly with respect to billing, contracts and customer transfers. This broadly covers items such as the accuracy and the timeframe for receiving and paying a bill. There are also more specific protections such as where micro-businesses cannot be backbilled beyond 12 months.

However, while these protections do exist for electricity consumers, Citizens Advice is keen to see these improved for micro-business energy consumers in general, and for those micro businesses that use heat networks. For example, we would like to see greater protections around debt and disconnection, and appropriate regulation of brokers and other third party intermediaries.<sup>3</sup>

Furthermore, the Government has signalled the importance of businesses in meeting the net-zero target, aiming to help businesses improve their energy efficiency by at least 20% by 2030<sup>4</sup>.

### **Q2. Do you agree that consumer protection requirements should not cover non-domestic consumers (other than micro-businesses)?**

Citizens Advice has some reservations about the exclusion of non domestic consumers, other than micro-businesses. There is a significant lack of data and evidence about the experiences these businesses have as heat network consumers. We urge government to consider how these businesses are engaging with heat networks and whether there is scope for any research to ensure that they are being fairly treated and whether they are able to advocate for themselves in relation to their heat network.

---

<sup>3</sup> Citizens Advice, [Closing the Protection Gap](#), 2019

<sup>4</sup> BEIS, [The Industrial Energy Transformation Fund: Supporting industry on the path to net zero](#), 2019

## Definition of “heat network”

**Q3. Do you agree with our proposed approach to defining a heat network, including that it should cover ambient temperature networks but not ground source heat pumps with a shared ground loop? Are there heat network arrangements you think would not be covered by this and which should, or vice versa?**

Yes. We support the approach outlined in the consultation document.

## Preferred regulator

**Q4. Do you consider Ofgem to be the appropriate body to take on the role of regulator for heat networks? If not, what would be an alternative preference?**

Yes. Citizens Advice supports the suggestion that Ofgem should take on the role of regulator for heat networks given its expertise and experience in the regulation of both networks and retailers in the energy sector. In addition, as the energy sector evolves with a more diverse set of suppliers, products and services - including companies that operate in gas, electricity and heat markets - it makes sense that they are all brought under one regulator.

This will enable common rules across the sector where appropriate. This could include high level principles to ensure customers are treated fairly with similar detailed protections in key areas like billing. High level principles could help to ensure consumers receive a similar experience across these markets where possible regardless of the way in which their homes are treated.

Given the importance of installing low carbon heat in over 90% of homes across Great Britain (up from just 4.5% today)<sup>5</sup> in order to achieve the government’s net zero target, a single regulator will be able to take a common approach and manage risks, as recently set for the gas and electricity markets in Ofgem’s Decarbonisation Action Plan.<sup>6</sup>

---

<sup>5</sup> Citizens Advice, [Zero Sum](#), 2020

<sup>6</sup> Ofgem, [Decarbonisation Action Plan](#), 2020

## Proposed model: General authorisation with optional licence for schemes requiring rights and powers

### Q5. Do you agree that the proposed regulatory model is appropriate for the regulation of heat networks?

Yes. Citizens Advice agrees that general authorisation is the best option for the regulation of heat networks. Our report, *Stuck in the Middle*<sup>7</sup>, investigating the role of Third Party Intermediaries (TPIs) recommended the same model for these businesses as it offers the “best balance” for regulation of these services - which operate with a wide range of business models and at varying scales - moving forwards. This was further supported by the legal analysis<sup>8</sup> undertaken as part of this work. This same issue of ‘balance’ is needed in the heat sector given the diversity of networks.

As set out in the consultation, the authorisation approach could also help deliver common rules where appropriate across the gas, electricity and heat markets in key areas such as metering and billing. This will help rationalise the rulebook and target consistent consumer outcomes.

The option of heat networks to apply for a full licence in order to access additional rights and powers that bring them into line with gas and electricity networks is also welcomed.

The heat sector would, however, benefit from greater clarity regarding the interaction of the general authorisation model in England and Wales, and the proposed licensing regime in Scotland. Citizens Advice is keen to understand the government's vision for both the operation, impact and cost of having two different regulatory models, administered by the same regulator, on consumer bills for heat network customers.

Finally, the general authorisation model proposed for heat networks does not include a requirement for heat network providers to pass a ‘fit and proper persons’ test. This is out of step with the gas and electricity markets, and given the monopoly nature of heat networks it would seem that such a test is crucial. Citizens Advice recommends government consider how this aspect of protection can be included in the regulation. In the first instance to new heat network providers, and secondly as part of any transitional arrangements for existing heat network providers.

---

<sup>7</sup> Citizens Advice, [Stuck in the Middle](#), 2020

<sup>8</sup> Citizens Advice, [Regulation of third party intermediaries in the energy sector](#), 2019

**Q6. Which entity should be responsible and accountable for regulatory compliance, particularly where the heat supplier and heat network operator are not the same entity? Please explain why you think this.**

Citizens Advice does not have strong views on who should be the regulated entity. The important thing is that the party responsible is capable of ensuring compliance across all aspects of its regulated activity, not just those they are most familiar with. For example, a developer will not have direct expertise regarding day-to-day operations but if it is designated as the regulated entity it would need to build capacity to ensure compliance across all of the regulated areas.

**Q7. Do you agree that consumer protection requirements during the operation and maintenance project stage should be regulated, such as pricing, transparency and quality of service?**

Yes. Heat network customers have less agency over their energy bills and are also unable, in the main, to switch to an alternative heating system. Greater transparency over contracts and pricing has the potential to ensure suppliers keep their pricing fair and competitive<sup>9</sup>. In addition, the quality of service that heat customers experience to date has been patchy at best. Measures that drive up quality, and therefore, consumer confidence, in heat networks can only be a positive outcome, for both consumers and industry.

Currently there is a lack of consistency in the way that heat providers calculate and present a bill. Further transparency is crucial. Even in a “heat with rent” model the supplier should know the unit costs and fixed costs of their network and be able to clearly apportion that in any rent/payment demand.

**Q8. Should there be a de minimis threshold below which a) very small domestic schemes and/or b) non-domestic schemes with very few domestic consumers are exempted from any of the regulatory requirements proposed in this framework? Please explain why you think this.**

It is our view that the general authorisation model proposed should allow for all scheme sizes to be covered. Any requirements that are too onerous for smaller schemes could be notified to larger schemes only, in line with the approach in telecoms and similar to the gas and electricity licences where the smallest suppliers are exempt from certain requirements. However, it is not reasonable that any one domestic consumer should be entirely excluded from basic

---

<sup>9</sup> Citizens Advice blog on [lack of transparency in heat network pricing](#), 2018

consumer protections afforded to other heat customers - including complaint handling standards and access to a statutory alternative dispute resolution scheme to deal with complaints.

In addition, while unlikely, it is important to avoid any unintended consequences regarding the development of schemes related to size or proportion of domestic consumers.

**Q9. Should there be a size threshold above which larger schemes are subject to more detailed regulation and scrutiny? If so, what type of threshold would you consider most appropriate?**

As with our response to question 8, the focus must be on delivering the same outcomes for all heat customers, as far as possible giving people the same consumer protections that they would enjoy in the gas and electricity market. Ofgem's existing principles for enforcement - in particular conducting these activities in a proportional and targeted way - would be appropriate for heat networks and should ensure that scrutiny is applied where detriment is greatest, based on the number of customers affected or on the level of harm caused.<sup>10</sup> This is supported by work to help improve compliance across all companies and share best practice or lessons learned where companies make mistakes.

**Q10. Should an optional licence be available for entities seeking rights and powers? If not, what other approaches could be considered?**

Please see our response to question 5. Citizens Advice supports the proposed model but we are concerned about the lack of a 'fit and proper persons' test within the general authorisation model. We agree that an optional licence for heat network entities that require access to additional rights and powers should be made available.

**Q11. Are there any other adjustments that could be made to the proposed model to enable it to work better?**

Please see our response to questions 5 and 10. Citizens Advice recommends the inclusion of a 'fit and proper persons' test is considered as a reasonable adjustment to the proposed model. This would ensure a harmonised approach across the energy sector including TPIs. In addition, it would help to ensure greater alignment with the planned heat licensing regime in Scotland.

---

<sup>10</sup> Ofgem, [Enforcement guidelines](#), 2017



Furthermore, Citizens Advice is keen to see more active use of general consumer law by the regulator where appropriate. Some of the general provisions in consumer law, for example around misleading advertising, could provide useful tools for the regulator given the diversity of the heat market.

**Q12. Are there circumstances in which transitional arrangements should be introduced? If so, in what circumstances might these apply and for what length of period?**

Citizens Advice welcomes an approach that would keep transitional arrangements to an absolute minimum. In its final report on the heat networks market the CMA was clear that it expects heat networks to begin working towards the regulatory obligations ahead of those requirements coming into force. Two years have passed since that publication and there is likely to be more time before the final regulations take effect. It is our view, that the vast majority of heat networks should be in a state of readiness by the time the heat network market regulations come into force. This should negate the need for transitional arrangements and any further delay to the implementation of consumer protections.

However, our concerns around the need for a 'fit and proper persons' test could be an exception to the above for existing heat networks that are not looking to develop, or take on, new networks. The introduction of a fit and proper persons test, for these smaller, established heat networks, may require a period of transition.

## **Emerging business models**

**Q13. Do you consider our proposed approach sufficiently flexible to accommodate emerging business models, including unbundling of different components of a heat network? If not, please suggest ways in which we could ensure alternative business models are not precluded.**

Yes. Please see our answer to question 5 where we highlight the general authorisation model as providing the best balance for the regulation of services with a wide diversity of business models.

## Enforcement powers

### **Q14. How should government and the regulator ensure that enforcement action is proportionate and targeted? Are there particular considerations for not for profit schemes?**

Ofgem's existing approach to enforcement - as set out in question 9 - requires the regulator to conduct enforcement according to principles of transparency, accountability, proportionality, consistency and targeting.

Heat network consumers should receive the same protections and Ofgem should have the same tools for enforcement available regardless of whether a scheme operates on a not for profit basis. Ofgem has a well established policy in relation to financial penalties and how they are calculated. These take into account factors like the severity of breaches, whether they were concealed and the extent to which companies benefited - and with opportunities for discounts in relation to factors like early settlement. As part of this policy they also have regard to the impact of penalties on financial viability and may make adjustments accordingly.<sup>11</sup> Furthermore, the level of any financial penalties cannot exceed 10% of turnover. Taking a similar approach for heat networks should be sufficient to ensure that the nature of not for profit schemes are taken into consideration in enforcement - albeit there may be cases of severe detriment where penalties which do undermine financial stability are appropriate.

Ofgem's Enforcement Decision Panel - which is independent of its investigative teams and cannot be overruled by Ofgem's Board - is an important safeguard. It provides an avenue for companies to contest enforcement cases if they consider Ofgem has not followed these principles in its investigation or in deciding on penalties.<sup>12</sup>

Compliance and enforcement are vital activities to help companies understand the boundaries of acceptable behaviour under a principles-based regulatory approach. Where there are commonalities in the rulebooks across gas, electricity and heat, these activities in any of these markets will help drive this understanding. However, there are also likely to be some rules that differ for heat networks - or where technical differences mean the outcomes targeted by principles - based rules are delivered in a different way for customers.

---

<sup>11</sup> Ofgem, [Statement of policy - financial penalties and consumer redress](#), 2014

<sup>12</sup> Ofgem, [Enforcement Decision Panel](#)

To achieve good outcomes, government must ensure that Ofgem is appropriately resourced to monitor compliance and conduct enforcement activity in this new area. Similarly, Ofgem must prioritise these activities in a way that ensures all markets are scrutinised - rather than naturally focusing on the larger gas and electricity markets. This is not a risk that can be disregarded. For example, Citizens Advice is not aware of any compliance and enforcement activity in relation to the overarching requirement to treat microbusiness customers fairly since the current version of these rules was introduced in 2017, as Ofgem has focused on domestic customer issues.<sup>13</sup> In the absence of regulatory guidance, this makes it very difficult for companies and consumers to understand what it means in practice to treat microbusiness customers 'fairly'. It will be important to avoid a similar situation arising for heat networks.

**Q15. Do you agree that imposing fines and removing a licence/authorisation are an appropriate and adequate set of enforcement actions for the regulator of the heat network market?**

Yes. Citizens Advice is of the view that sanctions for failing to meet regulated requirements should provide enough of a deterrent to ensure compliance. Contacts to our consumer service helpline have highlighted that issues with particular heat suppliers continue unchecked without a clear penalty or requirement to change behaviour.

The consultation document sets out that for electricity and gas consumers redress is often used in lieu of fines where cases are settled. We support this approach, with redress normally targeted at customers directly harmed by rule breaking (in order to make up for any financial losses, plus some compensation) as well as more generally to benefit consumers through Ofgem's Energy Redress Fund.

Since 2014 Ofgem has also had the power to impose consumer redress orders where it identifies rule breaking that has affected a large number of customers, which 'can include requirements to pay compensation to consumers, to prepare and distribute written statements and to terminate or vary contracts'.<sup>14</sup> While these orders have not been used in practice - largely because companies have agreed to redress on a voluntary basis - they are an important power to have available, and their existence may have motivated companies to agree to such

---

<sup>13</sup> Citizens Advice, [Closing the protection gap](#), 2019

<sup>14</sup> Pennington Manches Cooper, [Short guide to Ofgem remedies for sectoral non-compliance](#), 2018

steps voluntarily. Citizens Advice recommends that these powers should be extended to heat network regulation, to ensure that consumers can get access to this important redress if necessary and to deliver better outcomes through settled cases.

**Q16. Do you agree that the regulator should have powers to impose penalties at the entity level which are proportionate to its size in a scenario where there are repeated or systemic failures across multiple schemes owned or operated by the same entity?**

Yes. As with our answer to question 15 we believe there is a need for a strong deterrent or requirement to deliver better outcomes for heat network customers. Where there are repeated or systemic failures that have clear impacts on consumers, Citizens Advice agrees that it would be appropriate to impose penalties proportionate to the size of an entity.

**Q17. Do you agree that the regulator should have powers to revoke an authorisation for single networks owned or operated within a group scenario, so that the entity would still be authorised or licensed to operate those networks within the group that remain in compliance? If not, what alternative approach might the regulator take?**

Yes, provided that there are no issues on the remaining networks operated within a group.

**Q18. If compliance issues are more widespread within the group of networks owned or operated by the same entity, do you agree that the regulator should be able to revoke the authorisation or licence for the entity as a whole covering its entire group of networks? If not, what alternative approach might the regulator take?**

Yes. However, care must be taken to ensure that there is an appropriate mechanism whereby consumers are transferred to an alternative supplier to ensure security of supply and continued consumer protections.

**Q19. Do you agree that individual domestic customers should have access to ombudsman services for redress? Do you have any views as to which ombudsman is best placed to provide this function for heat networks?**

Heat network customers need access to an appropriate and effective redress scheme. It is our view that the Energy Ombudsman would be the most appropriate alternative dispute resolution service at this time for consumers ensuring continuity with the gas and electricity markets.

Citizens Advice supports a single Ombudsman for energy, as this provides a simpler customer journey and avoids a race to the bottom on quality that can arise where companies can choose from a range of dispute resolution services. However, this results in a privileged position for the company providing this service and we have previously set out our view that it would be appropriate to have more controls on the cost and quality of the current Energy Ombudsman. This could include periodically re-tendering the Ombudsman role, and/or introducing greater regulatory oversight (as with other monopoly providers in energy) to ensure it delivers high levels of service and value for money.<sup>15</sup>

## Step-in arrangements

### **Q20. Do you agree that step-in arrangements are necessary both to cover the risk of stranded customers and as a deterrent against sustained failure to meet the regulatory requirements? If not, why?**

Citizens Advice agrees that step-in arrangements are necessary to cover the risk of stranded customers and as a deterrent against sustained failure. However, our experience with the Supplier of Last Resort (SoLR) process in the gas and electricity markets has highlighted a number of key issues that must be considered to ensure that the arrangements outlined in the consultation are actionable. Issues such as how frequently contingency plans are updated, and what can trigger re-assessments of the plans? For instance, in our report *Picking up the pieces*<sup>16</sup>, we demonstrate a correlation between poor customer service and supplier failure. It is important if the regulator is concerned by the performance of the provider they can request an assessment of their contingency plan as a precautionary measure. An additional consideration is how the reserve funds will be held.

We agree the arrangements need to be proportionate, however, not only to the provider, but also with regards to any additional cost that would ultimately be paid for by consumers (for instance with the cost of holding a reserve fund).

---

<sup>15</sup>Citizens Advice, [Response to open letter on Utilities ADR's application for certification as an ADR provider](#), 2018

<sup>16</sup> Citizens Advice, [Picking up the pieces](#), 2019

Citizens Advice notes that the regulatory framework will in part determine the risk of heat supplier failures. In gas and electricity, it is widely acknowledged that a relatively lax entry regime and few controls to ensure companies are acting in ways that are sustainable have given rise to a large number of companies with unsustainable business models and eventual failures. Ofgem is now in the process of tightening these controls to reduce - but not eliminate - the risk of failure in future. While this risk may be lower in relation to heat supply - given the length of contracts and the lower capacity for unconstrained growth - it will remain the case that lighter regulation at entry and during operation may result in a higher rate of failures.

Finally, revoking authorisation and licences for heat suppliers will inevitably be more of a concern than when compared to gas and electricity suppliers because of the way in which heat networks are developed. As we highlight in our report *Picking up the pieces*<sup>17</sup>, a number of gas and electric suppliers who failed had compliance or enforcement action against them prior to failure. The regulator will need to demonstrate clear leadership during such times as it is required for the revocation of licences and authorisation for it to be meaningful.

## **Q21. Do you have any examples of approaches we should be considering as we develop the step-in arrangements?**

It will be important for government and the heat regulator to learn from the substantial number of failures in the gas and electricity retail market, in recent years.

Trade sales should be encouraged where a provider is at risk of insolvency, as they reduce the risk of mutualised cost. However these are not without risks and led to Ofgem recently issuing an open letter<sup>18</sup> about expectations with regards to these sales.

It is our view that the greatest risk to consumers is when there are significant contractual or regulatory differences as a result of arrangements for company failures. This has been seen in the gas and electric retail market through insolvency practitioners undertaking aggressive debt collection after suppliers have gone into administration. Our updated analysis of *Picking up the pieces*<sup>19</sup> estimates that over £170 million of consumer debt from failed suppliers has been collected predominately through insolvency practitioners and through significant tariff increases when consumers have been transferred to another supplier. Given heat network consumers are unable to switch away to prevent

---

<sup>17</sup> Citizens Advice, [Picking up the pieces](#), 2019

<sup>18</sup> Ofgem, [Open letter on Trade Sales](#), 2020

<sup>19</sup> Citizens Advice, [Picking up the pieces \(updated analysis\)](#), 2019

some of these detriments it is imperative that these risks are mitigated in the final step-in arrangements.

## Protecting consumers

### Pre-contractual transparency

**Q22. Do you agree that the provision of minimum information would help consumers in making decisions at pre-contractual stages of property transactions?**

Citizens Advice agrees that it would be helpful for consumers in the early stages of a property transaction to have access to information about the heat network attached to their property early enough in the process. This would allow people to fully engage with the information (given these systems are relatively unknown to most consumers) and support them to make informed decisions based on their needs.

Furthermore, any information must be made available in formats that consumers can easily access and understand depending on their circumstances.

**Q23. Do you agree that the heat suppliers should be responsible for developing information and guidance for prospective consumers? If yes, what minimum information should be included?**

We agree that the responsibility for developing information and guidance should fall on the heat suppliers. Based on our experience of key consumer concerns the minimum information should include:

- Details on how their network operates: how it works, how it is maintained, how it differs from conventional heat and hot water, who is responsible for operation and maintenance.
- Billing: how heat and hot water is billed on the network, the average annual costs, contract length (including inability to switch supplier).
- Consumer protection: given that consumers cannot switch details of how their interests are protected in this monopoly supply should be provided.
- Details of access to a heat cost comparator tool: to enable consumers to compare costs on the basis of their current heat and hot water requirements.

## **Q24. How can we ensure new consumers receive or have access to information about the heat network before moving into the property?**

Given that this aspect of transparency falls across two different policy areas, energy and housing, it will be critical that the Ministry of Housing, Communities and Local Government (MHCLG) is driving forward the provision of information on heat networks for property transactions.

Developers, estate agents, letting agents and any other potential vendors should be obligated to provide information regarding properties on heat networks. Property particulars, whether online or printed, should clearly state that a property is heated using a heat network and an additional information sheet outlining the minimum information should be provided alongside this.

In addition, solicitors and conveyancers should also ensure that their property information forms are completed to include information on the heating system, and specify that it is on a heat network.

## **Transparency during residency**

### **Q25. Do you agree that the market framework should regulate and enforce the provision of information during residency?**

Yes. Citizens Advice has found that accessible information from heat network providers is varied. Consumers should be able to access basic information about their heat and hot water supply, not least who they can contact for further questions. Furthermore, it is likely that information relating to heat supply might change during residency. In such instances, heat suppliers must be proactive in notifying all their customers of the change and signposting them to further information and advice.

Citizens Advice strongly supports back-billing protections forming part of these requirements. Billing is the number one issue that consumers contact our consumer service helpline about, and inaccurate or estimated bills over a period of time can result in large arrears building up without the customer knowing resulting in sometimes severe debt. Accurate billing is a basic function of energy supply, and the back-billing rule is an important backstop protection to ensure customers are protected from the worst effects of these errors.

In addition to transparency about pricing, there are other consumer outcomes that heat networks may need to target through their communications. This could include signposting consumers to Citizens Advice for assistance and support with their bills, to debt advice organisations for consumers who are having difficulty paying their bills, or to the Ombudsman if they have a complaint



that can't be resolved. They should also provide consumers with information about how to get help in an emergency - for example if their heat network has a breakdown. The supplier could also include advice or support for managing and reducing energy costs - for example by promoting energy efficiency schemes. Similar requirements are already in place for gas and electricity suppliers as part of Ofgem's customer communications principles-based rules.<sup>20</sup>

## **Interventions to address pricing**

### **Q26. Do you agree that the regulator should have powers to mandate and enforce price transparency? Can you foresee any unintended consequences of this?**

Citizens Advice found that information from heat suppliers regarding tariffs and pricing is seriously lacking<sup>21</sup>. Many suppliers do not share what is included in the cost of their heat services and it can even be difficult to get information on unit prices and fixed costs of heat supply. Without such information consumers cannot understand how to best utilise their heat supply in the most affordable way.

It is inconceivable that in 2020 customers cannot access information about the tariff for any product and/or service that they pay for. Heat suppliers must be obliged to provide this information and ensure that any updates are published and explained in a timely manner.

### **Q27. What are the current barriers to publishing and maintaining accurate information on fixed charges, unit rates and tariffs? What are the main reasons for information on pricing not be available at present?**

No answer.

### **Q28. Do you agree that there should be clear, consistent rules on what costs should be recovered through fixed and variable charges?**

Yes. In an Information Request (IR) published in 2016, Citizens Advice found that the heat suppliers surveyed recovered costs through different aspects of the bill and also calculated costs using different methodology (CPI v RPI).

The way in which costs are calculated and recovered should be consistent across the market and those rules must be accessible to consumers to help them understand what they are paying for and why. Furthermore, a consistent

---

<sup>20</sup> SLC 31E-I

<sup>21</sup> Citizens Advice blog on [lack of transparency in heat networks](#), 2018

approach will be essential for allowing comparisons across the heat network market.

**Q29. Do you agree that the regulator should have powers to undertake investigations on pricing and to enforce directions and remedy actions, where there is sufficient evidence that these could lower prices for consumers?**

Yes. However, it will be important to provide further clarity on what might constitute 'sufficient evidence' and how this evidence might be accepted by the regulator. Many heat network customers feel stuck and disempowered. This, therefore, may have an impact on their inclination to highlight concerns, especially to the regulator.

Currently, it is unclear whether there will be a consumer advocate to represent consumers in the heat market. For gas and electricity consumers, the statutory consumer advocate plays an important role, referring issues to the regulator. Contacts to the Citizens Advice Consumer Service and the Extra Help Unit are used to identify and highlight evidence of consumer detriment and poor company performance. This includes highlighting concerns that are either about company specific practice, or market wide, systemic problems. A consumer advocate for the heat networks market is essential and will be critical to providing necessary monitoring to support the regulator to take action to protect consumers.

**Q30. Do you agree that price regulation in the form of a price cap or regulation of profits should not be implemented at this point in time? Please explain your answer.**

Citizens Advice provided qualified support for the 'principles based approach' proposed by the CMA and remains of the view that it is preferable to a price cap at this time.

While Citizens Advice has supported the introduction of price caps for gas and electricity consumers, we recognise that the heat networks sector encompasses a large number of small suppliers and is highly heterogeneous, with different networks facing significantly different upfront and operating costs. In electricity and gas, the regulator only has to adjust its price cap for the different cost to serve of 14 regional networks – each of whom serve hundreds of thousands, or millions, of households. Conversely, there are around 14,000 heat networks, each of which will typically serve a much smaller number of households.

This means that any attempt to set network-specific price caps in heat would be far more difficult, and is likely to be far less proportionate, than it is in electricity and gas. An alternative approach of setting the same price cap for all heat networks would avoid that complexity, but would not reflect the individual cost differences between them. This could mean that even if it was set at, on average, the right level, it might be too high or too low for any individual network – exposing either consumers or the asset owner to detriment.

There are differences between the electricity and gas price cap, and any potential heat price cap, on the risk of detriment were prices to converge around the cap.

Firstly, in the case of the electricity and gas caps, these were set at a level below the prevailing average prices charged by large suppliers. This meant that even if prices had converged around the cap consumers would still have benefitted (e.g. because the convergence could only have been downward). But in the case of heat, both of the benchmark gas comparators the CMA used in its analysis were set above average heat prices. Because of this, if a price cap was set based upon either benchmark, there is a risk that price convergence could push prices upwards.

Secondly, in the gas and electricity market, the risk of SVT prices converging at the price cap is also mitigated by customers' ability to shop around for a better price. As heat network customers are not afforded the same opportunity to switch, the risks that price capping will lead to consumer detriment are more acute.

The CMA noted that, in the Netherlands, an interim price cap on heat network prices benchmarked against the price of gas on a household boiler saw supplier prices converging at the price cap. Given that the CMA found that most UK heat networks are currently priced below the CMA's two gas-boiler based comparators (around 90% below Comparator 1 and around 80% below Comparator 2), with many priced significantly below (54% of networks charged less than half of Comparator 1) convergence at a price cap benchmarked against gas boilers in the UK could lead to significant consumer detriment through an increase in prices for some consumers.

Citizens Advice remains concerned that some specific heat network customers – who have even less market power than prepayment customers in the gas and electricity markets – might be left behind in the current wave of consumer protections and market reforms. In its consumer survey, BEIS notes that some heat network customers are “paying more than £1,000 or even £2,000 per year”.

<sup>22</sup> We will therefore be monitoring the evolution of any new regulations carefully. If the new regulations leave any customers on heat networks paying more for their heating than similar customers protected by the prepayment meter cap, it will be an important signal that the new regulations are failing some consumers and need to be further developed. Because of this, and notwithstanding the above, we support the proposal in the consultation that the Secretary of State should be able to direct the introduction of price regulation. While the case for price caps is not persuasive now, that situation could change, and the existence of such backstop powers could provide a useful deterrent to unfair pricing.

In the absence of price caps there is a need for more clarity on what powers the new heat regulator will have to take action against networks that are pricing unfairly. The CMA suggested a principles based approach, including self-reporting and the creation of a regulator who is able to investigate complaints that rules or guidance have not been followed.

That approach is logical but logistically difficult. There are currently around 70 electricity and gas suppliers, but there are over 2,000 operators of heat networks. This will create challenges for the new regulator. It may need to intervene in a larger number of smaller cases than utility regulators have traditionally been used to. Similarly, the ability of the regulator to build up a working relationship with – and understanding of – the suppliers it regulates will be challenging when there are so many of them, and they are often small. This landscape is somewhat different from the one that Ofgem is used to in the gas and electricity markets and it would be useful to conduct a gap analysis to understand the extent to which its ways of working may need to alter to adopt oversight of this new market.

**Q31. What might cause price regulation to become an appropriate intervention in the future? What evidence would be required to demonstrate this?**

As noted in our response to question 30, above where we see heat customers paying more for their heating than similar customers protected by the prepayment meter cap it might signal that further assessment of the regulations, and therefore the pricing element, is required.

We also note in our response to question 29 the importance of a statutory consumer advocate to monitor heat suppliers and highlight issues causing consumer detriment to the regulator, including consumer contacts relating to

---

<sup>22</sup> Page 4 [BEIS Heat Networks Consumer Survey \(Results Report\)](#)

the price that people pay for heat. Heat, like energy, is an essential service which means vulnerable consumers must be adequately protected and represented. This will be especially important when it comes to heat pricing and the regulator should have access to referrals from vulnerable consumers by a statutory consumer advocate.

## Quality of service standards

**Q32. Do you agree that consumers on heat networks should have comparable levels of service and protection as consumers in other regulated utilities? How do we ensure the associated compliance costs of such protections remain proportionate?**

Citizens Advice agrees that consumers on heat networks need comparable levels of service and protection as other regulated utilities. It will be important that given the longer lifetime and contracts for heat networks that consumers are made aware of any significant or material changes to their heat network scheme that may impact on their customer experience such as a new energy centre or meter changes.

**Q33. Do you agree that minimum standards should be outcome-based to allow the regulator scope to implement these flexibly and proportionately depending on the size and nature of different schemes? Are there other ways these outcomes could be achieved?**

Yes.

## Approaches for mandating technical standards

**Q34. Do you agree that all new schemes should be subject to minimum technical standards (once developed), given the potential impact on system performance and end consumers?**

Yes. System performance and efficiency plays an important role in delivering good outcomes for consumers, not only financially but also in terms of reliability. Forthcoming research undertaken by Citizens Advice on low-carbon heating systems shows that consumers want their heating system to deliver “at least as good” an experience as they perceive conventional heating systems do. This means a reliable system that delivers heat and hot water when they need it, and that it is affordable to run.

Good technical standards will help to ensure that consumers expectations are met and that heat networks provide a good customer experience, leading to an improved perception of the sector.

**Q35. How could we ensure the impact of minimum technical standards on new small communal networks is proportionate?**

No answer.

**Q36. Do you agree that regulated entities should demonstrate they are compliant through an accredited certification scheme?**

No answer.

**Q37. What do you consider to be the most appropriate approach to setting the technical standards?**

No answer.

**Q38. Are there examples of the roll out of technical standards or the introduction of compliance schemes which you consider particularly relevant from other markets or technologies?**

No answer.

## **Rights and powers**

**Q39. Do you agree that a (licensed) heat network entity should be classified as a statutory undertaker?**

Citizens Advice agrees that licensed entities should be classified as statutory undertakers.

**Q40. Do you agree that the proposed rights and powers should be given to heat network entities which meet the terms of our proposed licensing system?**

Yes, the proposed rights and powers for heat network entities that are licensed seem reasonable.

**Q41. Is it reasonable to assume that the proposed rights and powers would only be relevant to district heat networks (not communal networks)? If not, please explain why.**

Yes. It is not clear why communal networks would require additional rights and powers.

**Q42. What impacts will the proposed rights and powers have on the development and extension of heat networks? And what impacts do you think these rights will have on the operator's ability to maintain and repair heat networks?**

No answer.

## **Access rights**

**Q43. Do you agree that licensed heat network entities should be granted statutory access rights?**

Citizens Advice agrees that it is reasonable to grant licensed entities the same statutory access rights as those afforded to licensed gas and electricity suppliers.

**Q44. Do you agree that the process should be similar to that for electricity and gas companies, in that the licensed heat network entity will have to make an application to the responsible minister for the easement and that any compensation arrangements will be determined by the Tribunal Service?**

Yes.

**Q45. Do you agree that these access rights would primarily be used to install and maintain pipework, or do you anticipate they could be used for other purposes?**

Citizens Advice agrees that these rights should be used for installing and maintaining pipework and we are unsure what additional purposes they should be used for. We would caution against the use of such access rights too broadly.

## Street works

**Q46. Would you consider the ability to apply for a street work permit a considerable benefit compared to a Section 50 Street Works licence? If so, in what way?**

No answer.

**Q47. Do you have any experience of applying for a Section 50 Street Works licence? Did you find this delayed either construction or repair and maintenance work required?**

No answer.

## Rights to lay pipes under the roadway

**Q48. Do you agree that heat networks should be given equivalent powers to other utilities to install and keep heat networks pipes underneath roadways? Are you aware of any potential unintended consequences?**

Yes, this proposal seems reasonable for those licensed heat suppliers in order to avoid delays and cost-overruns to developments that may impact on consumers.

## Permitted development rights

**Q49. Do you agree that licensed heat networks developers should have permitted development rights similar to other statutory undertakers? Are you aware of any potential unintended consequences?**

No answer.

**Q50. In addition to permitted development rights specified (install or replace pipes or electricity cabling; erect small temporary structures and small ancillary buildings, machinery or apparatus), is there any other development to facilitate the installation and maintenance of heat networks to which a permitted development right should apply?**

No answer.



## Consultation rights

**Q51. Do you agree that the administrative burdens of being statutory consultees would be disproportionate for heat networks?**

Yes. It is not clear why heat networks would require the status of statutory consultee.

**Q52. Beyond improving the guidance on non-statutory consultees, do you think that there are any other areas of government guidance that could be improved to ensure that heat networks are more routinely consulted on relevant development in their areas?**

No answer.

**Q53. Do you believe that licensed heat network developers should be given equivalent rights to cross linear obstacles? Can you provide examples of where such rights would be beneficial to heat network development?**

It would seem sensible that licensed heat network developers have the same rights as other utilities to cross linear obstacles in order to prevent time delays and cost-overruns that consumers of heat networks would ultimately end up paying for. We have no comment on potential examples.

## Decarbonisation of heat networks

### Consumer information

**Q54. Do you agree that consumers should have access to information on the energy performance and percentage of low-carbon generation of their network?**

Heat networks have been identified by the Committee on Climate Change (CCC) as one of the key technologies to deliver the decarbonisation of heat in the UK. This is the central reason their development is being actively encouraged through support programmes such as the Heat Networks Investment Programme (HNIP) and via planning regimes such as the London Plan.

If consumers are to be expected to transition to heating systems that they have little choice over then the benefits of doing so need to be clear. One of the key benefits regularly cited in support of heat networks is their higher efficiency and lower carbon credentials. If consumers are to have confidence in these claims,

heat networks should be obliged to make the details of their energy performance and percentage of low-carbon generation publicly available.

It is important to note that this may change over time and heat networks should keep this information up to date and available to its customers.

## **Regulation of decarbonisation**

**Q55. Do you agree that regulation is necessary to encourage decarbonisation of heat networks over the period to 2050? Are there alternative means by which government could act to support the decarbonisation of heat networks?**

The majority of new heat networks being developed and installed are fuelled using gas-fired CHP. While this currently provides a carbon saving when compared to the conventional alternatives there are two important things to note.

Firstly, the relative carbon savings of heat networks on CHP will reduce over time as grid electricity becomes less carbon intensive, and also the gas network will ultimately need to be either wound down or repurposed.

Heat networks need to be incentivised to plan ahead to ensure their networks help to deliver on net-zero commitments and this has to include moving away from natural gas-fired CHP. Regulation is a necessary step to support the sector to move towards lower carbon alternatives.

Secondly, it will be important that consumers on heat networks reliant on CHP do not get stranded on the gas network. As the number of customers on the gas network reduces there is a danger that costs will increase significantly. Heat networks customers will be unable to switch to alternative, potentially cheaper, sources of heat themselves. Therefore, it will be critical that heat network operators have made the move away from gas in a timely manner.

## **Waste-heat sources**

**Q56. How could the Environmental Permitting Regulations be amended to ensure that waste-heat sources connect to networks when it is cost-effective and feasible to do so? What do you consider are the main barriers for waste heat sources to be connected to heat networks?**

While we have no comment on how the Environmental Permitting Regulations could be amended we would like to add a word of caution regarding the use of waste heat sources for heat networks.

Encouraging the use of waste heat from industrial processes has the potential to extract more value from energy intensive processes which is to be welcomed. However, Citizens Advice is concerned about the inclusion of heat from the incineration of waste. Energy from waste remains a controversial topic in the climate change debate and for the purposes of heat networks it would not deliver low-carbon heat.

**Q57. Which sources of industrial and commercial heat could government bring within the scope of the Environmental Permitting Regulations in addition to the sources already being identified?**

No answer.

# Good quality, independent advice. For everyone, for 80 years.

We give people the knowledge and confidence they need to find their way forward - whoever they are, and whatever their problem.

Our network of charities offers confidential advice online, over the phone, and in person, for free.

With the right evidence, we show companies and the government how they can make things better for people.



**[citizensadvice.org.uk](https://citizensadvice.org.uk)**

Published February 2018

Citizens Advice is an operating name of The National Association of Citizens Advice Bureaux.

Registered charity number 279057.