

## **Anonymised submission**

### Schemes where an ESCO are appointed

In the 'statement of issues' published in July 2014 (point 4) you ask for interested parties to identify any areas that may benefit from review as part of your project work.

We believe that it would be worth looking into the workings of the Energy Supply Companies (ESCOs).

Where a new build development has communal or district heating, but where the landowner or freeholder is the developer, as opposed to a site that is owned by a housing association as example, the developer will generally appoint an ESCO.

The ESCO will take responsibility for the communal or district heating system (or combined heat and power plant where it exists), including the plant, the pipe network and all other infrastructure associated. They will procure the 'raw energy' and use it with the communal plant to generate heat and hot water (and electric in some cases). Metering and billing will be done either by the ESCO directly, or by a sub contractor (a metering and billing agent).

In these cases, the resident has no choice as to who supplies their heating and hot water, as they're tied to the ESCO. The ESCO's contract will typically be a long term arrangement, often for a period of 40 years or so, in order to make the business case of operating the system financially viable. This means the resident, if residing in that property for 40 years, cannot change supplier for that period.

In some cases where residents of Association properties that are tied to an ESCO arrangement (section 106 sites), concerns around the fact that ESCOs are currently unregulated have been raised. These concerns principally revolve around the potential implications for kWh hour pricing to enable profit and so questions whether kwh rates are competitive, reasonable and/or comparative with the wider market.

By contrast, most housing associations being regulated by the Homes and Communities Agency and by virtue of their charitable statuses and objectives will ensure that where they are the heat supplier, they only charge residents a reasonable kwh rate – e.g. whatever it costs to buy the energy to produce the heat and hot water taking into account production costs equals the end rate the resident gets charged. There is no consideration for making profit here. However with an ESCO, there must be some consideration to making a profit in order to make their business viable. The issue is, is the profit mark up reasonable and whilst unregulated, this is not controllable and relies on the ESCO not taking advantage of the opportunity presented.

Regulation of this area would potentially enable this concern to be managed by introducing some level of cap as to any uplift for profit that can be charged. In addition it would be good if ESCOs were made to be transparent about the cost of them providing energy against the amount they charge for it. This is considered important given the issues around fuel poverty and when considering that new build social housing will often be as part of section 106 / land deals on larger, 'private' development sites – where district heating and the use of an ESCO is likely.