

12 January 2018

CMA market study to examine heat networks - statement of scope

This submission was prepared by Citizens Advice. Citizens Advice has statutory responsibilities to represent the interests of energy consumers in Great Britain. 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.

Citizens Advice welcomes the opportunity to respond to the Statement of Scope for the CMA's market study into Heat Networks.

Energy use in the home, including heat, is an 'essential for life' service. It should be affordable, safe, accessible and fair for all.

At present, based on evidence directly from consumers to our consumer helpline, the domestic district heating sector does not appear to be delivering value for money or consistently good customer service for its customers. This situation is exacerbated by a number of factors including a lack of regulatory scrutiny or intervention and a clear disparity in consumer protections compared to the traditional electricity and gas markets. The CMA recognises that due to the monopolistic nature of heat networks there are limited options for consumers to take control, actively engage and switch supplier: given the Government's support for delivering new heat networks¹ it is vital that the key issues within this market are tackled. It is important to strive toward a better functioning heat market with stronger consumer protections and clearer expectations of suppliers in

¹ Through the Heat Networks Development Unit and the Heat Networks Investment Project funding.

relation to price, billing, transparency and customer service. We welcome this timely intervention by the CMA.

Theme 1 - Transparency

Information and advice is critical to ensure that consumers are able to make informed decisions (for example when making important financial decisions such as buying or renting a home). It has been our experience that customers on heat networks do not often receive adequate information prior to occupying a property and in some cases receive no information at all.

Citizens Advice recently carried out an assessment of 7 private heat suppliers² and found that the information available to consumers via their websites was lacking in even basic information such as contact details for an emergency.

Therefore, we believe a thorough investigation of this aspect of the heat customer journey is an important part of this market study.

Evidence collected from consumers via focus groups will be valuable but we would recommend this be supplemented, where possible, with checks on the information provided by sales offices and letting agencies advertising properties on heat networks. This could potentially be achieved through a mystery shopping exercise.

Based on our extensive experience of billing in the gas and electricity market, Citizens Advice agrees that the development of a regulatory regime for the transparency of billing would be a welcome intervention. Any remedies to address transparency in this area should deliver bills that are easy to understand, available in different formats appropriate to individual customer needs and signpost to organisations providing advice and redress. Any remedy in this area should be applied consistently across the sector with enforcement for non-compliance.

Theme 2 - Monopoly supply of heat networks

The main concern of Citizens Advice when it comes to the natural monopoly that heat networks hold is the lack of control that consumers have over key aspects of their supply.

² Citizens Advice (2017), *Heat network customers deserve better customer service*, <https://wearecitizensadvice.org.uk/heat-network-customers-deserve-better-customer-service-dbb8d5b0ef8f>

Whilst it is not possible for consumers to switch in order to demonstrate dissatisfaction with a supplier or find a better deal, there are other aspects of heat networks that could benefit from closer inspection to improve the market.

Tariffs and pricing structures generally mean that consumers are unable, through changes in consumption, to reduce their bills. High capital costs and developer/operator relationships have led to their being little flexibility for suppliers to offer tariffs that enable customers to make the most efficient and affordable use of their heat supply. As a result, over the years, there have been circumstances when consumers have contacted Citizens Advice about exceptionally high, and patently unaffordable, bills for consumers³.

In addition, we also have concern about the extent to which back-billing affects customers, often when there has been a metering issue that is no fault of the consumer. Heat networks do not have to adhere to any rules around back-billing, and all approach this issue differently.

Last year, Ofgem launched a project to examine the regulatory framework governing back billing in electricity and gas, with a 'minded-to' position that licence obligations are required to tackle problems in this area. Billing issues remain the number one area of complaint to both Citizens Advice and Ombudsman Services: Energy, in relation to gas and electricity⁴. Catch up bills (of any length) make up 15% of energy cases dealt with by the Citizens Advice consumer service. The back billing principle - that consumers should not be charged for usage more than a year old if the gas or electricity supplier is at fault for not billing properly - is designed to protect customers from the worst impacts of catch-up bills. The Extra Help Unit (EHU), our service to support vulnerable customers with gas/electricity complaints, has seen an increase in cases where this principle has not been applied. These cases have often taken extended periods of time to resolve, compounding the distress caused to the consumers involved. Consumers experience these issues in heat but with little/no support available, and no parity across heat networks about how to treat consumers who have been sent 'catch up' bills⁵. Citizens Advice believes there is a strong case that such a code should be considered for the heat sector.

³ We have in the past shared the detail of some of these bills with the CMA.

⁴ <https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-consultation-responses/response-to-ofgems-open-letter-to-launch-a-project-to-protect-consumers-from-back-billing/>

⁵ We will share this information with the CMA under separate cover.

Theme 3 - Outcomes for consumers

The cost of heat is the key issue that heat network consumers contact the Citizens Advice consumer service about. Consumers are especially concerned about the high costs of standing charges that they are powerless to control. In addition, they find it confusing to have to pay such high fixed charges when their consumption is low.

Citizens Advice has found that the formula used by heat suppliers to calculate different aspects of the customer bill varies dramatically. There is no consistency across the sector and this calls into question the fairness of heat pricing in the market⁶.

This leads to a high level of variance in prices across the market. Any averaging of costs across the sector hides the high level of detriment that is being faced by some consumers. These high costs and inequity make the issue of switching more important to heat customers than it otherwise might be.

Citizens Advice recommends that the CMA closely considers the impact that this is having on consumers and considers carefully the need for potential remedies that will set effective rules to control heat prices. Any remedies should ensure that heat prices are able to be clearly demonstrated to consumers as being comparative with the costs of maintaining and operating conventional heat supply. This will be critical to delivering and maintaining consumer confidence in this sector.

⁶ Citizens Advice (2017), *District heat networks 2: analysis of responses from private heat suppliers*, [https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/District%20Heat%20Networks%20IR%20Report%20%20\(May%202017\)%20-%20FINAL.pdf](https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/District%20Heat%20Networks%20IR%20Report%20%20(May%202017)%20-%20FINAL.pdf)