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L&Q Response TO CMA Questions for Heat Networks Market Study

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Theme 1: Transparency	L&Q Response
<p>Do you think that the potential remedies we are considering are appropriate? (Paragraphs 59 and 60)</p> <ul style="list-style-type: none"> • What are the potential benefits / risks in implementing such remedies? • How should they be designed to maximise benefits? • Are there other remedies that we should be considering? 	<p>Pre-Transaction Transparency</p> <p>All of our residents are asked to sign documentation specifically to agree that they understand there is an energy centre on site, and have built heat supply into our tenancy agreements. We would support set requirements on what is required at pre-move in stage.</p> <p>Thought would need to be given to how the costs associated with being a heat network customer are communicated. Often, residents assume or are told that their bills will be lower than if they were on a gas boiler, or they assume they will pay no more than the estimate on their EPC, whereas often this is not the case due to the costs associated with provision of heat. The total heat cost will be largely dependent on consumer lifestyle and how the energy is used.</p> <p>Transparency of Billing</p> <p>We would welcome a stronger regulatory framework around billing and metering. Stronger and clearer enforcement of the Heat Networks Regulations and what the requirements are of heat providers would be very helpful in this area.</p> <p>We have concerns about any requirements in future to retrofit unit level metering to existing schemes; we believe in principle it is a good idea for helping heat users manage their energy use, but may not be suitable in all situations such as very small blocks or sheltered housing,</p>

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	<p>or where there is a risk of under-heating, mould & damp. But, this needs to be paid by someone and ultimately it will be the consumer.</p> <p>Billing methodologies are changing with the sale of heat. The UK population are generally used to gas and electric utility bills. System efficiencies will hugely affect the cost of operating the systems. Scandinavian heat customers are used to return temperature billing and will contact operators to inform them when return temperatures are high. Bills for UK heat customers can currently hide inefficiencies in current form, but maybe this should be regulated rather than having more transparent bills? Electricity and gas tariffs are not always transparent, but we are able to rely on Ofgem.</p> <p>We feel it is worth considering whether increased transparency creates more questions from consumers.</p>
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Theme 2: Monopoly Supply	L&Q Response
<p>Do you think that the potential remedies we are considering are appropriate? (Paragraphs 69 to 71)</p> <ul style="list-style-type: none"> • What are the potential benefits / risks in implementing such remedies • How should they be designed to maximise benefits? • Are there other remedies that we should be considering? 	<p>Customer Switching</p> <p>It is certainly true from speaking to our customers that there is some concern about being a monopoly supplier and we believe that long term, a competitive market would be beneficial to residents and to the heat networks market more generally. At the moment, we find it difficult to see how this could be implemented due to the diversity of contractual arrangements in place between ESCOs and building owners and between landlords and tenants.</p> <p>L&Q have tried to reduce customer detriment by managing networks ourselves rather than sourcing out to an ESCO, as generally our costs are lower than the ESCOs. However that still means that customers pay the tariffs set by L&Q and effectively have no choice in this.</p> <p>Leasehold Blocks</p> <p>A significant challenge that we have as an RSL is that, on some schemes, we are the leaseholder on a wider scheme- ie. we own one block, but the heating & hot water is provided by the Freeholder somewhere else on the development. There is very little to force the Freeholder to operate the system efficiently, or to install a block level meter (as the Heat Network Regulations currently don't have enough bite to them). This means that we as the landlord have reduced control over the tariffs and service residents receive. It would be welcomed if this study could make recommendations on this area.</p> <p>Maybe the ultimate goal would be to get to something similar to the gas or electricity markets; generator, distributor and supplier. We appear to be a long way from this. Could it be simplified to generator and distributor/supplier?</p>

Theme 3: Outcomes	L&Q Response
<p>Do you think that the potential remedies to control outcomes directly are appropriate? (Paragraphs 75 to 77)</p> <ul style="list-style-type: none"> • What are the potential benefits / risks in implementing such remedies • How should they be designed to maximise benefits? <p>Are there other remedies that we should be considering?</p>	<p>Tariffs</p> <p>We are already setting our tariffs, not in line with costs for each specific site (as this is very complicated to manage and penalises residents on smaller or less efficient schemes), but at a standard across multiple schemes, and believe this is the correct approach for our portfolio and customers. However this tariff is set according to our internal business model, and there may be challenges in widening this to cover multiple organisations due to different business models and breakdowns of costs eg- what goes into standing charges and what is paid via service charge.</p> <p>We set our tariffs at a level which we feel is competitive and comparable to a traditional gas fuelled property. What needs to be considered is the service level that is provided with the tariffs; maintenance, replacement, breakdown cover etc.</p> <p>It is worth bearing in mind that anything such as added annual statements, smart metering and retrofitting meters where they are not currently in place has a cost associated, which would have to be passed on to residents. In the past, we have subsidised residents’ costs due to the high costs associated with running some of the networks.</p> <p>Service Levels</p> <p>The limited number of competent maintenance sub-contractors makes management of heat networks something of a challenge, and we would strongly welcome the recommendation of any incentives to improve technical and specialist skills within the sector.</p> <p>Non-performance and failed SLAs should have financial penalties.</p>