



Sector Regulation Unit
Competition and Markets Authority
Victoria House
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Head Office
Inveralmond House
200 Dunkeld Road
Perth
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Dear Sir or Madam

CMA Heat Networks Market Study – Statement of Scope dated 7 December 2017

We welcome the opportunity to contribute to the Competition and Markets Authority's ("CMA") Heat Networks Market Study.

SSE is a UK-listed company and the broadest based utility operating in Great Britain with separate retail, wholesale, networks and enterprise businesses. SSE's core purpose is to provide the energy people need in a reliable and sustainable way.

SSE Enterprise Utilities ("SSEEU") has a strong track record of investing in, and delivering, infrastructure to meet Britain's needs. We design, build, operate and maintain utility networks, and work with developers, housing associations and local authorities on a mix of residential, commercial and industrial developments throughout the UK.



SSEEU currently owns and operates 13 heat networks across the country, serving in the region of 7,000 end users. Our portfolio includes a network on the Wyndford Estate in Glasgow, which is the UK's largest retrofitted heat network. When these existing networks are fully built out, we expect to have between 15,000 and 20,000 heat network customers.

Set against this backdrop, we welcome the CMA Market Study as we recognise that heat networks form an important part of the Government's plan to reduce carbon from heating and / or reduce heat bills for consumers.

In our submission, we have sought to summarise our views on the three broad themes that have been identified by the CMA. Our detailed response to the specific questions posed is set out in Appendix One.

SSEEU is committed to providing our Heat Network customers with excellent customer service and has created a bespoke Customer Services Team to ensure this. We are a founder member of the Heat Trust, which provides customer protection for district heating networks, and we continue to work with them to establish customer protection guidelines and protocols.

We would be happy to discuss our submission with the CMA in further detail to inform its emerging thinking on the issues.

Yours faithfully

Clare Cantle-Jones
Regulation Manager
SSE

Appendix One – Responses to Statement of Scope Questions

Theme 1: Transparency

1. Are consumers given sufficient information on heat networks before their decision to buy or rent a property that has a heat network?

SSEEU prepares information which we ask developers to provide to incoming tenants and/or potential purchasers pre-sale. This includes tariff information, user guides, fact sheets, sample customer contracts and frequently asked questions. However, as we have no contractual relationship with the consumers at the point of purchase or prior to moving in, we are unable to ensure that the developer/sales teams share this information with the potential consumers. Subsequently, we have been made aware - via the receipt of complaints from incoming customers - that they were not made aware of tariffs or supply arrangements until they receive first bills from SSEEU.

In addition to the information that we ask developers to provide to prospective heat customers, SSEEU regularly provides realistic samples of its Heat Interface Units, metering information and customer interfaces for developers to use in their sales offices. We have also provided training for developers' sales agents

SSEEU therefore proposes that, at the point of purchase and/or prior to moving in, the property developer (working with the provider of the heat networks) should be responsible for providing sufficient information to potential customers (be they tenants or owners) on the workings of the heat networks. We understand that the Associate of Decentralised Energy (ADE) is looking to make improvements in this area, by, for example, developing best practice 'templates' under the Heat Trust, so that the supplier of heat will be obliged to provide certain pre-determined information to the end consumer.

2. To what extent are consumers able to assess and act upon information regarding heat networks prior to purchasing a property?

As stated above, SSEEU make efforts to provide information to the developers' sales teams, however we have no influence over whether this is passed on as part of the sales process. We also provide information on our website under the Community Energy section, with regards to heat networks. The developer of a heat networks may be better placed to answer these types of questions.

3. To what extent is information on the costs of heat networks made clear to customers in bills?

SSEEU is committed to ensuring that our bills for our Heat Network customers are as clear and concise as those provided to regulated electric and gas customers.

4. Do you have views on our proposed approach to data collection and analysis?

We welcome the CMA's approach to data collection and analysis, and would be happy to provide any assistance as required.

5. Do you think that the potential remedies we are considering are appropriate? What are the potential benefits / risks in implementing such remedies and how should they be designed to maximise benefits? Are there other remedies that we should be considering?

Further to our comments above, SSEEU welcome the suggested remedies, and, as previously stated, would suggest that further consideration be given to the provision under the Buildings/Landlord and Tenant regulations regarding heat networks.

Theme 2: Monopoly supply

1. Do heat networks exhibit natural monopoly characteristics (high fixed costs; economies of scale; barriers to further local entry to compete for existing customers)?

Heat networks require investment of substantial upfront costs and have a requirement for predictable demand to make the initial investment worthwhile; hence, whilst a heat network may lend itself towards restrictions for the consumers', the onus is on the developer to ensure that its customers' receive the most competitive prices. There may, however, be areas, that - with the appropriate level of regulation - could be opened to competition, for example billing or metering.

2. To what extent are consumers able to switch from their current heat network providers to alternative heat network operators or to alternative heat sources? What are the key factors (contractual and / or technological) impeding consumers from switching?

As previously stated, where customers that are connected to SSEEU Heat Networks, do not want to maintain their supply, we do allow them to disconnect, although it is then down to the customer to source alternative forms of heat.

3. How do commercial and financial incentives at different levels in the value chain affect the decisions of builders, operators and residents?

SSEEU believe that a focus on improved design and transparency of heat network systems will improve performance, operability and the understanding of the heat network systems and it will also lead to significant improvements in the consumer's experience of heat networks. Increased standards, driven through a better understanding of heat network systems and standardisation in the design and management of such systems should incentivising developers to install efficient and optimal systems



4. Do you have views on our proposed approach to data collection and analysis?

We welcome the CMA's approach to data collection and analysis, and would be happy to provide any assistance as required.

5. Do you think that the potential remedies we are considering are appropriate? What are the potential benefits / risks in implementing such remedies and how should they be designed to maximise benefits? Are there other remedies that we should be considering?

Further to our comments above, SSEEU welcome the suggested remedies, and, as previously stated, would suggest that further consideration be given to the provision under the Buildings/Landlord and Tenant Regulations regarding heat networks.

Theme 3: Outcomes

1. Are heat network prices reasonable, and is quality of service and reliability adequate, when compared with alternative heat sources and/or operating costs?

SSEEU is committed to providing our Heat Network customers with excellent customer service and has a bespoke team in place to ensure this. We are a founder member of the Heat Trust, which provides customer protection for those supplied by registered heat networks. We continue to work with them to establish customer protection guidelines and protocols. Naturally, there will always be an opportunity for "continuous improvement", and we welcome any suggestions that the CMA may have on this point.

2. Do you have views on our proposed approach to data collection and analysis?

We welcome the CMA's approach to data collection and analysis, and would be happy to provide any assistance as required.

3. Do you think that the potential remedies to control outcomes directly are appropriate? What are the potential benefits / risks in implementing such remedies and how should they be designed to maximise benefits? Are there other remedies that we should be considering?

SSEEU is committed to providing our Heat Network customers with optimal customer service and has a bespoke team in place to ensure this. We are a founder member of the Heat Trust, which provides customer protection for those supplied by registered district heating networks, and we continue to work with them to establish and improve customer protection guidelines and protocols.

At the Point of Purchase/Prior to Moving In

SSEEU propose that, at the point of purchase and/or prior to moving in, the property developer (working with the provider of the heat networks) should be responsible for providing sufficient information to its potential consumers on the workings of the heat networks.

In its role, SSEEU prepares fact sheets, and sample customer contracts, that we ask the developer to share with any potential purchasers. However, as we have no contractual relationship with the consumers at the point of purchase/prior to moving in, we have no means of making sure that this information is passed on to the eventual purchasers.

We understand that the Association of Decentralised Energy (“ADE”) are looking to make improvements in this area by, for example, developing best practice ‘templates’ under the Heat Trust, so that the supplier of heat will be obliged to provide certain pre-determined information to the end consumer.



In addition to this, SSEEU regularly provide realistic samples of our Heat Interface Units; metering information; and customer interfaces for developers' to use in their sales offices. We have also provided training for developers' sales agents and/or housing officers to ensure that consumers are provided with sufficient information on the purpose, intention and workings of heat network developments.

SSEEU understands that developers and private landlords have an obligation under Section 20 of the Landlord and Tenant Act to consult with prospective purchasers on proposed heat charges and, therefore, we suggest that such obligations and the adherence to them, should form part of this study.

During Residency

We support the suggestions made by Citizens Advice and Citizens Advice Scotland to provide statutory protection measures on billing and metering. We note that National Measurement and Regulation Office ("NMRO") regulation already provide some requirements for the format and content of heat billing and SSEEU is supportive of a further extension in this area.

In order to provide consumers with increased certainty on heat network charges, SSEEU currently 'mirrors' the Guaranteed Standards set out by Ofgem in relation to 'direct' energy billing for its Heat Networks customers, along with the requirements set out as part of our membership of the Heat Trust. In addition, our heat network billing arrangements have a fixed methodology for annual price changes which gives a degree of certainty to Heat Network consumers.



Natural Monopoly Characteristics

Heat networks require investment and, moreover, a commitment of substantial upfront costs and, therefore, a developer will generally have a requirement for a predictable level of demand; hence the heat network lends itself, to an extent, towards a monopolistic situation. However, the onus is on that developer to ensure that its consumers' receive the most competitive prices at all times or risk reputational damage to itself and the heat supplier; which lead to negative media coverage and a reduction in sales. That said, there may be areas that, with the appropriate level of regulation, could be opened to competition, for example, heat generation; billing or metering.

Constraints on Customer Switching

SSEEU allows customers that are connected to our heat networks, and who no longer require their supply from us, to disconnect. However, the customer is then responsible for sourcing an alternative form of heat.

Misaligned Incentives

SSEEU believe that a focus on improved design and transparency of heat network systems will improve performance, operability and general understanding of the heat network systems' and it will also lead to significant improvements in the consumer's experience of heat networks. For example, improved standards could be implemented via the Building Regulations to incentivise developers' to install the most efficient and optimal systems on both new build and retro-fit systems.

In addition, in our experience, an energy services company (ESCO) model whereby one entity has responsibility / control over the design and commissioning of an integrated heat network (i.e. including operations & maintenance and Customer Services) and tariffs will help to ensure that the consumers' needs are placed at the forefront of the Developers' mind.