



Heat Networks Team,  
Competition & Markets Authority,  
Victoria House,  
Southampton Row,  
London,  
WC1B 4AD

21<sup>st</sup> May 2018

Dear Sirs,

### **Heat Networks Market Study**

Thank you for the invitation to respond to the above paper. Bristol Energy is an independent supplier of electricity and gas with a business model that has a regional focus on the South West of England, although we supply customers across Great Britain. We have a mission to fight fuel poverty and be a force for social good.

#### Executive Summary

Bristol Energy strongly supports the CMA's view that heat networks need to be regulated. As a licenced supplier of electricity and gas to domestic customers in a competitive market we are concerned that, compared to the market we operate in, the level of customer protection in the heat market is poor, especially when customers do not have the option of switching their supplier. As a company with a mission to fight fuel poverty, we are particularly concerned about the impact on vulnerable customers of this lack of customer protection in regulations.

As we are not involved directly in the heat network market, we have answered your specific questions on regulation only, expanding our response where necessary.

#### **Q4. Do you have views whether heat networks should be regulated? If you agree that they should be, please provide any views on which body might be best placed to act as a sector regulator?**

We strongly support the view that heat networks should be regulated. Electricity and gas licensees have obligations placed on them to treat customers fairly, and have particular regards for vulnerable customers. They are required to bill customers accurately and have recently had imposed conditions around back billing customers more than 12 months. Currently heat networks have no such requirements, and yet are monopoly businesses.

We are particularly concerned that many heat networks serve vulnerable customers, both in terms of those that require heat for their wellbeing, such as the elderly or people with medical conditions aggravated by cold, or those who are financially vulnerable and at risk of fuel poverty. Currently vulnerable customers of energy suppliers receive a level of protection far higher than those on heat networks, even though heat network customers, cannot if dissatisfied with their supplier, or the prices charged, switch.

With regards to the appropriate regulator, we believe Ofgem is best placed to regulate the market. It has experience of both regulating monopoly services such as gas and electricity distribution networks, and retail providers in the form of energy suppliers. A key benefit of placing the market under Ofgem's remit would be that it would be able to ensure customer protection parity between those heating their homes and businesses via electricity or gas, and those on heat networks.



We do not support giving powers to local authorities, principally on the grounds that several local authorities run or have a financial investment in local heat networks and would thus be self-regulating.

**Q5. If there is sector regulation, should it apply to all communal and district heating networks, all delivery models and existing as well as new networks?**

Where a heat networks serves any domestic customers or microbusinesses then we believe it should be subject to regulation. We would be less concerned about regulation of heat networks that serve business communities, particularly existing ones as the balance of power between customer and heat provider is more balanced.

**Q6. Do you have views on whether regulation of heat network prices to end customers is appropriate? If there was a form of price regulation, should it be a cap at a certain level, or a 'principle based' approach with self-reporting against permissible contract terms and a regulator to investigate complaints? What factors should determine the maximum level of prices?**

Given that customers of heat networks cannot change supplier and thus exert competitive pressure on the prices they are charged we believe price regulation is required.

The Government is currently passing through parliament a bill to place a price cap on energy suppliers for disengaged customers and it seems appropriate to use a similar mechanism for heat customers who are not "disengaged" but "unable to engage". Given that Ofgem has both experience of applying cost control on networks and retail energy price cap development, we believe the CMA should leave the factors in determining the cap to Ofgem in consultation with the industry. We would expect that Ofgem may conclude that a single cap is inappropriate and may design a matrix of caps that apply dependent on certain criteria such as size or location.

**Q7. Do you consider that any rules and guidance on pricing and quality should apply to all heat networks or, for example only those with ESCO's? Do you consider that it would be proportionate to ban 'capital contributions'?**

As stated above we believe any rules and guidance should apply to all heat networks serving domestic or microbusinesses. Heat networks serving larger commercial sites should be able to manage their own relationships with a heat provider.

We have no view on a ban on capital contributions, but believe, if allowed, they should not be an allowable cost of a heat network in setting a price cap.

**Q8. Do you have a view on whether heat network customers should have similar consumer protections to customers of regulated gas and electricity utilities?**

Given that dissatisfied heat customers are unable to change supplier in the way electricity and gas customers are able there is an argument that, if anything, consumer protection regulations should be greater for customers of heat networks. However, currently consumer protection for electricity and gas customers is over prescribed and Ofgem is looking to move to more principle based regulation, and thus we would support consumer protection regulation that creates an "equality of outcome" for heat and utility customers.

**Q9. Do you have a view on the recommendations described in section 7 that we are minded not to pursue (eg banning capital contributions from ESCOs to property developers, and mandatory re-tendering of heat network operating and billing contracts)?**



Given that the main recommendation is to put the industry under regulatory supervision, then we support the view not to pursue certain recommendations with the caveat that any regulator subsequently appointed can revisit these decisions should they feel the need to do so.

**Q13 to Q19 (Excluding Q16)**

We believe these would be best addressed by the new regulator in the form of licence requirements and the CMA should not take any action at present.

I hope you find this response useful. If you have any queries, please do not hesitate to contact me.

Kind regards,



Chris Welby  
Head of Regulation