

Competition and Markets Authority
Victoria House
Southampton Row
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31 May 2018

Energy UK welcomes CMA proposals to protect heat networks customers

Dear colleague,

Energy UK is writing to the Competition and Markets Authority (CMA) to welcome the publication of the CMA's update report and its provisional recommendation to regulate the heat network sector.

As the CMA will be aware, Energy UK is the leading trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our members offer a wide and increasingly diverse range of energy services, including the development and management of heat networks.

We are encouraged that the report recognises that heat networks can deliver lower bills for customers and help reduce the emissions produced from heating our homes and businesses. Heat networks could play a crucial role over the coming decades in meeting our emissions reduction targets, however, it is important that as the number of heat networks grows, these customers are afforded comparable protections as gas and electricity customers.

As most heat networks resemble natural monopolies, there is risk that customer choice is restricted. As such we support the recommendation to establish a statutory regulatory regime. Ensuring adequate customer safeguards, through a well-designed regulatory framework, will be an important first step in ensuring that we can deploy large-scale, low carbon heating in a way which best meets the needs of the customer.

Energy UK members consider a principle-based approach to regulation on pricing and service quality to be an appropriate and effective way to regulate the heat network sector, striking the right balance between protecting heat network customers without hindering the development of heat networks or stifling competition in the market. As part of this, we believe that the appointment of an independent regulator, such as Ofgem, will be important. As recognised in the report, ensuring that the regulator has appropriate experience and a suitable organisational structure will be important to ensure that effective monitoring and enforcement action can be taken.

Energy UK agrees with the findings of the CMA on the importance of considering the whole life costs of heating systems and that ongoing costs, over and above the cost to end users of alternative fuels, should not be borne by customers. The update report refers both to the "developer of the heat network" and the "property developer", which are often two different entities. We believe this distinction is an important one and would welcome greater clarity with this regard. The impacts of the distribution of costs will need to be carefully examined to ensure that heat networks remain a viable commercial prospect. Energy UK members believe that any additional ongoing costs should be met by the property developer rather than the developer of the heat network. Further, we believe that a standardised

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methodology for calculating whole life and ongoing costs would improve transparency and enforcement and should be considered alongside existing proposals.

Awareness and understanding of heat networks relative to more established alternatives is low and as noted in the update report, heating is rarely a prospective buyer's top priority, despite being a key determinant of living standards. Providing information in a convenient and accessible way is, therefore, important to ensure that customers are able to make informed decisions that are right for them.

We welcome the proposal for statutory information provision requirements to be consistent with voluntary industry standards and believe that setting minimum information requirements across Energy Performance Certificates, heating bills, heat supply contracts and leasehold agreements could have a role to play and warrants further investigation. Before progressing further with this remedy, Energy UK would, however, request that the CMA gather more evidence on the potential impact providing such information would have, including the optimum timing of provision, and the associated costs.

Finally, we would like to highlight the importance of skills and training in the heat networks industry, an area that has received very little attention in the CMA update report. As the sector grows, it will be important that further technical training and recognised qualifications are in place to avoid a shortfall in skills and expertise. Whilst the Government's Heat Networks Investment Project provides capital funding, Energy UK members believe that investing in skills development and capacity building should also be considered under the scheme.

We would be happy to discuss the issues raised in this letter in more detail and would welcome the opportunity to feed into the CMA's inquiry into heat networks further.

If you have any questions please contact me at [REDACTED]

Yours sincerely,

[REDACTED]

Joseph Cosier
Policy Officer, Energy UK