

Response to the CMA Heat Networks Market Study Update Report-2018

ENGIE UK

ENGIE is a global company that aims to lead the world's energy transition by developing integrated and innovative solutions for its customers. This includes the provision of affordable green and low carbon solutions across the energy and services sectors.

In the UK, ENGIE employs 20,000 people in a number of activities across the energy value chain, as well as through its extensive services business. In generation, ENGIE is one of the country's largest independent power producers, with a mixed portfolio of generation assets that include gas, CHP, onshore wind, solar and the UK's foremost pumped storage facilities at First Hydro. ENGIE also has a 23.3 % stake in the £3 billion Moray East offshore wind farm which is expected to be commissioned in 2022.

ENGIE operates an Industrial and Commercial (I&C) and Small and Medium Enterprise (SME) B2B electricity and gas supply business in the UK, and has recently entered the domestic retail market through its Home Energy business.

It is also one of the top five service companies in the UK, subsequent to the acquisitions of Balfour Beatty Workplace and Lend Lease FM. ENGIE is a major provider of services and energy services to customers, particularly in education, healthcare and local authorities. Services include energy efficiency expertise in buildings, grounds and building maintenance, and soft services.

In March 2017, ENGIE signed an agreement to acquire the regeneration business of Keepmoat for £330 million from TDR and Sun Capital. Keepmoat is the UK's leading provider of regeneration services specialising in the design, refurbishment and upgrade of buildings and places, helping to transform communities and strengthen local economies. This transaction will enable ENGIE to offer a complementary range of services to local governments, cities and businesses across the UK and strengthen its existing network of local authority partnerships.

ENGIE is also the UK's leading district energy company. We design, build, finance and operate district heating and cooling schemes in partnership with the public and private sectors. ENGIE's district heating schemes include; the Queen Elizabeth II Olympic Park, Southampton District Energy scheme, Whitehall District Heating scheme, Leicester District Energy scheme and Birmingham District Energy scheme. ENGIE also has over 200 district energy schemes across Europe and is a major service provider across a range of related sectors including schools and hospitals.

Summary of consultation response

ENGIE welcomes this opportunity to respond to the CMA's Heat Networks Market Study Update Report. We believe that the report's analysis, findings and recommendations reflect the CMA's balanced and proportionate approach to the issues under consideration.

We particularly welcome:

- The proposal to regulate heat networks. This proposal is consistent with that of the wider district heating sector and is a key recommendation of the ADE's industry led Taskforce on Heat Networks. We believe that a future regulatory framework could help raise customer protection standards as well as help reduce investment risk.
- The CMA's recognition that many heat networks provide good customer services and heat at prices comparable to conventional alternatives.
- The CMA's decision not to refer the study to a full market investigation at this stage but to focus instead on developing a package of recommendations to address the issues identified by the study.

- The proposal to implement minimum technical standards for heat networks. We believe that this will help raise performance standards as well as help protect customers from poorly designed, built and operated schemes.
- The CMA's proposal to improve information transparency to enable customers to better understand heat networks.

We have provided answers to individual consultation questions below.

Assessment of the issues

Question 1.

Do you have views on our approach to analysis and our findings regarding heat network outcomes, misaligned incentives in the supply chain and transparency?

Response Q1: We believe that the CMA's approach, analysis and findings regarding heat network outcomes, transparency and misaligned incentives in the supply chain has been balanced and proportionate.

Question 2.

Do you consider the individual household gas boiler price to be a reasonable benchmark for customers to be confident that their heat supply is value for money?

Response Q2: Yes. We consider the individual household gas boiler price to be a reasonable benchmark for customers to be confident that their heat supply is value for money.

More broadly however, we believe that:

- Any proposal to analyse and compare the cost data associated with the different heating technologies and fuels should be done on a like for like basis and should include the whole lifecycle and avoided costs associated with each of the heating technologies under consideration.
- Any efficiency assumptions in relation to an alternative heating technology should be made on an actual whole life basis and not on the basis of nameplate efficiency.

Question 3.

Have we accurately captured the two broad categories of delivery models in the heat networks market (described in section 5) employed by housing associations and private property developers and their impact on customer outcomes? Do you have any views on potential different categories?

Response Q3: ENGIE has no comment.

Recommendations:

A) Regulation of heat networks

Question 4.

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 the sector regulator.

Response Q4: We welcome the proposal to regulate heat networks as this will contribute towards lowering the risk profile of heat network projects as well as raise customer protection standards.

In addition, the proposal aligns with the views of the wider district heating sector and is a key recommendation of the ADE's industry led Taskforce on Heat Networks.

Question 5.

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?

Response Q5: ENGIE has no comment.

Question 6.

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

Response Q6: We believe that if there were a form of price regulation, this should take a 'principles based' approach with self-reporting against permissible contract terms and a regulator to investigate complaints. We do not advocate for an outright price cap.

In addition, we believe that any proposal to introduce rules around how heat prices are set should:

- Take into account the mechanisms by which heat prices change and are adjusted over time. ENGIE advocates a balanced indexation portfolio, reflecting changes in the counterfactual. This approach offers a non-discretionary price adjustment mechanism and ensures that any cost savings are passed onto consumers.
- Consider the various delivery models and commercial solutions on the market -particularly as such variables are key determinants of the final heat tariff paid by the consumer.

Question 7.

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

Response Q7: ENGIE has no comment.

Question 8.

Do you have views on whether heat network customers should have similar consumer protections to customers of regulated gas and electricity utilities?

Response Q8: We believe that it would be in the customers' best interest if customer protection standards similar to those of the regulated utilities were extended to customers on heat networks. However, any customer protection regulations would need to be bespoke for the heat network industry.

Question 9.

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

Response Q9: ENGIE agrees with the CMA's position not to introduce mandatory re-tendering of heat network operating and billing contracts.

B) Planning and technical standards

Question 10.

Do you have views on how to improve technical standards, which cover the design and operation of heat networks, and make them enforceable? Could this be achieved in the absence of a regulatory regime requiring a licence to operate a heat network?

Response Q10: We believe that the CMA could improve heat network technical, design and operation standards by building upon the work of the CIBSE ADE Heat Networks Code of Practice which aims to raise standards across the supply chain. Doing so would represent a helpful starting point for the CMA.

To ensure compliance with the technical standards, the CMA could consider the CIBSE heat networks compliance scheme once this becomes available.

In addition, we believe that heat network technical standards could be embedded into regulation via a range of mechanisms such as Local Authority licensing regimes (as proposed by the Scottish Government), as well as planning and building regulations.

Question 11.

How could local and development plans and their supplementary guidance be adjusted to take lifetime costs and customer prices into account? What would the impact of this be?

Response Q11: ENGIE has no comment.

Question 12.

How should a heat network quality assurance scheme be established and embedded into the regulation of heat networks? Should such a scheme seek to accredit the commercial, financial and contractual aspects of a heat network as well as the technical?

Response Q12: We believe that a potential heat network quality assurance scheme could be established by building upon the work of existing industry led voluntary schemes such as the ones described in our response to question 10 above.

The requirements of the quality assurance scheme could be embedded into regulation via a range of mechanisms such as Local Authority licensing regimes for heat networks as well as planning and building regulations where appropriate.

C) Transparency**Pre-transaction****Question 13.**

Is further information required to improve consumer understanding of the significance of living in a home with a heat network? If so, what information would be useful?

Response Q13: From an ENGIE perspective, we believe that comprehensive information on heat networks is already provided via our web portals¹ and customer welcome pack. It is incumbent upon property developers and landlords to pass on this information to prospective property buyers/tenants prior to the latter deciding to buy or rent a property.

This is important because district heating scheme operators such as ourselves have limited interaction with prospective property buyers and tenants at the early stages prior to them making the decision to purchase or rent a property.

¹ East London Energy. Available at: <http://www.eastlondonenergy.co.uk/>
ENGIE Community Energy. Available at: <https://business.engie.co.uk/community-energy/>

Question 14.**Who should be responsible for ensuring that new leasehold agreements include a clear reference to the treatment of heat network assets connected to a leasehold property?**

Response Q 14: We believe that property developers and landlords should be responsible for ensuring that new leasehold agreements include a clear reference to the treatment of heat network assets connected to a leasehold property.

Question 15.**Should heat supply agreements or contracts which set out key performance indicators, such as guaranteed terms of service, be made compulsory?**

Response Q 15: We believe that it should be mandatory for heat supply agreements and/ or contracts to stipulate the service levels and performance indicators that residents should expect as a minimum.

Question 16.**How could EPCs be improved in relation to heat networks?**

Response Q 16: As Energy Performance Certificates (EPCs) are not currently designed to reflect the performance of heat networks, this could be an opportunity to highlight some of the positive impacts of heat networks as well as promote some of the CMA's objectives around information transparency for prospective heat networks customers.

For example, EPCs could include information on the carbon and financial savings that could result from connecting to a heat network relative to a conventional alternative. However, any such comparison should include the whole lifecycle and avoided costs associated with each of the heating technologies under consideration.

During residency**Question 17.****Should heat supply bills be improved? Is further information necessary? If so, what information would be helpful?**

Response Q 17: From an ENGIE perspective, we believe that information on the costs of heat networks is made clear in bills.

More generally however, we believe that heat supply bills should be standardised across the sector and should include:

- A statement of account.
- Frequently Asked Questions (FAQs).
- The payment options available to customers.
- Tariff information and bill calculation methodology.
- Data relating to the previous month's consumption.

Question 18.**Should there be specific requirements regarding the frequency of bills beyond that already required by the Heat Network (Metering and Billing) Regulations?**

Response Q18: With regard to the frequency of billing, we do not believe that there is need for additional requirements beyond that already required by the Heat Network (Metering & Billing) Regulations. We consider the 2014 Heat Network Metering & Billing Regulations to be adequate and sufficiently clear in regard to billing frequency.

Question 19.

Should standard performance metrics for suppliers be produced – for example, in relation to planned and unplanned outages and heat temperatures? Should this information be published?

Response Q 19: ENGIE has no comment.

For further information, please contact:

