

## **London & Quadrant Housing Trust**

Contact: Liz Blackwell

Job Title: Energy Manager, L&Q Energy

Telephone: [REDACTED]

Email: [REDACTED]

Heat Customers: Approximately 6,400 mixed tenure including social housing, across 50+ schemes

Pipeline Development of 100,000 homes over the next 10 years, of which at least 40% are likely to become heat customers.

## **Consultation questions and responses**

### **Assessment of the issues**

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?

L&Q: We believe the market research to have been good, with both private and public sectors consulted and productive round table discussions

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?

L&Q: In the absence of an alternative, we feel that it is sensible to benchmark against gas boiler prices, although to some extent within the high rise building sector it may be more appropriate to compare against electric heating as the alternative heating source, as gas would not be installed in a high rise. Our CAPEX model would mean that it is highly unlikely that we would not install communal heating in a block above 6 storeys. In addition, we are bound mainly by London Planning Conditions, and wouldn't get planning consent if we didn't build district/communal heating due to Carbon reduction commitments, so comparing against gas as the other option would not be suitable. It is also worth considering that in the future, communal plant will be less reliant on gas and more on Heat Pumps & Fuel cells for example.

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?

L&Q: RSLs may use a hybrid combination of these categories, however RSLs are also not allowed to make a profit from heat networks. In the future, regulation could encourage the market to split to work like the electricity market (supplier, distributor, generator), with very different delivery models

### **Recommendations**

#### ***Regulation of heat networks***

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.

L&Q: We agree that heat networks should be regulated. While block level regulation might happily sit within the Housing Regulator, this would not apply to District and larger networks. As there is an aspiration to build heat networks, we would support regulation by an Ofgem department with a housing focus..

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?

L&Q: Yes it should, however for older networks, regulations and any improvements need to be achievable. We would suggest perhaps allocating funding eg. via ECO to fund some improvements to avoid costs needing to be passed back to customers.

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?

L&Q: We would support a principles based approach with self-reporting. We would request that the different business models of heat network providers be considered and allowed for as from our perspective there are two different pricing models, each with their own benefits and challenges; some set a tariff by scheme, whereas the alternative is to have a fixed tariff spread across all schemes. We operate on the latter model, where residents are metered, as some residents live on less efficient schemes and should not be unfairly penalised with disproportionately high tariffs. Crucially, this also helps to keep costs down for residents on schemes with new technologies such as ASHP, which helps to continue to encourage new, low carbon technologies which is a vital aim of the government in advancing coverage of heat networks. A price cap would be difficult to set if there is any wish to encourage new, low carbon technologies.

We also have many schemes where residents receive a fixed bill based on shared communal costs, where a meter is not in place. With these schemes, a tariff would not be appropriate.

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'?

L&Q: While a ban on capital contributions would be a proportionate response in an unregulated market, as costs end up being passed on to the end users as part of the ESCO business model, assuming that customer protections are put in place, capital contributions are acceptable as the customers will be protected by service standards.

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

L&Q: Yes, we believe they should have similar consumer protections- in particular customers with unit level meters. However, upskilling needs to be supported and helped in design, construction and operations in order to be able to deliver a reliable service, and in order to be able to deliver this to the same level as in the electricity & gas markets. This would be particularly difficult in existing systems.

9. Do you have views 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)?

L&Q: Please see response to question 7 regarding capital contributions. In terms of whether or not to publish tariffs, we would suggest this may not be suitable because of the different ways in which tariffs are calculated. Eg. some have charges in service charges while others in the tariff. However if there is a way of making price comparisons, it might be useful for customers to have access to an aggregate level amount of information to see how competitive their heat supply tariff is compared to others.

### ***Planning and technical standards***

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? For example:

a. What is the role of the CIBSE ADE CP1 Code of Practice in this process?

L&Q: Professional Indemnity- it is not governed very well, and CP1 is a recommendation rather than governed. There are no regulatory bodies based on an Act of Parliament, unlike electricity & gas networks, which makes quality difficult to enforce in some instances

b. Do you have views on how these proposals could be embedded in the planning authorisation process?

L&Q: We would stringly support a set of approved people who can endorse/sign off design and install, a close example being the way MCS certified suppliers would work. This could be part of the planning requirements.

c. For potential heat network connections affected by Building Regulations and / or planning, how could appropriate technical standards could be embedded these processes at local, regional and national levels?

d. Could operating technical standards be applied retrospectively to existing heat networks?

L&Q: The method of improving existing heat networks would be challenging due to the complex issues involved, however an improvements process could work eg. improving the minimum acceptable efficiency. This is already reported via the Heat Network Billing & Metering regulations.

e. What is the impact of the current approach to professional indemnity insurance for heat network design and build on the recommendations of design engineers?

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?

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?

### **Transparency**

#### *Pre-transaction*

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?

L&Q: Consumer information about heat networks (both general and specific) is not widely known or publicised. A central public source of information for customers would be very beneficial, and could be a reference point for heat providers.

There is a very different level of knowledge in customers in Scandinavia- for example they understand flow & return temperatures and the impact they have. It would be very beneficial to learn from their experiences.

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?

L&Q: Responsibility should lie with the Freeholder or their assigned managing agent, support may be required to ensure the delegated responsibility is set into new contracts or guidance provided so that existing contracts can be easily amended.

Please could the study also provide some enforceable requirements for heat network operators in terms of their obligations to a company with a leasehold block on their network. 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.

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

L&Q: Yes, we agree that they should be compulsory

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

L&Q: EPC calculations and information included on them needs to reflect actual running costs, or at the very least information on why figures might not match actual running costs

*During residency*

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

L&Q: We believe this should mirror other utilities. However this could have an impact on tariff calculations. We would urge the CMA to consider the role and requirements around the billing technologies in the market. Pay as you go 'Smart' systems are increasingly being installed to properties which vary widely in terms of the information available to customers (examples include EEMonitor, Ista SmartPay, Guru). For example, some do not hold historical usage data, and the presence of these leads billing and metering agents claim that written information to residents eg. about price comparison, annual statements. Clarity should be provided on what minimum requirements are of these technologies and be mindful that if further information was required to be included within the user interface or via annual statements, this could potentially have an impact on the tariff calculations.

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

L&Q: Please see response to section 17, which we feel is also relevant to this point

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?

L&Q: We would support this action on larger networks, eg. above 500 units