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Heat networks market study - update paper

Dear Sir/Madam,

Ombudsman Services (OS) fully support the conclusions of this report; regulated heat networks will help to provide a competitive market enabling better consumer choice, ensuring that suppliers meet standards that are monitored and providing consumer access to redress when required, all of which ensures a good deal for consumers.

Executive Summary

OS thinks that:

- there should be mandatory standards, regulation and redress in the heat networks sector; which will help to build trust and confidence in consumers as well as helping to improve business practices and drive competition amongst energy providers; and
- it is essential to keep regulation and redress unified for heat networks as it is for gas and electricity consumers – with Ofgem as the regulator and redress provided by the Energy Ombudsman.

Heat Trust and minimum standards

With no sectoral regulator with responsibility for heat networks we have found, through our work with the Heat Trust, that consumers have often struggled and experienced difficulty accessing redress easily when faced with major problems. Consumers with heat network suppliers signed up to the Heat Trust are afforded the automatic right to access the Energy Ombudsman in the same way as domestic gas and electricity customers, providing them with clear access to redress when things go wrong. However, only 50 networks are signed up to the Heat Trust, equating to just 30,000 customers.

The report highlights that the Scottish Government is already exploring the possibility of making it a requirement for heat networks to sign up to the Heat Trust and abide by its guidelines, rules and provisions all of which aims to boost uptake and protect consumers. As you note in the report, consumers that use Heat

Trust accredited schemes are significantly more satisfied with the service provided. Heat Trust membership is an effective and easy way to ensure minimum standards that protect consumers from malign practice or anti-competitive behavior.

We welcome the CMA's recommendation that government should implement rules or guidance for heat networks. These should provide guaranteed terms of service for consumers including responses to outages, other network problems and disproportionality high tariffs and provide dispute resolution arrangements. Such guidelines already exist through the scheme rules of the Government backed Heat Trust and we believe that this existing framework should be capitalised on with membership of the Heat Trust or adherence to their rules compulsory for network suppliers.

Data

One of the benefits of regulating heat networks and mandatory redress is that provisions can be made to ensure that there is greater monitoring of heat networks and as a result a larger pool of data can be generated about the quality of services they provide. OS already collects data on complaints to heat networks that are part of the Heat Trust and we are able to provide this to the CMA in their investigation upon request.

We use this data to identify where consumers face the most difficulty with heat networks which enables us to provide feedback to individual companies as part of an industry wide attempt to drive innovation and help improve services. Whilst we are in the business of complaints handling, our core goal is to minimise the number of complaints we receive by enacting top-down changes in businesses. This benefits consumers who receive a better service and supports companies who are able to improve their own services in a bid to attract consumers.

We want to see a competitive market in which performance data is accessible to consumers and enables them to make informed choices about whether they want to sign up to a heat network. This is critically important when in many cases consumers are expected to sign up to heat network tariffs that lock them into payments for up to 25 years or more. The onus should be placed on heat network suppliers to demonstrate their value for money. Regulation would put in place monitoring services that would enable this process.

By using data to drive insights within the sector it is possible to identify risk areas and target action to reduce or prevent those risks. This helps to benefit consumers and businesses and improves trust and confidence in the sector as a whole.

Who should regulate?

As the CMA points out, heat networks currently sit outside the regulatory remit of Ofgem but the regulator, which has already expressed that heat networks will make up part of its future priorities, highlights the possibility of regulating heat networks. As the report notes, Ofgem does have "the experience and organisational structure to implement and enforce such regulations".

In our experience Ofgem has proven to be highly effective in regulating the electricity and gas supply market whilst the Heat Trust has already designed robust rules and guidelines that place consumer wellbeing at the center of their work. As such we believe it would be wise to utilise the existing landscape and regulatory infrastructure and legislation should be implemented that extends Ofgem's remit to include heat networks.

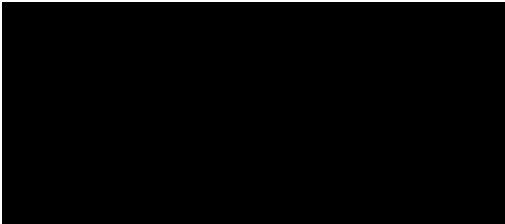
We believe that both organisations have a major role to play to make heat networks universally competitive and consumer friendly. Ultimately, we believe that legislation for a regulatory framework will ensure a heat network supply market that works for all; business and consumers.

The Energy Ombudsman works well with both Ofgem, in the gas and electricity markets, and with Heat Trust, in the heat network market. It seems sensible and in both the consumers interest and the interest of energy

suppliers to have unified standards, regulation and redress in the energy sector. It is important that, as the energy market develops, standards, regulation and redress keep pace so that consumer protection works for consumers and doesn't lead to fragmentation within the sector resulting in poor consumer outcomes. The CMA has highlighted the area of heat networks, with the growing importance of heat networks in the future, and the need for change to protect consumers - OS welcomes and supports what the CMA proposes. OS thinks it is key to also look at other parts of the energy sector that are currently not regulated as well with a view to ensuring that consumers are afforded the same protections as the regulated energy sector. For example, boiler installations and servicing, and the supply and distribution of liquid petroleum gas and other fuels.

I would be delighted to meet with you to discuss our views in more detail and how we can help in the delivery of a market that protects consumers and promotes business.

Yours sincerely,



Lewis Shand-Smith
Chief Executive and Chief Ombudsman

Questions:

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 the sector regulator.

- A) Yes, in order to offer consumers a competitive alternative heating supply to gas, OS believes that the sector should be regulated. We recognise the success Ofgem has had in protecting consumers in the broader energy market and would strongly advocate for the extension of their remit to include heat network supply as well as that of gas and electricity.

However, we also recognise the role that the Heat Trust has already played in providing standards for heat networks and ensuring protections for consumers. As such we believe that any future regulatory regime should include and utilise the guidelines and rules they have already produced and have a proven track record. For example, a BEIS 2017 investigation found that 73% of those surveyed with Heat Trust registered networks found that when met with heating loss the problems were solved within 24 hours. Whereas that figure was just 63% on non-Heat Trust networks.

When it comes to billing the differences are particularly stark:

- 74% of those surveyed had a description of how their bill had been calculated on Heat Trust networks (compared with 31% on non-registered schemes).
- 72% were told the amount they were charged for each unit of heat (compared with 25% for customers on non-registered schemes).

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

- A) Yes, we would welcome the regulation of all communal and district heating networks. We acknowledge that there may be new standards that may require older networks to update their infrastructure, however we see this as a positive for consumers; driving innovation and setting minimum standards for consumers. There should be an adequate time frame provided for older network operators to update their infrastructure.

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 '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?

- A) We believe that the prices should be competitive with the gas market alternative. Consumers cannot simply switch supplier as they can in the gas market. Therefore, the element of choice is taken away. If the consumer was aware that a regulator was in place to ensure that tariff options are competitive and that heat network suppliers are not able to take advantage of their monopolised position, then it would assure consumers who might otherwise be deterred by heat networks.

Q7. 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'?

- A) To ensure consistency throughout all heat networks we believe that there should be some set requirements to meet a specific standard for the installation of network infrastructure. Our understanding of capital contributions is to allow an ESCO to take responsibility for the design

and build right through to operation. We do not consider that this would be an issue if there were specific requirements to be met.

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

- A) This is essential given that without the same protections, or more, that can be offered to those on gas and electricity tariffs, there will be a disincentive to widespread uptake of heat network tariffs. The Heat Trust currently stipulates many of the same conditions for member organisations. The Heat Trust highlights in the opening section of the [scheme conditions](#):

“The purpose of the Heat Trust is to offer protection to as many Heat Customers as possible by establishing a common minimum standard in the quality and level of protection which is equivalent, so far as possible, to that offered to other energy consumers”

We fully support the principle of equivalent protection and as a result believe that the Heat Trust’s Scheme Rules are critical to ensuring a competitive market that protects consumers and should form the basis of any future conditions for regulated heat networks. Hence a simple but effective step would be to require all heat network providers to become a participant of the Heat Trust.

If you place the consumer at the heart of consumer protection within the energy market then it makes sense to have the same consumer protections for consumers of gas, electricity and heat networks. It does not make sense to have fragmentation of standards, regulation or redress within a sector that essentially means different and possibly poorer consumer journeys and experiences.

The current arrangements for gas and electricity customers where Ofgem is the regulator and redress is provided by the Energy Ombudsman and in heat networks where Heat Trust set standards and the Energy Ombudsman provides redress work well in building trust and consumer confidence. Having mandatory standards, regulation and redress for heat networks will help to continue to build trust and consumer confidence and will also make businesses more competitive and responsive to consumer needs. It will make the consumer journey easier to navigate with standards that are monitored and regulated and access to the Energy Ombudsman when a consumer raises a complaint. This approach also enables comprehensive data to be collected from across the whole sector. That data can then be turned into insights that can identify risk areas and be used to work with individual energy providers and the wider sector to help drive improvements and tackle the risk areas. This helps to improve the consumer journey for all and help energy providers improve on what they do and so keep existing customers but also attract new customers.

Q13. 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?

- A) Yes, OS has found from the complaints we have dealt with through Heat Trust accredited networks that many consumers do not fully understand what district heating or heat networks are when moving into a property. There are many reasons for this, however we would welcome work to ensure that consumers are as informed as possible before they take the decision to move into, or purchase, a property. The failure to do so means that consumers may not have been made aware that they are unable to switch supplier and are tied into long contracts that often last 25 years or more.

As well as the inability to switch supplier, consumers should also be given assurances about tariffs. Furthermore, regulation should ensure that heat network suppliers who operate monopolies are unable to increase their prices beyond that of market or comparable norms.

We believe that it should be the responsibility of the seller or landlord to offer information on energy usage and pricing upfront to allow a buyer or tenant to make an informed decision. However, under current arrangements OS is not in a position to investigate complaints relating to a lack of information as sellers and landlords are not members of the Heat Trust.

Q14. 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?

- A) Yes. The Heat Trust already provides a code of conduct for suppliers that are members of its service to adhere to. These requirements mirror that of the performance metrics that Ofgem publish for electricity and gas suppliers. For example, Ofgem provides *Quality of Service Guaranteed Standards* which sets a guarantee of service that is reasonable to expect companies to deliver in all cases. Where it fails to meet these standards, energy suppliers are required to make a payment to the customer. We believe this model could be relatively easily mapped onto future heat network regulation.

For more information on Ombudsman Services' views or to request additional data, please get in touch with David Pilling, Head of Lobbying and Policy:

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