



## WHAT EVERY LANDLORD NEEDS TO KNOW ABOUT FORTHCOMING HEAT NETWORK REGULATION

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**This year we will the start of a whole new regulatory regime, as well as a new regulator, that will directly impact on many landlords.** For those managing the nearly half million customers on the 14,000 heat networks across the country, this will mean new obligations whether that is for communal systems or larger district schemes; existing networks or new schemes. But for those grasping the nettle early, it could lead to lower costs for them and their customers as well as fewer problems with service and complaints.

**Following on from the Competitions and Markets report on Heat Networks in summer 2018, BEIS has quickly responded and accepted its key recommendation** that heat networks should be regulated to give consumers the same level of protection as those in the regulated gas and electricity sectors. This is a significant shift as the provision of heat was mostly unregulated. But what does all this mean for landlords?

**First off, the good news. Research for BEIS has shown that customers of heat networks pay on average £100 less for their heat and hot water than non-heat network customers.** This is great for fuel poverty and sustainable tenancies.

**However, less encouraging is that they also found many more customers on heat networks (37%) had a loss of heating compared to those on not on a network (24%). It also found that 48% of heat network customers did not receive a bill, account summary or statement on how much they had paid for their heat and hot water.** This compares with only 19% not on a heat network. There is clearly lots still to be done and the BEIS proposals are squarely aimed at tackling this.

**A key part will be the introduction of what will be a new regulator to many housing providers in the sector – Ofgem.** An obvious choice given their current role as regulator of the gas and electricity markets. But it clearly be a learning experience for them and social landlords. It is fully accepted that there are differences in the way that Ofgem will develop and oversee the regulation of heat networks compared to existing energy markets (not least the monopoly nature of most networks). But BEIS are not hanging around and the regulatory framework options will in published by summer 2019, with the initial consultation responses by 25 January 2019 – so getting up to speed on all things relating to heat networks should become a priority for social landlords.

**The proposed regulation will encompass four key areas: pricing, quality of service, transparency and minimum technical standards.** They will all have impacts on landlords:

**Quality of service** – BEIS has agreed with the CMA that there should be measurable performance indicators and related minimum standards for service quality. For landlords this will mean at minimum reviewing current arrangements for all network services (that could cover repairs and maintenance, heat delivery, system outages, metering and billing amongst others) to bring them in to line to meet the requirements.



**Transparency** – again BEIS are fully in agreement with the CMA that customers need the information to allow them to make ‘appropriate decisions’ when they are choosing a home that is on a heat network and also for existing customers so that they can ‘understand and act up on their bills’. In simple terms, landlords will need to have to ensure their offer and sign up materials are up to scratch and that their customers have everything they need to know about their consumption and bills. This one could bring particular challenges for those 48% of customers not currently receiving a bill of any kind.

**Technical standards** – this one will take a lot of work by BEIS and Ofgem in order to balance performance improvements with the cost of delivery, especially on existing schemes. We would hope they take an approach that aims to deliver output performance for key elements such as scheme efficiency rather than a detailed prescription of technical items. Until this has been worked through it is not clear how much will be required, but what is clear is that landlords will need to understand the performance of all their current and proposed schemes.

**Pricing** – BEIS agrees with the CMA that ‘the future regulator should require all heat networks to comply with ‘principles-based’ rules or guidance on pricing’. This is obviously a headline ambition and lacks detail, but this is recognized by BEIS and will form part of the consultation for the regulatory framework development.

**And it is this final point that is particularly important for the social sector. There is a clear commitment for heat networks to be fully regulated with a timetable for framework options being in place by summer 2019.** With a new regulator and regime, it is vital that landlords understand as much as possible about their current and future heat networks and where possible engage with the consultation.

**As well as getting input in to the new regulation, early engagement can deliver additional benefits:** many landlords will find that reviews of schemes deliver substantial costs savings for themselves and customers, as well as improved efficiency and service standards. Done the correct way taking a good look at heat networks will deliver multiple benefits and ensure there are no surprises when the regulations go live later this year.

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#### NOTES:

Chirpy Heat network guidance for landlords is available [here](#)

The BEIS consultation ‘Heat networks: developing a market framework’ is available [here](#)

The CMA report is available [here](#)