



# **Consumer Scotland response to Heat Networks regulation – consumer protection consultation**

**October 2023**

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### About us

Consumer Scotland is the statutory body for consumers in Scotland. Established by the Consumer Scotland Act 2020, we are accountable to the Scottish Parliament. The Act defines consumers as individuals and small businesses that purchase, use or receive products or services.

Our purpose is to improve outcomes for current and future consumers, and our strategic objectives are:

- to enhance understanding and awareness of consumer issues by strengthening the evidence base
- to serve the needs and aspirations of current and future consumers by inspiring and influencing the public, private and third sectors
- to enable the active participation of consumers in a fairer economy by improving access to information and support

Consumer Scotland uses data, research and analysis to inform our work on the key issues facing consumers in Scotland. In conjunction with that evidence base we seek a consumer perspective through the application of the consumer principles of access, choice, safety, information, fairness, representation, sustainability and redress.

We work across the private, public and third sectors and have a particular focus on three consumer challenges: affordability, climate change mitigation and adaptation, and consumers in vulnerable circumstances.

## Introduction

1. Consumer Scotland welcomes the opportunity to provide this submission to Ofgem and the Department for Energy Security and Net Zero (DESNZ) to assist the ongoing work to establish the consumer protection elements of the new regulatory regime for heat networks. We recognise that this consultation is a positive step forward towards regulation and ultimately better experiences for heat networks consumers.
2. The introduction of regulation will not only help to ensure that current heat network consumers have more protection, but also help to create the conditions for the market to safely and successfully grow to meet Scotland's heat demand. The Scottish Government have committed to an ambitious rollout of heat networks in Scotland over the coming years.<sup>1</sup> Heat networks could play a significant role in Scotland's journey to decarbonise home heating. Recent research by Consumer Scotland shows that consumers want to play their part to support Scotland achieving net zero but that they also need additional support and guidance to do this.<sup>2</sup> The introduction of consumer protection; coupled with the introduction of the Scottish licensing regime will help to ensure a safe and consistent rollout of heat networks and safeguard both current and future heat networks consumers by implementing consistent standards and levels of service. Regulation should serve to ensure that consumers have similar levels of protection to the gas and electricity market, but also provide the opportunity to innovate to protect consumers.
3. The introduction of the regulatory regime will create a new role for Consumer Scotland, as statutory advocate for heat networks consumers in Scotland. As we shape and develop this function, we will continue to work closely with the Scottish Government, Ofgem and DESNZ to understand how Consumer Scotland can effectively contribute to the new regulatory regime and support better outcomes for consumers.
4. We will take on a coordinating role across the Scottish consumer landscape to enable us to effectively deliver this multifaceted new role. We will also work in partnership with Citizens Advice who will take on a similar role for consumers in England and Wales with the aim of ensuring that consumers receive parity of service across Great Britain. Achieving the best outcomes for heat network consumers will be dependent on both Consumer Scotland and Citizens Advice being properly resourced and funded to deliver our respective roles.

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<sup>1</sup> Scottish Government (2022) [Heat Networks Delivery Plan](#)

<sup>2</sup> Consumer Scotland (2023) [Consumers and the transition to net zero](#)

5. Consumer Scotland is supportive of the introduction of the consumer protection measures outlined in the consultation and recognise the important role these measures will play to shape the market and ensure that consumers benefit from heat networks. We have not responded to every question outlined in the consultation but have responded where we can add value through our expertise.

## Scope of Regulation

**Q1. Do you agree with the scope outlined in this section and which networks the regulatory requirements should apply to? Please provide views and evidence to support your position where you can.**

6. Consumer Scotland is broadly supportive of the scope of regulation as set out in the consultation. In reviewing the proposals, we are content that consumer protection measures will be extended to all domestic consumers and microbusinesses through the regulatory regime.

**Q2. Do you agree with our proposed activity definitions for heat supplier and heat network operator and our assumptions around the organisation of district and communal networks?**

7. We agree and accept the definitions for heat suppliers and network operators in the consultation. It is important to ensure that terminology is clear and consistent for consumers to understand, particularly definitions for the elements of the new regime which are consumer facing. We also broadly agree with the assumptions around the organisation of both district and communal networks.

**Q4. Do you consider that our approach to regulation is suitable for the large number of small networks in the sector?**

8. We are supportive of the outcomes and principles-based approach to heat network regulation, which focuses on the end outcomes for consumers. We agree that this approach should be suitable for smaller heat networks. This proposed approach could serve to maintain standards where smaller networks already meet the regulatory requirements but also act as a measure for other smaller networks to achieve minimum standards.
9. Consumer Scotland is very supportive of the proposal to develop templates and guidance to support smaller networks to comply with the regulations. This will help to maintain consistency of approach amongst smaller networks and ultimately, more consistency and certainty for the end consumer. Tailored guidance for small networks may make it easier for them to comply with regulatory requirements, particularly if they don't have experience in particular areas. There may also be value in learning from best practice from small networks already meeting these requirements, such as smaller networks signed up to the Heat Trust scheme. This approach could also support Ofgem by making it easier to regulate smaller networks.

10. As this is a new market, it will be essential to closely monitor how different networks are applying this principles-based approach to regulation. If there is significant divergence then guidance will need to be adapted to improve overall consistency across suppliers to maintain a higher standard for consumers across all heat networks.

**Q5. Do you consider there to be any consumer protection rules proposed in this consultation that small networks will struggle to comply with? Please provide rationale.**

11. We support the principle-based approach to regulation that DESNZ and Ofgem have taken. Generally we believe that smaller networks should be able to comply with all aspects of consumer protection regulations. We recognise the need for this to be done in a phased approach to support smaller operators to comply with new regulation. However, it is essential for all heat networks to comply with new regulations to secure positive outcomes for consumers. It is also fundamental that as part of any phased approach, communications with consumers are clear in order to help them to understand when their heat network will achieve full compliance with regulation and how they can resolve any issues in the interim.

**Q6. Do you agree with our proposal to not capture very small building conversions and annexes? What would be the advantages and disadvantages of including them? Are there any other similar scenarios that you believe we should not capture? Please provide rationale.**

12. We are not supportive of the proposal not to capture very small building conversions and annexes within the scope of regulation. We are concerned that this could potentially create gaps that domestic consumers living in very small property conversions could inadvertently not be covered by consumer protection measures.

**Q7. Do you agree with our proposed approaches for the authorisation of existing and new heat networks?**

13. In principle, we agree with the approach to the authorisation of existing and new heat networks. We recognise the need to establish a transitional period to allow for heat suppliers and networks operators to put in place the measures required to meet the regulatory requirements. We think this initial 1-year period should be sufficient for existing operators to put these measures in place.

14. We agree with Ofgem's proposed approach to regulating existing heat networks. We support proposals to require existing networks to provide information through the digital portal. We think that this is a reasonable and proportionate ask given that much of this data is already provided to the Office for Public Safety and Standards (OPSS).

15. We also support Ofgem’s approach to the authorisation of new heat networks, particularly its objective to minimise the risk to consumers by ensuring that minimum standards are met at the point of authorisation. We welcome the additional information that new operators/suppliers are required to provide, as this will encourage and facilitate better standards of service for consumers.

16. We note Ofgem’s intention to consult further on the authorisation process and conditions in 2024 and Consumer Scotland will engage with this work as it develops.

**Q8. What are your views on the potential use of HNMBR notifications data to support the information provision process for existing heat networks? Are there any specific actions around notifications due this year that you feel could further facilitate this process?**

17. The use of HNMBR notifications data could be used to support the information provision process for existing networks. However, Ofgem will need to collect significantly more data/information to reflect the range of issues covered by regulation. We are aware that this data is currently used to helpfully populate the Scottish Heat Map but otherwise kept confidential within government. Consumer Scotland would encourage a review of this data and how it could be operationalised to better support consumers.

**Q9. Do you agree with the proposal to use a mixture of principles and prescriptive rules to protect consumers? Do you agree with our assessment that parts of the sector are likely to want directive rules and supporting guidance to help them comply?**

18. Consumer Scotland is generally supportive of proposals to use a mixture of principles and prescriptive rules to protect consumers. We recognise the need to take a flexible approach given how regulation will interact with existing legislation to protect consumers and to accommodate the vastly different networks that will now fall under regulation.

19. However, consistency in approach across all heat networks will be necessary to guarantee consistent outcomes for consumers. As this is a nascent market that is expected to grow significantly over the coming years, it will be essential to closely monitor how different heat networks apply these principles to ensure consistency. If there is significant divergence, swift action will be required to update or adapt guidance to improve consistency across suppliers. This will serve to maintain higher standards and better outcomes for consumers across all heat networks.



**Q10. Do you agree with the introduction of an overarching Standards of Conduct principle for all heat networks? While we expect all heat networks to identify and support customers in vulnerable circumstances, we would be keen to understand if any networks would find this particularly challenging to deliver.**

20. In-keeping with Ofgem and UK Government's ambition to provide heat network consumers with a similar standard of experience to the gas and electricity market; we believe that the introduction of general standards of conduct would be helpful. It will also be crucial to learn from past experiences in the gas and electricity market in relation to setting out similar standards. This would set out minimum expectations of heat suppliers and network operators of what fair treatment and customer service looks like. This might be particularly helpful for new or smaller heat network operators.

**Q11. Do you think we should further consider requirements on consumer engagement and including the consumer voice in heat networks' decision making?**

21. As a general principle, we believe that consumers should have a voice in the decision making process. Strong engagement with communities can support and empower consumers to influence the decisions that affect their lives.<sup>3</sup> We are aware of situations where communications between the community and heat supplier have broken down and residents have refused to engage with missed payments; which has subsequently led to disconnections. Active engagement and participation with tenants throughout design and decision making processes can help to mitigate issues like this.

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<sup>3</sup> Citizens Advice Scotland (2020) [Engaging Hearts and Minds](#)

## Fair pricing

**Q12. How often should Ofgem update any public register of pricing data? How often should heat suppliers be required to submit pricing data to Ofgem?**

22. Given the challenges facing consumers in the energy market over the past year, it is essential that regulation helps to ensure fairer prices and greater price transparency. In addition to submitting pricing data to Ofgem, we strongly recommend that heat suppliers should be required to publish their tariffs and charges online, where practical, in order to support greater price transparency in the market.

**Q13. What are your views on Options 1, 2, 3 and 4 for centralised price transparency? What combination of options would work best? Please provide detail on why a particular combination could work well.**

23. Greater price transparency within the heat networks market will help to support and empower consumers to compare prices on similar networks. It could also help prospective heat networks consumers better understand the charges they could face.

24. On reviewing the four options for centralised price transparency, option 1; a full heat network register, would be in the best interests of consumers. A full heat networks register will act as a strong incentive for operators and suppliers to provide a better service to consumers. It will also provide consumer bodies, such as Consumer Scotland, with important data to better understand the challenges that consumers face and identify opportunities for addressing these issues.

**Q14. What do you foresee as the main challenges of each option for centralised price transparency?**

25. We recognise that a full heat network register, although hugely beneficial for consumers, could also create confusion if it is not signposted or explained. A full register would need to be clearly presented in order to be fully accessible and practical for consumers to see comparable networks and obtain the full benefits from it.

**Q15. What are your views on a general obligation on heat networks to provide fair and transparent prices, accompanied by rules and/or guidance, setting out minimum expectations, principles, and good practice? We are particularly interested to hear from leasehold arrangements, not-for-profit networks and small players.**

26. A general obligation on provision of transparent and fair pricing would be welcomed in the new regulatory framework. Such a condition would require the framework to set out rules and guidance to make clear Ofgem's expectations for how consumers should be

treated. Authorisation conditions should serve to encourage suppliers and operators to provide the best possible service to consumers.

**Q16. Do you agree with the broad set of outcomes that would define our expectations on fair pricing?**

27. We are generally supportive of the broad outcomes set out in the consultation to support fair pricing. This also supports our view that a full heat networks register will be necessary to capture this data and also to support Ofgem to effectively monitor that suppliers are meeting these outcomes.

**Q25. What are your views on how Ofgem should approach segmenting the market for price benchmarking? What are the main characteristics that should be considered?**

28. We recognise that Ofgem will need to carry out some form of segmentation based on pricing due to the range of different pricing models in use across the market. It may be helpful to consider some type of segmentation by region or level of rurality to support price benchmarking. However, we would caution against any further or unnecessary segmentation as all heat networks consumers require affordable heat regardless of the types of heat network or how it is set up.

**Q28. Do you agree that price regulation, such as a price cap or profit regulation, should not be introduced in the near term but that this should be kept under review?**

29. Ultimately, price regulation could be required at some point in the future in order to protect consumers and ensure they can get a fair price. As of yet, there is insufficient evidence to suggest that an intervention on pricing; either through price regulation or a formal price cap is necessary at this stage.

30. The CMA's market study did not find evidence of high pricing being prevalent throughout the market and did not recommend any significant interventions.<sup>4</sup> At present, Consumer Scotland doesn't take a view on the introduction of a price cap for heat networks but we recognise that this could be a future outcome of regulation in order to better protect consumers. From our experience in the gas and electricity market, affordability is a particular concern to consumers in vulnerable circumstances. While we do not currently have a view on price regulation, there may be merit for consideration being given to some form of differentiated pricing or discount for vulnerable groups of consumers. The introduction of regulation presents an opportunity to learn lessons from experiences of pricing in the gas and electricity market and to

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<sup>4</sup> Competition and Markets Authority (2018) [Heat Networks Market Study Final Report](#)

ensure that the appropriate consideration is given to consumers in vulnerable circumstances.

31. The regulatory framework will give Ofgem powers to mandate price transparency, pricing structure and cost allocation, the ability to launch price investigations and the ability to develop a comparison methodology. At the outset of the new regulatory framework, these powers seem to be sufficient to consider pricing concerns. However, we would be open to further discussions on this if the evidence suggests that high pricing continues to be an ongoing concern for consumers. The decision not to introduce price regulation at this stage in the development of the market should not preclude or discourage any discussions on the potential for future innovation in the market.

## Quality of Service and Supply of Heat

### **Q29. Do you agree with this approach to regulations related to complaints handling?**

32. In principle, we agree with the approach to regulations relating to complaints handling set out in the consultation; focusing on reliable supply, fair pricing and good customer service. This approach targets the key areas of concern to heat network consumers that have been highlighted in complaints data and previous research.
33. We also support Ofgem’s approach to align complaints handling practices with that of the gas and electricity sectors, providing heat network users with similar protections and standards of service; something that was recommended by the CMA in their market study.<sup>5</sup>

### **Q30. Do you agree with the proposed core elements of the Guaranteed Standards of Performance?**

34. In principle, Consumer Scotland is supportive of the proposed core elements of the Guaranteed Standards set out in the consultation. Addressing these core areas will help to provide a minimum standard for reliable supply and customer service, including additional support for vulnerable customers that need it.
35. A further area that could be considered within the scope of the core elements is accessibility. Previous research by Citizens Advice found that heat network consumers want to engage with suppliers in a variety of different ways, including 50% who prefer to use telephone services when they are experiencing problems.<sup>6</sup> It will be important to ensure that regulation encourages suppliers to provide accessible services, as defined and understood by consumers, so that consumers can contact them when things go wrong. Although this is currently available in the gas and electricity market, we are aware of significant issues relating to call waiting times. It may be helpful to utilise guaranteed standards of performance to try to mitigate similar issues occurring within the heat networks market.
36. We agree with Ofgem’s intention to keep the regulatory framework concise and for it to align to existing practices in the sector, at least initially. Further evidence on supplier performance will help to inform any future measures that may be required. A natural

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<sup>5</sup> Competition and Markets Authority (2018) [Heat Networks Market Study Final Report](#)

<sup>6</sup> Citizens Advice (2021) [Bringing heat networks up to standard - How heat networks can start delivering better customer service outcomes](#)

check in point for this review may be after the next heat networks consumer and operator survey results are published.

37. We also welcome further discussions on the consideration of introducing a guaranteed standard for responding to complaints as they may help to ensure a consistent approach to addressing complaints across the sector.

**Q33. Do you agree that Guaranteed Standards of Performance should apply to all domestic and microbusiness consumers, regardless of who operates the network? Do you agree that business consumers larger than microbusinesses should be excluded and allowed to negotiate their own service levels and compensation amounts?**

38. Yes, we agree that the guaranteed standards of performance should apply for all domestic and microbusiness consumers. This will help to provide minimum standards expected across all networks and ensure that microbusiness consumers are not left behind or exposed to lower standards of service.

**Q36. What are your views on heat networks being contractually required to have a contingency plan in place to ensure the continuity of heat supply? Should this obligation apply to all heat networks, including small networks?**

39. Ensuring continuity of heat supply should be a key component of heat network authorisation. We are generally supportive of the intention to include contractual step-in arrangements to act as a measure of contingency for ensuring the supply of heat. Although we recognise the need to approach this in a proportionate way and this may not be a suitable or practical proposal for all heat networks types and sizes. It may be helpful to consider engaging with gas and electricity suppliers to provide their experience and learning on continuity of supply to help inform this work.

**Q38. How should Ofgem monitor compliance with the requirement for heat networks to have a CSCP in place, recognising the scale of the sector, number of plans that should be in place and the overall approach envisaged for monitoring and compliance?**

40. Heat network consumers should be confident that there are customer supply continuity plans (CSCP) in place should there be any sort of disruption or interruption to heat supply. Providing clear guidance, setting out what is required within a CSCP, would help to ensure consumers are appropriately protected and support Ofgem to ensure that networks are compliant. Recognising that the scale and size of heat networks vary significantly, it would be sensible to ensure that any requirement of heat suppliers to provide information is relative to the size and scale of the network to ensure that they can easily comply. Although the provision of information may be proportionate to the size/scale of network, we think it would be sensible to establish a baseline or level of

information that all networks be required to meet. This will help to support Ofgem's monitoring and compliance of CSCPs.

**Q39. Should guidance be provided on the content of the CSCP? What key things should be covered in guidance? Should there be minimum standards and how might these be different for various types of network?**

41. Clear guidance needs to be provided to heat suppliers setting out what is expected of them within the customer supply continuity plans. This will help to ensure a consistency across CSCPs which will ultimately support Ofgem to monitor and regulate. It will also help to create a minimum standard that all heat network consumers should expect in the event of a disruption to supply.

42. We agree with the information set out in the consultation document for what should be potentially included in the CSCP. In addition to this information, it will be essential to ensure that:

- All consumers are made aware of any supply disruption and what plans would be in place to mitigate this
- That there are clear communication processes in place in order to enable swift, clear and effective contact with consumers in the event of a disruption to supply
- That there is a process in place to regularly review this to account for any changes to the network, consumer circumstances and possible risk

43. There may also be an opportunity for CSCPs to function more broadly as a contingency plan for any medium to long term network disruptions to supply to ensure that networks have these measures in place.

## Protection of Consumers in Vulnerable Circumstances

**Q40. Do you agree with the proposal to require heat suppliers to operate a Priority Services Register and provide specific services for consumers who need them? As previously stated, we would really welcome views from networks that would find it particularly challenging to deliver this.**

44. We welcome both Ofgem and UK Government's decision to make protecting consumers in vulnerable circumstances a top priority in drafting this regulation. Consumer Scotland is supportive of the proposal to require heat suppliers to operate a priority services register (PSR). We recognise that one of the outcomes of the regulatory framework is that consumers in vulnerable circumstances are identified, aware of available support and informed about protection they will be offered in the event of supply failure.

45. Requiring heat suppliers to join a PSR would be a positive step to supporting consumers in vulnerable circumstances to stay safe during potential outages. Previous research has found that while most heat suppliers offer support to consumers in vulnerable circumstances, only around half maintain a Priority Services Register.<sup>7</sup> Consumer Scotland supports the proposal for all heat networks to have a PSR in place. This will help to ensure that networks have a reliable picture of the number of consumers who need additional help and support. Members of the Heat Trust Scheme already have this requirement in place and we believe that this measure will help to protect consumers in vulnerable circumstances.

**Q41. Do you agree with our approach to drive good debt management practices and deter disconnection? Do you agree that assessing ability to pay and offering tailored repayment plans is possible for small heat networks operated/supplied by small entities?**

46. We welcome the intention in the consultation to ensure that consumers who struggle to pay their bills are not only adequately protected but also supported to stay connected. This issue is particularly pertinent given the instability in the energy market, coupled with the rising cost of living pressures facing consumers.

47. The approach set out in the consultation which introduces rules to follow already established best practice is welcomed. We support a requirement on suppliers to be proactive when engaging with consumers on non-payment. We also welcome measures to support consumers onto affordable repayment plans as this could act to better

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<sup>7</sup> Citizens Advice (2021) [Bringing heat networks up to standard - How heat networks can start delivering better customer service outcomes](#)



support them. We also support proposals to put a requirement on heat network suppliers to provide advice to consumers on measures to reduce heat usage.

48. In the regulated sector, disconnection has effectively been eliminated as a practice in all circumstances, excluding where there are safety or payment protection concerns. Consumer Scotland is supportive of the intention to make disconnection extremely rare on heat networks. We are supportive of the introduction of measures to prevent disconnection such as putting a requirement on heat network suppliers to consider alternative payment methods; for example, the installation of a prepayment meter should always be the last resort in instances of payment difficulty or debt accrual – not disconnection.

49. While we do not have specific evidence of disconnection practices within the sector, we would very much welcome plans to maintain the existing Heat Trust practices of protecting consumers in vulnerable circumstances during the heating season. The Heat Trust Scheme requires heat suppliers to make every reasonable effort to help a consumer experiencing difficulties paying heating bills. This includes ensuring that suppliers have guidelines in place to support consumers in vulnerable situations and that they are proactive and work closely with consumers that experience difficulty paying a bill.<sup>8</sup> This is an important measure to ensure that consumers in vulnerable circumstances are adequately protected when the weather is cold and we believe that it is vital that this be maintained and made standard practice across the sector through regulation.

**Q43. What do we need to consider when exploring a disconnection ban for the sector? We welcome evidence you can provide on benefits to consumers in vulnerable circumstances (including what groups of consumers should be protected), impacts on wider consumers (including specific financial impacts on other consumers on the network), and impacts on heat suppliers (for example with regard to cashflow and financial stability).**

50. While we recognise that heat network suppliers could see cashflow pressures as a result of the carrying consumer debt; as a general principle, it is our view that consumer protection should come before financial prudence. Without adequate heating, vulnerable groups in Scotland can suffer increased mortality and worsening health impacts.<sup>9</sup> Ultimately, it would be in the best interests of consumers; particularly those in vulnerable circumstances, to introduce a ban on disconnections.

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<sup>8</sup> Heat Trust (2023) [Heat Trust Scheme Rules](#)

<sup>9</sup> Public Health Scotland (2022) [Population health impacts of the rising cost of living in Scotland](#)

**Q44. Do you agree that non-payment of heat charges when part of housing charges should follow housing non-payment protection rules?**

51. We agree with the proposal outlined in the consultation that where payments for the supply of heat are included in rent or housing payments and not charged to the consumer separately; that housing protections for non-payment will apply instead of heat network payment protections.

**Q46. Do you agree with our approach for ensuring that consumers in vulnerable circumstances do not resort to self-disconnection or self-rationing and that PPMs are only used where appropriate for the consumer?**

52. It is vital that regulation helps to ensure that consumers in vulnerable circumstances do not resort to self-disconnection or rationing of heat. The heat networks consumer survey noted that heat network PPM users were more likely to have a vulnerable characteristic and were more likely to ration supply.<sup>10</sup> This makes it vital that measures are put in place to ensure that this is addressed now. While we are supportive of ensuring that heat network consumers have similar protections to the gas and electricity market with respect to self-disconnection/self-rationing; given the higher risk to consumers in vulnerable circumstances, Ofgem may need to consider additional measures of protection to ensure that these consumers are fully protected. The level of protection for heat network consumers should as a minimum, mirror protections available to consumers in the gas and electricity market. However, given the higher risk of consumer vulnerability, where possible, we think regulation should aspire to go beyond these protections and offer heat network consumers a higher level of protection.

**Q47. Should we include financial vulnerability as a required consideration for whether a PPM is 'safe and reasonably practicable'?**

53. Consumer Scotland is very supportive of including financial vulnerability as a required consideration for whether the installation of a PPM is safe and reasonably practical. Ofgem's existing Code of Practice for PPM<sup>11</sup> includes this requirement already and in-keeping with Ofgem and UK Government's ambition to provide heat networks consumers with similar levels of protection to the gas and electricity market; we agree that this should also apply to heat networks.

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<sup>10</sup> Department for Energy Security and Net Zero (2023) [Heat Network consumer and operator survey 2022](#)

<sup>11</sup> Ofgem (2023) [Involuntary Prepayment Meter – Supplier Code of Practice](#)

**Q49. Do you agree with this approach to regulation for ensuring heat networks have sustainable cash flows and only install PPMs involuntarily as a last resort?**

54. Consumer Scotland supports the approach to ensuring that heat networks have a sustainable flow of cash. We are aware of Ofgem’s recent letter to retail energy suppliers to assist in its reforms of the retail market to make it better able to withstand volatility.<sup>12</sup> This letter set out Ofgem’s expectations of suppliers’ financial responsibilities and how this interacted with dividend distribution to ensure that suppliers are less likely to fail and if they do then the cost and disruption to the consumer is minimised. We strongly believe that Ofgem should consider a similar approach for heat networks suppliers to ensure sustainable cash flow, ultimately for the benefit of consumers.
55. We are also very supportive of the proposal that Prepayment Meters (PPM) should only be installed involuntarily as a measure of last resort. We are aware that Ofgem have recently reviewed rules for involuntary PPM installations due to concerns about the approach that some suppliers were taking to PPM installations.<sup>13</sup> The recent decision by Ofgem to introduce new rules for involuntary PPM is a welcome measure and Consumer Scotland strongly recommends that these rules should also apply to heat network consumers as well. This will help to ensure that any involuntary PPM installed to heat network consumers are consistent with the rules that Ofgem have for the electricity market and heat networks suppliers are held to the same standards.

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<sup>12</sup> Ofgem (2023) [Open letter on financial distributions from retail energy suppliers](#)

<sup>13</sup> Ofgem (2023) [Involuntary Prepayment Meter Decision](#)

## Transparency of information to Consumers

**Q50. Do you agree with our proposal to increase the rollout of individual AMI heat meters? If you disagree, please indicate why, and provide evidence to support this view.**

56. In principle, Consumer Scotland is supportive of the proposals to increase the rollout of individual AMI heat meters. This could potentially help consumers to understand how much heat they use and also act as a measure to drive lower consumption.

**Q52. Is it reasonable or technically feasible to require that dwelling level meters be installed in common/public areas outside of that dwelling? If not, why?**

57. We do not believe that it is in the best interests of consumers for meters to be installed in common areas outside of properties. Through discussions with key stakeholders, concerns were raised that where this has been done in the past, consumers have not always had access to the communal areas where meters were installed.<sup>14</sup> As a general principle, it is our view that consumers should have access and full visibility of meters at all times; a view which is shared by many of our partners across the consumer landscape.

**Q57. Do you agree with the proposed rules on billing information, frequency, and method?**

58. Consumer Scotland supports the principle that accuracy, transparency and frequency of information will be a significant determining factor in the quality of a heat network consumer's experiences. It will be important to help consumers to understand clearly the quality of heat supply they should expect and what they can do if this is not met by their supplier.

59. We are supportive of the proposed mandated minimum standards for the transparency of information to consumers. In addition, we also welcome the new requirements which will help to support clear and accurate information and billing while also ensuring that consumers have a choice of different payment methods.

60. We recognise that the rules will need to work to support the different ways that consumers pay for heat. We agree that these proposals will help make billing practices easier to understand. This will ultimately help to improve billing transparency and empower consumers to challenge unfair charges.

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<sup>14</sup> Consumer Scotland regularly meets with partners across the consumer landscape to share intelligence and best practice regarding heat networks consumer protection.

**Q58. Do you agree with the proposed rules on back-billing, price change notifications, and heat supply contracts?**

61. Consumer Scotland is supportive of the additional protections to protect both domestic and microbusiness consumers from unfair back-billing practices. We note that Ofgem has previously set out its expectations for energy suppliers and insolvency practitioners for the retail energy market.<sup>15</sup> We are supportive of these expectations being extended to cover heat network suppliers as well and for these protections to cover both domestic and microbusinesses.

62. The introduction of additional notifications in the event of a price change is also welcomed. Additional requirements around the method, minimum notice period and minimum information requirements will provide consumers and microbusinesses with a better standard of communication with their heat supplier. It will also help to create a reasonable expectation of notice, should prices change.

63. We are supportive of the proposed rules on heat supply contracts. It is essential that the terms of heat supply are clearly set out through a contract. This will help to ensure that key information, including the price, the quantity of service and routes to redress are all clearly set out for the consumer.

**Q59. Do you agree that this package of measures on pre-contractual transparency will provide prospective consumers with sufficient information prior to and during a property transaction? What other information and mechanisms for providing that information should we explore further?**

64. Recent research carried out by Consumer Scotland shows that one of the main barriers relating to decarbonisation that consumers report across markets is a clear lack of reliable information. This is making it difficult for consumers to fully understand these issues and, consequently, to make informed choices.<sup>16</sup> We welcome the package of measures proposed to support prospective heat network consumers to receive information prior to a property transaction. We broadly agree with Ofgem and DESNZ proposals for the three types of information that consumers will need, including:

- Basic information so that the consumer can fully understand what a heat network is and how it operates. As part of this information it is essential that prospective heat network consumers understand that they will be on a monopoly supply and unable to switch

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<sup>15</sup> Ofgem (2020) [Ofgem open letter on backbilling No.1](#)

<sup>16</sup> Consumer Scotland (2023) [Consumers and the transition to net zero](#)

- Information about the heat supply to the property, including the supplier, contact details and the heat source
- Information about heating the property such as indicative heating cost, expected usage and carbon emissions. This could help to give the consumer a fuller picture of the heat usage at the property

65. We are also generally supportive of the Scottish Government's suggestion of including heat networks specific information as part of home reports. Home reports are often the first step that a consumer interacts with when purchasing a home. We agree with the Scottish Government's assessment that this could act as a helpful measure to provide consumers in Scotland with information about a connected heat network.

**Q60. How can we ensure pre-contractual transparency for prospective consumers in new developments?**

66. It is vital that tenants in new developments are fully aware of heat supply arrangements in advance of completion of the transaction. In our response to question 59, we noted that we are supportive of the Scottish Government's intention to include heat networks information within a home report. While this could serve to address this issue in existing homes, it would not address the issue in new developments. Appropriate measures should be taken to ensure that consumers have full transparency of heat network supply arrangements at the earliest opportunity during a property transaction. One such measure could be to ensure that details of any heat network supply arrangements are added to pre-contract of sale section of the New Homes Quality Board Code of Practice.<sup>17</sup>

**Q61. What issues do SMEs connected to heat networks typically face and are issues growing in volume and/or severity? Please provide evidence and reasoning to support your position where possible.**

67. Consumer Scotland has engaged with business organisations representing small businesses to better understand how they engage with the energy market and the challenges they can face.<sup>18</sup> This has raised a number of potential challenges that small businesses may face or make them inherently more vulnerable than larger companies when engaging with heat and energy markets, including:

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<sup>17</sup> New Homes Quality Board: Code of Practice - [New Homes Quality Code published](#)

<sup>18</sup> Consumer Scotland reached out to business representatives to better understand how consumer protection should apply to SMEs and the challenges they face when connecting to a heat network.

- Small businesses are unlikely to have an energy manager and may not have particular expertise when choosing an energy contract or deciding to connect to a heat network
- Small businesses are also much more similar to a domestic consumer than a large corporate business when it comes to energy and heat use and general understanding of the retail energy market

**Q62. What consumer protections would you expect to apply to SMEs? Please provide evidence and reasoning to support your position.**

68. The disadvantages that small businesses can have over larger business when engaging with energy and heat might make it more helpful for SMEs to be treated more similarly to domestic consumers than larger corporations. This, coupled with the large number of small businesses that are expected to connect to a heat network as they continue to expand; make it important to ensure that small businesses have similar consumer protections to domestic consumers.

## Monitoring, Audit, Compliance and Enforcement

**Q65. Should we take into account different market segments in our approach to general monitoring and compliance and financial monitoring? If so, what factors should we consider?**

69. There may be circumstances where it could be reasonable and practicable to take into account different market segments when approaching market monitoring. A small heat network, for example, may find it onerous or overly burdensome to provide certain metrics given the relative size of the network and the number of people the network serves.

70. However, it will be important to ensure that there are monitoring arrangements in place for networks that are not required to provide this data; such as smaller or non-domestic networks. This will help to ensure that we continue to have a strong understanding of how these networks are performing and so Ofgem can effectively regulate for all heat networks.

**Q66. Are these the right metrics to ensure we have a picture of heat networks' performance and consumer service? Are there any which should not be included or others which should be included? If so, why? Is there a frequency of reporting for particular metrics which would provide a clear picture of performance?**

71. On balance, the metrics outlined in the consultation look suitable in order to provide Ofgem with a comprehensive assessment of heat network performance and customer service. These metrics should however, be reviewed over time once the regulatory regime has been established and Ofgem have had the chance to carry out analysis on the available data. This will give us the opportunity to look for any gaps or opportunities with the data available.

72. Consumer Scotland would welcome further discussions with Ofgem on reporting, intelligence and data as we continue to scale up to deliver our new role as statutory advocate for heat network consumers in Scotland. It will be important ensure that all GB wide consumer data and intelligence for heat networks is coded in a similar way to ensure consistency and provide a complete picture of performance. We would be particularly keen to understand how we can feed into and support Ofgem's monitoring and audit process as this develops. We want to ensure that we have a strong understanding of how heat networks in Scotland are performing so that we can contribute to better outcomes for consumers.



**Q67. Do you agree with the overall scope of and approach to auditing to support compliance with regulation, including the initial areas of focus?**

73. Consumer Scotland is broadly supportive of the approach to auditing networks outlined in the consultation. We agree that sampling different types and segments will help to build up the overall picture of how the market is complying with the regulation. It will be important to ensure that the auditing process can give us an accurate reading of compliance in order to ensure that consumers get the best possible standard of service. We are also supportive of using monitoring data and other available intelligence to target networks where there could be a potential risk to heat network consumers.
74. It may also be sensible to consider putting in place a requirement for authorised networks to be audited once every few years. The Heat Trust has a similar requirement<sup>19</sup> as part of its auditing process for all networks to be audited at least once every five years.<sup>20</sup> This will help to provide a strong indication that all networks are likely to be compliant with regulation and that all networks operators will have the expectation that they will go through the audit process; which may act as an additional measure to ensure consumers receive a consistent service.
75. It may also be advantageous to consider a review of the auditing process at a later date, once regulation has had time to embed. This will help Ofgem to understand if the auditing process sufficiently identifies non-compliant networks and to ensure that the auditing process is independent, robust, balanced and fair.

**Q68. Do you consider that the proposed compliance and enforcement framework is appropriate for ensuring that non-compliance is addressed?**

76. Consumer Scotland welcomes Ofgem's proposed approach to compliance and enforcement. It will be important that Ofgem is able to be flexible to ensure that compliance and enforcement action can be taken should cases of significant consumer detriment or serious breaches of non-compliance are identified. We welcome further discussion on how Consumer Scotland; along with others in the consumer landscape, can support and feed into Ofgem's compliance process. We recognise the challenge that Ofgem face in gathering the body of evidence required and we want to help to ensure that any concerns about consumer detriment are acted upon.
77. We are broadly supportive of the enforcement measures outlined in the consultation. We agree with Ofgem's intention to align with their existing approach to enforcement in

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<sup>19</sup> Heat Trust (2020) [Audit Guidelines](#)

<sup>20</sup> Heat Trust (2020) [Guidance – Audit and Compliance](#)

the gas and electricity markets. Building in different provisions to reflect the overall size, scale and type of heat networks will also ensure that enforcement action is proportionate and fair, while also encouraging suppliers to provide a higher standard of service.

**Q69. Do you consider that our penalties policy should include Fixed Penalties as an efficient way of addressing certain non-compliance? If so, what are the main benefits and risks that need to be considered when implementing this approach, including how they would apply to different segments of the market?**

78. Consumer Scotland does not take a particular view on the use of fixed penalties to address non-compliance. However, we would encourage Ofgem to ensure that any penalties, fixed or otherwise are proportionate and considerate of the scale, size and types of different networks so that they do not have any adverse consequences such as compromising the viability of small or micro networks. It is our view that when penalties are applied, it is important that this is clearly and publicly communicated; sending a clear signal to other networks and the wider industry about the importance of compliance. Ahead of any penalties being imposed, it may also be beneficial to consider where funds generated from penalties could add value when they are channelled back into the market through support schemes.

## **Next steps**

79. We will continue to engage with DESNZ, Ofgem and the Scottish Government as we move towards the introduction of regulation to ensure that regulatory provisions provide adequate protections for current and future consumers using heat networks.

80. Consumer Scotland will take on a new role as statutory consumer advocate for heat network consumers in Scotland as part of the new regulatory regime. Once funding has been designated, we will work closely with our partners across consumer landscape and with the regulator to prepare for this new role so that we can support and ensure better outcomes for all heat network consumers in Scotland.

81. We would be very happy to discuss the content in this paper in more detail and we look forward to further discussions with Ofgem and our partners across the consumer landscape as work on regulation develops over the coming months.

**Consumer Scotland**

**October 2023**

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