



*A grassroots campaign taking action against mammoth fuel bills and working towards an affordable, sustainable and democratic energy system*

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## Fuel Poverty Action Response: Heat network Zoning Consultation

Fuel Poverty Action has been working with the end users of heat networks for eight years now. We have often engaged with BEIS, and then DESNZ, to try to win fair pricing and good service on particular housing estates and developments. We have tried to ensure that the long awaited regulations will end the nightmare lottery which sees many people stuck with dysfunctional heating at a price they cannot afford. We understand the purpose of zoning and had hoped that it would lead to more rational, less expensive, and more reliable heat networks, with lower carbon emissions. We are disappointed that the present plans are entirely based on the principle of zones allocating opportunities for private investment. Much of the intense labour that we can see has gone into these plans appears to be devoted to mitigating the problems that this creates. We are very much afraid that the result will be a failure to reduce fuel poverty, with all its attendant costs in people's standard of living, health, and life expectancy. There is even a risk that in some places, fuel poverty could be increased.

We cannot respond to all the questions raised in this consultation, but believe our on the ground experience can offer a relevant perspective on several of them.

**Q 3. Do you agree with the roles and responsibilities set out for the Zone Coordinator? If not, please set out a) which ones you disagree with and why, and/or b) any additional duties you expect them to perform and why.**

There is nothing here to reflect the ***ability for Zone Coordinators to require heat networks to charge certain prices to consumers within zones ...***

There is a provision "e" under "Choosing the standard conditions which apply in their zone from a standardised list" - which could be interpreted to include this role, but setting prices is quite a significant power, which you would expect to be spelled out in detail. Instead, it doesn't appear to be even made explicit! Is it being taken seriously?

Please see also below, re making heat networks affordable.

**Q 6. Do you agree with the Zone Coordinator governance requirements set out above? If not, please set out a) which ones you disagree with and why, and/or b) which additional requirements you consider are necessary.**

Category 2. Local Democratic accountability

*"The guidance under this section could include social responsibility guidelines, such as encouraging Zone Coordinators to regularly engage with local residents by undertaking activities such as holding public events or distributing information about the zone."*

This is a very one-sided, and if we may say, outdated conception of democratic accountability, which has been superseded by the Hackitt Review following the Grenfell Tower atrocity. Heat network users need real access to the levers of power to prevent disastrous misjudgments in the running and maintenance of their networks. Accountability is no less important (though rather more complicated) in the process of deciding on and establishing heat networks. Bad, unaccountable decision-making at that point is actually the root cause of many of the problems that residents are dealing with now. Public events are sometimes better than nothing, but much more attention needs to be paid to this part of the Zone Coordinator's role if it is not to be entirely tokenistic in terms of democratic accountability.

The other side of this question is obviously local authorities, where there is at least a potential, and the machinery, for democratic control at some time in the future (however, see Q 63 below). On 20 April 2023 at an early webinar on zoning, we heard a bold assertion that Local Authorities should not be involved in assessing whether an area is suitable for a zone, as the private sector can do it for free, and we would only "lose pace" if the process required approval. This view *seems* to have been rejected, as the consultation places Zone Coordinators - usually - within LAs (but see below) and by the hope of a smooth coordination with planning authorities. However, the unease around the funding of Zone Coordinators is not reassuring, and nor is the statement about the costs to planning departments of this extra workload: *"we want to avoid a situation where they are drawn from planning teams' existing budgets"*. Will this be a commitment or a wish?

You note here that,

*"The allocation of these resources will align with the Central Authority's pipeline of projects. Local government may also wish to bring projects to market which are not part of the national pipeline or bring forward projects planned for future years. Our ambition is that they will have access to an additional annual allocation of resources for this purpose. The Central Authority will allocate these ad-hoc resources on a competed basis, similar to the current approach used for Heat Network Delivery Unit (HNDU) 9 funding today."*

This raises the question of how funding of new networks aligns with remedying the often severe failings of existing networks. We understand that new networks may appeal to private finance where dealing with decades of sludge in underground pipes will not. However, a shiny new network next door is unlikely to be popular where residents have suffered years or decades on networks which constantly fail.

The ability to impose something can seem to remove any need to incentivise it. But we believe public consent is still important to the development of heat networks, as it is to those who are dedicated to eliminating fuel poverty and carbon emissions. Distributing glossy flyers will not accomplish this, any more than it did for HS2.

Ad hoc, unreliable, and small-scale funding from central government is a major reason why in the UK we have a trail of expensive failures, instead of a functioning network of heat supply to homes. The heat network users now facing the withdrawal of price capping via EBRS and EBDS, and the final stage of the Heat Network Efficiency Scheme feel deeply the injustice of being asked to fund the establishment of major new infrastructure, bearing all its risks and its costs through their bills.

#### Category 4: Conflicts of interest

*"It is vital that the Zone Coordinator continues to (i) take decisions independently and free from undue influence of the zone developers, and (ii) avoid a situation which could give rise to a conflict of interest. . . However, in the interests of practicality, the regulations should grant the Zone*

*Coordinator the ability to authorise a conflict. For example, the Zone Coordinator could consider that despite the potential conflict of interest, the decision is in the best interests of the zone overall, and therefore decides to proceed with it ..."*

This provision will ring loud alarm bells among end users and could discredit the whole structure in the eyes of a population accustomed to such practical measures, friendly handshakes, public private partnerships, and revolving doors. It would not of course be visible at the start, but would wreak all the more havoc when it becomes apparent.

**Q 7. Do you agree that, longer-term, heat network developers should pay a greater proportion of the costs of Zone Coordinators related to zones they are formally engaged with? What challenges and opportunities do you see with this approach?**

Please see our remarks immediately above.

**Q. 19. Do you agree with the proposed mechanism for activating the requirement to connect? If not, please provide alternative suggestions.**

*"We are also aware that there are risks associated with placing this requirement on buildings. Building owners or developers may find the requirement to connect off-putting, even if they are enthusiastic about decarbonising their buildings. This makes an active approach to agreeing connections by developers vital for building trust in heat networks and heat network zoning."*

This question lays bare the intrinsic problem of coercing people to fall into line with commands from a body that operates a monopoly for profit.

**Q. 20. What, if any, unintended consequences for building developers, owners, and residents, may result from requiring existing buildings to connect at a time determined by heat network developers? Describe any mitigations.**

The disruption of people's lives, and also purchase plans, can easily be imagined. The only way for timing to take account of such factors would be real consultation with residents, and compensation to them, including where necessary decanting in some cases. The early stages of a heat network are often the worst for outages, which can go on for years. Connection to an existing network will cause some of the same issues.

**Q. 21. What types of incentives could encourage connections to heat networks? For each suggestion, describe how the incentive will encourage connection, for instance by specifying which barrier to connecting.**

*"As such, we are also seeking views on the potential role for incentives in encouraging connections. Incentives could prompt building owners to seek connections proactively because they provide additional benefits to the building and its occupants. This will reduce reliance on the requirement to connect. Incentives would also offset the perception that the requirement to connect impinges on individual choice. Any future incentive design would be subject to further consultation."*

Incentives could help pave the way, but a) the threat of coercion will always be there, and b) who will benefit from incentives? It is simply not the case that incentives to building owners will necessarily benefit the occupants, or even the building itself. We could easily see perverse incentives, like those that have riddled developments where HN developers provide incentives to housing developers to choose them, which then lead to higher prices for end users. Tenants end up paying for decades to save the housing developer money on the build.

**Q. ?? Re exemptions, we could find no questions address the list of connection barriers below.**

*"Examples of connection barriers which may warrant a temporary exemption include:*

- *Existing contracts for the provision of utilities for the purposes of heating which are too expensive to “buy out”. The temporary exemption ends when the contract ends.*
- *Recent investment in replacement heating systems. The temporary exemption ends when the building has paid off some or all its outstanding debts, or at a point when the technology has devalued enough for the heat network developer to “buy it out”.*
- *Ongoing refurbishment, construction, or other works which make connection within the connection window prohibitively expensive or impractical. The temporary exemption ends when the works conclude, or when connection becomes practical.”*

We find it startling that there is nothing about the energy efficiency of the housing in this list. In the long consultation about heat network zoning that took place during development of the recent London Plan, there was excellent testimony from many participants (including ourselves) about the choice between heat networks and building or retrofitting buildings to a very high standard of energy efficiency. This was almost brushed aside at that time, and in this consultation the whole question appears to be entirely absent. The issue is at its starkest where passive house standards apply, but even at a lower level of energy efficiency, there must be questions about the expenditure in carbon emissions and cash, to say nothing of disruption to lives, caused by imposition of a heat network, if the building is insulated to a high degree. From our understanding the property will be forced, then, to connect to a heat network for the sake of making that network more economically viable?

Nor is this question included in the list below:

*“Examples of scenarios which may warrant a conditional exemption include:*

- *Physical characteristics of the building which make a connection impractical or impossible, such as grossly incompatible heating systems or specialised (not all) building conservation requirements. The exemption expires if the physical characteristics are resolved.*
- *Access to a cheaper, highly localised, lower carbon heat source which can service the building but is unsuitable for supplying a heat network. The exemption expires if the heat network becomes cheaper or the heat source is no longer available.*
- *Demographics of building residents and characteristics of the connection mean a risk of significant increase in fuel poverty and no mitigations are available. The exemption expires if connecting would no longer increase fuel poverty or deprivation, if the available alternatives become more expensive, or the demographics change.”*

We will contact DESNZ to ask for an explanation of the concerning suggestion about demographics. The point would appear to assume that a heat network may lead to a substantial increase in the cost of heating, so that if people are on low incomes there would be risk of significant fuel poverty. If that is the meaning, it would apply very widely, as a high proportion of the population is already in fuel poverty (36.4% under the old definition) and many more are near it; in both cases fuel poverty could be widened, and deepened. Again, perhaps we have misunderstood

**Q 29. Should leaseholders be provided with a route for requesting an exemption? Please provide further details, such as when this may be allowed.**

Yes. Leaseholders can be very badly impacted. If their being connected is essential for the heat network, they should be incentivised to do it, rather than compelled.

**Q 32. What costs should the Zone Coordinator consider when assessing a cost-based exemption, and what is a suitable counterfactual?**

It is noteworthy that this section seems only to consider the cost of creating the connection, not running it. Is this correct?

You say, "*We are seeking views on whether buildings should be able to extend their exemption if the available heat network connection would represent an increase in carbon intensity. The extension would last until the heat network can provide a connection of equal or lower carbon intensity.*"

So, connection could be required even if the existing supply of heat is equally low carbon? As above, there seems to be a presumption that everyone has an obligation to improve the viability of a profit making enterprise. There is no hint that some quite major disruption to the lives and living conditions of residents will be taken into account. We earlier heard discussion of exemptions lasting only during the lifetime of a heat pump. We hope this has been dropped. If a heat system and home are set up on the basis of direct connections to a heat pump, it is bound to be more disruptive, at least, and probably more expensive, to change this, than it would be to simply install a new heat pump.

**Q 33. Do you agree that an exemption extension may be granted if connecting to the heat network will increase the carbon intensity of a building's heating systems? Note, this will only apply to exemptions based on having an existing low-carbon heating system. If not, please provide further detail.**

We would say it not only may but *must* be granted in these circumstances. This should help ensure that the heat network is genuinely low carbon. And we do not see why it should apply only to homes with a low-carbon *heating system*. What if heating is hardly needed, because of high standard energy efficiency of the building fabric and structure?

Crucially, will account be taken of the carbon embodied in the heat network connection itself, given the process of extending pipes, etc?

**Q 35. Do you think there are any other points in the requirement to connect process where a notification should be issued to a building owner? Please describe the information it should contain.**

A requirement to inform residents of the notice and next steps and keep them informed. Prospective buyers should also be informed.

**Qs 43 - 46. These questions on carbon emissions are aimed at HN operators and again the questions we would like to answer have not been asked. Comments:**

We are very glad to see your statement on rebalancing the price of gas and electricity – a crucial, and urgent move, not only for incentivising the move to heat pumps (individually and communally) but to relieve the horrific fuel poverty of people in all-electric homes.

We are however wary of measures that are brought in in the name of reducing carbon, which may fail to have that effect at all. We know of many estates with wood chip boilers which have either broken down all the time until they were replaced by gas boilers, or were never intended to be used in the first place, just installed to tick a box, while a gas "back up" boiler provided the heat. In addition, efficiency may be so low that the system is not "green" at all. CHP may work, but not provide any benefit to end users from the ensuing profits.

Crucially, we hope attention will be paid to how emissions are measured in practice. If it is a paper exercise, how can regulators be sure the results will be true, and regulations will not be circumvented as with the particle emissions from car exhaust? People's level of trust is very low, and in a climate of low expectations of integrity, anyone seeking to impose a profit-making industry on people who have trouble feeding their children must take that into

account.

**Q 47. Please provide comments, if you have any, on the above initiatives to make heat provided by heat networks affordable and any further suggestions if you have them.**

You say the government has several initiatives to ensure that heat provided by heat networks within zones is affordable, including requiring the use of waste heat, pricing benchmarking regulation overseen by Ofgem, working with the UK Infrastructure Bank, limits on the connection costs to domestic buildings, a competitive process for appointing Zone Developers, and capital/efficiency grant programmes.

However, despite the successful and widespread use of non-profit models in Europe and around the world where heat networks have been built on a large scale prioritising carbon emissions, fuel poverty, and public accountability, this consultation does not even consider the possibility of removing the element of profit from the equation. It is this element that, as shown above, makes everything more complicated, more expensive, and less acceptable to the public. In contrast, in Denmark, heat retailing is legally required to be a not-for-profit activity. The decision of the Danish government in this respect is driven by the fact that it is a monopoly.

It would not solve this built-in problem, but would help, if there were at least some limit on profit-making. Why is this not even hinted at here. The Energy Act allows for regulations to fix the rules around terms for supplying heat to a heat network, including prices. And the present consultation document confirms that *"New national consumer protection rules ... will include: guaranteed transparency on prices for all customers; **the ability for Zone Coordinators to require heat networks [to] charge certain prices to consumers within zones ...**"*

We have done our best to ascertain from the consultation document what is meant by this.

- As we have already pointed out, this is not mentioned in the summary of proposed roles and responsibilities of Zone Coordinators.
- Similarly, it is not mentioned under "The life cycle of a heat network zone, 4. Heat network zone operation". The text says,  
*"During zone operation, heat network developers and operators will be subject to the national heat network regulatory requirements for consumer standards as authorised heat network entities (8)."* Footnote (8) refers to the consultation on consumer protections: which proposes transparency and some form of price benchmarking but not price control. See our comments on this, in our [response to that consultation](#).
- You add: *"They will also be required to report data to the relevant zoning bodies for monitoring purposes and adhere to carbon emissions limits."* But not price limits.
- The "Principles for commercial models governing HN zones" include: *"Good customer outcomes. Developers must ensure that heat network infrastructure in zones will be deliverable against price regulation overseen by Ofgem, as set out in "Consumer protection". Zone Coordinators will be permitted to require certain heat rates for domestic consumers."* But "Consumer protection", based on the consultation of that name, allows for transparency and some - undetermined - form of benchmarking, but not for anything we would recognise as "requiring certain heat rates".

We want to hope for the best, but the requirement to charge certain prices does not appear to be on the agenda.

**Q 63. Do you agree with these principles for evaluating commercial delivery models? Please provide your reasoning and any relevant evidence. If you believe any are**

**unnecessary or missing please explain why.**

Democratic control is missing. Please see above under Question 6. If Local Authorities were functioning as they should be, they would be well placed to perform this function, but we cannot count on that for the foreseeable future. At present, Local Authorities can in some cases be even worse than private Heat Network operators, for example in Lambeth, where tenants are being threatened with eviction if they cannot pay heat charges that have increased by 353%. Residents therefore need direct access, which must include some element of training and financial compensation. There are interested parties among leaseholders and tenants who already devote days, months, and years of their lives to trying to get affordable, reliable, heating and hot water from their heat networks.

**Q ?? Exclusivity - there is no general question on this issue.**

It is important to consider how exclusivity would impact community owned and operated heat networks. Where will they fit in?

**Q 69. Do you agree with the proposed shortlist of [commercial delivery] models: Authorisation and Consent (Proactive), Local Authority Joint Venture and both concession models ('Time limited' and 'Evergreen')? If not, please provide details and set out which models you believe better meet the principles for 'zone delivery models'**

We understand a much broader list of possible models is being considered in Scotland, with a report on 'Heat Network Delivery Vehicles' by the Scottish Futures Trust. We believe they should be looked at in England, too.

Starving Local Authorities of resources and then handing over heat network development to the private sector is simply more expensive. Local authorities can work with a hurdle rate of 5% and the commercial sector requires 10%; this higher rate will feed through to consumer bills, resulting in an increase in fuel poverty.

Looking at the options you propose:

Option 4, "Local Authority Delivered" seems to offer an alternative, public ownership model: "*A Heat Network Developer, owned wholly by the local authority, is created.*" But unsurprisingly, the Local Authority then becomes a shareholder. With Local Authorities starved of finance, as they are, it will come to the same.

In Option 5, "Local Authority Joint Venture", "*The local authority agrees a Shareholders' Agreement with the Heat Network Developer. This Agreement determines the degree of influence and control the local authority and Developer, respectively, have over the joint venture entity.*

***Influence and control would likely reflect the level of investment each party has made.***" (our emphasis)

This must be true in both cases. Whether "Local Authority delivered" or "Local Authority joint venture", LAs don't have the money to exert real control and will easily be overwhelmed by private interests.

Perverse incentives, as described above, have riddled developments so far where HN developers provide incentives to Housing developers to choose them, which then lead to higher prices for end users, paying for years to save the housing developer money. It is easy to see how this could happen with incentives of one sort or another to a desperate Local Authority, e.g. by offering to make some aspect of the connection cheaper for them but then, which will then increase ongoing costs for residents, or, in some cases, even by cash incentives.

The following paragraph lists some of the complexities, expenses, and injustices for end consumers that are built into a model based on always prioritising competitive commercial operators over public ownership.

*"We have developed this shortlist because the Authorisation only model, while relatively simple to establish and administer, does not establish a governance structure that provides the "levers" necessary to drive delivery of heat network infrastructure in a nationally co-ordinated manner. It runs the risk of developers only targeting areas with high returns and would give the Zone Coordinator limited ability to require them to connect to buildings that may worsen overall returns but still be profitable. This could result in consumers not being offered low-cost heating. Furthermore, as networks that are built are not being co-ordinated either locally or nationally, there is a risk of supply chain overheating or being underused depending on fluctuations in activity. There is a further issue that under this model we anticipate that the zone developer may be subject to Utilities Contracts Regulations ..."*

The consultation offers this justification for always preferring a private model unless no private partner comes forward:

*"The Local Authority Delivered model would heavily rely on the policy and resources of a local authority but without a competed process it would not be possible to evaluate if the local authority was the best provider of the development. Furthermore, local authorities may be more financially constrained, limiting the build out potential of a zone. As such we propose a model that, where a local authority wishes to invest in a heat network, a Joint Venture model is adopted with competition over the Joint Venture partner designed to introduce greater amounts of capital and sector specific expertise."*

This has a logic where Local Authorities are starved of resources. In many places this huge deficit is exacerbated by the sell-off of council housing, forcing councils to pay eye-watering sums (especially in London) to house vulnerable residents in overpriced and often slumlike private housing. Residents on heat networks and many others are paying the price for this. An alternative would be to reverse the massive transfer of wealth from local authorities to central government, and the policies which insist on the private sector and competition taking priority over people's needs in both heating and housing. The proposals in this consultation would only exacerbate the present trend.

26/02/2024