



Action for Warm Homes
Northern Ireland

National Energy Action NI

Response to the
Department for Economy's Consultation

**Heat Networks – Building a market
framework**

January 2022

About NEA

National Energy Action (NEA) is the national fuel poverty charity working to secure affordable warmth for disadvantaged energy consumers. NEA's strategic aims include influencing and increasing strategic action against fuel poverty; developing and progressing solutions to improve access to energy efficiency products, advice and fuel poverty related services in UK households and enhancing knowledge and understanding of energy efficiency and fuel poverty.

NEA seeks to meet these aims through a wide range of activities including policy analysis and development to inform our campaigning work, rational and constructive dialogue with decision-makers including regulatory and consumer protection bodies, relevant Government Departments, the energy industry, local and national government, and we develop practical initiatives to test and demonstrate the type of energy efficiency programmes required to deliver affordable warmth.

NEA is primarily concerned with energy policy whilst maintaining a watching brief on social justice policies including income inequalities and levels of poverty in Northern Ireland.

Protecting vulnerable consumers is our key aim so we work both reactively and proactively to ensure policy makers and regulators recognise the needs of the vulnerable in its widest sense. With tighter household budgets it is more important than ever that consumers are getting the best deal. Paying for domestic energy makes up a substantial portion of total household expenditure, so it is of specific concern to us but is often relegated in the ever-busy policy environment.

Background

Unfortunately, many households in Northern Ireland face the prospects of cold homes, especially during the winter months. Based on the 2016 House Condition Survey¹, Northern Ireland has a rate of fuel poverty at 22%. It is also estimated that there are approximately 43,800 households in extreme fuel poverty, which means they need to spend over 15% of their total income to heat their homes. Additionally, one in five households in Northern Ireland are living in poverty.

Energy prices have undergone an unprecedented rise during 2021, and this looks set to continue for at least 18 months. We know that Northern Ireland continues to have amongst the lowest levels of household income across the UK and the highest weekly household expenditure on energy of any UK region. Taken in conjunction with challenging economic conditions as well as the ongoing global pandemic, many families continue to face challenges with meeting their energy costs. These pressures are further amplified by the ongoing energy crisis, which has seen fuel prices soar to record levels.

¹ Northern Ireland Housing Executive (2016) House condition survey: <https://www.nihe.gov.uk/Documents/Research/HCS-2016-Main-Reports/HCS-Main-Report-2016.aspx>

Unfortunately, this means that many households in Northern Ireland face the prospects of living in cold homes for long periods of time, especially during the winter months. Homes play a crucial role in ensuring the health and well-being of individuals and households, and NEA believe that everyone in Northern Ireland should be entitled to live in a warm, safe, and healthy home.

We know that the cold kills. The Northern Ireland Statistics and Research Agency (NISRA) estimate that the Excess Winter Deaths (EWD) for 2020/21 was approximately 1,120². The same report details that there were 6,340 deaths in Northern Ireland in the winter period of 2020/21, which is the second highest number of winter deaths in the last 10 years.

Studies show there is a relationship between EWDs, low thermal efficiency of housing and low indoor temperatures³. EWDs are almost three times higher in the coldest quarter of housing than in the warmest quarter. We know that deaths from cardiovascular diseases are directly linked to exposure to excessively low indoor temperatures for long periods of time. This is because temperatures below 12 degrees Celsius result in raised blood pressure⁴. There is increasing evidence to show that children living in cold homes are more than twice as likely to suffer from a variety of respiratory problems than children living in warm homes. Exposure to cold increases the level of minor illnesses such as colds and flus and exacerbates existing conditions such as arthritis and rheumatism⁵. To put it simply, we know warm homes are vital for ensuring good health and wellbeing.

NEA believe that Department for Economy's new energy strategy offers an opportunity to tackle fuel poverty in Northern Ireland head on, by driving up domestic energy efficiency, creating a flexible energy system and putting consumers at the heart of energy policy decisions. We hope the strategy will be the catalyst for change, inspiring decades of delivery which will help shape a more equitable energy system in Northern Ireland.

Response

NEA welcome the opportunity to respond to the Department for Economy's Consultation on '*Heat Networks - Building a market framework*'.

Energy policy in Northern Ireland is set to embark on the most dramatic period of change in Northern Ireland's history. Whilst this change will bring many opportunities for energy consumers including access to clean fuels, the roll out of new home heating technologies and improvements to the existing energy infrastructure; it also presents a number of challenges and risks for which consumers will need support to overcome.

² Northern Ireland Statistics and Research Agency (NISRA), Excess Winter Mortality NI Report 2020-21. Accessed online: https://www.nisra.gov.uk/system/files/statistics/Excess%20Winter%20Mortality%20Report%202020_21.pdf

³ Marmot Review Team (2011), The Health Impacts of Cold Homes and Fuel Poverty

⁴ Department of Trade and Industry (2001), The UK Fuel Poverty Strategy. London: DTI.

⁵ El-Ansari W and El-Silimy S (2008) Are fuel poverty reduction schemes associated with decreased excess winter mortality in elders? A case study from London, UK. *Chronic Illness*, 4(4), pp.289-294.

As such NEA welcome any action to put in place protections for Heat Networks consumers. However, it would be remiss of us not to mention that we are concerned by the lack of activity on behalf of the Department for Economy to address the lack of regulation of home heating oil in Northern Ireland. We know that 68% of households rely on home heating oil and that this will include a significant number of vulnerable households. Therefore, it seems inconceivable to us that our Energy Regulator does not have the necessary powers required to scrutinise the oil industry and provide consumers with the same level of protections that are enjoyed by electricity and gas consumers. NEA believe the Department for Economy must address this as a matter of priority.

NEA recognise the volume of work that has to be undertaken to deliver the proposals outlined in the consultation documentation. However, we believe there is still a need for further analysis to ensure policy makers are equipped to make informed decisions. The consultation borrows much from a similar exercise carried out by BEIS in 2018. Whilst we understand the rationale for this, we hope that the Department will commit to undertaking appropriate analysis to ensure it takes full account of the differences in the Northern Ireland energy system compared with our GB counterparts. Specifically, we would like to see further information provided on the costs of each regulation approach outlined in the consultation, and importantly how these costs would be funded if they are to be adopted. We believe this would allow stakeholders to better scrutinise the proposals within the consultation.

Policy costs faced by domestic consumers and how these costs are subsequently recovered via bills has a big impact on fairness⁶. Many consumers face stark challenges in paying for policy costs as they are usually recovered per unit of energy. This is particularly acute for pre-payment customers as these charges must be paid for upfront before these households can access any units of energy. In addition, VAT is often recovered on the whole energy bill, including the proportion of the bill which pays for policy costs.

For households living on a low income, energy usage makes up a significant portion of their household expenditure. It is important to recognise that any additional cost to household energy runs the risk of pushing vulnerable households into fuel poverty and worsening the conditions for those already impacted. Households on lower incomes and vulnerable consumers in Northern Ireland perhaps stand to gain more from a 'just transition' than any other grouping. However, this group is equally at risk should new policies and strategies fail to deliver for their benefit.

Our main concerns in the context of this consultation relate to ensuring consumers on heat networks have comparable levels of both service and protection as consumers on other regulated utilities. The Utility Regulator will need the powers, resources, and time to ensure this is possible and the Department for Economy will be required to facilitate this.

⁶ John Barrett, Peter Taylor and Anne Owen (2018) *Funding a Low Carbon Energy System: a fairer approach?*

In general, NEA believe there is a need to ensure that existing consumer protections (across all utilities) are maintained and strengthened. In comparison to other countries Northern Ireland has a very small retail market and therefore does not benefit from economies of scale. For this reason, we consider that it is unlikely to attract enough suppliers for competition alone to form the basis of consumer protection. Therefore, we consider that the best way to protect domestic consumers (in particular those who may be vulnerable) is to maintain high standards of regulation, including price controls on the biggest supplier. Where new technologies and markets emerge, regulations should be updated to ensure there are no gaps or unintended consequences. We urge the Department to work with the Utility Regulator, Consumer Council and wider stakeholders to identify and plug 'gaps' in consumer protection as the energy system changes around consumers.

NEA believe that the DfE must ensure domestic consumers connected to district heating networks (especially within social housing schemes) are protected by adequate consumer protections.

Heat Networks and District Heating can contribute to tackling fuel poverty through their ability to provide stable and predictable prices for energy over an extended period. They may also help reduce worry for households about breakdowns or repairs and facilitate the creation of local employment opportunities therefore contributing to economic growth. Systems using dual or multi-fuel CHP are also better able to respond to (and therefore alleviate) spikes in energy pricing, thus potentially preventing higher fuel bills for consumers.

However, there are barriers which effectively prevent the realisation of district heating benefits for the fuel poor, including: contractual tie-ins; limited choice of heat sources; system inefficiencies; poor transparency/perceived unfairness of billing calculations; and lack of recourse to independent adjudication. We hope the department will commit to ensuring that all the protections enjoyed in these areas by other energy companies will at least be replicated for Heat Network consumers.

NEA believe all heat suppliers should have minimum efficiency standards and a regular maintenance and inspection regime in place. This should include checking all heat meters at least once every two years to make sure users are being billed for the right amount of heat. All heat suppliers should also maintain a list of vulnerable customers (a Priority Services Register) and ensure that these customers are treated as a priority during periods of system downtime (both anticipated and unanticipated).

Overall, we are broadly satisfied that the consultation proposals will address some of the issues and ultimately increase consumer protection for heat market customers with better outcomes for vulnerable and fuel poor households. However, NEA do not believe that the conclusion to adopt option 4 (General Authorisation with optional licence for rights and powers) as the regulatory model is the best option. It is our belief that such an approach is not compatible with our primary concern of ensuring that heat network customers are given a comparable level of protection to gas and electricity customers.

In our view, a mandatory license would give parallel protections to electricity and gas, increasing the fairness for those households with a district heating connection, potentially through no decision of their own. The arguments against licensing are not acceptable. It seems that the proposal is to offer a lower level of protection to protect growth. Our view is that growth should not come at the cost of customer experience. If licences are optional, then the benefits for licensees will have to outweigh the costs of increasing customer protection. This is likely to result in unpredictable outcomes regarding which heat networks provide the extra layer of consumer protection, meaning that outcomes for consumers will not be consistent or predictable.

NEA agree with the Department that the Utility Regulator (UR) would be best placed to take on the role of regulator with regards to Heat Networks. The UR has significant experience in developing and enforcing consumer protection measures. Having a single energy regulator would benefit heat network consumers.

In relation to which entity should be responsible and accountable for meeting regulatory requirements, it is the view of NEA that consumer facing entities should be accountable. This is where the majority of complex compliance issues will lie. It will also mean that compliance is more customer focussed, rather than technology focussed, which will result in better outcomes for consumers. An analogy can be found in the electricity and gas markets, where compliance within energy suppliers is vastly different from generation and networks. Suppliers have been rewarded for 'putting the customer first' resulting in some excellent practice outside of what is mandatory. Whilst electricity and gas networks have consistently had a positive impact for vulnerable consumers, this has not been to the same extent as suppliers. We believe that this is in part due to the compliance focus on technology and finance, rather than putting the customer first and treating the customer fairly.

NEA also believe that the market framework should also regulate and enforce the provision of information and that the heat suppliers should be responsible for developing information and guidance for prospective consumers.

This would be in line with regulation in gas and electricity markets and is crucial for ensuring a fair service for vulnerable households. The Department for Economy should work with the industry to consider what bespoke and targeted advice is required to help District Heat consumers with controlling their heating and understanding their billing.

Comprehensive information should be developed and provided including:

- The costs of the scheme including a comparison to other fuels with respect to heating.
- The carbon implications including a comparison to other fuels with respect to heating.
- The impact of choosing a heat network in terms of rights relating to switching.
- A central view on how costs are likely to change over time



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- Information on how consumer rights might be different from other fuels, for example who is the regulator, what is their role, and who can complaints be escalated to.
- Information on any energy efficiency or fuel debt advice that is available to them either as part of a customer of their current fuel or as a heat network customer.
- Information regarding any social obligations that may arise from the regulation of heat networks, for example a priority services register.
- The types of temporary heating and running costs which should be provided in an outage

We thank you for the opportunity to respond to you with these comments.

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