HEAT NETWORK (METERING & BILLING) REGULATIONS 2014 – CONSULTATION RESPONSE TEMPLATE

Written Evidence Submitted by the British Property Federation

British Property Federation

1. The British Property Federation (BPF) represents the real estate sector – an industry which contributed more than £100bn to the economy in 2018 and supported more than 2 million jobs. We promote the interests of those with a stake in the UK built environment, and our membership comprises a broad range of owners, managers and developers of real estate as well as those who support them. Their investments help drive the UK's economic success; provide essential infrastructure and create great places where people can live, work and relax.

2. The BPF has a committee dedicated to sustainability issues, reflecting the priorities that its leading members place upon issues of resource efficiency, environmental enhancement, and climate change. We also convene 18 more committees touching on real estate sectors and issues spanning Commercial, Planning, and Finance to name but a few. In response to the Department for Business, Energy & Industrial Strategy consultation on amendments to the Heat Network (Metering & Billing) Regulations 2014, we have principally sought views from developers, owners, and managers of domestic buildings, given the scope of these proposals.

BPF Comments relating to questions posed within the BEIS consultation document (Question numbers directly relate to those within the consultation document)

Q1. Do you agree with adopting a system using building classes (see classes** here)**?

3. Yes. An aggregated approach will minimise overall administrative costs and simplify the application of the regulations.

Q2. Do you agree that it is reasonable to assume that it would always be cost-effective to install individual heat meters in new buildings with a communal network?

4. No. For certain forms of new residential stock there are on-going costs and wider administrative implications that need to be accounted for.

5. In Purpose-Built Student Accommodation (PBSA), operators often charge tenants on an all-inclusive rental model, with all bills falling under a single payment and the cost of utilities shared evenly amongst residents. Automatically applying the regulations to PBSA buildings therefore requires operators to either move away from this model for all tenants, if they are to bill individual customers for the actual heat consumed, or to differentiate rental terms for those self-contained units where the regulations apply (studio flats).

6. This would not only be a significantly detrimental administrative burden for operators but will also mean getting rid of a stable rental model which allows students to easily manage their finances. Furthermore, differentiating rental terms would appear unfair and confusing to tenants in PBSA, and would be an issue compounded further by the fact that many PBSA buildings have both fully self-contained studio-flats (with their own source of hot water) and studio-flats that share their hot water source. In some cases, even residents in studio-flats will therefore have to be treated differently.

7. To add further to this administrative headache, a considerable number of PBSA buildings also have 'Nomination Agreements' in place with universities, whereby universities refer students, and in return, often make demands on rental conditions. If these regulations are to apply to PBSA, many of these agreements will have to be renegotiated to reflect the new arrangements.

8. These administrative and practical burdens are simply not worth the extremely small upside of the policy, especially given the few individual units within PBSA that the regulations will apply to. It should be noted that studio-flats constitute less than 20% of units within PBSA buildings whilst PBSA providers often only utilise local electric hot water cylinders to provide hot water, as opposed to space heating.

9. As students also tend not to have tenancy contracts longer than a year in PBSA and are frequently not in their rooms over the coldest winter months when universities aren't in term, the behavioural changes assumed by the policy are also unlikely to apply.

10. In light of these points, we do not believe that it is reasonable for PBSA buildings to be considered within scope and therefore encourage the government to add PBSA to the 'Exempt' class.

Q3. Would you suggest other categories of buildings which should be included in the 'Viable' or 'Exempt' classes? Are there other technical reasons we should consider for the 'Exempt' class? Please supply evidence to support your answer.

11. As outlined in our response to Q2, we believe Purpose-Built Student Accommodation (PBSA) should be exempt from the regulations, owing to the considerable administrative, practical and financial costs inclusion would entail.

12. There is a significant risk that the underlying assumptions within the cost effectiveness calculations required by the Regulations in order to determine if metering is viable would not accurately reflect the reality of student accommodation. We have received representations that students are on average present in their rooms for only c.24% of the time during the heating season (September to April inclusive), and that typical hot water use per student is around 39 litres per person per day compared industry benchmarks for residential accommodation, which can be as high as 150 litres per person per day. There is therefore a material risk that the cost-effectiveness calculator significantly over-estimates the potential ability for student tenants to reduce costs.

13. Based on data provided by student accommodation providers within our membership, for the associated properties where space heating is met by local electric heating but hot water is supplied via a heat network from central gas boilers, average cost-per-tenant of hot water (based on total building consumption divided by number of tenants) is just £33.45/year. Assuming a 20% saving envisaged by the regulations, but accounting for the allowance the Regulations make that only half of this would be achieved in first year, the maximum savings achieved by a student in residence for an 11-month tenancy would be just £3.34. In properties where both space heating and hot water are provided via a heat network from central gas boilers, average total costs per tenant are £70.57/year, meaning a 10% saving (i.e. half of a 20% saving) would be £7.05. In both cases this saving is not deemed to be a significant enough incentive to drive behavioural change so is unlikely to be realised. Further, it is insufficient to cover the total cost of installation of metering and the set up and administration of the required data collection and billing systems to facilitate recharging.

14. Given it is highly unlikely that PBSA would meet the viability threshold, we strongly recommend that the government consider adding such buildings to the exempt class to avoid the significant burden of having to undertake the feasibility assessment for every single heat network.

15. Further, many PBSA properties use local electric hot water cylinders to provide hot water, and direct electric local heating to provide space heating, and so only hot-water would be in scope of the Regulations. Local-electric hot water cylinders also frequently serve a mix of cluster-flats (which are exempt from the regulations) and studio-flats, or may serve just one studio-flat or several studio-flats within the same building. This leads to a situation where one particular studio-flat may be served by its own individual electric hot water cylinder and so be out of scope of the Regulations (or serve that studio-flat and an adjacent cluster-flat, which similarly would mean it serves only one Final Customer and would be out of scope), while two adjacent and otherwise identical studio-flats may be served by one individual electric hot water cylinder; this latter scenario would result in those two studio-flats potentially requiring heat metering to be installed, and the instigation of separate consumption based billing for hot water. This would result in otherwise identical studio-flats being subject to different levels of rent, different tenancy agreements, different payment terms, and different marketing requirements, creating potential confusion and an administrative burden.

Q4. Do you agree with the assumption that operating temperatures of a heat network above 90°Celsius significantly affect the accuracy of heat meters and the buildings should therefore be in the 'Exempt' class? Should this exclude networks which only reach operating temperatures above 90°Celsius for limited periods of time (less than 10%)?

16. No comment.

Q5. If you are a heat supplier, what percentage of buildings would you estimate to fall into the 'Exempt' class?

17. No comment.

Q6. How could a heat supplier evidence that installing metering devices is not technically or otherwise feasible for a specific building if not already in the 'Exempt' class? Would you consider OPSS to be best placed to assess a possible exemption?

18. No comment.

Q8. Do you agree that the assumption of a 10-year lifetime for a meter and heat cost allocators is reasonable and should be used as the period over which the costs and benefits are calculated?

19. Yes. We agree that keeping the current 10-year period for calculation of the net present value is appropriate.

Q9. Do you agree with the proposed discount rate of 3.5% to calculate the net present value of costs and benefits?

20. Yes. 3.5% is an appropriate discount.

Q10. Do you agree with the proposed tool's approach to estimating heat demand for buildings? Do you have suggestions for a different approach?

21. Yes. This will allow for a more accurate, tailored approach. The tool could however be improved by benchmarking demand across different types of domestic buildings too (as for non-domestic buildings), should this data be available.

Q11. Are you aware of additional characteristics which could be used to support the differentiation in the tool between existing buildings with regards to the capacity for energy efficiency?

22. The tool could take note of common communal area features and their typical energy efficiency requirements, such as gyms or kitchens.

Q12. Do you agree that the 20% figure for average heat demand savings should be applied to domestic units?

23. No. Our members have indicated that they believe this figure to be too high. Such a high savings percentage seems to assume that tenants will be fully aware of how to reduce their heat demand. Furthermore, our members have noted that without the ability to contextualise costs by comparison with other similar units in the same building, there is little way for the tenant to assess whether they are using an excess of heating in the first place.

24. Whilst we note that the 20% figure is an average figure across domestic units, it should also be appreciated that for Purpose-Built Student Accommodation (PBSA) buildings it is very unlikely that such savings will be made. This is due to the fact that students do not occupy buildings for considerably long periods and tend to have tenancy periods shorter than a year. Data collected by one of our members suggests that, over the winter months (September to April inclusive), students are only in their rooms for c.24% of the time. For these buildings, typical hot water use per student is around 39 litres per person per day, which is considerably less than industry benchmarks for residential accommodation, which can be as high as 150 litres per person per day. It seems unlikely therefore that the regulations will be able to have a significant impact in these buildings.

Q13. Do you agree that the 10% figure for average heat demand savings should be applied to non-domestic units?

25. No comment.

Q14. Energy savings in the first year are estimated to be half of the savings in subsequent years, to take into account the assumption that behavioural change will not occur immediately. Do you agree with this assumption?

26. No. Whilst we agree that a higher degree of energy savings will be made immediately post-installation, our members have indicated that they see behavioural change as most likely to occur early after a tenant moves in, which is when they will have immediate access to information and will be assessing their bills.

Q15. There is limited evidence available on the energy savings generated by the installation of heat cost allocators. However, we are not aware of any reason to expect a difference in performance compared to meters in reducing energy use. Do you agree that the same percentage of energy savings should be used for heat cost allocators?

27. Yes.

Q16. Would you consider it useful if the tool allowed input of actual heat /cooling supplied to a building where a building level meter has been installed to calculate savings in multi-apartments or multi-purpose buildings?

28. Yes. This would more accurately affect the actual usage.

Q17. Do you agree that we should use the price for different fuels to estimate the costs and therefore benefit of savings?

29. No comment.

Q18. Are there any other comments you would like to add on the calculation of the benefit arising from energy savings in the cost-effectiveness assessment?

30. We are concerned that the assessment tool does not take account of the realities of different forms of domestic properties. In Purpose-Built Student Accommodation (PBSA), the cost savings of the regulations are likely to be insignificant owing to the short tenancies of residents and tenant's absence through the coldest winter months. If PBSA is not to be exempted from the regulations, the assessment needs to be able to adequately assess the cost implications for these properties in particular. It is highly unlikely that the savings this policy could entail in PBSA will come anywhere near to the administrative and set-up costs these buildings will incur when applying the regulations, as previously mentioned.

31. Furthermore, we note that within the private rented sector, this assessment will effectively amount to trading off tenant savings with landlord costs, which, as they effect different parties, are largely immaterial of each other.

Q19. Do you agree with the costs as provided in Table 4? Please provide evidence and comments and specify which cost you are referring to.

32. Yes. These costs appear reasonable. We however caution that they may vary with inflation and market conditions in the future and government should be aware of this when amending the regulations.

Q20. Would you expect the cost profile for domestic and non-domestic units in a mixed purpose building to be the same? Are there other characteristics which would better indicate the cost of heat meters, such as floor space in m2?

33. No. Non-domestic units are more likely to require multiple meters, depending upon what the unit is being used for, whilst the precise mix of use will have a significant impact upon its heat profile, depending on what commercial units are being utilised.

Q21. Would you expect significant regional difference in supply and installation costs, e.g. in remote locations or areas with less developed markets?

34. No.

Q22. Do you agree with the proposed £81 operational costs, including billing? And do you agree that this should constitute the cost threshold of cost-effective billing per dwelling?

35. Yes. Our members have provided representations stating that their costs typically fall between £60-£70 per unit. £81 seems like an accurate estimate, however, we caution that prices may change in the future in accordance with inflation and changing market conditions.

Q23. Do you have evidence for the cost of a complete metering and billing service per unit? If so, could you state if this includes or excludes the installation of the metering devices. Would this vary with geographic location? If this information is commercially sensitive and you prefer to send it in confidence, please send separately direct to our email address provided in the "How to respond" section and mark accordingly.

36. Yes. We have had member evidence submitted to us that the cost of a complete metering and billing service comes to £66 per unit, excluding installation and initial set up costs.

Q24. Do you agree with the assumptions made and the total cost for the familiarisation with the Regulations and dissemination of information?

37. No. In addition to a manager familiarising themselves and then disseminating information, we would expect that there are a number of other members of staff within a typical heat supplier organisation that would need to have a detailed knowledge of the regulations.

Q25. Are there any other costs to business not discussed that should be considered (for example engagement with customers and changes to billing systems)?

38. Property owners will have to create engagement campaigns and disseminate information brochures, train staff and then set aside time for staff to assist customers to apply the regulations. As mentioned in our answer to Q2, there are also significant administrative costs that will impact upon the rental model for Purpose-Built Student Accommodation (PBSA) that should be considered.

Q26. In the accompanying Impact Assessment analysis, we use the time estimates in Table 6 to calculate the administrative costs of undertaking the technical feasibility and cost-effective assessment. Do you agree with these assumptions?

39. No comment.

Q27. Do you agree that a six-month implementation period, which includes one complete summer period, is appropriate? If you disagree, please state what length of implementation period you consider reasonable and why.

40. Yes.

Q28. Do you agree with the assumption that from October 2020 most newly installed metering devices should be remotely readable? If you disagree, please provide additional information.

41. Yes.

Q29. Should heat suppliers ensure that all installed meters and heat cost allocators accurately measure, memorize and display consumption?

42. Yes.

Q30. Should heat suppliers ensure, so far as possible, that all meters and heat cost allocators installed are (a) continuously operating, and (b) properly maintained and periodically checked for errors?

43. Yes

Q31. Do you agree that billing should be based on consumption for all installed meters and heat cost allocators where this is technically possible and economically justified?

44. Yes.

Should you require any further information on any aspect of this submission please contact Alex Green at agreen@bpf.org.uk and Laurence Raeburn-Smith at lraeburn-smith@bpf.org.uk