

Scottish Parliament Call for Evidence

Heat Networks (Scotland) Bill

29 May 2020





Introduction2

The Law Society of Scotland is the professional body for over 12,000 Scottish solicitors. With our overarching objective of leading legal excellence, we strive to excel and to be a world-class professional body, understanding and serving the needs of our members and the public. We set and uphold standards to ensure the provision of excellent legal services and ensure the public can have confidence in Scotland's solicitor profession.

We have a statutory duty to work in the public interest, a duty which we are strongly committed to achieving through our work to promote a strong, varied and effective solicitor profession working in the interests of the public and protecting and promoting the rule of law. We seek to influence the creation of a fairer and more just society through our active engagement with the Scottish and United Kingdom Governments, Parliaments, wider stakeholders and our membership.

Our Energy, Property and Land and Competition Law committees welcome the opportunity to consider and respond to the Call for Evidence relating to the Heat Networks (Scotland) Bill (the Bill). The committees are made up of members of the legal profession and academics which includes those who work in-house and represent specific clients in the various legal sectors. Our Energy Law members have experience in advising clients on heat networks, both new and existing. The committees have the following comments to put forward for consideration.

General

We welcome the main objective of the Bill which encourages the "greater deployment of heat networks in Scotland, in order to help reduce emissions from heating homes and buildings." This objective is set in the context of the Climate Change (Emissions Reduction Targets) Act 2019 targets³ to reach net-zero greenhouse gas emissions by 2045.

The provision of heat networks is not new since a number already exist across Scotland and the UK at varying stages of development but far fewer homes and buildings are served by heat networks than by gas. There are no minimum standards for technical requirements or regulatory oversight for heat networks.

The Bill seeks to regulate which is positive as the current lack of regulation may leave consumers vulnerable to abuse and investors to risk. The lack of regulation also presents barriers to the deployment of new heat networks because the relevant operators do not have the same powers as exist for other utilities.

¹ https://www.parliament.scot/S5_Bills/Heat%20Networks%20(Scotland)%20Bill/SPBill64S052020.pdf as introduced

² Paragraph 8 of the Bill's Policy Memorandum

³ http://www.legislation.gov.uk/asp/2019/15/enacted



These aspects are all recognised in the Bill where it aims to give effect to the recommendations made by the Competition and Markets Authority (CMA) in July 2018. That stated the introduction of regulation to the heat network sector is required to support its expected growth and to increase consumer confidence in heat networks, while de-risking investment. We specifically address the competition aspects below.

The Policy Memorandum⁴ states that the Bill also seeks to contribute to achieving the targets of:

- delivering 11% of non-electrical heat demand from renewable sources by 2020
- 50% of all energy consumption coming from renewables by 2030
- (As far as reasonably possible), no household in Scotland being in fuel poverty and in any event not more than 5% of households by 2040.

Executive Summary

Though many of the provisions of the Bill were anticipated, there are some significant issues where we consider that clarification would assist in the delivery of the stated policy objectives and the Bill may have negative impacts. These are summarised as follows:

The Bill's Framework

Many of the details that underpin the Bill in establishing the regulatory regime will require to be made by means of secondary legislation. We understand that this may well be necessary to provide flexibility and to allow the regulations to be able to respond more effectively to market developments. Some of these regulations will be quite appropriately subject to the affirmative parliamentary processes. That includes the application processes for licences, consents and permits and the standards that applicants must meet as well as details on the appeals process and the fees and charges that may be levied for that process. However, there are a number of regulations which would be subject to the negative parliamentary process which we refer to below where we do not consider that this affords the robustness required for parliamentary scrutiny.

As the Bill progress through the Scottish Parliament, it would be helpful if the outline content of these regulations could be published as soon as possible so that they can be considered properly alongside the passage of the Bill. For example, it was widely assumed that licence standards may seek to codify the heat trust scheme rules and clarity on this would be welcome.

⁴ https://www.parliament.scot/S5_Bills/Heat%20Networks%20(Scotland)%20Bill/SPBILL64PMS052020.pdf

⁵ Section 81(2) and (3) of the Bill

⁶ Section 81(4) of the Bill



Relationship with UK interests

Paragraph 28 of the Policy Memorandum⁷ refers to the UK Government responding to the CMA recommendations on heat networks but has yet done so though we note that there is a UK consultation on Heat networks: Building a Market Framework⁸ which covers broadly similar ground to the Bill. It echoes that "the devolved status of heat policy and heat network regulation in the UK is complex.⁹ As is also noted in the Bill, the issue of consumer protection is a "reserved matter for heat network regulation across Great Britain and therefore our proposals in this area apply to England, Scotland and Wales.¹⁰

These are ongoing issues for discussion during the passage of the Bill. We note that there is a statement that "any consumer protection powers that may be devolved to be readily incorporated as a condition of licence at a later date." The concerns noted above, we would suggest, should be addressed in more detail as this Bill progresses.

Obligations on consumers to connect/ Consumer Protection

It is not compulsory for building owners/ occupiers to connect their buildings to a heat network within a heat network zone. The licence holders will have powers to take heating pipes up to the curtilage of a building such as within the property of the building owner and to its edge. However, building owners/ occupiers are not obliged to connect to the network, to take heat from it or to consider so doing. We are unsure whether the system of permits envisaged will allow for the wide scale development of heat networks that is proposed.

There are no minimum consumer standards outlined in the Bill as there are no devolved powers to make laws in this area. We understand that devolution of consumer protection for heat networks has been requested so that consumer standards may be delivered through the licensing regime. Even with scrutiny and quality standards applying through the introduction of the licences, consents and permits set out within the Bill, there is a noticeable gap in the regulatory framework which may impact consumer confidence.

Our concerns are identified more fully under our answer to Question 8.

⁷ https://www.parliament.scot/S5_Bills/Heat%20Networks%20(Scotland)%20Bill/SPBILL64PMS052020.pdf

⁸ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/878072/heat-networks-building-market-framework-condoc.pdf This closes on 1 June 2020.

⁹ ssets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/878072/heat-networks-building-market-framework-condoc.pdf

¹⁰ ssets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/878072/heat-networks-building-market-framework-condoc.pdf



Road work rights for licence holders

Paragraph 85 of the Bill's Policy Memorandum outlines an amendment to be brought forward during the passage of the Bill to provide licence holders with road work rights. Further engagement with the relevant roads stakeholders is required to ensure that provisions are compatible with the long-established governance processes regarding the access to roads required by utility providers.

We would be interested to hear details of that consultation and the proposed amendment.

Questions

Our comments to the questions are as follows:

Question 1: Which part of the Heat Networks Bill is of most relevance to you or your organisation, why, and what do you consider its impact will be?

We refer to our Introduction and General Comments above. We welcome this opportunity to make comments to the Scottish Parliament on the detail of the Bill. In line with our public interest duties, we have sought to comment on areas of the Bill where clarification may aid delivery of the stated policy objectives or where the legislation may have negative impacts.

Our members anticipate that they will be involved in advising clients on the following aspects:

- Existing heat network operators applying for and complying with licences.
- Consenting arrangements for new heat networks.
- Local authorities seeking to discharge duties on zoning and awarding permits.
- Customers on the standards to be met by heat network operators.
- Landowners on the impact of heat network assets on their land.

We would welcome the opportunity to engage further with the committee on these comments as the bill passes through its various stages.



Question 2: Are you content with the definition of heat networks used in section 1 of the Bill? (If not, please elaborate.)

The definition of a heat network¹¹ is wide enough to include a heat network which only supplies the person who owns/ operates the network such as a hospital campus or university campus. We agree that the definition of a heat network should be sufficiently neutral to cover as many types of heat networks as possible.

However, we assume that secondary legislation to be made under section 1(7) of the Bill will consider whether the regulation of self-contained heat networks is desirable or appropriate where those networks do not supply third parties. Such regulations would be subject to the affirmative regulatory powers which would seem appropriate.

The Bill's Policy Memorandum¹² does not make it clear whether someone who supplies heat energy onto a heat network such as a biomass power plant or energy from waste plant would require to obtain a heat network licence. Such a licence would not seem to be appropriate. We assume that the key activity to be licensed is the operation of the network and the supply of energy to customers (i.e. the supply to premises as in the Electricity Act 1989).

Section 1(4) of the Bill states that in some circumstances the heat production source is included as part of the heat network. Therefore, arguably, a supply of heat from such a heat production source to the heat network would also be a supply of thermal energy by way of a heat network in terms of section 2(1) of the Bill. Under section 1(4) of the Bill, a waste heat producer need not be licensed but this could be ambiguous in circumstances regarding larger heat producers, such as energy from waste plants who may be the primary heat supplier to the network.

Equally, in some respects, it may be useful for the heat production source to be included as part of the network (e.g. consenting or property rights) but only if this does not have unintended consequences for licensing.

If the policy intention is to license both producers of heat for networks as well as the operators of those networks, we consider that the licence conditions for each type of licence would need to be different to properly address the activities of each licensee and the ability of each licensee to control outcomes. For instance, a generator of heat to a network is unlikely to have any interaction with customers of the network.

This should be given further thought at this early stage of the Bill.

¹¹ Section 1 of the Bill

¹² https://www.parliament.scot/S5_Bills/Heat%20Networks%20(Scotland)%20Bill/SPBILL64PMS052020.pdf



Question 3: Previous consultations have identified different priorities for this legislation – including transition to low-carbon or renewable energy, tackling fuel poverty, and ensuring consumer protection. To what extent do you think such priorities are reflected – and balanced – in the Heat Networks (Scotland) Bill?

We have no specific comment on the policy priorities of the Bill. To the extent that specific policy issues such as consumer protection are relevant, these are covered as part of our detailed responses to other questions.

Question 4: What are your views on the licensing regime as envisaged by the Bill?

We support the Bill's intention to require that all heat networks operators in Scotland must hold a Heat Networks Licence.¹³ This will include those who currently operate existing heat networks, subject to any exemptions that may be granted by regulations or directions to be made later.

This approach seems appropriate in seeking to achieve the Bill's policy aims of regulating the heat sector. There is a risk that there will be some existing heat networks where the current operator does not successfully obtain a licence and therefore will no longer be able to operate that network. That may have detrimental consequences for customers already being supplied by that network. It would be helpful to consider how that risk is intended to be addressed and managed. It is not addressed by the transfer scheme proposals as these networks may not have "listed assets" as defined under section 76 of the Bill¹⁴ as those "listed assets" are determined through the heat network consent process. There may need to be specific transitional arrangements to address this issue.

We note that the Scottish Government has not "identified a clear set of possible exemptions and the scope of any exemptions" because it was considered that this should be kept under review as the market develops. The Bill has retained flexibility to deal with this by means of secondary regulations under section 3 of the Bill though these Regulations are not subject to affirmative processes. We would suggest that given the inability to draw up comprehensive criteria for exemptions before this that these criteria should require the effective scrutiny of affirmative parliamentary making powers.

We are concerned to ensure proportionality, consistency and to take account of the developing nature of the market. Furthermore, section 3(3) of the Bill is too wide regarding the publication of directions particularly where this may include particular classes of operators. We suggest that it should include an obligation for prior consultation with the relevant stakeholders and specifically state where such a direction will be published or add in a requirement for "reasonably". We would also consider under section 14 of the

¹³ Paragraph 19 of the Bill's Policy Memorandum

¹⁴ property the details of which are included in the schedule of key heat network assets for the heat network



Bill that there is a need for the Scottish Government to consult in advance on any guidance to be issued and again, to state how and where such guidance is to be published.

Question 5: What is your opinion of the approach taken with Heat Network Zones (see parts 3 and 4 of the Bill)?

Part 3 and Part 4 of the Bill deals with heat network zones and heat network zone permits respectively. The purpose of these sections is to look at "maximis[ing] the deployment of large, strategically-sited heat networks by introducing Heat Network Zone Permits"¹⁵ and by offering market participants the opportunity to be the sole heat network operator with a Heat Network Zone, following initial competition.

Under Section 38 of the Bill, it may be helpful to provide some initial guidance on how local authorities might select relevant areas for consideration as much is to be left to details to be provided later. The factors to apply in designating a Heat Network Zone are set out in section 39 of the Bill but these do not expressly apply to the duties of review in section 38 of the Bill.

It is appropriate that section 38 of the Bill enables local authorities to consider widely in their areas over time but we are concerned that the policy intent of the Bill may not be achieved if local authorities fail to select appropriate areas for consideration in discharging their section 39 duties. This again seems to leave much to detail to be included in secondary regulations and guidance where we would query whether such regulations should be subject to the negative regulation making power.

Sections 6(9) and 39(5) of the Bill refer to "waste heat and cold." We would welcome clarification of the definition of "waste heat or cold". It must cover a wide variety of potential circumstances, but the conditionality may be confusing in the use of "would."

For example, is the concept of waste heat and cold intended to cover heat generated as a by-product of industrial processes? Is it also intended to cover heat from energy from waste plants which is not yet captured? It may be simpler to refer to waste heat or cold generated by a process, which is not currently captured and used. It may also be important to consider the extent to which such waste heat or cold is capable of being captured and used (accepting that may change over time).

Under section 47(1) of the Bill, the designation of a heat network zone does not oblige the local authority or Scottish Ministers to issue a Heat Network Zone Permit. Section 51 of the Bill indicates that no enforcement action will be taken against previously consented heat networks in the Zone. However, it may be helpful to provide clarity or further guidance on what can be done by existing heat networks within a heat network zone following the issue of a heat network zone permit. Can they still be expanded or modified?

¹⁵ Paragraph 68 of the Bill's Policy Memorandum



This may create a potential risk that heat networks are not deployed in a heat network zone without a permit if operators are concerned that the award of a permit later may restrict their ability to expand the existing network. This risk may be managed through the process for heat network consents and through early publication of intent to consider awarding a permit for a zone.

There is reference to permits being awarded by a competitive process which is to be described and developed in secondary legislation. Such permits are to be issued subject to detailed conditions that will need to be complied with and such conditions would be capable of being modified. The permit would be capable of revocation if any permit conditions had not been complied with. We consider that it would be prudent to include the powers to include conditions in permits, modify such conditions and revoke permits if conditions are not complied with.

While the licensing and consent regimes are based on tried and tested frameworks in other utility sectors, permits are an innovation, being designed to address market risk, which has so far limited the development of heat networks. Heat networks are local and can sell only to a local market which means they will only be built if the heat network operator has confidence that heat can be sold to local consumers.

The permit system seeks to address the demand risk issue by designating the permit holder as the sole heat network operator within a Zone. This is intended to facilitate the deployment of large, strategically sited heat networks and de-risk the development and operation of heat networks which attract more private sector investment by providing a more secure customer base from which to recover the infrastructure capex. However, since there is no requirement on customers in the zone to connect, this secure customer base may be difficult to achieve.

Question 6: How will the Bill impact on local authorities? (In terms both assessment of the suitability of their own buildings and the power to designate heat network zones)

We support that the Bill encourages a strategic approach to heat networks and expands the principles of local heat and energy efficiency strategies by placing a duty on local authorities to consider designating Zones (subject to our comments above to Question 5).

That means local authorities can designate heat network zones themselves or ask the Scottish Ministers to undertake or choose not to designate them. By permitting a flexible approach, this can ensure that local authorities who do not have the necessary resources and/or capacity may designate these zones or have the Scottish Ministers undertake the role which seems appropriate.



Question 7: Part 6 of the Bill confers powers for the compulsory acquisition of land and wayleave rights; to survey land for the purpose of construction or operating a heat network, and to access land in order to carry out repairs. What do you think of the extent of the powers in the Bill for licensed heat network operators (similar, in some respects, to those of utility companies)? Has a balance been struck with the rights of others (property rights for example)? If not, what would that balance be?

We have nothing specific to add. The powers which are included in the Bill under Part 6 Power of Licence Holders. These seem to be similar to such rights granted to other utility companies such as in relation to servitudes.

We consider that section 61 (1) of the Bill should be amended so that in relation to an assignation of a wayleave that the consent of the Scottish Ministers should not to be unreasonably withheld.

Question 8: Please feel free to provide your views on any other aspects of the Bill or the policy aims underpinning it if not covered above.

We have the following comments to make in relation to sections of the Bill which have not formed part of the specific questions:

Part 2 of the Bill deals with heat networks consents

Section 17(1) of the Bill prohibits "a person" from constructing or operating a heat network unless "that person" holds a heat network consent for the construction or operation of the heat network. This language may be considered as ambiguous where contractors (or multiple contractors) are constructing a network for an owner/ operator. Which party should hold the consent? This may be better drafted in similar terms to section 36(1) of the Electricity Act 1989 when it refers to consent in that:

"a heat network shall not be constructed or operated except in accordance with a heat network consent."

Similar concerns would apply to the enforcement notice trigger at s30 (1) of the Bill.

Section 18 of the Bill deals with exemptions from the requirement to obtain a heat network consent which we would suggest should be subject to the affirmative making provisions. The Bill's Policy Memorandum refers only to consents for new heat networks or the expansion of existing networks (i.e. it suggests that consents are only required for new infrastructure.) However, the Bill requires that a heat network consent is in place to operate a heat network which is not tied to construction or expansion. Unless exemptions are granted, the Bill will require all existing heat networks to have a consent to operate.



While that approach may be appropriate to achieve the Bill's policy aims of regulating the heat sector, it will be similar to that of the licensing of operators of existing heat networks. If existing networks are not granted consents to operate, that may have detrimental consequences for customers who are already supplied by that network. How that risk is to be managed should be specifically addressed.

It is not addressed by the transfer scheme proposals as these networks may not have "listed assets" as defined under section 76 of the Bill¹⁶ as those "listed assets" are determined through the heat network consent process. As above with our comments on licensing, there may need to be specific transitional arrangements to address this issue.

We query whether there should be a right of appeal under section 20(4) of the Bill.

The Bill also requires a heat network consent to be obtained for the construction of any new heat network even in a heat network zone. This makes some sense in the context of a legislative framework where the heat network zone may be more conceptual, and the heat network consent may relate to specific infrastructure. However, this additional layer of process may hinder the expansion of heat networks within an area that has already been the subject of process and assessment to designate a heat network zone. Secondary legislation could consider how work done at the point of designating a heat network zone could allow fast tracking or exemption of aspects of the heat network consent process – particularly for network expansions.

Section 20 (3) of the Bill deals with determination of Heat Network Consent Application and Listed Assets. Where a consent is being sought for the construction and operation of a heat network, it would be helpful to understand the extent to which satisfactory evidence can be provided of a person's right or future right to use listed assets, some of which may not exist. This could create a barrier and delay to the grant of heat network consents for new large projects, particularly with new build development customers. There will need to be flexibility over the location of infrastructure as construction develops and so it may not be possible to have final wayleaves in place for each pipe that is going to be run. Equally, this requirement should consider the powers being granted to licence holders to obtain necessary wayleaves. This will need to be clarified through secondary legislation and this should be confirmed.

Section 29 and 30 of the Bill deals with enforcement action – Heat Network Consents. It may be helpful to clarify that enforcement applies if a heat network consent is not in place for the relevant heat network "and no exemption from the requirement to have a heat network consent for the relevant heat network applies" so that enforcement action can be taken only where appropriate.

Section 32 of the Bill sets out an appeals process regarding enforcement notices. Where should such appeals be heard? We consider that clarification of the appeals process would seem appropriate and not left to be dealt with by means of negative regulation making powers.

¹⁶ property the details of which are included in the schedule of key heat network assets for the heat network



Section 33 of the Bill deals with the creation of criminal offences. Non-compliance with a notice is a breach of the notice which should be the offence. We would suggest that the wording should replicate section 136 of the Town and Country Planning (Scotland) Act 1997.

Section 34(3) of the Bill should include "reasonably" when referring to administrative expenses.

Part 5 of the Bill refers to building assessment reports.

It would be helpful to have clarity on what Scottish Ministers and/or local authorities can do with the building assessment reports that they receive – for example, could the data be made public or shared with Heat Network Zone Permit holders to increase the value of these reports?

Part 7 of the Bill deals with Key Heat Network Assets without Consent

It would be helpful to consider how key heat network assets might be recorded for heat networks which do not require a heat network consent, assuming not all existing heat networks will need a consent. We refer to our comments relating to existing heat networks and their operators who are unsuccessful in obtaining a heat network licence/ consent.

We again note that many details are still to be produced as the Bill is largely a framework. More details on how these assets will be recorded, the impact of a transfer scheme being implemented and any impact on the landowner's ability to transfer or deal in the land on which these heat network assets would be helpful.

Reduced Quality/Climate Change

On the issue of reduced quality, we note that the Bill seems to accept that it is acceptable for "waste" heat to be generated. Toleration of waste heat generation, coupled with the facilitation of commercial exploitation of the waste heat, could deter the resolution of the technical inefficiencies that generate waste heat. This approach ignores concerns about climate change which are set out as part of the Bill's aims. That is an issue that should be considered as part of the planning stage for the development of any wasteheat generating activity.

The customer should not be responsible for paying excessive prices that are attributable to excess costs of provision. Strict state control of prices by setting a tariff does not provide the solution for any excess pricing attributable to technical inefficiencies in the system.



Obligations on consumers to connect/ Consumer Protection

We would expand in more detail on our Executive Summary. The background to these policy considerations are set out by the CMA (and as Paragraph 21 of the Bill's Policy Memorandum noted) that:

"we consider that a general authorisation or licensing regime that regulates heat networks against a set of regulatory principles laid down in rules and/or guidance would be a proportionate regulatory regime given the number and diversity of networks in the UK and the projected growth in the sector."

Paragraph 11 of the Bill's Policy Memorandum refers to the Scottish Government seeking to give effect to recommendations (as far as possible within devolved competence) made by the CMA in July 2018 regarding the regulation of the heat network sector.

Bringing Energy Together- "Shared Warmth A heat network market that benefits customers, investors, and the environment" Executive Summary outlines that while in support of the creation and "with the anticipated growth in the heat network market, [there are] important questions .." raised as to how heat network customers can be assured a good deal and reliable service." These are at the forefront of maintaining and respecting competition for consumers.

Under the Bill's' provisions it will not be not compulsory for building owners/ occupiers to connect their buildings to a heat network within a heat network zone. The licence holders will have powers to take heating pipes up to the curtilage of a building such as within the property of the building owner and to its edge. However, building owners/ occupiers are not *to be* obliged to connect to the network, to take heat from it or to consider so doing.

It seems to be assumed that schemes can be viable without compulsion. If experience were to show that the assumption was incorrect, pressure for compulsion might follow. This would be likely to raise some significant concerns under the future UK international obligations as well as being unwelcome to consumers, probably, causing unacceptable intrusion into privacy and consequently, unenforceable.

There must be care taken over any suggestion regarding regulation of pricing as that would not achieve the benefits of competition for the customer which is essential. What could happen if regulation of pricing takes place is similar to that which arose in energy. There, where a default tariff was set meant that large providers aligned to that cap where prices went up to the cap with a number of providers leaving the market and some customers moving to other tariffs to avoid the price cap.

Maintaining competition between suppliers is required to ensure that businesses need to win customers' business by offering them a better deal. If there is not successful competition, then a poor outcome is achieved for the customers through, higher prices, reduced quality or reduced choice.¹⁹

¹⁷ https://www.theade.co.uk/assets/docs/resources/Task%20force%20report_v7_web%20single%20pages.pdf

¹⁸ https://www.theade.co.uk/assets/docs/resources/Task%20force%20report_v7_web%20single%20pages.pdf

¹⁹ https://assets.publishing.service.gov.uk/media/5b880368ed915d5aba0d397b/sse_npower_provisional_findings.pdf.



For further information, please contact:

Gillian Mawdsley
Policy Executive

Law Society of Scotland DD: 01314768206

gillianmawdsley@lawscot.org.uk