THE SCOTTISH
FUEL POVERTY
ADVISORY PANEL

Heat Networks' Roundtable - exploring the opportunities and the potential issues which heat networks offer/present for the alleviation of fuel poverty

January 2025

We started the year with a roundtable discussion on the latest advancements in heat networks. The conversation centred on their potential to combat fuel poverty and delved into the key questions set out in this year's workplan.

The first of our round tables of 2025, this well-attended event proved to be a thought provoking and informative session.

Contributors:

- Malcolm Rose, Scottish Government Heat Networks Regulation Team Leader and James Hemphill, Unit Head
- Mike Leonard and Gareth Gill of Ofgem
- Alistair Hill and Michael O'Brien of Consumer Scotland
- Stephen Vere of Scottish Futures Trust
- Barbara Whiting of Dundee City Council
- Andrew Brockett of East Ayrshire Council

Scottish Fuel Poverty Advisory Panel: Alister Steele, who chaired the Roundtable, and Dr Kirsten Jenkins.

Scottish Government

Kicking off discussions, the **Scottish Government's Heat Networks Regulation** team leader Malcolm Rose, outlined the legislative framework for heat networks, and the current and future regulatory environment.

His presentation included the current state of heat networks: completion of the Building Assessment Report (these include current heat source and whether the building could connect to a heat network in the future) and Heat Network Zone Guidance (supporting local authorities in their review and designation of heat networks).

He also described the work currently underway to draft the regulations for the licensing and consenting regimes. Attention was drawn to the requirement, under the Scottish Government consenting process, for a fuel poverty statement.

The following points and questions were discussed:

- There's a funding, skills and capacity challenge for Local Authorities in working to develop their LHEES and implementation of heat networks zones.
- The requirement for a fuel poverty statement sits under the consenting regime but the licensing regime needs to have regard to capacity for fuel poverty support under the consenting regime.

Ofgem

Next to speak were Mike Leonard and Gareth Gill of **Ofgem**, who discussed the energy watchdog's future role as heat networks' regulator – their remit and how this may evolve.

They told the round table about their work with the Scottish Government and Consumer Scotland on the regulatory framework – derived from the Heat Networks' (Scotland) Act, 2021 and shared that Ofgem will take on the licensing authority role for potential heat network suppliers and operators.

They highlighted that the watchdog's core duty is to protect consumers, with their regulatory activities including: monitoring & consumer research, consumer protection, pricing, technical standards, and metering and billing. Their evolving approach to consumer protections, includes standards of conduct principles, proposals for protecting vulnerable consumers, fair and transparent pricing, and step-in measures in the event of supplier failure.

The following points and questions were discussed:

- The Standards of Conduct overlap with the consenting regime's fuel poverty statement requirement – how can these be brought together?
- How "fair pricing" can best be defined, and how fair pricing incorporates the start-up and long-term costs of heat networks.
- Whether fuel poverty might be exacerbated by the move to a heat network with a higher energy source cost, e.g. electricity.
- Decarbonising existing networks may well drive-up costs.
- The challenge for Ofgem of running a third regulatory system (electricity & gas and now heat networks) and how these will interface.

Consumer Scotland

Also, with new responsibilities for Heat Networks will be **Consumer Scotland**, as Alistair Hill and Michael O'Brien from the organisation explained. They gave a snapshot of Consumer Scotland's forthcoming role as consumer advocate for heat networks, which starts from April 2025.

Their role will include: research into issues and experiences which consumers face with heat networks, market monitoring, and consumer information and advice. Consumer Scotland has been working to ensure that the advisory capacity will be in place from April this year, working with Advice Direct Scotland and Citizens Advice Scotland on establishing the advice aspects of the new system.

The intersections between heat networks and fuel poverty are linked through the Scottish Government's Heat in Buildings' programme.

They pointed out that the fuel poverty drivers where heat networks could have the biggest impact:

- "High energy prices" – they reinforced the importance of fair pricing when it comes to heat networks' potential to mitigate fuel poverty.
- "Poor energy efficiency" is also very important and Consumer Scotland wrote to Scottish Ministers in September 2024, setting out why they think there should be a heat networks' efficiency scheme in Scotland.

The following point was discussed:

- How heat networks will evolve to include Warm Homes Discount (WHD) – this should not alter the status quo if consumers receive WHD through their electricity bill, which is the normal practice.

Scottish Futures Trust

Stephen Vere of **Scottish Futures Trust (SFT)** discussed their work on heat network models. He explained that the driver for considering the efficacy of different models is to attract investment, bring in skills & resources, deliver at scale, pace in the longer term, and meet policy objectives, including decarbonisation and fuel poverty.

Stephen also touched on how having effective models – along with a robust policy and regulatory framework – will help to support heat network strategic planning. He set out, at a high level, the delivery context, the role of the public sector in heat networks and the different options for models, and the alignment between different model types and policy objectives.
In considering heat networks through a specific fuel poverty lens, he addressed specific Panel questions on the SFT work and its connection with fuel poverty.

He shared that:

- SFT used fuel poverty in evaluating the efficacy of different delivery models – including it in whether or not a model contributed to "wider policy objectives".
- The kind of models which align well with the mitigation of fuel poverty tend to be influenced by the nature and extent of public sector involvement – the more public sector involvement, the stronger the ability to influence for priority policy levers to follow through to delivery.
- While there are lots of good examples of where heat networks have been used to mitigate fuel poverty – this needs to happen at scale. A level of

subsidy has been a feature of these too – there will be a challenge for unsubsidised models.

- It is still too early to tell yet how effective heat in buildings legislation might be in accelerating the pace of heat network delivery.
- Demand assurance is needed to enable investment at scale which will in turn enable price differentiation and competition. Public sector involvement and influence including through procurement (community benefit/social value) will be needed for heat network delivery.
- There is a potential for "trigger points" to militate against the aggregation of demand, as an area approach rather than an individual property by property is needed to allow the aggregation of demand that will facilitate investment in heat networks. There are however indications that this will be taken into account in the final form of the Heat in Buildings' legislation.

Other question/areas discussed were:

- The potential for regional ESCO – a joint venture model with multiple public sector partners to aggregate demand while keeping fuel poverty mitigation as a key success factor.
- The potential for the Scottish National Investment Bank and the National Wealth Fund to invest in heat networks.
- There are choices to be made. The prioritisation on social grounds could risk a fuel poverty postcode lottery which does not lead to fuel poverty mitigation equity nationally, given the barriers to rural heat network development. There's a risk that prioritising heat networks could reinforce the rural poverty premium. Although it should be acknowledged that there are effective smaller scale heat networks in rural areas which are community-led subsidised pilot ones.
- The differential pricing of gas and electricity needs to be addressed.

Local Authorities

Representing the heat network issue from a local authority viewpoint, Barbara Whiting of **Dundee City Council** talked about the Council's work emerging from their LHEES (Local Heat and Energy Efficiency Strategies Scotland). Dundee City has 87% of the population on gas-grid and 31% of households living in fuel poverty.

Barbara pointed out that having the right skill set to develop and take forward the LHEES was a challenge. The estimate to decarbonise the City's housing stock is about £539 million, but there are some strong opportunities in Dundee for the development of heat networks.

The Council is currently going through a 2-stage strategic network development process – a technical assessment and a models' option appraisal. Engagement is key and there is a long-standing Council commitment to heat networks – as well as

strong existing partnerships such as those with Sustainable Dundee and Dundee Climate Leadership Group.

The following points and questions were discussed:

- How LHEES learning can be shared nationally – there is a LHEES Forum.
- Warmbanks, heated by heat networks, could be a potential fuel poverty measure offering a wider community benefit and a public service provision model. The longevity of heat network development means looking beyond the 2040 fuel poverty targets.

Andrew Brockett of **East Ayrshire Council** provided thoughts on their experience to date. Their context is very different from Dundee City's – with about 45% of the population living in Kilmarnock, and around 30% of the population in accessible small towns (urban rural 8-fold classification). 31% of their population is in the most deprived quintile category of the Scottish Multiple Deprivation Index. Fuel poverty rates are very high – there are lots of households off-gas grid and wind driven rain is a feature of their local climatic conditions.

Changeworks did an initial piece of work identifying 6 potential heat network delivery areas. Their challenges in the development of heat networks include that: opportunities are equivalent to 3% of all domestic demand, risk appetite with risks around capacity/expertise/ commercial/legal and whether there is the scale to attract investment.

In addition, some fuel poor homes may not have wet central heating. For retrofit, their intention is to focus on Council housing stock first.

They're already working with Registered Social Landlords & the NHS and leveraging existing funding mechanisms for retrofit programmes. They also use Citrus Energy to direct residents towards impartial advice and recommendations.

The following points and questions were discussed:

- There's an assumption of technological readiness at a household level for heat networks which may not be there. Is there a discrepancy here between model data versus actual data?

Chair's Summary

Alister briefly summed up his key takeaways from the Roundtable contributions and thanked everyone for coming, and those who had made presentations and shared insights.

His conclusions:

- Heat networks won't and can't be a solution everywhere.
- Pricing is a particular issue for heat networks from a fuel poverty perspective.
- Heat networks should not deepen fuel poverty – this is a challenge and improving fuel poverty rates, through heat network development, will be an even bigger one.
- There's an accountability question when it comes to fuel poverty within the heat network landscape. How is fuel poverty statement compliance to be assured and what sanctions will apply if these are not delivered.
- The heat network policy foundations seem to be strong, but things become much harder as the move from policy to delivery happens.