EXPLANATORY MEMORANDUM TO

THE HEAT NETWORK (METERING AND BILLING) REGULATIONS 2014

2014 No. 3120

1. This explanatory memorandum has been prepared by the Department of Energy and Climate Change ("DECC") and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 This instrument puts in place a requirement for the installation of meters and the provision of bills and billing information for final consumers on district heating, district cooling, and communal heating and hot water systems.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None

4. Legislative Context

4.1 This instrument transposes the requirements of Articles 9-11 and 13 of the Energy Efficiency Directive ("the Directive")[1] as they apply to the metering and billing of heating and cooling.

4.2 It is a requirement of European law that the provisions of a Directive be given effect in the national legal system of Member States.

4.3 A Transposition Note is attached at Annex A.

5. Territorial Extent and Application

5.1 This instrument applies to England and Wales, Scotland and Northern Ireland.

6. European Convention on Human Rights

6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

7.1 The overall aim of the Directive is to drive improvements in energy efficiency in Member States. The EU has a target to save 20% of its primary energy consumption by 2020, against a 2007 business as usual projection, through improvements in energy

[1] Directive 2012/27/EU. OJ No L 315, 14.11.2012, p1.

efficiency. In 2011 the Commission estimated that existing policies meant that the EU was only on track to get half way towards that target. The Directive is intended to improve performance against that objective.

7.2 Article 9 requires Member States to ensure that final consumers of district heating, district cooling, and communal heating and hot water systems are provided with competitively priced individual meters where it is cost effective and technically feasible to do so. However, some of the Article 9 requirements for the installation of meters are not conditional on tests of cost-efficiency and technical feasibility. These are that individual meters must be installed where a new district heating or cooling connection is made in a new building; that individual meters must be installed where a building is supplied by district heating or district cooling undergoes a major renovation; and that multi-apartment or multi-purpose buildings connected to district heating or district cooling must have a meter installed at the point of delivery or heat exchange to the building.

7.4 Article 10 requires Member States to ensure that where individual meters are installed final consumers are provided with billing information that is accurate and based on actual consumption where it is cost effective and technically feasible to do so.

7.7 Article 11 requires Member States to ensure that final customers receive all their bills and billing information for energy consumption free of charge. In addition the costs for customers in multi-apartment and multi-purpose shall either be carried out on a not-for profit basis or where undertaken by a third party, reasonable costs may be passed on to the final customers.

7.8 Article 13 requires Member States to put in place 'effective, proportionate and dissuasive' penalties applicable in case of non-compliance with the requirements of the Directive's Articles 7 to 11 and Article 18(3).

7.9 The Government's publication '*The future of heating: meeting the challenge*'[2] set out a number of specific actions to support the development of heat networks. This included a commitment to proceed with implementation of the Energy Efficiency Directive's requirement for heat meters. The heat networks sector in the UK is small. The amount of heat supplied to buildings in the UK via heat networks is around 2% of domestic, public sector and commercial buildings heat demand.

7.10 There are already long-standing regulations covering the metering and billing of electricity and gas usage. There are no existing similar regulations for those who buy heating or cooling from a network.

7.11 The instrument requires heat suppliers to implement the requirements of the Directive. Heat suppliers are defined as those who supply heating or cooling to a final customer through communal heating or a district heat network and who bill a final

[2] The full document published in March 2013can be found at the following link: https://www.gov.uk/government/publications/the-future-of-heating-meeting-the-challenge

customer on this basis. Heat suppliers will be required to notify the operation of their district heat network or communal heating to the body authorised as an "authorised person". We expect the authorised person to be the National Measurement Office. The heat supplier will then have to undertake the mandatory requirements on metering, and carry out a cost-effectiveness and technical viability test on whether individual meters should be installed, or heat cost allocators, thermostatic radiator valves and hot water meters where relevant. Heat suppliers will also be required to provide accurate and transparent billing information where heating or cooling is metered, where it is cost-effective and technically feasible to do so. Heat suppliers will be required to notify the scheme administrator on the status of implementation once these steps have been completed. The requirement to notify and to undertake the necessary cost effectiveness and technical feasibility tests must be repeated every four years.

8. Consultation outcome

8.1 From 10 January and 21 February 2014, the Government ran a public consultation on the Directive's requirements and the Government's implementation options. The consultation sought the views of local authorities, housing associations, industry, trade bodies, consumer organisations and other parties. The consultation included a number of stakeholder workshops and external presentations. The consultation covered the devolved administrations. The Government received 30 written responses.

8.2 In general, respondents were broadly supportive of the overall approach to implementation. Some concerns were raised about the potential impacts and costs of meter installation and associated charging in existing heat network schemes. Respondents were in favour of an implementation approach that would reduce the burden on heat suppliers and on costs to customers.

9. Guidance

9.1 The Government is publishing guidance to support the determination of cost effectiveness and technical feasibility of the metering requirements. This will be reviewed from time to time. The guidance will be published by the National Measurement Office who will act as scheme administrators.

10. Impact

10.1 An impact assessment and an equality impact assessment have been prepared and are published alongside the Government's consultation response. https://www.gov.uk/government/consultations/implementing-the-energy-efficiency-directive-metering-and-billing-of-heating-and-cooling

10.2 The impact assessment estimates that implementation will result in energy savings of 860GWh over an appraisal period of 16 years (which equates to the longest meter lifetime). This amounts to a total of £24.2m in benefits (comprising £16.4m from energy

savings, £7.5m in emissions reduction and £0.3m in air quality.

11. Regulating small business

11.1 The instrument applies to all individuals and organisations that supply district heating, district cooling and communal heating and hot water systems to final consumers.

12. Monitoring & review

12.1 The Secretary of State is also required from time to time to carry out a review of the operation and effect of the instrument and publish an assessment. The first report must be published within five years of these regulations coming into force.

13. Contact

13.1 Graham Allardice at the Department of Energy and Climate Change (tel: 0300 068 5400 or email: heat.strategy@decc.gsi.gov.uk) can answer queries regarding the instrument.