

**Consultation Title: Heat & Energy Efficiency Strategies, and Regulation of District Heating**

**Date: 18/04/2017**

**To: Citizen Space**

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Scottish Land & Estates is a member organisation that uniquely represents the interests of both land managers and land-based businesses in rural Scotland. Scottish Land & Estates has members with interests in a great variety of land uses and welcomes the opportunity to respond to this consultation.

Our organisation is not directly involved with the technical aspects of fitting district heating systems but we do have members that have experience with their own largely small-scale schemes. It is by drawing on their experience that we have responded to this consultation where relevant.

Scottish Land & Estates believes that heat and energy efficiency is of paramount importance, not only in helping achieve the Scottish Government's ambitious climate change targets, but also in providing healthy, affordable housing and work spaces. Our members have been at the forefront of small-scale rural district heating schemes and we recognise that district heat networks will play an increasingly important role in Scotland's heat delivery.

## **General Comments**

Scottish Land & Estates notes that the consultation is intended as "...a high-level policy scoping consultation that seeks views and evidence on a broad scenario for district heating regulation and LHEES..." however, we consider some of the questions to be very detailed and in some cases difficult to answer without technical expertise.

We agree that there is scope and a need to improve levels of district heating deployment and that local authority strategies and regulation could be a way of achieving that. However,

we have very real concerns about the burden these proposals would place on local authorities both in terms of financial resources and available expertise. It should be added that while a strategy may be appropriate for local authorities with urban settlements over a certain size, some local authorities might not consider it to be an efficient use of resources to develop a strategy for remote rural areas unless a full range of technologies is considered.

Where surplus industrial heat is concerned, we believe that high capital costs remain a significant barrier, particularly in rural areas where there may not be substantial clusters of heat demand to warrant such high levels of investment. It should also be noted that in modern developments high energy efficiency standards reduce heat demand and therefore any district heat network operator will need a significantly longer time to see a return on investment. In this instance, we would support the zoning of other technologies, such as highlighted in Figure 1., where appropriate.

Additionally, in the context of new development, Scottish Land & Estates believes it is important to note that compared to mains gas, district heating is significantly more expensive to install. This could impact landowners in areas where development land values are marginal as the potential developer might not be willing pay market price for the land when they consider the vast sums needed to set up a district heating network as part of the LHEES.

## Answers to some of the specific questions

**Q1. Do you agree that local authorities should have a duty to produce and implement a Local Heat & Energy Efficiency Strategy (LHEES) as outlined above? Please explain your view.**

Scottish Land & Estates agrees with the principle of there being a local strategy to improve heat and energy efficiency and we believe that such a strategy must be cost effective for the local authorities responsible for producing and implementing it. The issues of capital funding, in-house staff resources, feasibility work, legal advice and procurement all need to be addressed. Any strategy must take rural considerations seriously, especially given that much of the rural housing stock is off-grid yet at the same time outwith significant clusters which would better attract investment. For this reason, Scottish Land & Estates feels that technologies other than district heating (where appropriate) should not be ruled out by any LHEES.

**Q1b. What are your views on the appropriate geographical scale for the preparation of LHEES? Should each local authority produce a single strategy for its area, or would it be possible for local authorities to work together to prepare strategies jointly for a wider area?**

Any area based approach to the LHEES should not discourage regional partnership working outwith the local authority boundary and it is essential that disparities between rural and urban areas be given appropriate consideration.

**Q2. Do you agree with the proposed scope and content for LHEES? In particular do you agree LHEES should (a) set targets for energy efficiency and decarbonisation and (b) include a costed, phased delivery programme that will meet local targets? Please explain your views.**

We broadly agree with the proposed scope and content of the LHEES but we would add that the local authorities charged with developing and implementing them should be adequately resourced. The proposed 20-year timescale for a LHEES is out of step with the timescale of Local Development Plans (LDP) and Local Housing Strategies (both currently 5 years). While we welcome a long-term strategy, in order for a stronger planning framework within which to take the strategy and plans forward, we would suggest a LHEES should be reviewed and updated in line with the LDP (5 or 10 yearly depending on the outcome of the planning review).

In relation to (a) setting out targets for energy efficiency and decarbonisation, we would like to see the words 'where financially viable and technically feasible' (or something similar) added after "all buildings". This is because the optimum energy efficiency level may already have been reached in some cases (particularly in new builds) and it is not therefore possible to ensure that all buildings in a local authority's area are able to improve energy efficiency with current technology. We would have the same point to make about (b).

**Q4. What are your views on the broad principles for regulation outlined above? What else do we need to consider? What should be prioritised in cases where principles may not always be compatible?**

We agree with these broad principles. However, the fourth bullet point raises significant challenges given that new houses are already more energy efficient with a low heat demand. This could cause the network operator to take longer to recover their outlay and therefore encouraging investment may become more difficult. We would suggest that the initial focus for district heating networks should be on existing stock where heat demand is generally higher and long-term investment becomes more feasible. Enthusiasm for the take-up of heat networks will depend on a high degree of certainty for users that the supply of heat will not be interrupted by the failure of a local heat supply business.

**Q6. What are your views on local authorities having the power through LHEES to zone areas for district heating? Please provide any relevant evidence.**

This is a sensible approach, but there needs to be proper consideration of costs and expertise required. It is important that zoning of areas takes into account rural-urban disparities in terms of proximity of supply and demand. It could also be worth considering other technologies, for example heat pumps, in areas where district heating zones are not feasible.

**Q7. How should district heating zones be identified? For example, how should national targets, socio-economic analysis, local priorities feed in to the designation of zones within the strategy?**

This is a very detailed question. Broadly speaking, zones should be identified where; they are affordable to customers and building owners; they are feasible and financially attractive to public and private sector investors; and they are near to, or have easy access to, a sustainable fuel supply. Much of the last point comes down to local priorities and we feel that planning authorities have a role to play in this. Detailed socio-economic analysis would be the way to assess the other two points suggested. Ideally none of this would be too onerous or costly for customers or the local authority.

**Q8. What are your views on taking district heating zones, or parts of district heating zones, and establishing an exclusive concession for either private- or public-sector**

**heat network developers to fulfil that part of the LHEES? How will this alter the risk profile of district heating development?**

This would be a good idea from the point of view of an investor, however, we would urge caution not to jeopardise customer choice or protection.

**Q8b. Do you agree that local authorities should be responsible for issuing and enforcing concessions in their areas? Please explain your answer.**

We agree that concessions should be managed locally, however, local authorities need to be properly resourced to manage these additional responsibilities.

**Q10. What are the implications of zoning and concessions for existing district heating networks?**

Scottish Land & Estates is pleased that integration with heat networks in adjacent zones will be considered a concession responsibility. Companies that are given concessions should at least meet technical standards for existing district heating networks. We agree that; there are risks associated with interconnection of existing heat networks and its effect on price and competition; and risks for existing network operators of new regulation such as concessions impacting on their existing business model.

**Q11. Do you think the broad rights and responsibilities of concession holders set out in this document are appropriate? Why? Please provide any examples or evidence.**

We broadly agree, however, there must be careful consideration of customer choice and protection. We are pleased that the potential requirement for owners to connect is being proposed as a “backstop”. There may be challenges to overcome when convincing some owners to connect to district heating such as convincing ill tenants concerned about disturbance or overcoming homeowners who resist the idea of a heat meter and heat exchanger for fear of losing household independence. The local authority should be prepared for this eventuality. In relation to surplus industrial heat, a member told us that “it is both difficult and very expensive to capture that heat in a way which works”. He cited the capital expenditure and dealing with numerous conflicting interests as the main “headaches”. We would therefore encourage increased engagement with stakeholders who are involved in this sector to ensure these issues are overcome and any new measure to exploit excess heat is as effective as possible.

**Q12. How can a balance be struck between ensuring LHEES are responsive to changing conditions while ensuring security and stability in long-term district heating development models?**

Given, as we have said above, the proposed 20-year timescale of the LHEES is restrictive to changing conditions and should be open to review or update in line with other plans such as the LDP and Local Housing Strategies. We would also suggest that including other technologies zones in addition to the district heating zones could provide greater flexibility within the LHEES.

**Q13. What should happen to long-term ownership of heat network assets, post-concession?**

We have no strong view on this but the new long-term owner should meet licencing standards to ensure the operation and maintenance remains at a consistently high standard.

**Q14. What are your views on the opportunities and challenges in connecting anchor loads to new heat networks? In your view, will the scenario set out address these issues and accelerate district heating development? Please explain your answer.**

Within a rural context, a sustainable heat source (supply) and a significant cluster of properties (demand) remains the challenge for establishing anchor loads to new heat networks. The scenario outlined would be appropriate in the more urban context.

**Q15. What are your views on the proposed power to compel existing buildings to connect to district heating?**

We are not opposed to the idea of compelling existing buildings to connect, particularly for large heat users whose connection would anchor significant parts of the heat network. However, we believe that enough persuading, planning and costing should have taken place at the early stages in order to mitigate the need to instigate this 'backstop' approach.

**Q15b. Are the broad principles and criteria appropriate? Should other principles or criteria also apply? In particular, what approach should be taken to socio-economic assessment at the project level, prior to a compulsion to connect?**

Yes. However, if these principles and criteria are fully explored early on in the process to 'encourage' more people to sign up, we believe this will mitigate need to compel owners to connect.

**Q15c. Do you agree that the socio-economic assessment at project level should include an assessment of the impacts on consumers of requirements to connect?**

Yes. Financial viability is key to establishing a willingness to connect.

**Q15d. Do you agree that local authorities should exercise powers to compel connection of existing buildings (for example when requested by relevant concession holders)?**

There are a variety of reasons for the owner of a building not wishing to connect to a district heat network, for example; where there is resistance to a heat meter and heat exchanger as the point of entry of heat to the house; or tenants suffering ill health concerned about disturbance. All of these factors must be taken into account properly and any power for local authorities to compel connection should be appropriately resourced. We would therefore prefer to see a high-level of engagement and understanding at the beginning of the process so that this power is generally not needed.

**Q17. Do you agree that compelling existing buildings to connect to district heating would mitigate heat demand risk, lower financial costs and help create an attractive investment proposition for district heating developers and financial institutions?**

Yes, but it would be more effective in urban areas where demand is generally higher.

**Q18. What are your views on the relationship between LHEES and local development plans and how planning policy and development management should support the anticipated role of LHEES for new buildings? Please explain your answer.**

Scottish Land & Estates is pleased that planning is being considered here but we are concerned that the proposal for LHEES has so far not been mentioned in the context of the planning review and we hope that this will soon be corrected. We would be supportive of planning and development management playing an important role in the creation of LHEES provided there is no undue burden placed on resources. We would like to see the LHEES become an integral part of the LDP process but we also refer to our previous comments about the timescale of LDPs and Local Housing Strategies compared to the proposed equivalent for LHEES. There is scope for the LHEES process to become part of the regional planning partnerships proposed in the recent planning review.

**Q19. What challenges and opportunities do you see for existing industrial plant to connect and sell waste heat to nearby district heat networks, both now and in the future?**

As previously mentioned, we are concerned by the high capital costs involved as well as the difficulty in dealing with numerous parties involved that make the process very onerous. In many rural areas with industrial plant there is a lack of demand to justify high cost of connecting.

**Q20. What are your views on requiring existing industrial plant, with the potential to supply surplus heat, to make data available to public authorities? Please provide any relevant evidence.**

This should not be burdensome and it should not be necessary if it is already clearly impractical to connect to district heating.

**Q21. Under these proposed new arrangements, do you think that an enabling approach, perhaps using voluntary mediation, will be successful? How can we best encourage existing industrial plant to supply waste heat to a district heating network?**

An enabling approach would be most effective. Proving that connecting to a district heating network will provide financial sustainability is imperative.

**Q23. What are your views on requiring new industrial plant to be 'district heating-ready'?**

We agree with this proposal, provided it does not affect the viability of any possible development and that there is clear demand or clear future demand for heat. This could be set out in the LDP or equivalent document. The role of other technologies as a viable alternative should not be discounted.

**Q24. What would be the most appropriate way of ensuring that new industrial buildings connect to district heating networks? What role can zoning within LHEES play in this?**

This should be set out as part of the LDP process and planning authorities could reasonably make connection to the district heat network a condition for consent, provided certain requirements are met.

**Q25. Do you agree that as district heating becomes more widespread it will need to become a licensed activity? Please explain your answer.**

In the context of large district heating zones where concessions are granted there may be a requirement for a licence approach. However, because of the variety of companies already operating on the market it might be more appropriate to begin with a code of practice, which if signed up to, would allow a company access to concessions.

**Q28. What principles, objectives and other considerations should guide the development of a Scottish district heating licence?**

Broadly speaking, a Scottish district heating code of practice or licence, should ensure consistency of quality control to protect the customer. Any signatory found not to be meeting quality control standards etc. should have their status as a signatory revoked. If your company is no longer a signatory it should not be granted a concession by the local authority.

**Q29. What drawbacks or challenges might a licensing system create? How could these be minimised?**

Scottish Land & Estates believes that financial resources and expertise required in drawing up licencing agreements can be burdensome for small businesses in particular. It should be a principle in the design of any licensing system that the burden of compliance with each clause or obligation is minimised.

**Q30. Do you have views on who should issue District Heating Licences and ensure that technical standards are being met?**

It should be an independent body with relevant expertise. We would be keen to see such a body set up if none already exist.

**Q34. What support and resources will local authorities need to produce LHEES and implement the potential local authority role of district heating regulation, and which organisations do you think these are best placed to provide these? Please explain your views.**

Scottish Land & Estates would support the setting up or further development of something akin to the Heat Network Partnership to share knowledge and best practice where local authorities can learn about setting up a district heating scheme. Where there is already expertise within local authorities they should give serious consideration to sharing that expertise with other local authorities, especially in the context of regional partnership working.

**Q37. What are your views on when decisions should be taken on the future of the gas network?**

# Consultation Response

Scottish Land & Estates is of the opinion that the Scottish Government and the UK Government should be working constructively and proactively at the earliest opportunity to ascertain the future prospects for the gas network.