



HOUSE OF COMMONS

LONDON SW1A 0AA

Rt Hon Alok Sharma MP
Secretary of State for Business, Energy and Industrial Strategy
Department for Business, Energy and Industrial Strategy
1 Victoria Street
London
SW1H 0ET

Our Ref: EC3018

3 June 2020

Dear Alok,

RE: Heat networks consultation

I hope you are well.

I understand that your Department is currently investigating district heat networks, as part of the Government's strategy to reduce greenhouse gas emissions to net-zero by 2050.

A consultation closed on 1 June 2020 which aimed to gauge opinion on proposed new regulations regarding heat networks and consumers.

As a Member of Parliament for a constituency with active district heating networks, I wanted to get in touch to inform you about the experiences my constituents and I have had with these projects. Whilst I welcome endeavours to cut our carbon emissions and develop innovative methods of generating energy for homes, there are several real-world issues with district heat networks which need to be ironed out before they are expanded elsewhere.

My constituency is home to the Beddington Energy Recovery Facility – a waste incinerator. As I am sure you can appreciate, the incinerator is a contentious issue in my constituency, which I have raised several times in the House. The objective of the incinerator is not just to remove waste but also to generate energy (electricity to the mains and hot water to local heat networks).

In 2016, Sutton Decentralised Energy Network (SDEN) was created by the London Borough of Sutton Council and is still wholly owned by the local authority. Their website states that SDEN “will use energy generated by the new Energy Recovery Facility (ERF) and the existing landfill gas engines in Beddington. This will provide low-carbon energy in the form of hot water, meeting the heating and hot water needs of homes and businesses in Sutton and neighbouring boroughs.”

New Mill Quarter (NMQ) is a new estate in my constituency comprised of over 800 properties. Approximately half of the estate is now inhabited with the other half still under construction. All properties at NMQ are heated by SDEN, which pumps hot water direct to each property. This means that boilers are not needed; hot water is always on tap and monthly payments cover all the costs associated with heating each property and supplying hot water. All properties come with a Heat Interface Unit (HIU) in place of a boiler which is covered by the bills. There is no need to pay for this to be serviced, repaired or replaced as this is covered by the monthly payments.

Despite sounding convenient, the reality isn't as idyllic. There are three main concerns that residents have raised with me: costing, no freedom of choice, and the efficacy and financial model of the project.

Costing

Residents in NMQ have experienced higher than average heating bills. I conducted a survey with residents on the estate to acquire quantitative evidence of their experiences with a heating network. When residents were asked about the cost of their heating bills, 71% of respondents said their bills were a lot higher than before they moved in.

The pricing structure of SDEN is split into two categories: a Variable Rate (which is the usual cost of daily rate and usage) and a Standing Charge (which covers maintenance and repairs). Based on the pricing model provided by SDEN, the New Mill Quarter Residents Association calculated that the costs were likely higher than the market by £2.9million for the entire estate over the contract term.

No freedom of choice

Potentially, the harshest element of the district heating network for residents in NMQ is the totally restrictive and monopolistic nature of the project. There are no boilers in the properties, so there is no ability to switch energy providers. SDEN is the only option. The fundamental market freedoms that have helped make our country thrive are being denied here, and potentially elsewhere with other district heating networks.

There is no incentive for SDEN to help reduce the high energy bills because there is no threat of their customers switching providers. NMQ residents are trapped into high energy bill contracts.

When NMQ residents were asked in my survey if they would like to change providers, 91% said yes and 9% were unsure. 0% of respondents said no. When asked whether they were aware of SDEN prior to moving in to NMQ, 35% of respondents said they were not aware and 13% were unsure.

It's clear that many residents were not aware that they would be trapped into SDEN and the huge energy bills when they moved in, and the overwhelming majority would support freedom in the market to choose.

Efficacy and financial model

As previously touched upon, the aim of SDEN is to utilise waste energy from the Beddington Incinerator (ERF) to provide heating for network. However, the reality is that NMQ is reportedly being heated by gas boilers at the incinerator site, rather than by the intended incinerator output. With various issues at the incinerator (including reporting failures, limit breaches and even a fire), the ability to maintain a consistent output for a successful energy network is questionable. This completely brings into doubt the aim of using energy networks to reduce carbon emissions.

Further, it's also reported that Sutton Council hired KPMG to review the financial model of SDEN last year. Despite legal proceedings with the Information Commissioner, Sutton Council has reportedly refused to publicly release this report, leading to doubts over the financial model of the project. This highlights questions over the very principle of the SDEN project. Amongst all the statutory responsibilities of local authorities, there is nothing that requires spending millions of taxpayers' money to create a council-owned energy company which awards itself a monopoly in the energy market for certain developments.

We can question whether the principle of energy networks as a whole is the right direction for our nation's energy needs (the aim to reduce carbon emissions certainly is); however, the reality of energy networks in my constituency has proven concerning. I hope you and your department will take the time to consider the issues I have raised above whilst investigating energy networks further.

I'd be more than happy to meet with you to discuss this further.

Best wishes,

A handwritten signature in dark ink, appearing to read 'Elliot Colburn', with a long, sweeping horizontal stroke extending to the right.

Elliot Colburn

Conservative Member of Parliament for Carshalton and Wallington