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GENERAL COMMITTEES

Public Bill Committee

ENERGY BILL [*LORDS*]

Eighth Sitting

Tuesday 13 June 2023

(Morning)

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Saturday 17 June 2023

The Committee consisted of the following Members:

Chairs: Dr Rupa Huq, † James Gray, Mr Virendra Sharma, Caroline Nokes

† Afolami, Bim *(Hitchin and Harpenden)* (Con)
† Blake, Olivia *(Sheffield, Hallam)* (Lab)
† Bowie, Andrew *(Parliamentary Under-Secretary of State for Energy Security and Net Zero)*
Britcliffe, Sara *(Hyndburn)* (Con)
† Brown, Alan *(Kilmarnock and Loudoun)* (SNP)
† Clarkson, Chris *(Heywood and Middleton)* (Con)
† Fletcher, Katherine *(South Ribble)* (Con)
† Gideon, Jo *(Stoke-on-Trent Central)* (Con)
† Jenkinson, Mark *(Workington)* (Con)
† Levy, Ian *(Blyth Valley)* (Con)
† McCarthy, Kerry *(Bristol East)* (Lab)
† Morrissey, Joy *(Beaconsfield)* (Con)
Nichols, Charlotte *(Warrington North)* (Lab)
† Owatemi, Taiwo *(Coventry North West)* (Lab)
† Shelbrooke, Alec *(Elmet and Rothwell)* (Con)
† Western, Andrew *(Stretford and Urmston)* (Lab)
† Whitehead, Dr Alan *(Southampton, Test)* (Lab)

Sarah Thatcher, Chris Watson, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 13 June 2023

(Morning)

[James Gray *in the Chair*]

Energy Bill [*Lords*]

9.25 am

The Chair: Order. We resume consideration of the Bill. I am speaking slowly in the hope that the shadow Minister may appear at the last moment—

Taiwo Owatemi (Coventry North West) (Lab): He was just behind me.

The Chair: Hopefully, then, he will be here very shortly.

We will resume our marathon consideration of the Energy Bill this morning with the Question that clause 171 stand part of the Bill. That, of course, is grouped with a number of other things: clauses 172 to 174, amendment 101, schedule 16, clauses 175 to 179, and new clause 39. To remind the Minister in case he slips again, the Question will be that clause 171 stand part of the Bill.

I welcome the shadow Minister to his place—all I have done so far is announce the first group. I call the Minister to speak to it.

Clause 171

Relevant heat network

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss the following:

Clauses 172 to 174 stand part.

Amendment 101, in schedule 16, page 335, line 37, at end insert—

"(aa) their interests in systems that deliver heat efficiently;".

This amendment defines consumers' interests expressly to include efficient heat delivery in order to ensure that regulation covers systems that are operational but are operating inefficiently to the detriment of customers.

That schedule 16 be the Sixteenth schedule to the Bill.

Clauses 175 to 179 stand part.

New clause 39—*Guarantee for consumer protection*—

"(1) Within three months of the day on which this Act is passed, Ofgem must set out a new licence to operate for heat networks that guarantees equivalent protections for heat network customers compared when compared with electricity and gas customers.

(2) Protections under subsection (1) must include but are not limited to—

(a) a price cap for heat network customers;

(b) a licence condition to "treat customers fairly", analogous to Licence Condition 0 of the electricity and gas supplier licences; and

(c) a licence condition addressing "ability to pay", analogous to Licence Condition 27A of the electricity and gas supplier licences."

This new clause would guarantee that heat network customers receive equal treatment to electricity and gas customers.

The Parliamentary Under-Secretary of State for Energy Security and Net Zero (Andrew Bowie): Thank you, Mr Gray. It is a pleasure to serve under your chairmanship yet again in this marathon but exciting and engrossing Committee.

Part 7 of the Bill relates to heat networks. The purpose of clause 171 is to define a heat network, clarifying the scope of heat networks regulation. As well as defining "relevant heat network", the clause includes definitions for both communal and district heat networks.

A heat network provides heating, cooling or hot water to a building or collection of buildings, and its users. A communal heat network supplies heat to one building whereas a district heat network supplies two or more buildings. In both cases, the network must serve separate consumers or premises within the building or buildings to be considered a heat network. The clause provides a clear distinction between communal and district heat networks, which may require different legislative approaches. The definitions explicitly include networks that use heat pumps.

Clause 172 appoints the Gas and Electricity Markets Authority—Ofgem, for the avoidance of doubt—as the heat networks regulator for England, Scotland and Wales, and the Utility Regulator as the regulator for Northern Ireland. The Secretary of State—or, in Northern Ireland, the Department for the Economy—can, via regulations, change the regulator or change who carries out some of the regulator's functions, assigning them to another body. For ease and clarity, whenever I refer to "the Department" in relation to heat network clauses, I am referring to the Department for the Economy in Northern Ireland.

Clause 172 also provides consequential regulation-making powers for the Secretary of State and the Department to amend this part of the Bill if the regulator is changed or some of its functions are reassigned. This is important to ensure that heat networks regulation remains agile.

Clause 173 provides the Department for the Economy in Northern Ireland power to amend the Alternative Dispute Resolution for Consumer Disputes (Competent Authorities and Information) Regulations 2015 to provide for the regulator in Northern Ireland to be the competent authority for the purpose of those regulations. Amendments made under this power would enable the regulator in Northern Ireland to appoint a body as the alternative dispute resolution body in Northern Ireland.

The purpose of clause 174 is to allow the Secretary of State or the Department to regulate relevant heat networks and grant powers to those carrying out activities related to building or maintaining heat networks. Schedule 16 provides further details on the planned use of those powers. Under the clause, the Secretary of State or the Department will be required to consult on any changes before making any regulations under clause 171. Clause 174 also requires UK Ministers to consult Scottish Ministers when legislating in areas that are devolved to Scotland.

Alan Brown (Kilmarnock and Loudoun) (SNP): Will the Minister give way?

Andrew Bowie: I rather expected that. I am happy to.

Alan Brown: I thank the Minister; he almost invited the intervention. This is about consultation on matters that are fully devolved. We had a meeting, and the Minister expressed sympathy for our position on the need to find a way to strengthen the "consult" language so that it is not the Secretary of State imposing something. I wonder if he has any further information on that.

Andrew Bowie: I thank the hon. Member for his question. I received a letter from the Energy Minister in the Scottish Government, Neil Gray, just last week—I am formulating a response just now—on the very issue of consultation and consents. Discussions are ongoing as to the exact form that will take.

Clause 175 outlines the parliamentary procedures required for the regulations made under clause 174.

Clause 176 establishes that the Gas and Electricity Markets Authority—commonly referred to as GEMA—and the Northern Ireland Authority for Utility Regulation can recover the costs of regulating heat networks using gas and electricity licence fees. The Bill allows the recovery of costs for other bodies operating within the regulatory framework, such as the code manager and other bodies appointed to administer specific functions in regulation. The Government previously consulted on their proposed approach to cost recovery and received broad stakeholder support. The clause will facilitate the implementation of that approach and ensure that heat network regulation is sustainably and fairly funded.

Clause 177 provides power for the Secretary of State to designate, via regulations, GEMA as the licensing authority for the purposes of the Heat Networks (Scotland) Act 2021. The Scottish Government and other stakeholders have agreed to Ofgem being the regulator across all of Great Britain.

Clause 178 enables the Secretary of State to amend, via regulations, the Heat Networks (Scotland) Act 2021 to give the licensing authority compliance monitoring and enforcement powers under that Act. We intend to designate Ofgem as the licensing authority. That designation and the regulations will allow Ofgem to carry out this regulatory role in Scotland. Regulations under this clause must provide that offences created by the regulations are triable summarily only and punishable by a maximum of three months in prison or a fine not exceeding £200, or both.

Alan Brown: I thank the Minister for giving way again. He mentioned the possible imprisonment of up to three months. That seems to cross over into the Scottish justice system, because the Scottish Government have effectively set a presumption against short sentences. This would clearly be a short prison sentence, so how would that work in reality, against the wishes of sentencing legislation in Scotland?

Andrew Bowie: The hon. Member makes a good point. As I said, the Scottish Government have agreed to Ofgem being the regulator across Great Britain. I will go away and find a detailed answer to his point, which is well made—indeed, it is important to my constituents—about how the crossover will work with the Scottish justice system. It is a completely devolved competency, which we, of course, respect.

Clause 179 provides definitions for the interpretation of this chapter's clauses. The clause defines "the Department" as the Department for the Economy in Northern Ireland and "the NIAUR" as the Northern Ireland Authority for Utility Regulation.

Schedule 16 covers heat network regulation. Part 1 of the schedule provides definitions of the terms used in the schedule. Part 2 allows the Secretary of State to make regulations about the regulator's objectives. The main objective of the regulator will be to protect the interests of current and future heat network consumers. Part 3 covers heat network authorisations. The authorisation regime will ensure consistent standards across the industry, raising consumer protections. To carry out regulated activities, persons will be required to comply with conditions of authorisation, and the regulator will have the powers to enforce compliance.

Part 4 covers code governance in relation to heat networks, and part 5 covers the installation and maintenance of licences. Holders of licences will have the additional powers required for installing and maintaining heat network equipment. The regulations may require the regulator to be satisfied that the person applying for the licence is suitable, as well as the criteria they must use when making this judgment.

Part 6 covers the enforcement of conditions in licences or authorisations. The regulator is able to issue orders and penalties when a person is likely to contravene or has contravened a condition. Orders can be used to require compliance with a condition. If breaking a condition has caused damage, loss or inconvenience for a consumer, the regulator can make a consumer redress order.

Part 7 covers the regulator's powers of investigation. Although it is not considered appropriate to introduce a price cap on the cost of heat provided by heat networks now, the Government do intend to provide for the regulator to investigate whether the prices charged are disproportionate. That enables the regulator to take enforcement action against authorised persons charging disproportionate prices.

Part 8 covers step-in arrangements. The purpose of the arrangements is to facilitate the transfer of a regulated activity in relation to a heat network to a new entity, should the old entity no longer be able to carry on that activity. Part 9 covers the special administration regime. Similar to the provision for other essential services such as gas and electricity markets, this alters the normal administration process to allow for the continued supply of heat. It provides the ability to deploy a backstop should other actions to protect heat supply fail.

Part 10 allows regulations about the supply of heat to premises, including new connections and the metering of supply, and part 11 covers protections for consumers. Part 12 covers payments from the sector to support the special administration regime. It allows for regulations that will authorise the regulator to charge heat networks, via their authorisation conditions, to fund the regime. In that way, the regime spreads the cost of a firm failing across all companies. This is a fair and proportionate way of funding the regime.

[Andrew Bowie]

Finally, part 13 covers a range of topics, including consultation and co-operation, the objectives of the Secretary of State and Departments across the UK in carrying out their functions, and the creation of offences. I hope Members agree that heat networks play an important role in decarbonising heat and supporting the delivery of our net zero commitments.

The Chair: There is no interest from elsewhere. The Question therefore is—*[Interruption.]* If the shadow Minister wishes to take part in the debate, he needs to let me know; otherwise, we will move on.

Dr Alan Whitehead (Southampton, Test) (Lab): I did raise my hand, but it was my left hand rather than my right hand.

The Chair: You might stand up—that might be helpful in future—or tell me, or something.

Dr Whitehead: I should start by apologising to you, Mr Gray, for being marginally late. Those who know me will know that although I am usually rather close to the line in getting to my seat, I am rarely not actually there in time. I apologise for that slight problem this morning; I blame the lifts in Parliament.

The regulation of the whole system of heat networks, and combined heat and power for district heating schemes, is an important part of the Bill, which is long overdue in its arrival. Members will be increasingly familiar with district heating schemes in their constituencies, which provide heat, power and sometimes cooling both to properties and to industrial and commercial premises within a network scheme.

District heating schemes are by no means new. A number of them have been operating for many years, such as the system in Pimlico—the system in Westminster has been going for many years. Partly because such schemes have been going for many years, they have fallen out of the spotlight in terms of regulation and bringing their provisions into line with what customers expect from elsewhere in the energy system, particularly in relation to customer-facing retail and so on.

Because district heating schemes are enclosed, they are essentially monopoly providers of heat within their own area. They are generally advantageous to customers because they provide reliable heat, usually at a considerably lower price than the general market. The Government are seeking to promote the idea of local authorities extending heat networks for precisely those reasons. They are potentially very low carbon, and agnostic in terms of heat sources for the network. The key is that the network goes around a particular area, providing heat directly to people's homes, and, as I said, to offices and industrial premises.

In many ways the schemes just do not fit: they stand aside from what customers are normally expected to pay attention to these days, and the energy, gas, heat and power that they receive. As I said, that is because the heat networks in this country, and indeed the combined heat and power systems relating to heat networks, quite often provide electricity as a by-product of the heat-engine process. But they predominantly provide heat for customers.

A number of problems relate to the customer arrangements, and customer expectations, regarding that closed system. Because each of the individual extant networks in the country is effectively a mini-business in its own right, they have at their heart an arrangement whereby a company, not-for-profit or local authority, in some instances, that runs a scheme is responsible for procuring the fuel as if it were a retail energy company for the network, and then supplying it to customers through the heat engine and the network that goes into people's homes.

The issue for customers is quite often, first, whether the company that is providing supplies for the heat network has procured them in a reasonable and cost-efficient manner. Secondly, is the system that is delivering the heat for customers efficient in its own right? Particularly in older schemes, there are a number of circumstances in which the system provides heat to customers, but not efficiently. The pipework may be old, furred up and not functioning well. Of course, it is extremely difficult for the customer to recognise whether the system is efficient. Sometimes its inefficiency comes to light only when people start being charged unreasonably large bills. The company that is providing the service will then go through its reasoning about the supplies coming in and the service being provided, but not the efficiency of the service.

There is little customer redress in the systems because they generally are not regulated. They have voluntary regulation, run by the Association for Decentralised Energy, whereby heat networks sign up to a redress programme, but currently it covers only a minority of the total heat networks in operation. Bearing all those things in mind, as well as the system's likely future, the system is long overdue being regulated in a way that delivers for customers the certainty of a good service, redress where the service is not so good, and access to an understanding of how the system as a whole works, and what the companies that provide the service are doing—hopefully in the interests of customers, but in some circumstances not.

The system as a whole works pretty well: most of the companies that run heat networks are honourable organisations, often set up on a not-for-profit basis to provide a district heating scheme. The issue is at the margins of those schemes that do not run their service particularly well, or that do not provide decent redress for their customers and have a monopoly situation as far as their supply is concerned.

9.45 am

The remedy of switching is not available as far as heat networks are concerned; someone is either in the heat network or not. People cannot opt to switch to a parallel provider, so other forms of redress and action are required to protect customer interest in relation to heat networks. The customer needs a voice on the activities of the heat network, and we need to ensure that the network works in the customer's interest, rather than just in the narrow interest of the heat network supplier.

The regulations are way overdue. I have been campaigning actively for a long while to get heat networks regulated. Hon. Members with heat networks in their areas will know of problems arising from the recent energy price crisis, whereby the price of heat from heat

networks has increased far more than that of heat from other sources. The particular reason for that is that heat networks are not subject to the price cap and various other regulations relating to mainstream prices. Energy prices have gone through the roof in some areas, but there are no constraints on the companies, and hon. Members, who have brought these issues to the House on a number of occasions, have been left frustrated because very little can be done.

If price caps were applied to heat networks in the same way as they are to large retail companies providing gas or other forms of heat through customer accounts, a succession of companies may well go bust. As hon. Members will remember, when prices went up very high and some companies had not hedged their supplies properly, 29 small, medium and fairly large energy retailers went out of business over a couple of years. Given that heat network operators are essentially small versions of retail companies, that situation may well be repeated. We need something in regulation that applies to the issues, problems and circumstances of the companies providing those services so that they stay in business and provide a good service, and the customer has a good level of redress. The measures we are debating pretty much provide for that, so I substantially welcome the fact that, at long last, we will have on the statute book a pretty comprehensive system of heat network regulation.

Our amendments would not substantially amend or overthrow the regulatory system; rather, they draw attention to one or two things I have mentioned this morning that I am not sure are thoroughly in the system as it stands. Amendment 101, on general regulation, seeks to amend schedule 16, which sets out the detail of the regulation of the network. It would add to the schedule the customer's interest in systems that deliver heat efficiently. That is the case with most newer systems, but for older systems, set up before regulation, the heat was often not delivered efficiently and nothing was done about it. It is important to set out in the schedule that the regulator's duty is to regulate not just the system but its efficiency, to ensure that people do not accumulate a lot of expense over a long time because the system is not operating in their interest.

New clause 39 would explicitly state guarantees of consumer protection, which should be—and, I grant, substantially are—within the regulatory framework. It would ensure that Ofgem sets out

"a new licence to operate for heat networks that guarantees equivalent protections for heat network customers…when compared with electricity and gas customers."

Those protections include, but are not limited to, a price cap of some description for heat network customers. That cannot be the same as the price cap that we will discuss later, which the Government have rather inconveniently removed from the Bill but I hope will restore. That price cap has to be tailored to the circumstances of heat networks. The proposed protections also include a licence condition to treat customers fairly. That is particularly important, as exit is not an option for heat network customers. This is a question of fair treatment, as opposed one of simply switching to another supplier. The final protection proposed by the new clause is a licence condition addressing ability to pay. Again, that needs to be tailored to the particular circumstances of heat network customers, but the arrangements should not be that far off those that already apply to general electricity and gas suppliers.

We have had considerable debates in this House—the Minister and I have taken part in some of them—on so-called pass-through arrangements for heat networks, whereby Government assistance for energy customers did not land with heat network customers because there was an intermediate between the Government and the customers at the end of the process. The Government have certainly found it very difficult to get in place arrangements for additional payments to be made to customers affected by sky-high energy prices. The process has been revisited repeatedly so as to, first, ensure that the heat network agents are passing on the assistance they receive, and secondly, consider the remedy for customers who are not getting what they should be getting.

All of those problems result, at least in part, from the fact that there is no regulatory scheme for heat networks, which means that the circumstances of their customers are not analogous to those in the wider energy sphere. New clause 39 would be a useful addition. It would clarify what Ofgem must do when setting up licences to operate heat networks, and it would provide guidance as to the circumstances under which those licences should be granted.

We very much support the Bill's content on heat networks, but the minor tweaks suggested by our proposed amendment to schedule 16 and our new clause 39 are in the interests of customers and would help not hinder them when it comes to the end result. After all, I think that that is what everybody on the Committee wants for heat network customers not just now but in the future.

Alan Brown: It is a pleasure to serve under your chairmanship, Mr Gray. Like the shadow Minister, I broadly welcome these clauses and the principles behind them. I made a couple of interventions on the Minister. I cannot quite remember, but I have a feeling that clause 174 is not one of those referenced in the letter from Neil Gray, the Energy Minister in Scotland. I will go back and check that. The Scottish Government have concentrated on some of the key clauses, but I will check and reserve the right to come back on this issue on Report if need be. I appreciate that the Scottish Government are working with the Minister. I also appreciate the Minister saying he will come back on my query on clause 178.

As the shadow Minister said, heat networks have been debated in this place for a few years. I have found a couple of speeches of mine from two years ago, when matters were raised in Westminster Hall—primarily by Tory MPs—so this is welcome. If the Committee wants, I can give the thrust of my two speeches from back then, because it is still relevant, or I can just condense them if the Committee prefers. I will take the Chair's guidance on that.

The Chair: Condensing is always a good thing.

10 am

Alan Brown: Why do we need this? This is why I also support new clause 39. As far back as 2017, the then director of the Department for Business, Energy and Industrial Strategy director stated that

"whatever you do you end up with 17- 24 per cent district heating".

[Alan Brown]

That means that some 6 million homes will have district heating, so it is important that we actually facilitate that to allow the transition to net zero. It is even more important that we provide protection for those 6 million homes, or people will not accept the principle of district heating and we will not get to net zero. At the moment, around half a million homes have some form of either district heating or communal hot water.

The numbers we are talking about mean that I agree with new clause 39 that a price cap is needed. It would give surety and protection to customers, and help avoid bad news stories as well. Even when I spoke two years ago, consumers and landlords were reporting price rises of up to 700%, according to a Heat Trust report. That illustrates the need for a cap and protection, so that people cannot just continue to ramp up costs.

Amendment 101 is a simple amendment, and I hope the Government will consider accepting it. It is almost administrative, but it does have qualities. I have in the past reported the fact that communal heat networks sometimes operate inefficiently because they are not subject to technical standards. Some contractors choose to complete heat system installations that come at the lowest form of capital cost, rather than the more efficient, longer-term operational systems that give whole-life savings. I wonder if amendment 101 would protect against that. Could the Minister advise us on how the new regulations will ensure that it is the most efficient systems that will be installed, to the benefit of customers and consumers?

Previously, the Government's green energy support programme had to address the fact that some people in district networks were classified as commercial customers. That was because, as the shadow Minister has said, it is in effect small independent companies that operate these networks. We need to ensure that those classified as commercial customers are protected as much as domestic customers. I should have intervened on the shadow Minister, but I hope that new clause 39 would provide that protection. We welcome the provision, but in order to convert people to district heat networks, we really need wider, joined-up Government policy.

Andrew Bowie: I welcome the broad welcome given by His Majesty's official Opposition and the Scottish National party to the clauses. I tend to agree with the hon. Members for Southampton, Test and for Kilmarnock and Loudoun. These measures are long overdue, so I thank them again for their positive responses.

I will turn to the points made by the hon. Member for Kilmarnock and Loudoun regarding consent and consult. Notwithstanding my commitment to get an answer for him regarding the criminal justice system in Scotland and how it will interact with these new regulations and their administration in Scotland, I confirm that in the recent letter from the Energy Minister, Mr Gray, the Scottish Government have in fact dropped consent requests on heat networks, so they are very happy to proceed as drafted here. I wanted to give confirmation of that. I will turn to the hon. Gentleman's other points later.

I thank the hon. Member for Southampton, Test for his amendments, which provide an opportunity to discuss in detail what we are doing here today and why we are not going as far as he suggests we should.

I turn to amendment 101. If not designed and built to high standards, heat networks can experience inefficiencies such as heat losses from the pipes that deliver hot water from the energy centre to homes and businesses. That can lead to consumers paying higher prices and experiencing unreliability of heat supply, as the hon. Member for Southampton, Test said. I reassure him and others that we already have a robust plan to address that issue. The Bill provides for the introduction of technical standards on the design and build of heat networks, which we committed to implementing as part of a regulatory framework in our 2020 heat networks regulation consultation. That will require all new heat networks to be designed and built to minimum standards, and existing networks to make efficiency and performance improvements over time.

As a regulator, Ofgem will enforce the requirement. Heat networks will be required to submit documentation to Ofgem demonstrating that their compliance with technical standards has been certified. As I have set out, the Bill and subsequent secondary legislation will give Ofgem powers to investigate and intervene in networks where prices for consumers appear to be disproportionate compared with systems and similar characteristics, or if prices are significantly higher than those consumers would expect to pay if they were served by an alternative heating system. Ofgem will also enforce minimum standards on the reliability and quality of the heat supply. I hope that reassures hon. Members, including the hon. Member for Southampton, Test, that the Government are already taking steps to improve efficiency on heat networks and—to address some points made by the hon. Member for Kilmarnock and Loudoun—to protect consumers from high prices and unreliability.

I turn to new clause 39, which was tabled by the hon. Member for Southampton, Test. Ensuring heat network consumers are protected from high prices and unreliability is our principal reason for introducing heat networks regulation, so I am pleased to see hon. Members recognising the importance of addressing the issue. I appreciate that they will want to see the sector regulated as soon as possible, which is one of the reasons we are progressing the Bill at this pace. However, it would not be possible nor sensible to ask Ofgem to require a licence regime within three months of the Bill receiving Royal Assent. Secondary legislation authorisation conditions are needed to enable Ofgem to operationalise as a regulator. We will conduct public consultations with industry and consumer groups on secondary legislation and authorisation conditions before they come into force. We expect heat networks regulation to come into force shortly after that.

I recognise that hon. Members want to ensure that heat network consumers do not pay disproportionate prices. However, we do not believe that a price cap is suitable for the sector, given its nascent and incredibly diverse state across the country. A price cap also risks heat network insolvencies prior to step-in arrangements being embedded into the regulatory framework. The Bill provides the Secretary of State with powers to introduce a price cap in future, should one become appropriate once the market has matured. I reassure hon. Members that we are taking steps to tackle high prices across the board.

Alan Brown: Can the Minister give us more information on the mechanisms in the Bill that allow the Government to bring forward a cap in future?

Andrew Bowie: As has been set out in the Bill and explained this morning, the powers will be given to the Secretary of State, determined at a point in future when the sector matures, which is exactly the process by which he can introduce a price cap. I think we have gone through that this morning.

Alan Brown: Will the Minister write to me to give a little more detail on that?

Andrew Bowie: Yes, I am happy to write to the hon. Gentleman and provide more detail on exactly that point.

The Bill and subsequent secondary legislation will give Ofgem powers to investigate and intervene in networks where prices for consumers appear to be disproportionate compared with systems with similar characteristics. It will also be able to investigate and intervene if prices are significantly higher than those consumers would expect to pay if they were served by an alternative heating system. We are taking action to address current high prices in the heat network sector. The energy bills discount scheme, which runs from 1 April 2023 to 31 March 2024, provides support to heat networks with domestic end consumers.

On conditions around treating customers fairly and ability-to-pay assessments, I am pleased to inform hon. Members that the Government already plan to consult on introducing comparable levels of service and protection to consumers in other regulated utilities as part of a public consultation on heat network consumer protection rules. We will publish that consultation in due course. I hope that reassures hon. Members that the Government are already taking steps to deliver regulation and tackle high prices in this sector. I therefore ask the hon. Member for Southampton, Test not to move his amendment 101.

Question put and agreed to.

Clause 171 accordingly ordered to stand part of the Bill.

The Chair: We now come to the Question on clauses 172 to 174 stand part—we have just debated them. With the leave of the Committee, I will take them together.

Dr Whitehead: Do you want to know whether I am going to withdraw amendment 101, Mr Gray?

The Chair: No. The hon. Gentleman should not interrupt me while I am putting the Question. In answer to him, however, his amendment 101 comes after the decision on clauses 172 to 174. I thank him for his intervention, but he is wrong.

Clauses 172 to 174 ordered to stand part of the Bill.

The Chair: The Question now is whether the Opposition wish to move amendment 101.

Dr Whitehead: I will include an indication of our position on new clause 39, Mr Gray, although I understand that any vote on the new clauses will take place at the end of our proceedings and not today. That is right, is it not? I will also say something on amendment 101.

The Chair: The hon. Gentleman has already spoken to amendment 101 as part of the group that we have just debated.

Dr Whitehead: Yes. I am seeking to state why I might wish to withdraw amendment 101, or otherwise, and in so doing I was seeking clarification, Mr Gray. My understanding is that new clause 39, which is included in the group, will not be up for a vote now, because that would come at the end of our proceedings.

The Chair: That is correct. New clauses come at the end of proceedings. If the hon. Gentleman wishes to move amendment 101, he may do so now. Immediately after that, we will come to the Question on schedule 16—that is the next thing to happen. The Question on new clause 39 comes at the end of our proceedings, so is for a decision later. Right now, the only question is whether he wishes to move amendment 101.

Dr Whitehead: Yes. I was actually trying to save time, Mr Gray.

The Chair: Leave that to me.

Dr Whitehead: Right.

On amendment 101, I do not think that there is anything explicit in schedule 16 relating to the position of efficiency in regulation. Having had a look at the schedule again, I am confirmed in that view. I take what the Minister said about the intention to ensure that that is part of regulation, but I am afraid we are a little in the hands of what the Minister may decide about the regulations as far as efficiency goes. The Minister is an honourable one, so I am sure that he will seek to carry out what he has said today to the letter. I am therefore happy not to move amendment 101, but I note that that was one of the purposes of regulation should have been made rather more explicit in the schedule.

The Chair: The amendment is therefore not moved.

Schedule 16 agreed to.

Clauses 175 to 179 ordered to stand part of the Bill.

Clause 180

REGULATIONS ABOUT HEAT NETWORK ZONES

Question proposed, That the clause stand part of the Bill.

Andrew Bowie: Chapter 2 of part 7 covers heat network zoning in England. Heat network zoning is a key policy to deliver the scale of expansion of heat networks required to meet net zero. The process brings together local stakeholders and industry to identify and designate areas within which heat networks are expected to be the lowest-cost solution for decarbonising heating.

The clause provides a definition of heat network zones, gives the Secretary of State the general power to make regulations about heat network zones, and outlines the parliamentary procedures that must be followed when doing so.

Regulations made in relation to any of the following three matters will be subject to the negative procedure: first, any requirements on zone co-ordinators to consult on zone designations, revocations, or reviews; secondly,

[Andrew Bowie]

reviews of the designation of areas as heat network zones by zoning co-ordinators or the heat network zones authority; thirdly, any requirements for zone co-ordinators and the authority to consult on the zoning methodology, and reviews of the heat network zoning methodology by the Secretary of State. All other regulations will be subject to the affirmative procedure.

10.15 am

Dr Whitehead: I do not have much to say other than that we now move on to heat network zones as opposed to heat networks themselves, and we will be debating what the term means and how the zones work. Clause 180 sets the stage, and as we will be debating amendments on a future clause, I have nothing further to say about this one.

Question put and agreed to.

Clause 180 accordingly ordered to stand part of the Bill.

Clause 181

HEAT NETWORK ZONES AUTHORITY

Dr Whitehead: I beg to move amendment 102, in clause 181, page 152, line 27, after "the Secretary of State" insert

"or the Gas and Electricity Markets Authority".

This amendment is to ensure that the Gas and Electricity Markets Authority may be designated as the regulator for heat network zones.

The Chair: With this it will be convenient to discuss the following:

Amendment 115, in clause 181, page 152, line 30, at end insert—

"(5) The Heat Network Zones Authority shall be responsible to and regulated by the regulator."

This amendment makes the regulator responsible for Heat Network Zones.

Clauses 181 and 182 stand part.

Dr Whitehead: We have tabled two amendments to clause 181. As far as I understand it, the clause adds to the heat network system, which, as I have said, has evolved over the years into a number of heat networks in various parts of the country.

A good idea for future heat network development would be to have a much more systematic approach and an understanding of where our heat networks may be most appropriately sited and the best conditions for them to be established. We know a number of potential good and bad conditions for heat networks. For example, a certain density of population, buildings and so on is needed for heat networks to be efficient, although there are in existence small heat networks that serve very small communities. Indeed, heat networks can range from being marginally larger than a few properties to covering large parts of cities.

There are five major heat networks in my city of Southampton, one of which serves the whole city centre and surrounding areas, and has an 18 km heat delivery pipe network. It is connected to a geothermal scheme in the city centre, so it efficiently provides heat to that whole area. It is connected not just to domestic properties but to a number of commercial users, which I think includes the nation's only geothermally heated supermarket, civic centre, health authority centre, and so on.

One component of a decent heat network is what is in the network to validate the load that is supplied. A heat network may be just for domestic properties, as is the case in some housing developments in Southampton, but that is not the most efficient way of developing a heat network because the load from domestic properties changes seasonally. If a heat network is connected both to a number of properties—an estate or whatever—but also has industrial or commercial users, the load can be spread out and equalised over the years.

The Southampton schemes operate quite efficiently within the right places for zones. Nevertheless, it is—or should be—a function of local circumstances that heat networks are more likely to be applied in constituencies where there is a considerable gathering of industrial and commercial activities and population zones, and are less applicable in large rural constituencies, although there are some heat networks in small towns and villages. Within that zone understanding, there may be arrangements that pertain to local circumstances: for example, zones may be organised in such a way that ensures the likelihood of success for the heat network is relatively high.

I understand that this section of the Bill seeks to ensure that local authorities are required to look at research, to consider where it would be good to have a heat network and to produce a heat network zone plan, so that as we develop heat networks for the future we have a much better picture of where the schemes would work well, where investment may best go and the extent to which success is likely to be high, rather than someone perhaps taking a flyer on something that probably will not work well for the future.

We are happy with the idea of heat network zones being put into the Bill, that we approach them in the way that I have described and that they complement the regulation of the system in as much as the whole system now is much more in the mainstream of energy planning and energy futures as a whole. I hope that our amendments are complementary to the general scheme of things. They simply try to align the regulation of the heat zone development process with that of heat zones themselves, proposing that the process of heat zone discovery and development should be regulated by the same regulator that regulates heat as a whole: the Gas and Electricity Markets Authority.

It is important that there should be a regulator for this particular activity so that it does not stand alone from everything else happening as far as heat networks are concerned. I do not think that would impede the development of heat networks—on the contrary, it would assist them by making sure that the way we were bringing forward heat zone arrangements was generally of assistance to heat networks as a whole.

What if a local authority or similar body involved with developing heat network zones were not interested in heat networks? It might locally regulate heat zones in a way that did not take seriously the whole question of heat network development. The regulation of heat zone arrangements under the circumstances that I am discussing would ensure that there was a pretty uniform approach as far as heat network development was concerned. Those engaged in it would know that someone was looking over their shoulder to make sure that they were

doing the job properly. That is all we want to add to the measure and I think the Minister will agree that it is a pretty positive addition. It certainly does not detract in any way from the validity of the heat network process and the idea that there are right and wrong places for heat networks. We must get them in the right places so that they can succeed for customers as well as they possibly can.

Andrew Bowie: I thank the hon. Member for his amendments, all of which are designed to ensure that the regulatory frameworks for heat networks and the building-up of capacity in this country for heat network zoning gets to a place that will support the growth of the industry in the future. I resist the amendments only because I feel that the powers in the Bill meet the required level of engagement and regulation necessary at this stage for what is currently a nascent but will in time become an incredibly important part of the wider energy mix.

I turn first to amendment 102, which relates to designating GEMA as the heat network zones authority. The zones authority will be a national body responsible for zoning functions that require national-level standardisation or are most efficiently or effectively carried out at a national level. This approach will allow for national standards and consistent rules to apply in the initial identification of a potential heat network zone.

As for who could fulfil the zones authority role, clause 181(3) is explicit that

"The Secretary of State may, but need not, be designated"

as the zones authority. Therefore, the clause, as drafted, already provides that regulations may appoint GEMA as the zones authority.

The zones authority will fulfil a different function from the heat network regulator, which we propose, as set out in clause 172, should be fulfilled by GEMA for Great Britain. That role will cover all heat networks, both within and outside heat network zones. We do not envisage a separate regulator for heat network zones in England.

We will specify the zones authority's functions and responsibilities within the regulations when they are brought forward. That will be subject to further consultation in due course as we continue to develop our policy proposals, and we look forward to engaging with Parliament on that. Appointing the zones authority in regulations will allow for amendment, should that be required, as and when its functions change over time and as heat networks become more established throughout the United Kingdom. I hope that has helped to clarify our proposed approach and the scope of the powers already provided for in the Bill.

I turn to amendment 115, regarding the relationship between the Heat Network Zones Authority and the heat network regulator. As I have said, we intend for GEMA to fulfil the heat network regulator role in Great Britain. The zones authority will be a national body responsible for certain zoning functions. We will consult on who should fulfil the zones authority role in due course, but we do not consider that the zones authority should itself be subject to oversight by the heat network regulator. I hope this has helped to clarify our proposed approach regarding the zones authority and how its role relates to the heat network regulator, and I therefore ask the hon. Member for Southampton, Test to find it within himself to withdraw his amendment.

10.30 am

Clause 181 gives the Secretary of State the power to make regulations that appoint a body as the Heat Network Zones Authority, which is known as "the Authority". It allows the authority to delegate any of its functions to other persons specified in the regulations. In practice, that may allow for certain entities, such as local authorities, to collect information on behalf of the authority in zones. As set out in the clause, the Secretary of State may be designated as the authority. We intend to consult further on roles and responsibilities within heat network zones in due course.

Clause 182 gives the Secretary of State powers to make regulations about zone co-ordinators. Zone co-ordinators will support the delivery of heat networks in heat network zones and will have ongoing responsibilities to ensure that the operation of local heat networks complies with the zoning legislation. Zone co-ordinators will also enforce zone requirements where necessary and collaborate with the national zones authority and national heat networks regulator when required.

The clause describes what regulations the Secretary of State can make about the zoning co-ordinator. It also enables the zones authority to intervene, for example, in cases where there is a risk that a substantial heat network zone may not be realised. Those powers may be necessary in cases where a local authority fails to act or is unable to act. In those instances, the zones authority may carry out any function of a zone co-ordinator, may direct a zone co-ordinator to carry out its functions and/or may require a local authority to establish a zone co-ordinator.

Dr Whitehead: Once again, the bona fides of the Minister are not in any question at all, but what he is saying to us relies quite a lot on the regulations that will follow from the Bill and how the Secretary of State may designate under clause 181 a person to act as the Heat Network Zones Authority. If the Secretary of State decides that there should be a Heat Network Zones Authority, we are not sure exactly how that will come about. It may be that we do not have an authority as such, but the Department effectively operates as the authority, or a complete Heat Network Zones Authority could be set up with offices and civil servants or quasi-civil servants, although that might be a bit bureaucratically overbearing.

Again, the Bill does not specify how that authority, whatever it is, will be tucked into the system as a whole. The Minister says, "I'm sure it will be, because we are sensible people and we will make sure we do it," but that has not been put on the face of the Bill, which is always good practice. Whatever our intentions may be today in this Committee—and they are good intentions—a piece of legislation has to stand in circumstances where those intentions may not be so good under a future Government. That is why we tabled our amendment, but I hear what the Minister has said, and that is on the record. Given my boundless trust in the Minister's good intentions for the future, I hope that he will do what he has said

[Dr Whitehead]

regarding heat network zones authorities, and their regulation and operation. On that basis, I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clauses 181 and 182 ordered to stand part of the Bill.

Clause 183

IDENTIFICATION, DESIGNATION AND REVIEW OF ZONES

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss clauses 184 and 185 stand part.

Andrew Bowie: Clause 183 gives the Secretary of State the power to make regulations to establish the process for creating heat network zones, which we have just discussed. In the legislation that is referred to as identifying and designating a zone. The clause also gives the Secretary of State the power to make regulations to establish the process for the review of zone designations. A review of zones could lead to changes in the boundary—for example, making the zone larger or combining two existing zones.

Subsection (2) provides that the regulations must require the identification of zones to be done in accordance with the zoning methodology, which is established under clause 184. Subsection (3) outlines further matters that the regulations may specify in relation to the designation of areas as zones. Subsection (4) outlines what may be specified in regulations regarding changing or revoking zone designations. Subsection (5) outlines regulations that can be made about the review of zone designations.

Clause 184 gives the Secretary of State the power to establish a methodology for identifying heat network zones. The methodology will standardise the identification of zones nationally. Proposals for the use of, and approach to, that national methodology received widespread support from stakeholders during the Government consultation.

Clause 185 allows the Secretary of State to make regulations about the ability of the zones authority and zone co-ordinators to request the information required to support the national methodology for the identification, designation and review of heat network zones. The clause, and the regulations that follow, will facilitate the zones authority and zone co-ordinators in requesting and receiving the necessary information to ensure that heat network zones are situated in the right locations. As I discussed in the context of zone reviews under clause 183, the location of heat network zones can be changed as necessary to reflect the impact of changing technologies and neighbourhoods over time.

Dr Whitehead: The Minister reflects that circumstances may change over time so it is necessary to have such a power. He is right that circumstances are not static; indeed, we may well miss a lot of good opportunities if we place too much emphasis on the static nature of what we have designated for the future. I think that we will debate, in a future clause, circumstances concerning the development of heat networks within zones, but on the changes that may be necessary in order to keep heat network zones up to date, this is a sensible provision that we support.

Question put and agreed to.

Clause 183 accordingly ordered to stand part of the Bill.

Clauses 184 and 185 ordered to stand part of the Bill.

Clause 186

HEAT NETWORKS WITHIN ZONES

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss that clause 187 stand part.

Andrew Bowie: Clause 186 allows the Secretary of State to make regulations about heat networks within heat network zones. That includes specifying which buildings may be required to connect to a district heat network within a designated zone. Subsections (2)(a) and (2)(b) allow regulations that specify the types of buildings within zones that will be required to connect to heat networks, when they must connect, and how they are notified of that requirement.

Subsection (2)(c) allows the regulations to specify when and how the zone co-ordinator can grant exemptions from the requirement to connect to the heat network. Subsections (2)(e) to (2)(h) allow regulations to make provision about requiring heat sources in zones to connect to a heat network. Subsections (2)(i) and (2)(j) allow regulations that provide for the zoning co-ordinator to set local limits on emissions from heat networks and any grace period to comply with that limit.

Subsection (5) allows regulations to specify when the zoning co-ordinator may or must ask a heat source to connect to a heat network, the types of heat source that can cover, and how the heat source owner can appeal against the requirement to connect. Subsection (6) allows regulations to specify how local limits on emissions from heat networks in zones are set. Subsection (7) provides details about what regulations can be made about grace periods for local emissions limits.

Clause 187 allows the Secretary of State to make regulations about the delivery of district heat networks within heat network zones. Those regulations will give structure to the zoning co-ordinator's role and responsibilities. "Delivery" refers to the design, construction, operation and maintenance of heat networks. His Majesty's Government recognise that there are several feasible models for delivering heat networks in zones depending on local circumstances, including the level of involvement of the zone co-ordinator. The clause, and the regulations that flow from it, aim to provide a flexible approach to zone delivery.

The engagement we have had with the heat network industry and with local government has highlighted a desire for flexibility in how heat networks are delivered within zones, as there are a range of ownership and delivery models that could be employed in the future. The Government's expectation is that the regulations will define what decisions zoning co-ordinators and other bodies can take regarding zone delivery, with

guidance from the zones authority to help inform their decisions. The clause provides that regulations may determine when zone co-ordinators may decide what heat networks are delivered in their zones, and by whom, including circumstances in which the zoning co-ordinator may deliver heat networks themselves.

The Government recognise that there is a risk that leaving decisions about zone development solely in the hands of zone co-ordinators could risk a heat network zone not being developed. Therefore, subsection 5(g) allows regulations to define the circumstances in which zone co-ordinators may lose the ability to make decisions about heat network delivery in zones. The intent is that that will happen if the zone co-ordinator has not taken certain steps to develop the zone following a set period after the zone designation.

Dr Whitehead: Clause 186 rather reminds me of Bertrand Russell's definitions of propositions that are automatically members of their own class and propositions that are not automatically members of their own class, but I do not think we will debate that to any great extent this morning.

The Chair: No. We will avoid that at all costs.

Dr Whitehead: It is an interesting debate in its own right.

The Chair: Perhaps for some other time.

Dr Whitehead: For no other time, probably. Clause 186 is a relevant and necessary proposition concerning the development of heat zones and heat zone authorities, but one thing that does rather concern me is that although it is important that heat networks are able to develop in the most appropriate way and under the most appropriate circumstances, it is also important that the connections between heat networks can develop in the most appropriate way within a particular area.

I mention that point because there are circumstances in which heat networks may develop independently in parts of cities. The geographical and other siting considerations could lead to the development of interconnections between heat networks so that their joint efficacy is improved. If an extensive heat network, such as the one in Southampton, has a number of independent networks relatively nearby that have developed under different circumstances but are providing the same thing, there is considerable advantage in ensuring that they are interconnected so that they can share heat production and, if necessary, heat network inputs.

As I am sure the Minister is aware, heat networks are agnostic as to the fuel that goes into them. It could be from a heat engine, a geothermal source or a low-carbon source—hopefully, we will develop those to a much greater extent—such as multiple ground source heat pumps or hydrogen engines, which are already in existence and can replace gas engines in heat networks.

10.45 am

The development of individual heat networks with different forms of fuel may well mean that the fuel can be boosted considerably through association with other heat networks. In Southampton we have one geothermally heated network, which is boosted by a gas engine, and another system, around the general hospital, that is run by a gas engine. The hospital trust is thinking about what to do about that, given that a gas engine is not the best low-carbon solution, although the system is very efficient. At the moment, the scheme just heats the hospital, but if it were developed effectively it could also heat the surrounding residential properties and industries. That would considerably benefit the hospital trust's income over time. The trust is thinking about joining the city authority in looking for a geothermal solution to its district heating arrangement when it replaces the gas engine. If it does that, how far it puts its geothermal well from the well that has already been drilled for geothermal purposes could be an important element in ensuring the two schemes work as efficiently as possible in relation to the aquifer under the city, which informs the current geothermal scheme.

We should allow connections and co-ordination among district heating schemes to ensure that they are working as well as possible. Booster engines around circuits could make the networks more efficient over time. They may be supplied by another scheme at the end of the network, if the operators of the first scheme are worried about the scheme's reach if it changes its fuel source. The development of schemes should also be co-ordinated in the way I have described: it may be that the net efficiency output of two or three schemes will be less than optimal unless they are connected in some way, at least in relation to the fuel source and network development.

It does not seem to me that these clauses fully provide for that eventuality. Is there a responsibility or duty for the zone authority to optimise the processes of heat networks within heat network zones, or is it something that may or may not happen, depending on the good will of the various schemes in various areas? Indeed, does it depend on how alert or otherwise the local authority is in seeking to do what is good for all schemes in its area, rather than individual schemes doing their own thing in particular places within the zone?

Does the Minister think that the circumstances I have set out, in which it may very well be in the interests of individual district heating networks within a zone to collaborate to a much greater extent than they have done, could be encouraged as part of the operation of heat network zones? It may well be that we need an additional push to ensure that that happens. The Opposition have not tabled an amendment to that effect, but I hope that the Minister will reflect on how that co-ordination can best be achieved in the interests of all the networks within the zones. *[Interruption.]* I see that he has just received some excellent inspiration. Again, it goes back to the best interests of customers and ensuring that customers collectively are best served by the networks in their particular zone.

Andrew Bowie: I thank the hon. Member for his questions. He made mention, almost in passing, of heat network zones doing their own thing within zones. It is important to point out that in clause 186 there are several protections against heat network zones doing their own thing. Zones will inherently represent areas where heat networks are expected to provide the lowest-cost low-carbon heating solution. Customers will be able to apply for exemptions from the requirement to connect

[Andrew Bowie]

where it would be inappropriate. Ofgem's consumer protection framework will provide protection for domestic consumers and microbusinesses, and we will consider consulting on whether protections should be extended to other consumer groups, such as larger non-domestic consumers, which are in scope of the requirement to connect to a heat network. I know that the hon. Member's points were not specifically directed at that issue, but he mentioned zones being able to do their own thing, and it is important to ensure that consumer and business protections are built into the regulations.

We talked about hospitals, albeit in passing. We are not setting out specifically which buildings will be required to connect to a network, but we can require certain buildings in zones to connect to a heat network. Doing so encourages investment in the heat networks and accelerates the deployment of low-cost, low-carbon heat. The categories of buildings chosen to connect will strike a balance between this investment certainty and individual consumer choice. That will develop as the heat network market in England grows. We may need to refine these categories. This is a nascent industry in the early stages of its development, so describing them will provide that flexibility. The Government will consult later this year on which types of buildings can be required to connect and in what circumstances.

On the hon. Member's substantive point about why the Bill does not make provision about heat network delivery in zones, we are providing that zone co-ordinators shall have powers to decide what heat networks are built in zones and by whom. There are many ways in which heat networks could be delivered in zones and many ways in which zone co-ordinators could exercise their decision-making powers around delivery. As set out in the green finance strategy, we envisage heat network zoning bringing forward a significant increase in private sector investment in heat networks in England. Decisions around delivery may have significant implications for the scale of heat networks built in a zone, the pace at which networks are built and the effect on consumers. The Government intend to consult later in the year on how a zone co-ordinator may take those decisions, so that we get it right. Again, I emphasise that we will be consulting on this later this year.

Also, the way in which decisions are made may need to change over time, reflecting how the market matures and, indeed, learning from experience. The regulations will, of course, be subject to the affirmative procedure, which will allow for parliamentary scrutiny. I am sure that the hon. Member will play his part in such scrutiny, as will his colleagues.

Question put and agreed to.

Clause 186 accordingly ordered to stand part of the Bill.

Clause 187 ordered to stand part of the Bill.

Clause 188

ENFORCEMENT OF HEAT NETWORK ZONE REQUIREMENTS

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss clause 189 stand part.

Andrew Bowie: These are quite a simple couple of clauses. Clause 188 will allow the Secretary of State to make regulations about enforcing the requirements to apply within zones. It will support the previous two clauses on the delivery of heat networks in zones and the requirements placed on networks, buildings and heat sources within a zone. The clause includes the ability for the zoning co-ordinators to issue notices to people if they are suspected of not complying with the relevant requirements; to issue notices to outline what the person must do to satisfy the requirement; and to issue penalties to those who do not comply with the notices.

Clause 189 will allow the Secretary of State to make regulations about the penalties that apply for not complying with zone requirements under clauses 186 and 187 or for not complying with an information request under clause 185. That includes regulations about the maximum penalty amounts, the process for issuing a penalty, grounds for appeal, recovery of penalties, and to whom the penalties are paid.

Question put and agreed to.

Clause 188 accordingly ordered to stand part of the Bill.

Clause 189 ordered to stand part of the Bill.

Clause 190

RECORDS, INFORMATION AND REPORTING

Question proposed, That the clause stand part of the Bill.

Andrew Bowie: This is another simple clause. The Government consider that various types of data will be essential for the identification and designation of areas as heat network zones and for the development of heat networks within them. Clause 190 will allow the Secretary of State to make regulations about zone co-ordinators and the zones authority collecting, storing, and sharing information about zones, including information relevant to identifying areas that would be suitable for the construction and operation of one or more district heat networks, as well as areas designated as heat networks under clause 185. It also includes information requests made to owners of thermal heat sources under clause 186. Information gathered by the zone co-ordinators and the authority, when carrying out activities related to the wider heat network regulations, would also be in scope of these regulations, as would information gathered in relation to the zoning methodology, including its review and update.

There are two circumstances in which information may be shared. First, a zone co-ordinator may be able to share zoning information with other zone co-ordinators, the zones authority and the regulator. Secondly, the zones authority may be able to share zoning information with zone co-ordinators and the regulator.

Question put and agreed to.

Clause 190 accordingly ordered to stand part of the Bill.

Clause 191

INTERPRETATION OF CHAPTER 2

Question proposed, That the clause stand part of the Bill.

Andrew Bowie: Clause 191 is the final clause in chapter 2, which concludes part 7 and the clauses on heat networks. The clause covers definitions for the heat network zoning clauses.

Dr Whitehead: I have nothing to add, other than "Hooray, we've got to the end of that part!" We now have lots of regulations in place, which is a good thing.

Question put and agreed to.

Clause 191 accordingly ordered to stand part of the Bill.

Clause 192

ENERGY SMART APPLIANCES AND LOAD CONTROL

Question proposed, That the clause stand part of the Bill.

Andrew Bowie: Clause 192 introduces part 8 of the Bill, which relates to energy smart appliances and load control. It defines the key concepts relating to that part, namely energy smart appliances, energy smart function, load control signals and load control.

The smart energy market is in its early stages but is growing rapidly, as we discussed in detail on Thursday. As the take-up of electric vehicles and other devices such as heat pumps increases, we need to remain agile in responding to new developments in the market. This is to ensure that we maintain grid stability and protect consumers from cyber-security risks. Transitioning to a smart and fully flexible electricity system will play a vital role in decarbonising the power system by 2035. Such a transition could reduce costs by up to £10 billion a year by 2050.

I will briefly set out some key definitions. Energy smart appliances are electrical consumer devices that are communications-enabled and capable of responding automatically to signals such as energy price changes. In response to such signals, they can adjust their electricity consumption or production in line with consumer choice and cost preferences. Load control refers to the act of sending and receiving those signals and adjusting the consumption of the product in response.

Subsequent clauses in part 8 will limit powers to make regulations to products with functions such as refrigeration, cleaning, battery storage, electrical heating, and air conditioning or ventilation.

11 am

Dr Whitehead: We have now moved smoothly and efficiently to the question of energy smart appliances and load control; I will have something to say about load control later. The arrangements for energy smart appliances are important, given the increasing range of activities that appliances can now undertake. The specified purposes set out in clause 193—refrigeration; "cleaning tableware", or dishwashing; "washing or drying textiles", or using washing machines; and energy storage—are all circumstances in which things can be added to devices to allow them to operate independently, to operate at particular times and to respond to dynamic demand requests. For example, a chip can be put in a refrigerator to allow the appliance to respond to signals from outside saying, "Switch yourself off between 3 am and 4 am," which will save some power or regulate the power in a better way.

Appliances increasingly have the potential to operate as mini-computers in their own right: they have IP addresses and various other things. It is possible to capture a series of washing machines that are smart-enabled and use them as locks under certain circumstances. Indeed, I think there was a recent prosecution of some young men who had done just that; I am not quite sure for what purpose, but they secured a number of smart devices in order to operate them in concert. It is important that we have energy smart regulations that enable us to deal with such circumstances and get them in hand. Of course, this is potentially a subset of the debate about AI and the extent to which our devices in the home may be subject to the control of other authorities entirely.

From the customer's point of view, it is important that they know that they are in control of their own devices. Smart appliances offer various exciting advantages such as allowing people to change central heating controls before they get home, by pressing a button when they are 50 miles away, but the principle behind the security arrangements should be that the customer—the person in the home—is the eventual arbiter of how those things work. Does the Minister think that the way the clause is drafted will ensure that the customer—the person who is operating those smart systems, or who thinks they are—actually has eventual control, and particularly the consent for the operation of those smart devices in the way that we have described?

Alan Brown: I realise that this is an introductory clause and the Minister was doing some scene setting. The clause mentions load control signals and digital communications. I draw the Minister's attention to my written parliamentary question No. 186867, submitted following a meeting I had with representatives of the Energy Networks Association. They tell me that to take forward a proper smart grid, the energy network companies need additional radio spectrum access. The Government need not just to put in place regulations, but to facilitate that radio spectrum access.

In response to my question, the Minister for Energy Security and Net Zero, the right hon. Member for Beverley and Holderness (Graham Stuart), said that the Government are moving forward on the issue with a study and a calculation of costs. I know that the Under-Secretary cannot write a blank cheque, but the reality is that radio spectrum access will be needed. I just put that on his radar.

Andrew Bowie: I thank hon. Members for their questions and points. The hon. Member for Kilmarnock and Loudoun is right that this is just an introductory clause; we will talk about the regulations in much more detail during the rest of the morning and this afternoon. I thank him for putting that point about radio spectrum access on my radar.

[Andrew Bowie]

The smart energy market is at an early stage. That is why we are regulating. We need to ensure that consumers and businesses, and indeed the grid and access to it, are protected. We intend to regulate in close consultation with industry and in a way that allows the market to evolve and supports innovation.

Question put and agreed to.

Clause 192 accordingly ordered to stand part of the Bill.

Clause 193

ENERGY SMART REGULATIONS

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss clauses 194 to 198 stand part.

Andrew Bowie: Clauses 193 to 198 establish the regulatory regime for energy smart appliances.

Clause 193 provides powers to introduce energy smart regulations in Great Britain. The regulations will mandate that energy smart appliances with specific purposes must comply with a set of requirements. The appliances that will need to comply with the requirements include those with specific purposes, such as electric vehicle charge points, or devices that are used in connection with the following specific purposes: refrigeration; cleaning battery storage; electric heating or ventilation, and air conditioning or ventilation.

Subsection (3) sets out a number of factors that the Secretary of State must have particular regard to when making regulations. Those include, for example, ensuring that the energy smart function does not undermine the delivery of a consistent and stable supply of electricity. Where an energy smart appliance does not meet the requirements set by the regulations, its placing on the market may be prohibited.

Clause 194 builds on clause 193, setting out that energy smart regulations may refer to technical standards and published documents. Energy smart regulations may also refer to requirements imposed under Acts of the Scottish Parliament. The clause establishes that prohibitions imposed by energy smart regulations may extend to load control for appliances that are not compliant with the regulations, and to any appliances modified in a way that would make them non-compliant with the regulations.

Energy smart regulations may prohibit the placing on the market of appliances that do not comply with the requirements of the regulations. The regulations may also prohibit the placing on the market of non-smart electric heating appliances and electric vehicle charge points. Finally, the clause specifies that energy smart regulations do not provide for enforcement action of any kind against the end user of an energy smart appliance.

Clause 195 makes provision for the enforcement of the requirements of energy smart regulations. The clause allows the Secretary of State to designate enforcement authorities that will ensure compliance with the requirements or prohibitions made under the regulations.

Alan Brown: Before the Minister goes on too far, what timescale does he anticipate for the introduction of regulations under clauses 193 and 194 to mandate smart appliances?

Andrew Bowie: I am not able to give any firm dates right now, but the Government's hope is that we will move quickly to consultation on the regulations as soon as the Bill receives Royal Assent.

Relevant economic actors will be required to monitor and report on their compliance with the terms of the regulations, as well as to take specified steps to remedy any non-compliance. Clause 195(2) includes provision for a range of investigatory powers to track and assess non-compliance for use by enforcement authorities. Those include powers of entry, inspection, search and seizure, and powers to enable the testing of energy smart appliances by enforcement authorities. Finally, the Secretary of State may make payments or provide resources to the enforcement authority for the purpose of enforcing the energy smart regulations.

Clause 196 establishes that energy smart regulations may impose a range of sanctions for non-compliance. A full list of offences will be set out in the final regulations, on which the Government will consult publicly and which will be subject to debate in both Houses. I hope that answers the question from the hon. Member for Kilmarnock and Loudoun. The clause sets out several offences, including contravening requirements imposed by enforcement authorities or knowingly providing false information to enforcement authorities. Punishments for such offences will be provided for in regulations. The punishments will not include imprisonment. Regulations may also allow enforcement authorities to recover their costs by means of civil fines.

Clause 197 makes provision for the regulations to include a right of appeal to a court or tribunal against a requirement or civil penalty made by an enforcement authority. The right of appeal to a court or tribunal against a requirement or penalty for non-compliance, as set out in energy smart regulations, can include, but is not limited to, provisions set out in subsection (2). The right of appeal can be extended by the regulations beyond those parties against whom the requirement has been imposed. The Secretary of State may revoke or amend subordinate legislation, including an Act of the Scottish Parliament or the Senedd, where they consider it appropriate for the purpose of any provision falling within subsection (2).

Clause 198 sets out the procedure by which energy smart regulations will be made. The clause begins by setting out that energy smart regulations made under clause 193 may provide for exemptions or exceptions in their coverage. It requires the Secretary of State to consult before making regulations that subject a specific type of energy smart appliance to regulations or that amend the list of relevant purposes in clause 193. It also sets out the cases in which the affirmative scrutiny procedure is to be used when making regulations under clause 193. I commend the clauses to the Committee.

Question put and agreed to.

Clause 193 accordingly ordered to stand part of the Bill.

Clauses 194 to 198 ordered to stand part of the Bill.

Clause 199

POWER TO AMEND LICENCE CONDITIONS ETC: LOAD CONTROL

Dr Whitehead: I beg to move amendment 160, in clause 199, page 170, line 3, at end insert—

"(f) regulate or prohibit the provision of load control in relation to appliances that are provided by high risk vendors."

The Chair: With this it will be convenient to discuss the following:

Amendment 161, in clause 199, page 170, line 21, after "section" insert

"'high risk vendors' means vendors of appliances that pose potential or actual security and resilience risks to energy networks,".

Clause stand part.

Clauses 200 to 203 stand part.

That schedule 17 be the Seventeenth schedule to the Bill.

New clause 40—*Designated load controller*—

"(1) The Secretary of State may give a designated load controller direction only if the Secretary of State considers that—

(a) the direction is necessary in the interests of national security; and

(b) the requirement imposed by the direction are proportionate to what is sought to be achieved by the direction."

This new clause ensures that load controllers undergo national security checks to establish the nature of connections to potentially hostile actors and the threats they may pose.

Dr Whitehead: We now come to the section of the Bill concerning licensing of load control. Load control is very much associated with the previous debate, inasmuch as it relates to how energy smart appliances operate overall, and such appliances will often operate under the aegis of a load controller—a body or person who is responsible for the network within which they work. It is important that we regulate and license not only the appliance but the bodies and people that control the load arrangements that smart appliances potentially give rise to.

11.15 am

We have some concerns about what all this means for energy security as a whole, particularly in the context of how smart meters are arranged through load controllers. A smart meter is essentially a smart appliance that enables things to happen in the way that we have described for other appliances, except that it is a meter that, made smart, can respond to external signals and is specifically designed to send material out independently of the customer of a particular energy account. Indeed, not having to send energy readings ever again is advocated as a good reason for having a smart meter—it will all work much better, it is said, because the meter will report readings to the person running the system and the customer will not have to sit with a torch at their electricity meter trying to read the numbers and probably getting them wrong, with interesting results ensuing.

The fact that these devices send out material independently of the householder or the system itself is generally a good thing. Smart meters send out information relating not only to bills, but to the status of the service coming into the home, and that information can be used in aggregate to look at how efficient a load system is in a particular part of the grid, or whether the grid is under strain. Certainly, meters in junction boxes and various other things can now predict when a particular area or part of the system might fail, so that the controller can intervene early to put the system right.

The way smart appliances work in relation to the system's controller is tremendously advantageous to the resilience and integrity of the system as a whole because of the way they provide information independently of the customer. However, that has a potential downside. The information that goes out and the uses it may be put to are closely regulated, but smart systems often have elements that can, in principle, enable that information to be misused or sent out for purposes other than those that we generally think are appropriate for these systems to work as best they can.

Early smart meters were made by UK and German companies, as well as one or two others, and were installed by third-party installers on a generic basis across households. But more recently, a company called Kaifa Technology entered the UK smart meter market with an aggressively low-priced offer—for SMETS2 meters in particular—that is attractive to third-party installers because they save considerable money on installation as a result. As part of the smart meter roll-out, about 250,000 Kaifa smart meters, based on that company's proprietary technology, have been installed. As a matter of interest, the price of those smart meters is about 30% lower than the prevailing price for smart meters, so that company has about a 6% or 7% entry into the smart meter roll-out market, with potentially a lot more to come by, say, 2025.

Kaifa Technology is controlled by a subsidiary of the state-owned China Electronics Corporation, or CEC, a company that manufactures technology for the Chinese People's Liberation Army. This therefore falls very much into our security debates about telecoms—including Huawei's substantial foothold in UK telecommunication markets, the UK Government's reaction to Huawei technology, and the links that Huawei had to particular state actors for Chinese Government purposes—given the imperative in China, unlike in the UK, that everything produced in such circumstances, including delivery and technical design, is subject to the wishes of the Chinese Government.

That is significant because, first, all smart meters have "kill switches"—remote switches that can be used to disconnect homes from the national grid—and, secondly, as I said, smart meters routinely transmit a host of data that is of use in aggregate to the development of UK energy markets. I do not in any way wish to promote the *Daily Mail* view of smart meters as the spy under the stairs—in general, they are not, and their use is well regulated—

Alec Shelbrooke (Elmet and Rothwell) (Con): On a point of order, Mr Gray. I apologise to the hon. Member for Southampton, Test, but I want to make this point of order before the sitting concludes. We will shortly move on to discuss energy performance certificates and insulation of privately rented properties. In the past, I have been advised that I did not have to register the fact that my wife has a rental property and that her family have rental properties, but I seek your advice, Mr Gray, for

[Alec Shelbrooke]

the next sitting: will I have to make some sort of declaration before I comment on those areas of the Bill? I wanted to get that in now, so that a ruling can be made for this afternoon.

The Chair: If the interests are declared in the Register of Members' Financial Interests and the right hon. Gentleman believes that they are relevant to the debate, it would be prudent for him to call the Committee's attention to the register. That is not enforced entirely, but the question is whether there might be a perception of bias. Therefore, if the Member has interests that he believes might be of importance, it is probably worth his calling them to the attention of the Committee before he speaks.

Dr Whitehead, will you be concluding in the next 20 seconds?

Dr Whitehead: I will not be that brief.

The Chair: In that case we will adjourn, it being as close to 11.25 am as it can possibly be.

11.25 am

The Chair adjourned the Committee without Question put (Standing Order No. 88).

Adjourned till this day at Two o'clock.