BEUC The European Consumer Organisation

#GreenDeal 4Consumers

The Consumer Voice in Europe

HOW TO MAKE DISTRICT HEATING FIT FOR CONSUMERS

BEUC position paper

Contact: Anna Martin – energy@beuc.eu

BUREAU EUROPEEN DES UNIONS DE CONSOMMATEURS AISBL | DER EUROPÄISCHE VERBRAUCHERVERBAND
Rue d'Arlon 80, B-1040 Brussels • Tel. +32 (0)2 743 15 90 • www.twitter.com/beuc • www.beuc.eu
EC register for interest representatives: identification number 9505781573-45

Co-funded by the European Union

Ref: BEUC-X-2021-044 - 07/05/2021

Why it matters to consumers

District heating is often mentioned as one of the most promising solutions to decarbonise our heating and cooling system and many Member States/local authorities plan new networks in the years to come. For district heating to really take off, it must meet consumers' needs and expectations. Unfortunately, many consumers using district heating today often face difficult situations: sudden increases in prices, lack of independent oversight and/or complex contracts without any possibility to switch to another district heating provider. These unfair practices also impede other consumers from opting for a district heating solution. Better consumer protection is therefore needed to increase public acceptance of district heating as a key solution for decarbonising the heating sector and increasing energy efficiency.

Summary

More and more countries across Europe plan to invest in district heating[1] to efficiently decarbonise the heating and cooling sector. While district heating can indeed be a promising solution for our climate efforts, the sector still lags far behind the electricity sector in terms of consumer rights and protection.

To be beneficial for consumers and the climate, district heating networks should bring energy efficiency savings and use renewable energy. They should be carefully planned and ensure cost-efficiency in the long-term. And most importantly, from a consumer perspective, district heating should guarantee adequate consumer rights and protections.

BEUC members have identified the following key problems for district heating consumers:[2]

1. Lack of transparency in price structures and billing and poor price control.
2. Long-term contracts that consumers often cannot terminate.
3. Inadequate consumer protections, for example regarding disconnections.
4. Lack of extra-judicial dispute resolution mechanisms.
5. Lack of transparency concerning energy sources, emissions, and network losses.

Many of these problems can be solved by replicating the Electricity Directive and applying it to the district heating sector. In some cases, additional safeguards for consumers are needed to address the specific circumstances of district heating operating under a natural monopoly. The upcoming Fit for 55 package should therefore introduce the following elements:

[1] District heating & cooling means the distribution of heat or cool through a network to multiple buildings to heat or cool the building. It brings efficiency gains as heat or cool is produced in large installations. To facilitate readability, the term district heating will be used for both, implicitly also including cooling.
[2] See, for example AK Europa, District Heating and Cooling - Demands from a consumer's perspective, 2019 and vzbv, Babylonische Preisverwirrung auf dem Fernwärmemarkt, 2019.

1. **Minimum requirements for the district heating planning process** will ensure that local authorities carefully plan new district heating networks and *inter alia* carry out public consultations, long-term cost-benefit analyses, develop consumer-centric tendering conditions, and grant opt-out possibilities for single family house and apartment buildings.
2. **Tariffs, contracts and bills which are transparent, understandable and easy to compare:** This includes namely a mirroring of Article 10, 18 and Annex I of the Electricity Directive. Transparency is particularly needed for price and tariff structures as the possibility to switch supplier does not currently exist in district heating. Comparability with other heating solutions should allow consumers to choose the right solution when they get the possibility to connect to district heating and allow regulators to detect abusive cases more easily.
3. **Independent oversight by national regulatory authorities** should become an efficient counterweight against a potentially detrimental natural monopoly. This includes mirroring Article 57, 58 and 59 of the Electricity Directive to establish price monitoring. In addition, price capping and benchmarking mechanisms will increase the competitiveness of district heating suppliers.
4. **Safeguards and redress mechanisms to prevent and eliminate abusive practices:** This includes the obligation to participate in alternative dispute resolution schemes, set up a single point of contact, allowing single family houses and apartment buildings the right to terminate a contract and modify the contracted 'heat load' (mirroring Article 10 and Articles 25, 26, 28 and 29 of the Electricity Directive as well as extending Article 24 §2 of the Renewable Energy Directive Article to energy efficiency improvements).

Introduction

Today, 64% of energy used by EU households is used for heating & cooling.[3] The necessity for consumers to heat, and also increasingly cool, their homes will not disappear in the future. Therefore, efficient solutions are needed to consume less energy while keeping the same level of comfort. In addition, the heating sector needs to catch up with our climate goals as it relies still today by 79% on fossil fuels.[4] Among the different options at our disposal, district heating is often mentioned as one of the most promising solutions to decarbonise the heating sector.

District heating distributes centrally produced hot water through insulated pipes to households. The heat can be produced more efficiently in large installations or even use waste heat from industrial processes.[5] Due to the transportation of hot water, district heating is only efficient at a very small scale, ranging from a neighbourhood district to a whole city. This requires thorough infrastructure planning to avoid distribution losses and a locking-in of fossil fuels. District heating can therefore be a very good solution for cities while in sparsely populated areas other renewable heating solutions, such as heat pumps, are more efficient.[6]

[3] Eurostat: Energy consumption in households in 2018: https://ec.europa.eu/eurostat/statistics-explained/index.php/Energy_consumption_in_households#Energy_products_used_in_the_residential_sector
[4] Eurostat: Renewable energy used for heating and cooling in 2018: https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20200211-1.
[5] https://en.wikipedia.org/wiki/District_heating
[6] Please refer to BEUC's position paper "How to make the home heating and cooling revolution consumer-friendly" to learn more about the different solutions to decarbonise the heating sector.

Unlike individual heating systems, where consumers can choose among different fuel suppliers, district heating operates in most cases under a natural monopoly i.e., a vertically integrated company owning both the network and supplying the heat. Ownership of these companies varies: there is public ownership (e.g., 72% of the networks in Sweden), private ownership (e.g., 72% of the networks in Germany) and ownership by consumer cooperatives (e.g., 85% of the networks Denmark).[7] Experience from Denmark and Sweden shows that consumers can benefit from district heating if the conditions for operating under a monopoly are set right.

Due to the small size of the network, a market-based solution is unlikely to improve the conditions for consumers. Third-party access for the energy supply is more difficult to achieve than in gas and electricity.[8] Therefore, there is often only one supplier making it impossible for consumers to switch. The inability to switch supplier means that consumers are in a weak position, as they are not able to choose those companies which set the most favourable prices and conditions. Instead, a sound regulatory framework is needed in district heating to protect consumers.

Currently, consumer protections and rights are almost non-existent in district heating in many Member States. Many times, consumers would not know why the price increased, as there is no obligation for the supplier to provide any explanation with regards to their pricing decisions. And they have little chance to oppose price increases as there is no independent oversight by energy regulators and no alternative dispute resolution mechanisms.

The lack of proper consumer rights in district heating therefore means consumers are not protected enough which reduces the attractiveness as well as the performance of the district heating system itself. There is indeed little incentive for a supplier to increase energy or cost efficiency as there is no competition with other suppliers. As independent oversight by energy regulators is missing, there is no possibility to compare between different networks based on the share of renewable heat used and the energy efficiency levels achieved.

The upcoming Fit for 55 package gives policymakers the opportunity to make district heating networks future proof: both for consumers and our climate.

In the electricity sector, a solid EU framework has significantly improved the level of protection for consumers across Europe. With district heating becoming a key decarbonisation solution in many Member States, an equivalent framework for district heating is urgently needed. Consumers should have equivalent rights and protections no matter the fuel used.[9]

In addition, the specificities of district heating must be considered. Given the lack of competition, consumer interests need to be at the centre of district heating planning processes. When developing district heating, local authorities should rely on a clear methodology to develop cost-efficient and future-proof networks for consumers. Once in place, district heating networks need to be carefully overseen by independent national regulatory authorities to ensure both socio-economic and environmental benefits.

[7] Bürger et. al.: Third party access to district heating systems – Challenges for the practical implementation, 2019, p. 884.
[8] To allow renewable heat to enter the market, unbundling remains an important discussion for the future.
[9] The ITRE Committee of the European Parliament just supported this point in its own-initiative report on a European strategy for energy system integration (paragraph 38): https://www.europarl.europa.eu/doceo/document/A-9-2021-0062_EN.pdf

1. Potential benefits for consumers and the climate from district heating networks

District heating already provides sustainable heat in several EU countries, such as Sweden, where it satisfies 50% of the country's heating needs in a sustainable way. At the same time however, in some other Member States, district heating networks are inefficient and supplied by coal-fired heat plants, thus locking consumers into fossil fuels.

To be beneficial for consumers and the climate, district heating networks should meet the following conditions:

1. **Bring additional energy efficiency gains**. District heating networks can bring energy efficiency improvements, particularly when supplied by waste heat. Conversely, being reliant on old and inefficient plants and networks will incur higher energy costs for consumers.
2. **Use local renewable energy sources**. Coal and gas-fired district heating networks do not bring any added value for the climate and lock consumers into fossil fuels. Instead, when using local renewable energy sources, district heating can scale up heat decarbonisation in households. Future district heating investments should therefore be based exclusively on renewable energy sources. Existing networks relying on fossil fuels should gradually be retrofitted to use renewable energy sources. Support for fossil combined heat-and power plants should be shifted to renewable heat plants to avoid the fossil fuel lock-in effect.[10]
3. **Set clear timelines for the deployment of district heating networks** to allow consumers to make the right investment decision. Consumers need to know if a district heating is planned in their neighbourhood to assess whether, for instance, it would be beneficial to buy a heat pump.
4. **Ensure cost-efficiency compared to individual heating solutions.** District heating networks can be very cost-efficient in cities with high population density and where existing heating systems are old and inefficient. But district heating is not a one-size fits all approach and can be very costly in sparsely populated areas where long distances between households will lead to considerable distribution losses. Investments in district heating should therefore be carefully planned and target areas where it can bring most benefits for consumers and in terms of energy efficiency.
5. **Ensure consumer rights and protections**. In some countries, for instance in Denmark, district heating consumers are well-protected and benefit from reasonable prices. In many other countries, consumer rights are almost inexistent which leads to unfair practices, namely high prices.

Best practices across Europe[11] show that district heating can be beneficial for both the climate and consumers if carefully planned and implemented. The following sections will outline how these conditions, especially better consumer rights and protections, can be ensured by EU legislation.

[10] Deutsche Umwelthilfe, 2021, Promoting Renewable District Heating. Seven policy recommendations.
[11] Please refer to a study from the Joint Research Centre : "Integrating renewable and waste heat and cold sources into district heating and cooling system." for successful case studies.

District heating networks serving society in Denmark

District heating in Denmark covers nearly 2/3 of all housing and is characterised by a relatively good level of consumer protection and generally reasonable prices while relying by 60% on renewable heat.

This successful implementation of district heating is the result of a stable and adaptive legislative framework (Heat Supply Act) and sound regulatory oversight:

- city councils undertake a 20-year cost-benefit analysis to ensure that the project is profitable for the district heating company and the consumer. More specifically, district heating projects have to prove that there are more cost-efficient than individual heat pumps to be approved by a municipality;
- the tax system incentivises renewable heating solutions;
- all district heating companies in Denmark operate non-for profit, setting prices so as to cover incurred costs;
- the energy regulator oversees prices and conditions and compares the performance of district heating networks via a benchmarking system;
- the set-up has ensured a high level of security of supply and also an ongoing conversion of heating sources to renewable energy. However, recent analysis by the regulator has shown considerable potential for more efficient running of the district heating companies, resulting in prospectively lower prices for consumer when new regulations with a focus on incentives are put in place.

2. District heating networks need to be carefully planned to be fit for consumers

District heating relies on small, local networks. The national regulatory framework, if existent, leaves a lot of leeway to the suppliers. For consumers, this leads to a heterogenous situation: they might be lucky to be connected to a highly efficient system providing renewable heat at reasonable prices. Or they can be blocked in an inefficient and costly system with limited possibilities to terminate their heat contract.

Therefore, all stakeholders concerned, including consumer representatives, should be involved in the planning of the heating networks. While the detailed planning must take place at the local level, quality standards for the planning process should be set at European and national level to ensure that consumer rights and protections are guaranteed.

These common minimum requirements for planning district heating should ensure that:

a. Local authorities carry out a thorough and inclusive public consultation at the initial planning stage

All potential customers, affected homeowners and tenants, as well as their representatives, should be given the opportunity to easily provide their feedback on the plans. The public consultation should take place at the initial planning stage to ensure that consumers' views have a direct impact in the decision-making process.

Within this public consultation phase, local authorities can also incentivise consumers to take an active role, for instance as co-owners of the district heating network within a cooperative. In Denmark, consumer cooperatives own more than 80% of the district heating network which contributes positively to consumer rights in district heating.[12]

b. Local authorities carry out a long-term cost-benefit analysis and assess the socio-economic and environmental impact

Local authorities should carefully assess whether district heating will be efficient in the designated area and which local renewable energy sources will lead to a cost-efficient heating solution for consumers. In Denmark, for instance, district heating planning is based on a 20-year cost-benefit analysis following a methodology established by the Danish Energy Agency.

This seems not to be the case in all Member States where sudden price increases or short notice termination of heating services occur quite often. A survey by BEUC's German member Verbraucherzentrale to which 208 district heating customers replied, shows that almost all participating customers have faced a price increase in the last three years (95%). Out of which, 28% reported a price increase of more than 100%.[13] Price increases of this scale are most likely not linked to wholesale heat price development, but a result of unprofitable networks. Networks are unprofitable if key conditions for district heating are not met, for instance high population density to limit distribution losses. To avoid this problem of unprofitability in the future, long-term cost-benefit analyses are needed.

c. Local authorities set up a transparent and inclusive process to select the district heating supplier

District heating networks most often rely on a vertically integrated company owning the network and supplying the heat. It is therefore key to find a supplier which guarantees for affordable heating in the long-term. Local authorities should set up a transparent and inclusive selection process which allows affected households and their associations to step in when their interests are not reflected. Local authorities (possibly assisted by regulatory authorities) should ensure that competition between different suppliers can effectively take place. The selection should follow the procedures of public procurement.

Carefully designed tendering conditions are a useful instrument to ensure the selection of the most suitable supplier. Those conditions should incorporate demands from the public consultation and can include, for instance, provisions on the price structure and competitiveness (compared to individual gas boilers and heat pumps), efficiency requirements and limits on the emission of greenhouse gases.[14]

[12] Bürger et al., Third party access to district heating systems – Challenges for the practical implementation, 2019, p. 884.
[13] Verbraucherzentrale, Marktwächter Energie, Fernwärme: Preisanpassungen in bestehenden Kundenverhältnissen, 2018, p. 27.
[14] Examples for such tendering conditions can be found for instance in the following study: Joint Research Centre: Efficient district heating and cooling systems in the EU, 2016, p. 72 and p. 100.

d. Potential consumers are allowed to opt out

Single family houses and whole apartment/commercial buildings should be allowed to opt out from mandatory connection to a district heating network.[15] Experience from Denmark, Finland and Sweden shows that most consumers will connect to a district heating network when the conditions are satisfactory. If they are not satisfied with the offer, consumers can choose other heating solutions (e.g., heat pumps). Opt-out possibilities will give consumers adequate leverage to improve the conditions offered by district heating suppliers.

When the district heating company is planning the development and deployment of the heat network, buildings should receive an estimation of what the heating costs will be, compared to their current heating costs and should always have the option not to connect to it.

After renovations leading to reduced energy demand, consumers should be able to reduce the heat load which they have contracted for before undergoing the energy refurbishment. A similar provision is already in place for prosumers of renewable energy.[16] To put energy efficient consumers on an equal footing, this paragraph should be mirrored in the Energy Efficiency Directive.

To ensure that district heating networks are fit for consumers, the European Union and Member States should develop minimum requirements for district heating planning processes:

- local authorities should carry out a thorough public consultation at the initial planning stage;
- local authorities should carry out a long-term cost-benefit analysis and assess the socio-economic and environmental impact;
- local authorities should set up a transparent selection process leading to a competitive district heating system;
- apartment buildings and single-family houses should be able to opt out.

A good place for these minimum requirements would be in Article 18 §5 of the Renewable Energy Directive which foresees a guidance document on district heating planning. This guidance document should be complemented by minimum requirements for the planning process, including the points above.

3. Tariffs, contracts and bills should be transparent, understandable and easy to compare

Contrary to the electricity sector, consumer rights and protections applying to tariffs and contracts in district heating are non-existent. This leads to a very opaque and heterogenous situation where suppliers decide individually upon the tariff structure and contract clauses.

In Germany, each supplier uses its own wording to describe the different components of their tariff. This makes it very difficult for consumers to understand their tariff and compare it with other tariffs.[17] In Austria, a complex system of multiple contracts between various

[15] For technical and legal reasons, in multi-apartment buildings, the decision whether to connect has to be taken jointly.
[16] Article 24 §2 of the Renewable Energy Directive.
[17] Vzbv: https://www.vzbv.de/pressemitteilung/babylonische-preisverwirrung-auf-dem-fernwaermemarkt, 2019

actors (heating producer, billing company, landlord and tenant/property owner) leads to a total lack of transparency regarding the prices and the rights and obligations of the different contract partners.[18] **These examples show that a clear structure for tariffs, contracts and bills is urgently needed in the district heating sector.**

BEUC recommends addressing the following issues in the upcoming Fit for 55 package:

a. A uniform tariff model and pricing structure should be established

Consumers should be able to understand their heating price and its different components. A compulsory cost breakdown should clearly show the amount of the standing charges and the costs related to the heat supply. In addition, the district heating supplier should clearly state if they receive public grants and how these grants influence the price for consumers. The cost breakdown would allow consumers to better compare the cost of heat supply with alternative systems and use redress mechanisms more effectively. It would also allow regulators to detect abusive cases more easily.

When price increases occur, the supplier should spell out in an understandable and transparent manner the reasons for the price increase and the components used to calculate the new price. National Regulatory Authorities should analyse the means by which consumers are informed about price increases and, where relevant, improve the communication via standardised forms and further conditions (see also chapter 3).

b. Consumers should receive transparent and clear information in their bills

Even though the Energy Efficiency Directive brought some improvements on billing[19] information for district heating consumers, the level of protection is still lower than for electricity. Further alignment is needed to ensure that bills are user-friendly. This includes namely a two-layer approach where the key information is prominently displayed, followed by more detailed information in a separate part.[20] Based on this approach, consumers should be able to easily understand how their bill is calculated, what period the bill covers and how much of their bill is made up of standing charges.

To make well-informed choices, consumers need full information on the fuel(s) used, by which share and the associated greenhouse gas emissions. Currently, the Energy Efficiency Directive (Annex VIIa) allows Member States to exempt suppliers with a total thermal input below 20 MW from the requirement to provide information about greenhouse gas emissions, while for electricity this exemption does not exist. In addition, any form of greenwashing should be prevented. For instance, heat produced in fossil combined heat and power plants should not be sold to consumers as climate-neutral waste heat as is currently often the case.

c. Contracts should be easy to understand and transparent about price adaptation clauses

Consumers often encounter difficulties to understand all of the terms and conditions related to their district heating contracts. To improve their situation, a summary of the key contractual conditions (such as the main features of the service, detailed information on prices, conditions for termination or price increase) should be provided to consumers in concise and simple language on the first page of the contract or along with the contract.

In addition, consumers should receive information about the service quality levels offered and which compensation and refund arrangement applies if the contracted service quality levels are not met, including inaccurate or delayed billing.

[18] AK Europa: District Heating and Cooling - Demands from a consumer's perspective, 2019, p. 2.
[19] Article 9-11 in the Energy Efficiency Directive.
[20] This consists in a mirroring of Annex I §1 of the Electricity Directive.

These 'basic contractual rights' already exist in Article 10 of the Electricity Directive and should be mirrored for district heating.

Housing providers should provide tenants and buyers clear and accurate information – including on price – before they commit to living in a property with a district heating network.

Due to long-term contracts, district heating contracts often include a price adaptation clause. Whenever, such clauses are included in the contract, those should be highlighted in bold and by a warning sign. Rules preventing energy companies from unilaterally changing the terms and conditions of the contract should be introduced.

Case study: Sector inquiry in Germany

At the initiative of BEUC's German member VZBV, a sector inquiry was conducted by the German competition authority (Bundeskartellamt). The inquiry showed that prices vary considerably between different networks. The difference in prices for consumers between the most cost-effective network and the most expensive network was of 100% for small- and medium-size networks, and of just over 50% for large networks. These price difference confirms the initial suspicion of price abuse. To improve the situation, the competition authority recommended to increase price transparency, to shorten the duration of contracts and to avoid the obligation to connect to district heating networks. An independent study on district heating prices, commissioned by BEUC's Austrian member AK came to similar results with price differences of more than 60% and a total lack of price transparency.

To ensure that tariffs, contracts, and bills are transparent, understandable and easy to compare:

- a uniform tariff model and pricing structure should be established;
- consumers should be regularly billed in a clear and transparent way (mirroring of Article 18 and Annex I of the Electricity Directive);
- all district heating suppliers should provide information on the share of fuel used greenhouse gas emissions (delete threshold of 20 MW in Annex VIIa);
- consumers should receive a contract which is easy to understand and transparent about price adaptation clauses (includes mirroring of Article 10 of the Electricity Directive).

4. Independent oversight by national regulatory authorities

National regulatory authorities have a role in overseeing the district heating market in only a few Member States. This means that in most EU Member States, consumers cannot rely on any independent price monitoring to take place in district heating.

In the electricity sector, national regulatory authorities have several monitoring tasks including the monitoring of price developments, the quality of the service and the performance of the system operators. These tasks should be extended to the district heating sector.

To ensure independent oversight, BEUC recommends giving national regulatory authorities the following tasks:

a. National Regulatory Authorities should establish price monitoring mechanisms and ensure reasonable prices for consumers

Reasonable prices for consumers can only be guaranteed with a solid monitoring mechanism and standards set by the national regulatory authorities. National Regulatory Authorities should therefore have equivalent competences for district heating as already in place for the electricity sector.[21]

Opening the market to new renewable energy and/or waste heat/cold providers[22] is certainly a step in the right direction. However, until now this provision has not led to effective competition within district networks and is unlikely to be a game-changer in the near future.

Due to this lack of competition, additional safeguards are needed to ensure reasonable prices. In Estonia, the competition authority sets a price cap for district heating which is based on capital expenditure, operational expenditure and a reasonable return on the net assets.[23] In Denmark, where most district heating networks are publicly owned, all district heating installations operate under the "non-profit principle".

b. National Regulatory Authorities should develop benchmarking mechanisms to increase system efficiency and decarbonisation as well as allow for comparison

District heating brings efficiency gains only if heat losses in the distribution network are regulatory controlled and adequate measures are taken to reduce them.

Benchmarking national or even European district heating networks against each other can bring an incentive to increase system efficiency and the share of renewables in the system. This brings at least virtual competition between different district heating suppliers and gives valuable information for potential new market entrants.

Benchmarking in district heating markets already exists on a voluntary basis in some Member States, for instance in Denmark, Sweden and Finland.[24] This allows consumers to compare 'their' network to other networks. Local authorities get a clear overview about how district heating can lead to socio-economic and environmental benefits and include those data in their cost-benefit analysis and planning process (see chapter 1).

In Denmark, benchmarking shows there are huge differences in prices between different heating networks.[25] Considering that there is a non-profit principle in Denmark, this difference is also due to differences in efficiency. Benchmarking should therefore be translated into obligations concerning energy efficiency in district heating networks to decrease prices for consumers. In case energy efficiency requirements are not met by the network providers, local authorities and consumers should be able to legally enforce energy efficiency requirements.

[21] Article 57, 58 and 59 of the Electricity Directive.
[22] As foreseen in Article 24 §4, point b.
[23] Similar systems exist in Lithuania and Latvia.
[24] JRC Study, 2021: Integrating renewable and waste heat and cold sources into district heating and cooling systems, p. 140.
[25] Fjernvarmestatistikken december 2019: https://forsyningstilsynet.dk/media/7241/fjernvarmestatistik-2019_revideret.pdf, p.4.

Independent oversight by national regulatory authorities should be introduced in all Member States to:

- establish price monitoring mechanisms and ensure reasonable prices for consumers (including mirroring of Article 57, 58 and 59 of the Electricity Directive);
- develop benchmarking mechanisms to increase system efficiency and decarbonisation and allow for comparison;
- translate benchmarking results into mandatory efficiency requirements for district heating.

5. Consumers need safeguards and redress mechanisms to prevent and eliminate abusive practices

In many Member States, we still experience a system of 'captive customers'. There are only very limited rights to terminate a contract. Long-term contracts of five to ten years include long notice periods to terminate the contract. In addition, long notice periods exist to change the contracted heat load after energy-related renovations. BEUC members also report abusive practices such as unilateral changes of the contract and sudden price increases.

Due to the lack of switching possibilities, safeguards and redress mechanisms are even more important in district heating compared to other energy sectors. To prevent and eliminate abusive practices, consumers need effective redress mechanisms in line with what already exists for the electricity sector.

To mirror the existing protection in the electricity sector, BEUC would like to see the following safeguards for district heating consumers:

a. <u>District heating suppliers should have an obligation to participate in Alternative Dispute Resolution schemes (ADR)</u>

In the absence of alternative dispute resolution schemes, consumers have to undergo lengthy and costly court processes, for instance when they face sudden price increases. In the electricity sector, the obligation to participate in alternative dispute resolution schemes exist since the last revision of the Electricity Directive and should be replicated in the district heating sector.

b. <u>Consumers should have access to a single point of contact</u>

A main problem for district heating consumers is the lack of information. Single contact points could help consumers to receive information on their rights, current legislation and the means of dispute settlement available. This single point of contact should also offer consumers the possibility to verify - free of charge - if the tariff offered by the district heating is reasonable. They could also help consumers to make well-informed choices whether to connect to a district heating system or invest in an individual heating solution and provide information on the benchmarking by national regulatory authorities (see point 3 b above).

c. Consumers should have the right to terminate and modify a district heating supply contract

Consumers should have the right to disconnect from district heating. This is technologically feasible for single family houses or for apartment/commercial buildings when the decision is taken for the whole building. For single flats in apartment buildings, disconnection is not a solution as multiple heating systems would lead to inefficiencies and higher costs for all tenants. For these consumers, adequate protection in terms of price regulation is necessary to compensate their lack of switching possibilities.

National authorities should ensure that where the termination of a contract results in direct costs for the district heating company, the termination fee does not exceed such costs. This should always be granted particularly when it can be demonstrated that the planned alternative solution will result in a better energy performance. Notice periods should take a reasonable length. In Sweden, for instance, notice periods of three months have proven technologically feasible. In case of price increases, consumers should be granted an extraordinary right to terminate their contract without further notice.

After renovations leading to reduced energy demand, consumer should be able to reduce the heat load which they have contracted for before undergoing the energy refurbishment within a time period. A similar provision is already in place for prosumers of renewable energy.[26] To put energy efficient consumers on an equal footing, this paragraph should be mirrored in the Energy Efficiency Directive.

d. Vulnerable consumers should have specific protection which adequately responds to their situation

Vulnerable and energy poor consumers are particularly affected by the conditions of district heating as they have even more limited possibilities to escape bad conditions than other consumer groups. Their financial possibilities to terminate a district heating contract and invest in an individual heating appliance are often non-existent.[27] Especially in highly competitive housing markets, their possibility to choose between different apartments and *inter alia* different heating solutions is very limited. Therefore, the possibility for Member States to adopt regulated prices for vulnerable consumers should be mirrored to district heating.

Specific protection mechanisms should be set up to ensure that vulnerable consumers have the same protections and safeguards no matter the type of heating used. For instance, protections limiting disconnections should apply not only for electricity, but also for district heating.

[26] Article 24 §2 of the Renewable Energy Directive.
[27] Individual heating appliances require high upfront investment. Vulnerable consumers are also most often tenants rather than house owners which further reduces their possibilities to switch to individual heating.

Consumers need safeguards and redress mechanisms to prevent and eliminate abusive practices:

- district heating suppliers should have an obligation to participate in Alternative Dispute Resolution schemes (ADR) (mirroring of Article 26 of the Electricity Directive);
- single point of contact (mirroring of Article 25 of the Electricity Directive);
- apartment buildings and single-family houses should have the right to terminate and modify a district heating supply contract (mirroring Article 24 §2 of the Renewable Energy Directive for energy efficiency improvements and mirror Article 10 §4 of the Electricity Directive to grant the basic right to terminate a contract);
- specific protection mechanisms for vulnerable consumers which adequately respond to their situation (mirroring of Article 5, 28 and 29 of the Electricity. Directive)

END

This publication is part of an activity which has received funding under an operating grant from the European Union's Consumer Programme (2014-2020).