



Making a positive difference  
for energy consumers

BEIS Heat Networks Team  
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19 November 2021

Dear BEIS Heat Networks Team,

### **Ofgem's response to *Heat Networks Zoning* consultation**

We welcome the opportunity to respond to the consultation setting out options for the development of zoning procedures for heat networks in England. Ofgem regulates the gas and electricity markets in Great Britain, and our principal objective is to protect the interests of existing and future energy consumers.

As set out by Ofgem's recently published Decarbonisation Action Plan, heat networks have an important role to play towards the decarbonisation of heat, and in helping to achieve net zero at lowest cost to consumers.<sup>1</sup> We are committed to working with the UK and devolved governments to enable and encourage the decarbonisation of energy and ensure that people – especially those in vulnerable circumstances – will be able to heat their homes at an affordable price and be protected as we make the transition to net zero.

Zoning is seen as an important instrument for attracting investment in large low-carbon heat networks spanning a wider range of customers, helping to de-risk the heat network sector and speed up the pace of expansion. As the statutory regulator for gas and electricity markets, we have a responsibility to protect consumers. As the incoming regulator for heat networks, we believe that similar levels of protection need to be ensured for heat network customers, including those within zones. Heat networks within zones are likely to be larger and could have greater monopoly power because of the benefits zones bring. This could have greater customer impact and may require additional measures to ensure that consumers are protected.

We are in discussion with Government on a range of issues related to heat network zoning and are expecting to be appointed as the heat networks regulator responsible for setting and enforcing consumer protection rules across new and existing GB heat networks. We

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<sup>1</sup> [Ofgem's Decarbonisation Action Plan | Ofgem](#)

have set out below some key issues that we believe need to be considered carefully in the design of heat networks zoning.

### Zoning Coordinator requirements

The consultation sets out the possibility for Zoning Coordinators to set requirements unique to their zone as part of the authorisation process for developers to operate within the zone. These could cover, for example, rate of network expansion, carbon emissions and tariffs. Ofgem believes these tailored solutions would be appropriate in certain areas given the increased scale, monopoly power and resources of heat networks situated within zones. The scope to go beyond the protections in the market framework also ensures that newly installed heat networks can decarbonise and expand faster and more efficiently to meet net zero targets, and that tariffs and planning can be tailored to local needs. However, we also recognise the potential for duplication of data collection and enforcement regimes between the regulator and the Zoning Coordinator. Ofgem is keen to explore with Government how to ensure efficient monitoring and compliance to avoid unnecessary costs and duplication between different bodies.

The consultation suggests there is potential for formal pricing structures to be agreed in advance between the Zoning Coordinator and the network developer. Ofgem supports this approach to price setting, which will be particularly important where a network developer is granted exclusive rights to a zone or area within a zone. We believe this is feasible and more desirable in zones compared to the market framework due to the increased scale and resources of relevant networks. Pricing structures agreed in advance would provide greater certainty both to the heat network and the customer, though it will be important to ensure that such structures comply with the regulator's rules and guidance on fair and consistent pricing.

Ofgem welcomes the suggestion of Zoning Coordinators being able to set decarbonisation targets beyond the market framework requirements and at more ambitious timescales. This would be more appropriate for new network construction within zones where low-carbon heating can be planned from the outset. Conversely, the market framework requirements will need to balance the needs of a diverse range of existing networks using a variety of fuel sources.

Ofgem believes that the designation and development stages of heat network zones present an opportunity for end consumers to be engaged with and involved in the setting of requirements in each zone. Early involvement of consumers in areas such as pricing, decarbonisation and customer service gives a greater chance of favourable outcomes for consumers and increased transparency. Such consumer involvement at an early stage of development could also reduce the need for regulatory scrutiny of heat networks once they are operational. Such engagement could come in the form of testing options with residents or community groups, holding public forums and involving consumer advocacy groups in the design of heat network "offerings". Consumer engagement strategies could take inspiration from existing heat network developments in GB, the RIIO price controls process or the Price Dialogue process in Sweden.<sup>2</sup>

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<sup>2</sup> [Utvärdering-av-branschinitiativet-Prisdialogen-Ei-R2016-05.pdf](#)

### Protections for non-domestic consumers

The consultation proposes that consumer protections should apply to large non-domestic customers where they are mandated to connect (option 2) but that protecting all large non-domestic consumers within a zone (option 3) would be disproportionate because such customers are likely to have sufficient bargaining power. Although we broadly support this proposal for the protection of larger customers, there is a risk that some non-domestic customers may not have sufficient resources and negotiating power when agreeing contracts. Additional protections to mitigate this risk could be set by Zoning Coordinators through granting exclusive rights, or rules could be put in place to set a minimum level of service standards for non-domestic customers. The outcomes for non-domestic consumers could also be monitored over time to determine whether additional protections are needed.

Within the proposals, public sector buildings such as schools, care homes and hospitals are seen as possible heat network customers to be mandated to connect. Consideration should be made for whether additional protections are needed for heat networks connecting to these buildings where the impact of any network issue is on a vulnerable group.

The consultation asks the question whether the minimum threshold for a non-domestic building being required to connect should be 100 MWh per year. Using an arbitrary threshold without taking into account the annual consumption demand in local areas presents a risk that few non-domestic buildings are required to connect. With this comes the risk that the heat network misses out on a large amount of guaranteed demand if non-domestic buildings with slightly lower heat demand are not required to connect and choose not to. We think that any threshold should consider the heat demand of non-domestic buildings within each zone, but that it should be reasonable and consistent across zones.

### Interaction with Local Area Energy Mapping and Planning (LAEMP)

The question is posed as to how LAEMP can best support heat network zoning. There appear to be similarities in the proposed methodology for identifying and designating heat network zones and methodologies being developed to support local energy planning. BEIS could consider these methodologies, such as LAEP, when developing the heat network zoning methodology.<sup>3</sup>

Further, given the similarities, there is the potential for heat network zoning policy to be developed not in isolation, but with heat networks seen as a potential technology solution that should be considered in the context of the whole-energy system. To elaborate, the methodology used to identify heat network zones could also be considered as an approach to identify areas that are appropriate for electrification and/or the use of hydrogen in the gas grid (dependent on the 2026 government decision on the use of hydrogen for heating). In this way, low carbon heat zoning could be used to plan the decarbonisation of heat at the local level, supporting the development of heat networks and wider local energy system decarbonisation plans.

As LAEMP and Heat Network zoning policy develop, we look forward to working with BEIS to ensure a system-wide perspective in network planning.

### Price protections for heat source owners

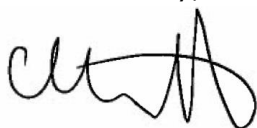
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<sup>3</sup> [Local area energy planning | Centre for Sustainable Energy \(cse.org.uk\)](https://www.cse.org.uk/local-area-energy-planning)

There is a risk when connecting to low carbon heat sources, especially where there are few alternatives, that the heat source owner could charge a high price for connection. This would ultimately pass through to a higher cost to consumers. We believe that mandated connections for heat sources could mitigate this risk. However, this could lead to reduced bargaining power to heat source owners, creating the risk that they are not fairly compensated for connecting to the heat network. Rules on pricing or the inclusion of a mediator in the process could manage this.

We hope this provides clarity on Ofgem's position regarding the framework for heat network zoning. We look forward to further engagement with you on the matters highlighted in this letter amongst others.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Cathryn Scott', with a stylized, cursive script.

**Cathryn Scott**  
Director of Enforcement and Emerging Issues