
HEAT NETWORKS REGULATION: FAIR PRICING PROTECTIONS RESPONSE 08/07/2025

1. Fair Pricing Framework

Q1. Have we identified the right set of fair pricing consumer objective, principles and outcomes and are these properly defined? If you disagree with this proposal, please specify what changes you would like to see and provide a justification.

Given we await the government response to the consultations which laid out the proposed scope for consumer regulation in the heat network sector (Ofgem, *Heat networks regulation: authorisation and regulatory oversight* and DESNZ & Ofgem, *Heat networks regulation Implementing consumer protections*), we would like to see additional clarity on the scope of consumers and networks within scope of fair pricing regulation.

We expect 3rd party heat supply to networks (i.e. where an entity is supplying heat to a district heat network operator) to fall outside the scope of fair pricing rules. Whilst we appreciate DESNZ and Ofgem have previously indicated they intend for industrial and commercial networks (without domestic, microbusiness or SME customers connected) to be within scope of fair pricing regulation, we remain unconvinced that this is a proportionate approach to regulation where the end customer has the legal and financial capacity to negotiate prices on a commercial basis with a heat network operator.

At present, Ofgem appears to have no developed plan to take a segmented approach to large non-domestic customers, despite these customers having significantly more capacity, expertise and power to negotiate their own prices and contractual terms than others in the market, as well as heat network connections representing much less of a monopoly proposition, as building owners can often opt-out of a heat network supply and generate alternative heating locally. Over the process of introducing regulation to the heat network sector, ADE have continued to make the case to government that effectively replicating provisions for domestic customers in the industrial and large-scale commercial sectors will result in unnecessary and inappropriate provisions being made in this part of the market. We would welcome further in-depth discussion with key stakeholders in this part of the sector, as we believe it is important to avoid extending a suite of reporting requirements and compliance risks where this is not proportionate and does not deliver improved consumer outcomes.

The objectives, principles, and outcomes

- We are pleased to see **supporting investment and market growth** included in the principles. We recognise consumer protection as essential to growing a healthy heat network sector in the UK.

- We do not consider an **'affordability'** principle to be an appropriate component of a fair pricing framework, as we indicated in our response to DESNZ & Ofgem's previous *Heat networks regulation Implementing consumer protections* consultation. Affordability is to a large extent a wider societal issue beyond any given heat network's control, and fair prices may in some cases remain unaffordable for some customers.
- We would like to see **much more clearly defined regulatory roles and responsibilities to avoid duplication and double-regulation** on pricing, profits and technical efficiency.

For example, Ofgem's proposed fair pricing framework 'expects' networks to create cost efficiencies by implementing technical efficiencies. Given the technical efficiency of heat networks will have a standalone mandatory assurance scheme (HNTAS), we do not consider this an appropriate area for Ofgem to regulate. Whilst the consultation confirms that no 'obligations' related to technical efficiency will result from the introduction of the fair pricing framework, we are not convinced that it is appropriate for Ofgem to have powers to effectively make judgements upon the sufficiency of investment in technical efficiency for heat networks when a mandatory scheme of minimum technical standards will exist for all heat networks covered by the fair pricing regime.

We also remain acutely concerned around the double-regulation on pricing which appears to be emerging for heat networks covered by the specific regulations for heat network zoning. Given DESNZ has recently consulted informally on proposals for windfall profit-sharing for zoned heat networks, Ofgem's remit to consider 'fair and reasonable returns' in parallel looks unreasonable, with two regulatory bodies monitoring profitability of heat networks within zones with differing definitions and guidelines. We believe fair and reasonable returns is a principle which is appropriate for Ofgem as the central national regulator to include in its fair pricing framework, but that means this must be robust and sufficiently detailed enough to ensure additional price protections for zoning are not necessary.

- We would like to see **much clearer guidance on the implications of principles in practice.**

For example, an allowance within cost-reflective pricing regarding contributions to the fixed costs of systems and its long-term efficient use appears to make provision for operators to develop sinking funds for repairs and replacement costs as well as provisions for other categories of anticipated expenditure, including bad debt or future costs associated with regulatory compliance. If so, this should be made explicit in guidance, given it is not common practice in the sector and may require specific protections.

- We would like to see much **stronger guidance on what would constitute a 'disproportionate' level of corporate risk.**

Q2. Do you agree with our proposals to develop the fair pricing guidance in relation to the principles (please note that questions on cost allocation proposals, including guidance, are asked separately under Chapter 3: Cost allocation).

In particular: a) have we identified the right areas to be covered by the guidance implementing the fair pricing principles (see paragraph 2.53 for a summary of the areas we are proposing to develop in guidance under each principle)? If you disagree with this proposal or think other areas should also be included, please specify what changes you would like to see and provide a justification.

Fair and Reasonable Returns: While Ofgem rightly cautions against heat network operators using their monopoly position to earn excessive profits, the current guidance lacks clarity on what constitutes an "unusually high" return. Without clear thresholds or definitions, this creates uncertainty for investors. We believe that unless Ofgem can provide a transparent and measurable benchmark for what qualifies as excessive profit, this concept should not be included in the fair pricing guidance. Ambiguity in this area risks undermining investor confidence and could significantly deter private investment in the district heating sector and undermines Ofgem's stated aim of supporting investment and market growth.

We support Ofgem's proposals to develop further guidance in the areas outlined, however, we consider there to be several areas where there is significant lack of clarity.

These include:

- The interactions and respective remits of HNTAS and Ofgem's authorisation and regulatory regime, which makes clear which aspects of the operation of a heat network are covered by one of these two programmes.
- How specific conditions for zoning will be reflected in Ofgem's approach to central regulation and oversight. We would like to see, following the passing of secondary legislation for heat network zoning and its introduction in England, a clear account of how specific conditions for zoning are being considered to avoid double-regulation. Areas of concern include aspects like connection charge caps, profit-sharing, and pricing rules, and actors in the market need to understand where any conditions associated with zoning take precedence over the national regulations overseen by Ofgem.
- At present, it is not clear what Ofgem considers to be a fair approach to setting connection charges. We believe fair pricing regulation must acknowledge the differential costs of connection buildings based on factors like the stage of development and build out of a network, or the proximity of a connecting building to an existing primary pipework route. This specific area looks potentially under-developed at present and risks being looked at simplistically without further thought, as considerations of fair pricing of connection charges relate to wider issues including the relative certainty of future network build-out (and by extension, future connection charges), as well as forthcoming regulation like finalised connection charge caps for heat network zoning.
- What price investigations look like in practice and what would be expected of organisations in facilitating this process.

b) Do you agree with the specific proposals to develop each of these areas in guidance? If you disagree, please specify what changes you would like to see and provide a justification.

We support guidance particularly where it can increase the standardisation of tariff-setting approaches across the sector (e.g. on apportionment of costs, cost-reflective tariff structures, restricted cost pass-through, capital cost recovery). There are areas identified for inclusion where we would welcome greater detail, particularly corporate risk and fuel procurement and hedging (where we would expect to see consideration given to the differential capabilities and expertise in these areas between large and small operators).

We see a number of areas currently slated for inclusion within future guidance where HNTAS will be the relevant regulatory instrument (e.g. data accuracy and meter readings, network efficiencies, maintenance). In these cases, we would like to see Ofgem clearly signposting to HNTAS and would welcome confirmation that this will be guidance which explains how expectations from HNTAS carry across to the fair pricing regime.

We are concerned that no specific guidance on fair or reasonable returns is expected, given this looks poorly defined particularly in relation to heat network zoning, which may include its own local price controls. We would like to see this reconsidered, with Ofgem making arrangements to deliver its role as the central pricing regulator, without additional localised regulation on pricing for networks covered by zoning regulation. The current approach risks two parallel standards on fair pricing for networks inside and outside of zones, with inconsistent consumer outcomes.

Q3. Do you agree with the proposed 'fairness test'? In particular: a) Do you agree with the high-level features of the fairness test (principle based, reasonableness, case-by-case basis, and objectivity)? b) Do you agree with our proposals to implement the fairness test discussed in Appendix 1: Fairness test?

We largely agree with the suggested features but require much more detailed information on how the fairness test is intended to be applied. We particularly support the commitment to objectivity but are not clear how this relates to the questions for consideration in operational terms.

Our interpretation of Appendix 1 is that Ofgem's approach to fairness testing will be against a series of questions, which allow Ofgem to determine whether further investigation is required (i.e. a given pricing approach appears to be potentially unfair).

It is unclear however whether these are:

- A) sequential – i.e. whether if Ofgem agrees that prices are within an external benchmark this suffices.
- B) prices have to be judged as fair against all questions, or
- C) fairness will be considered in the round against this full range of considerations.

We would like greater clarity on this question. We would consider approach A or C to be the most reasonable and proportionate approaches, especially given there are significant concerns about the accuracy and appropriateness of a number of these potential 'tests' in isolation.

Some of our observations around the tests in Appendix 1:

- We would like to see an approach to historical prices as a benchmarking tool which accounts for the historic under-recovery of costs, through loss-making tariff setting, that has been prevalent particularly in the social housing sector, where poor-performing networks have been cross-subsidised by an organisation's wider funds (e.g. rents).
- We are not clear why including a non-% (i.e. a GBP) profit test for disproportionate pricing is reasonable, as this would tend to potentially create a stricter regime for larger networks.
- We believe the sector needs much more detail on which benchmarks would be used in any given instance, which remains unclear given the lack of detail around approaches to market segmentation and how 'similar networks' might be defined in any case. In principle, we think using comparator benchmarks to relevant heat networks is appropriate and helpful, but this would need to have significant sophistication and nuanced interpretation.
- Comparing profits and rates of return between networks can be significantly as rates of return are changeable over time and will be at significant variance on a single network when assessed at different stages of its development. To take a clear example, this applies to ESCo models where revenue is considered over the lifetime of an investment and point-in-time assessment of pricing is likely, therefore, to be misleading.

As with proposals elsewhere, we do not believe that large-scale non-domestic customers should be included in the 'fairness test', as their pricing is typically the result of individual negotiations. These bespoke arrangements reflect the specific needs and circumstances of each customer, who have the legal and commercial expertise to represent their own interests and achieve their own protections, making standardised comparisons inappropriate. Importantly, over-regulation in this market could discourage future investment from private investors in the development of the UK's district heating sector without delivering additional benefit to businesses covered by these protections.

Q4. Does the revised authorisation condition, 'fair pricing', reflect the policy intent?

Only if the targeted customer groups are correctly identified, e.g. domestic vulnerable customers, should the fairness test be applied. Enforcement actions should be based on the authorisation conditions, which reflect the underlying policy intent and set out the legal obligations which operators and suppliers must meet under the regulatory framework. In order to provide a meaningful response, we would first need to see the proposed guidance for the authorisation condition.

Ofgem must define and recognise not-for-profit structures such as private limited companies wholly owned by charities, with all surpluses gifted to those charities, as well as other not-for-profit models, as this remains a significant question for organisations unsure as to their future categorisation.

Q5. In relation to market segmentation (please note that we are asking in relation to the considerations discussed in paragraphs 2.58-2.61, segmentation considerations in relation to

price benchmarking are considered under Chapter 4: Price comparison and benchmarking methods): a) Have we identified the right characteristics for market segmentation, and are these correctly defined? b) Do you agree with the segmentation approach discussed for each of these characteristics?

In principle, we believe Ofgem should look to achieve the same outcomes for consumers who require them (i.e. domestic, SME & microbusiness), regardless of the status of their heat network operator. In practice, we think this means segmentation is most usefully applied where a specific protection is not relevant or existing or emerging regulation renders Ofgem's regulation either redundant or conflictual. Examples of this we have raised in our representations are step-in protections for registered providers of social housing and (potentially) profitability assessment for zoned heat networks, should they become subject to zoning-specific profit-sharing obligations. Beyond this, a segmented approach is likely to support more useful and instructive comparisons being made across networks, but this should be used cautiously recognising the complex nature of networks themselves and the significant diversity in the market.

We do not consider the current distinction made between district and communal networks in HNMBR to be particularly useful or instructive, so do not support a distinction being made on 'type of network' based on this definition. Given a consideration is already being given to network size, we do not see additional value being added by a market segment being based on heat networks with multiple, rather than a single, building. This approach will group together campus and localised heat networks, which typically have a single customer-type/building owner on the one hand, with city and district scale heat networks often supplying a wide range of customers and customer types, on the other.

We support specific consideration being given to shared ground loop networks. We would also like to see a clear consideration being made for ambient networks which may or may not charge for heat based upon consumption, but in which cases the wider judgements around indicators such as affordability will not be captured in the prices paid to the heat network alone.

We support zoning being used as a market segment but believe this will be most instructive where it captures only heat networks with zoning rights, subject to these associated rules and additional conditions, and those networks receiving bulk supply from networks with zoning rights. This is to clarify that we would expect existing heat networks within zones (which may have a requirement to connect to the larger zoned network in time) to be subject to the same regulatory standards as other networks, given they will not be covered by specific measures for zoning until and unless they connect into a zoned district system.

We would like to understand the thinking behind considering pricing methodology in more depth, particularly as large district heat networks may use both pricing approaches across a single network. For clarity, we consider 'cost avoidance' pricing a legitimate and fair approach to pricing, noting its widespread use in the sector, and the long-term assurance this gives to customers. We would welcome Ofgem stating clearly that cost avoidance pricing is an appropriate and compliant approach to pricing.

We believe a market segment for secondary in-building residential heat networks receiving bulk supply from district heating could become an important and instructive market segment.

3. Data requirements

Q6. Of the information listed in Table 3 below, what do heat networks already regularly collect and can be easily reported?

We think most major developers currently collect the full range of data captured in table 3. We expect most networks to be able to provide the information on costs, prices and cost allocation, although there will be significant challenges for unmetered networks which are yet to achieve the metering and monitoring standards we expect within HNTAS.

That said, we would highlight that the regularity of any reporting could make this reporting more or less simple, given aspects like costs recovered and annual network demand will require additional processing and calculation from operators, even on metered networks which are providing heat consumption data. We believe that data reporting on aspects listed in this table should largely be annual and Ofgem need to be clear on the benefits and costs of more frequent data submission (e.g. quarterly reporting on prices and annual network demand), including a clear consideration of the additional staffing resource associated.

Q7. Of the information listed in Table 3 below, which items would be more challenging for heat networks to report?

Many smaller operators cannot feasibly provide pipe length, property age, and other granular data without significant cost and systems upgrades. It is not clear to us that the value of this data justifies this significant work and, if not, whether inaccurate data is preferable to not capturing this aspect of networks.

The most difficult areas to report would include EBIT margins on a network basis, operating costs (at a network basis, but even on a portfolio basis for organisations for whom heat network operation is not their sole activity), operating temperature and annual network demand (for unmetered networks).

In general, we are concerned around the extent of parallel reporting with HNTAS, particularly on the cost drivers of networks, and the additional administrative burden this could place on regulated entities, particularly where the reporting schedule or specific metrics asked for are not identical.

Q8. Of the cost drivers listed in Table 7 (in Appendix 3), which items would be more challenging for heat networks to report?

Many existing networks will be unable to accurately provide evidence on network pipe length.

Network generation has the potential to be a confusing or misleading indicator and is likely to have a strong interaction with the operating temperature indicator. We suggest that operating temperatures of

networks will be captured and considered by HNTAS and should not be replicated by Ofgem. This also applies to annual network generation (kWh/yr), installed heat capacity etc.

Similarly, network age alone could be misleading, where there has been significant refurbishment and replacement, and clearly interacts with building age and condition. We believe that technical efficiency should be recorded and captured by HNTAS, with, for example, a simplified system efficiency rating transferred across, which can give a much more instructive indicator for consideration of pricing.

Detailed property age and type of properties supplied could be challenging for networks who supply third party owned buildings with heat to provide.

There is more consideration to be given to current requirements on input fuel costs, given this may be commercially sensitive information. It is also worth noting that many heat networks will not have a fixed cost for electricity, and many will have multiple heat sources and the ability to utilise thermal storage and may participate in flexibility markets. If networks are required to report input fuel costs, then we would like to understand better whether Ofgem expects these to be backward-looking averages.

Q9. Should certain types of heat networks have more limited data reporting requirements? If so, which heat networks should these reduced requirements apply to, and what data should they be exempt from reporting

We believe there is a case to be made for more limited data reporting requirements in some instances. For example, self-supply and small community/right to manage schemes, as well as those operated by organisations with very small heat network operations are likely to find themselves unable to fulfil the current reporting requirements. We recognise that the requirements are in place to provide transparency and protect customers but are unclear whether Ofgem intends to effectively regulate these small entities out of the sector.

Q10. Do you agree with our proposed prescriptive rule that GSOP payments, compensations, fines, penalties and other redress provided to consumers should not be passed through to customers?

We agree in principle but would like to understand more detail about Ofgem's view on the potential for liability for GSOP payments or some other forms of compensation through third party contracts, where the effective risk of such redress payments may be reflected in the contracts (e.g. for Operation and Maintenance).

Q11. Do you agree with the draft best practice guidance provided? Is there anything that should be added? Should any of the best practice guidance be strengthened to prescriptive rules?

We are unsure that a single best practice approach applies satisfactorily for the sector and are wary of rules becoming more prescriptive, particularly at this early stage when fairness concepts have yet to be tested in the real-world on heat networks.

We are unclear how the proposal in guidance that connection charges ‘should be no lower than the incremental cost of connecting a new building’ fits with the proposal for connection charge caps within zoning, which are largely based on relevant counterfactual costs and in some cases may be below the incremental cost of additional buildings. Given the incremental cost of connecting additional buildings will vary significantly based upon a range of variables, we are also concerned that this criterion feels challenging to regulate.

We also would like to see a clearer sense of what requirements there are expected to be around developer contributions to the residential heat network ESCO sector including what costs are acceptable to recover via these charges.

We are concerned about the lack of clarity surrounding what would constitute ‘disproportionate pricing’ and will require further guidance to ensure that this is fairly laid out prior to any corrective action being taken by Ofgem. Guidance is also needed on the right of challenge to any findings of OFGEM should they decide that pricing is disproportionate.

In relation to Ofgem’s concern around early connectors to heat networks shouldering an unfair proportion of a networks Capital costs, we would like to see more thought given to the complexity of this issue. For example, at present, many of these first connections are to large-scale non-domestic customers who we consider should be outside of scope of these regulations. However, future connections are often uncertain, particularly where a developer is proceeding without zoning rights and the potential assurance of future connections this brings.

Q12. Do you think that the best practice approach to cost allocation should differ for different types of heat networks, or different types of suppliers? If so, for which types and how?

Given the diversity of the sector, we believe that any guidance should be positioned as a best practice resource rather than setting any strict expectations or rules.

As per our previous answer, Ofgem’s proposals appear to conflict with the local price controls being put forward for Heat Network Zoning, where, for example, tariffs could be set by customer type and limited to increases based upon inflation or other metrics.

A number of organisations set tariffs at a portfolio level, and we would support this being considered a legitimate approach to pricing, where the framework of fair pricing is calculated and assessed across a whole rather than at an individual network level.

Q13. Does the authorisation condition, ‘cost allocation’, reflect the policy intent?

We note that at present this authorisation conditions refers to guidance which is yet to be drafted.

Q14. What other feedback do you have on the proposed approach to cost allocation?

None

4. Price comparison and benchmarking methods

Q15. Do you agree with our proposed approach for defining heat network prices in a comparable way? Are there any other ways to define price that we should consider?

We have concerns regarding the comparability and fairness of the two proposed definitions for heat charges. Both approaches appear to overlook the substantial diversity and complexity inherent in heat networks.

The first proposal, calculating average charges by dividing the total charges recovered by the number of customers, does not account for the wide variation in building efficiency across networks. For example, a network serving a newly developed site with highly energy-efficient buildings will naturally report lower average charges than a similarly sized network supplying older, less efficient buildings. This discrepancy could lead to misleading comparisons between two unlike systems. This approach also does not account for different property archetypes e.g. the average cost for a four-bedroom house vs a one-bedroom flat.

We would like to see an annual cost of heating used as the benchmark. This could be an average for the site or a TCR (Tariff Comparison Rate) measure could be used. It would require average metered consumption specific to each heat network, rather than a universal average annual consumption.

Q16. Do you agree with our proposal to use gas boilers and heat pumps as external reference benchmarks?

We agree that gas boilers continue to provide an important reference point for existing heat networks which are yet to decarbonise, most of which use gas as their primary input fuel. However, it is not a relevant counterfactual for newly developed or decarbonised/decarbonising heat networks. We believe benchmarking for low-carbon heat networks should use heat pumps as the single reference benchmark. We would also suggest that heat network tariffs in off-gas-grid locations should not be compared to costs of gas heating, given it is not a relevant counterfactual in these cases.

For networks which provide both heating and cooling, it is essential that the benchmarking methodology accounts for the full scope of services delivered. In these cases, reference benchmarks should incorporate the performance and energy use of chillers or other cooling technologies to ensure a fair and accurate comparison.

Q17. Do you agree with the proposed method for calculating a heat pump benchmark, including the key input parameters outlined? Are there any additional factors that should be considered to ensure a robust heat pump benchmark?

Yes, we strongly support the use of consistent benchmarks and counterfactuals across regulatory regimes, as we look for a rational and harmonised policy environment. We would like to see the

benchmarks and counterfactuals aligned to zoning, with the detailed work that has been undertaken for zoning carried across once these figures are confirmed and zoning is introduced, and then kept consistent over the long-term, to ensure government takes a consistent and evidenced view of relevant counterfactual costs and the sector is not working to two parallel standards.

We maintain that the primary focus should be on developing an external benchmarking tool that enables Ofgem to apply a clearly understood and consistent approach to assessing pricing and identifying instances of disproportionate charges. This would give the market greater clarity on the boundaries of acceptable pricing and provide developers with more confidence that charges will not be subject to future challenge. In turn, this would support a more stable and predictable environment for investment.

Q18. Do you agree with the proposed approach to comparator benchmarking, and our list of potential cost drivers set out below and in Appendix 3: Cost driver? Are there any relevant cost drivers that we haven't considered?

We believe, given the evidence on the impact of customer-level metering on end user consumption, that the consideration of metered versus unmetered networks should be in the high importance category.

We agree with the rationale that there should be a clear engineering or economic rationale for why a cost driver is an important determinant of network costs.

In relation to the consideration of installed primary heat capacity, it is important that heat networks that build capacity ahead of demand, which we increasingly expect to be an overall best-value approach for large-scale district heating, are not penalised for observed inefficiencies in their development. This relates to complexities noted elsewhere in our response on how evolving and growing networks are assessed at a point in time. Another instance of these issues is the lack of clarity on how sleeving of existing networks with low-carbon plant may be considered.

Q19. What is your view on the ease with which data could be reported on the four 'High Importance' cost drivers set out in paragraph 4.33? What information do heat network operators and suppliers already collect, and what would be challenging to provide?

We anticipate that a significant proportion of these cost drivers will be collected by HNTAS and we would like to see information sharing between HNTAS and Ofgem enabled, rather than asking regulated entities to duplicate reporting. We understand that consumer regulation will come into effect first and that Ofgem may initially feel required to collect this information. In future, however, reporting from HNTAS is likely to be more detailed, and would include not just technology and fuel type, but the annual generation from different technologies on hybrid systems, as well as actual performance and efficiencies. This information should allow Ofgem to compare networks to others with similar characteristics (e.g. size and generation technologies) based on real-world performance.

We believe that 'operating temperature' should be added to the list of 'high importance' cost drivers. For some of our member companies, they have incorporated a volume tariff into their total variable charge.

This tariff is based on the volume of flow through the Building Heat Substation and is designed to incentivise customers to improve their return temperatures. By doing so, they enhance the overall efficiency of the network. The volume tariff also serves to recover the additional costs associated with reduced system efficiency when return temperatures are too high. These companies actively work with customers to identify solutions that improve return temperatures and, in turn, reduce their volume charges.

Q20. What is your view on the ease with which data could be reported on the remaining ‘Medium Importance’ cost drivers set out in paragraph 4.33? What information do heat network operators and suppliers already collect, and what would be challenging to provide?

We do not anticipate any issues with the medium importance list, although some existing heat networks will currently lack the metering to accurately provide annual network generation.

Q21. What is your view on our proposal to publish a high-level methodology for each benchmark (once data is collected and methods have been tested), to provide an accessible overview of the approach?

We support this proposal and welcome the publication of the benchmarking methodology, as it will enhance transparency in how each benchmark is established. We believe that heat network operators should have a clear understanding of the methodology being employed by Ofgem in assessing benchmarking and so support this proposal. We also note that there is at present little information as to in what circumstances Ofgem might consider prices to be disproportionate. We would like to see further consultation on both of these items prior to implementation.

Q22. Do you have any other feedback on the proposed approach to price comparison and benchmarking?

We would like to see more consideration as to how price comparison and benchmarking might support and be informed by the wider work being done on developing the sector. Given the emphasis on dealing with high prices for existing customers, through pricing regulation, as well as HNTAS (and the potential government support for improvement works through e.g. HNES), we consider that comparisons to historic costs (and wider market trends) will become a useful tool for consumers.

Direct cost comparisons between heat networks impose an unnecessary burden on network operators and offer limited value. Such comparisons fail to account for the inherent diversity of heat networks, each of which has a unique cost structure shaped by its design, customer base, building stock, and operational context. Attempting to standardise or compare these costs risks oversimplifying complex systems and may lead to misleading conclusions. Rather than benefiting customers, this approach could undermine innovation and flexibility within the sector. It may also discourage investment in bespoke solutions tailored to local needs and conditions.

We understand and support the regulatory objective of protecting customers from unfair pricing. In this context, external benchmarking against a low-carbon alternative provides a more meaningful and

constructive comparison. If a network's pricing appears significantly out of line with such a benchmark, it would be appropriate to investigate that specific case further, rather than applying broad comparisons across fundamentally different networks.

It should be made clear that if a network satisfies benchmarking measures that no further investigations are to be undertaken. This is critical in setting the role of Ofgem alongside defined roles under upcoming zoning regulations and existing arrangements with local authorities to avoid duplication and conflict.

5. Profitability Analysis

Q23. Do you agree with the proposal for ongoing monitoring of profitability through data collection on EBIT margins for all heat networks?

We remain very concerned that Ofgem does not have a clear definition of which heat networks are considered to be for-profit and would, therefore, be within the potential scope of more in-depth profitability analysis, which may include ROCE tests. Given the differential investment requirements of networks, and the uneven profile of the typical investment in replacements and upgrades to systems (for example), we are concerned that any short-term analysis of profitability could be misleading or misinterpreted.

Given considerable work will be done to establish comparisons on customer costs, we consider that any profitability analysis should only happen in instances where outliers have been identified in this process, and as part of the price investigation process rather than as part of regular monitoring. In those cases, we would like to see EBIT, at a minimum, considered over a reasonable period (e.g. 5-years) or ROCE, as already identified by Ofgem.

At present, using EBIT has a number of issues when applied to this sector:

- It focuses on operational revenues, ignoring the capital employed in what is a Capital-intensive industry.
- It does not capture the changing cost and revenue basis over the lifecycle of networks which are long-term investments with significant early-stage losses which are to be recouped at a network's maturity.
- It appears to be proposed to be tested on a network, rather than portfolio, basis, which is highly problematic where overheads like staffing, procurement etc. are often shared across an operator's undertakings.

We feel strongly that any assessment of profitability should be done at a portfolio level, rather than on a network-by-network basis. We are aware that a number of organisations choose to price at a portfolio level, which DESNZ and Ofgem have consistently advised remains a legitimate approach. In these cases, fair pricing can only be defined at a portfolio level and assessments of profitability at a network level would be expected to vary considerably. More widely, whilst most large operators will expect tariffs to reflect the local costs of their network, the overall profitability of a portfolio would typically have a wide range, with an individual network's profitability reflecting a range of considerations including the level of

build-out of a network, a local customer base, the level of investment in upgrades and modernisation etc. This is managed and considered at a portfolio level, with profits from individual networks, at differing points in the lifecycle, being used to support investment in less profitable networks, or the development of new schemes. For this reason, profitability can only be meaningfully analysed at a portfolio level and looking in isolation at individual networks has the potential to mislead considerably.

Q24. How challenging would it be for heat network operators and suppliers to provide the data outlined for calculating EBIT margins? What barriers, if any, might affect the accuracy and completeness of the data?

With regards to profitability, it is also unclear as to where this would be viewed and assessed on an organisational, portfolio or network basis. The main challenge for many organisations will be the accurate accounting of EBIT for an individual network where this forms an integral part of wider interconnected operations.

We are pleased to see recognition that EBIT can vary considerably over time and a clear acceptance that a single period of 'excessive' EBIT does not necessarily indicate unfair pricing and resultant excess profits. We remain uncertain, however, what approach will be taken forward to avoid arbitrary or inconsistent approaches to evaluating profitability using EBIT. We would like to see a clear timeframe proposed for these calculations and what might warrant further investigation.

In addition, many residential heat networks run by the building owners will not have the necessary processes and accounting procedures in place to allocation costs and revenue in a consistent way and detailed guidance is needed on cost allocation and reporting. ROCE is also not applicable to residential heat networks and the differences between sub-sectors needs to be clear.

Q25. As data collection improves, do you agree that more in-depth profitability assessments, for example using Return on Capital Employed (ROCE), should be conducted for networks identified as outliers through benchmarking?

As above, we would like much greater clarity on which networks would be in scope. We do not want to see duplication of any emerging profitability analysis being done on heat networks progressed through zoning, given DESNZ have shared proposals with industry for potential profit-sharing mechanisms for these schemes.

We also would like to see a clear structure on which networks will be considered not for profit. For example, our membership includes private limited companies which are wholly owned by not-for-profit entities. In these cases, surpluses might be donated back to the parent organisation via Gift Aid. We would like to see a clear indication that these arrangements would be treated as not-for-profit suppliers.

Given Consumer Regulation appears to leave open the practice of portfolio, rather than network, level pricing approaches (which we support), we are also not clear that profitability assessment on a network-by-network basis is generally the most useful approach.

We believe that profitability assessments should only happen in extreme instances where the price benchmarking has identified clear outliers (having clear guidelines and criteria), and as part of the price investigation process, rather than as an additional benchmarking exercise. This is irrespective of the metric used (i.e. EBIT, ROCE, other) or the data collection process.

Q26. Do you have any other feedback on the proposed approach to profitability assessment?

We recommend that profitability assessments be reserved for exceptional cases, specifically, where benchmarking suggest that a network is charging significantly higher prices than comparable low-carbon alternatives, having clear criteria to identify those outliers. In such instances, a targeted review and price investigations may be appropriate. Otherwise, profitability should not be used as an independent criterion for regulatory intervention. Finally, alignment of any benchmarking and profitability assessment (as part of price investigations) with zoning policy (e.g. community benefits, revenue-sharing mechanisms) is essential to avoid regulatory double-counting that could negatively impact growth of the sector and investment appetite and confidence.

6. Central Price Transparency

Q27. What are your views on the three options? Please comment on each option in terms of the price information to be centrally published, how the price information is presented and what prices are compared to.

We support the ambition that consumers on heat networks have clear information which contextualises heat charges. Although we understand the underlying intention behind central price transparency, we are not necessarily convinced that the publication of tariffs across such a diverse market will have the downward pressures on cost that price transparency on large-scale district heating may have in other territories, where a general publication of prices is focused on a much smaller set of large district networks, often with a much more uniform ownership model

For this reason, we believe segmentation of the market across characteristics would enable much more meaningful comparison (e.g. to see where a given network's prices compare with other schemes of a similar age and size), potentially with an additional function to allow the comparison of costs between segments. Such comparison would be most helpful where it can be demonstrated that this information is being used to inform relevant government policy, for example by highlighting support and that regulation is taking effect on reducing costs where segments are trending below others and/or relevant counterfactuals (e.g. an ASHP). As such, we see the exercise of data gathering and analysis being done for price transparency as potentially more than a consumer tool, and something which can positively drive an evidence-led policy approach, but that any consumer information will be much more powerful where it can be contextualised and clear links can be drawn with wider action being taken by government.

Q28. Do you think the options have the right balance between providing a good level of transparency, burden on consumers to interpret the information, risks of misinterpretation by consumers, disclosure of commercially sensitive information, and risk of price convergence?

Given the significant existing issue of under-pricing, particularly on inefficient networks within the social housing sector (esp. supported housing), central price transparency could have the effect of exacerbating these issues, where operators identifying tariff comparisons may put them at risk of complaints or regulatory action from Ofgem. Option 2, the pooled market average comparison, would seem to create the greatest risk of this effect, potentially resulting in those networks experiencing above-average costs due to the age, size, efficiency etc. of their network, and coming under pressure to absorb losses.

Regarding Option 1, whilst we support the attempts made to segment the market, we believe without the detail of information being captured for Ofgem for these comparisons, this option is still likely to result in dissimilar networks being set against each other. We believe the most instructive comparators would be derived from customer and organisation types (e.g. tenure), network efficiency (for which age of networks is only a very crude proxy and for which significantly detailed information should become available through HNTAS), and heating technologies (including relative load factors/low-carbon heat fraction). As such, we support this option to be considered only after HNTAS can make this detailed information available.

We believe a RAG approach (Option 3) could be useful as a first approach, as long as there was clear supporting information which avoids the pass/fail risks identified and makes clear the work being done elsewhere by Ofgem and through HNTAS to ensure heat costs are fair and transparent.

Q29. Do you support focusing on one option or a combination of options in paragraph 6.69?

We support focusing on option 3, until sufficient data is available to ensure option 1 can be delivered with a level of accuracy to ensure grouping is meaningful.

As per our previous response, we would like to see a clear contextual link being drawn between transparency information and the work Ofgem and government are undertaking to drive improvements in the sector. We would also like to see a RAG system used at the initial stages of regulation caveated with a clear explainer on why Ofgem is seeking to develop price comparison, why there is significant variation across the sector, and how this and future information gathering and analysis is intended to drive the ongoing government agenda toward eradicating instances of excessive costs on networks. This would also clearly situate a RAG assessment as an unreliable and indicative estimate but is drawn from work which will in time allow for much more meaningful comparisons to be drawn. Given that unreliability, it should be clear it is not intended as a pass/fail or fair/unfair assessment of pricing and should signpost to the wider regulation Ofgem is undertaking on pricing, including active enforcement in instances of disproportionate pricing.

Q30. Do you support the phasing in of the options described in paragraph 6.70?

We do support a phasing in but would emphasise that we would like to see that this is supported by a clear narrative and supporting information, so customers understand the intent and expected impact of developing policy and regulation relevant to the sector.

Q31. Do you support the adoption of different options for different heat network groups described in paragraph 6.71?

Given remaining uncertainty as to how networks will be categorised (e.g. which networks will be considered to be not-for-profit, or which 'district' networks might be within scope of a particular set of more detailed requirements) we are wary of the proposal to implement differing data requirements in this area. Given the granularity of information being provided to HNTAS on the potential underlying cost drivers, we would like to see Ofgem maximise the use of this data and prioritise this over its own data collection, where applicable. More widely, we are wary of certain customers being excluded from aspects of customer protection by virtue of their tenure, or the categorisation of their landlord.

Q32. Do you agree that central price transparency measures are unlikely to put additional administrative burden on heat networks in addition to data reporting for benchmarking? Do you have concerns on the administrative burden from any options?

Due to the introduction of consumer regulations and HNTAS there will be an additional administrative burden going forward. To reduce this administrative burden, central transparency measures should be created from the same data as used for benchmarking. Reporting requirements for such data should be reasonable and proportionate so as not to overburden network operators.

Q33. Do you think it is appropriate to link central price transparency with benchmarking?

Yes, we believe contextualising prices is more useful than publishing them without benchmarked comparison, subject to the priorities of balancing accuracy and comprehensiveness with the need for simplicity and accessibility to consumers. In particular, it is important that where benchmarking is used as a means of facilitating central price transparency the differences between network characteristics are reflected in a way that is clear and meaningful to consumers. Without proper context, such comparisons are easily misinterpreted and could diminish trust rather than enhancing it.

7. Price Investigations

Q34. Do you agree with the approach to price investigations set out so far? Please provide reasons and views to support your response.

While we broadly support this approach to price investigations, would like to understand more clearly what prioritising cases with the greatest consumer detriment means in practice, as we do not think price investigations should effectively only target the largest heat networks. Whilst we support the need for the full range of contextual factors to be considered within a price investigation, there remains a concern that an arbitrary and inconsistent approach could result from the lack of clear definition of what is reasonable in any given instance.

There needs to be more specific criteria to define the circumstances that will trigger a price investigation. We encourage the definition of clear criteria linked to benchmarking and fair pricing principles. Price investigations should be fair, evidence-based and should consider ownership models and the specific context of a network.

Regarding data requirements, we anticipate that some of the data required, such as network performance information, may take considerable time to collect, particularly given heat network performance will vary considerably between peak heating season and off-peak.

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