

Q1. Consumer Objectives and Principles

We broadly agree with the objectives and principles proposed. However, the framework should better reflect the structural realities of small and not-for-profit heat networks. Concepts such as "affordability" should directly consider fuel poverty. The framework should include a "just transition" principle to support decarbonisation investment without penalising vulnerable customers.

Q2. Fair Pricing Guidance

a) The right areas are covered, but more flexibility is needed for small operators. Guidance should explicitly include cost recovery for decarbonisation efforts and exemptions for non-profit providers.

b) We support the development of each area, provided proportionality is maintained. Guidance should reflect variable energy costs and allow for transitional arrangements.

Q3. Fairness Test

a) We agree with the high-level features.

b) The implementation must avoid administrative overload for smaller networks and include social and environmental context. Include exemptions or tailored criteria for community-led schemes.

Q4. Authorisation Condition (Fair Pricing)

Generally reflects policy intent but should include more clarity and thresholds. A definition of "disproportionate" pricing should account for operator size, consumer demographics, and decarbonisation costs.

Q5. Market Segmentation

a) Characteristics are broadly appropriate.

b) Segmentation must reflect operational realities and enable fair comparisons. Reporting burdens and compliance obligations should be scaled by network type and size.

Q6-7. Table 3 - Data Reporting

Easily Reported: Consumer types, pricing structures, total energy consumption.

Challenging: Asset depreciation, network losses, disaggregated costs.

Q8. Table 7 - Challenging Cost Drivers

Difficult to report: lifecycle replacement, network design parameters, non-energy O&M, and capex amortisation. Most small operators lack engineering or financial modelling capacity for this.

Q9. Limited Reporting for Some Networks

Yes. Reduced requirements should apply to:

- <100 dwelling networks
- Community-owned or not-for-profit operators
- Those serving fuel-poor communities

They should be exempt from full profitability or asset reporting and use standard assumptions instead.

Q10. Non-Pass-Through Rule

We agree in principle. However, small networks may need flexibility in how such costs are recovered over time. Introduce mechanisms to amortise unexpected liabilities.

Q11. Best Practice Guidance

The draft is sound but should include treatment of decarbonisation costs. Strengthen transparency rules (e.g., third-party markup disclosure) while keeping others as guidance.

Q12. Differentiated Cost Allocation

Yes. Different models require tailored guidance. Large ESCOs can comply with detailed rules, while smaller or not-for-profit schemes should follow simplified cost templates.

Q13. Authorisation Condition (Cost Allocation)

It reflects intent but needs explicit reference to proportionality and transparency. Avoid blanket requirements that are impractical for smaller entities.

Q14. Additional Feedback on Cost Allocation

- Recognise carbon cost recovery as a legitimate pricing factor
- Allow flexibility for energy price volatility
- Acknowledge community co-design in tariffs

Q15. Price Comparability Framework

We support it, but comparisons must reflect consumption levels, household types, and billing models. Affordability metrics should supplement price-per-kWh.

Q16. External Benchmarks

Using gas boilers and heat pumps is appropriate, but comparisons should be adjusted for building type and energy efficiency. Consider adding a not-for-profit benchmark.

Q17. Heat Pump Benchmark

Generally agree, but the model should account for maintenance costs, building fabric, and urban density. Provide different benchmarks for retrofit and new build contexts.

Q18. Comparator Benchmarking

Yes, but add contextual cost drivers like network age, local deprivation, and not-for-profit status. Avoid comparisons that don't account for capital constraints.

Q19. High Importance Cost Drivers

Easiest: Input prices, total energy use.

Harder: Network heat losses, disaggregated O&M costs.

Q20. Medium Importance Cost Drivers

Most small operators will struggle to report capital and technical variables. Ofgem should provide estimation tools or standard input models.

Q21. Publishing Methodology

Strongly support. Ensures transparency and builds trust. Provide operator-facing examples and include assumptions.

Q22. Benchmarking Feedback

Avoid "league tables" that penalise socially motivated networks. Add social context (e.g., carbon performance, income levels) to interpretation.

Q23. EBIT Margin Monitoring

Support monitoring, but EBIT alone is not sufficient for not-for-profit or mission-driven providers. Consider broader definitions of value.

Q24. Data Challenges for EBIT

Small networks often lack separated financials. EBIT calculations are difficult without dedicated systems. Offer proxy-based tools.

Q25. ROCE for Outliers

Support with caution. Use as a diagnostic tool, not a regulatory trigger. Adjust for public capital grants or environmental investment.

Q26. Additional Profitability Comments

Consider:

- Fuel poverty context

- Carbon investment impacts
- Non-financial returns (e.g. social value)

Include a holistic review framework beyond EBIT and ROCE.

Q27. Central Transparency Options

- **Option 1 (Grouped Comparison):** Best for internal benchmarking.
- **Option 2 (Pooled Market Average):** Risky for outlier networks.
- **Option 3 (RAG Rating):** Useful for consumers, but needs nuance.

Q28. Transparency Balance

More context is needed to avoid misleading conclusions. Ensure consumers understand why a network may cost more (e.g., due to green investment).

Q29. Preferred Option Strategy

Support a combination approach: Options 1 and 3 in tandem. Avoid sole reliance on pooled averages.

Q30. Phasing In

Yes. Allow time for system development and staff training. Use pilot networks for early implementation.

Q31. Different Options for Network Groups

Yes. Small or not-for-profit networks should not be subject to consumer-facing benchmarking that oversimplifies their context.

Q32. Administrative Burden

There will be additional burden, especially for transforming technical data into consumer-facing formats. Ofgem should provide templates and automation support.

Q33. Linking Transparency with Benchmarking

Appropriate, but benchmarking must be holistic and not narrowly financial. Include social and environmental value measures.

Conclusion: We support Ofgem's aims to improve fairness, transparency, and cost accountability in the heat networks sector. However, the framework must reflect the diversity of network models, including small and community-led schemes operating under tight financial and technical constraints while delivering high social value. Regulatory proportionality, clear guidance, and targeted support will be essential to a fair and inclusive implementation.

