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### **Reference: Response to Heat Network Regulation: Fair Pricing Protections.**

Thank you for the opportunity to respond to Ofgem's consultation on fair pricing protections for heat network consumers, and your extension to the submission deadline to today to allow us to complete our internal governance processes.

We appreciate the engagement provided through the Heat Networks consultation workshops, which have offered Anchor valuable insight into the proposed regulations and their potential impact on the housing sector. We remain committed to participating in future events and workshops and are keen to continue supporting both Ofgem and DESNZ in the development and implementation of the regulatory framework.

### **About Anchor Hanover Group**

Anchor is the largest operator of social housing for older people and the fourth largest residential care home operator in England, operating more than 35,500 social rented homes, more than 12,500 leasehold homes and more than 121 care homes. Our aim is to provide homes and support so residents can enjoy living in later life.

We support more than 65,000 residents and work with more than 10,000 colleagues in almost 1,700 locations across England, covering more than 85% of local council areas.

We are a Community Benefit Society and, as a charity, proudly not-for-profit. This means every penny we make is reinvested into our properties and services rather than being distributed outside the organisation.

As a provider of supported social housing for older people, we typically offer low-rise accommodation in 1- or 2-bedroom flats with communal facilities such as a lounge and

laundry. We operate a 24-hour warden call system and have a high level of in-person presence at site during the day along with an extensive wellbeing and support offer to residents.

Under the HNMBR 2014 regulations, our accommodation is defined as supported social housing. By virtue of the age and type of accommodation we provide, nearly 45% of our housing residents receive heating and hot water through a heat network. We operate over 600 heat networks in our housing locations, and the vast majority of these serve single buildings/locations built between the 1960s and 1980s – these make up nearly 80% of our housing heat networks portfolio. We have identified that damp and mould cases occur less frequently in our homes with a communal heat network indicating a reliable supply of safe and comfortable temperatures. This minimises and prevents issues for residents which arise from having damp and mould, a critical issue for health and wellbeing.

In the summer of 2023, we published Anchor's Environmental Sustainability Net Zero Carbon Strategy, pulling together the workstreams already underway and setting out our pathway to net zero. The strategy breaks the work down into four themes driving toward our vision.

We published the following minimum targets in the sustainability strategy:

- Rented homes to have energy efficiency scores of at least EPC C by 2030
- Care homes to have energy efficiency scores of at least EPC C by 2028.
- All new homes to be designed to Net Zero standards from 2023 with delivery on site not falling below our "Green Line" minimum standard.
- To be net zero ready in our business operations by 2030 (this means Anchor will be operating at net zero when the national grid decarbonises)
- To be operating at net zero across all carbon scopes, including our supply chain, by 2050.

Whilst the fair pricing consultation does not directly address the introduction of metering, we remain concerned at the likely proposals for individual metering and billing to be required under the forthcoming Heat Networks Technical Assurance Scheme. We have found moving residents from unmetered to metered systems is challenging. Many of our residents are attracted to our homes because we take care of a range of services, including heating and hot water supply, and offer simple service charge billing which passes through costs which are well-consulted on and does not apply profit. We are concerned about the proposals to individually meter more homes because in our experience it will cause vulnerable residents' distress and anxiety.

The capital investment costs of metering at scale will strain long-term business plans given the wider context of decarbonisation investment, and there is a strategic need for organisations like Anchor to be able to coordinate heat network refurbishments with our retrofit plans so that works are delivered efficiently, with the least disruption to residents and in support of meeting a range of regulatory targets in energy efficiency and carbon reduction. We will make more detailed representations on this matter in response to the forthcoming technical standards consultation, and we urge Ofgem to prepare and plan for a reporting framework which can accommodate pricing and performance information obtainable from service charged residents for many years to come. Whatever the outcome we urge Ofgem to maintain the current exemption for

supported social housing to implement individual metering and billing under the HNMBR 2014. Metering and individual billing requirements will place additional administrative burden and cost for vulnerable residents in supported social housing and are a dilution of the support services offered by this form of social housing.

We believe that Ofgem, Anchor's and the wider social housing sector's objectives are aligned in seeking to provide reliable, affordable heat supply transparently, whilst offering good customer services and making significant long-term investments in reducing energy use and decarbonisation.

To achieve this, we urge Ofgem to consider that social housing providers to be able to submit their own compliance plans which phase the delivery of key consumer and technical regulations to Ofgem, signed off by our Board and with an identified executive director to sponsor, which outlines the organisational pathway and milestones. This would enable housing associations to take a more strategic approach, balance investment with other regulatory priorities and avoid inflated costs that could arise if timings (and the supply chain) are squeezed. These compliance plans would cover both the consumer protection and technical requirements of the regulations.

### **Supporting Fair and Transparent Pricing: Key Risks and Considerations**

As a not-for-profit housing provider, we fully support the objective of ensuring consumers receive fair and transparent pricing. However, to ensure the regulatory framework is both effective and proportionate, we wish to highlight several key risks and considerations:

#### Lack of Evidence-Based Policy

There is currently a significant gap in data on heat network pricing. We recommend that at least two years of pricing data be collected from a broad range of providers before finalising pricing principles. With a strengthened evidence base, terms such as "*fair*" can be more meaningfully and consistently applied.

#### Risk of Increased Consumer Costs

New regulatory requirements—including individual metering, enhanced consumer protections, and compliance with the Heat Network Technical Assessment Scheme (HNTAS)—are likely to increase operational costs. Given that many heat networks operate on a not-for-profit or loss-making basis, there is a real risk that these additional costs will be passed on to consumers.

#### Market Structure Misalignment

Heat networks function as infrastructure markets, not commodity markets like gas or electricity. Pricing models should reflect this distinction and may be better aligned with approaches used in the water sector.

#### Undefined Key Terms

Critical terms such as "*fair*," "*not disproportionate*," "*not-for-profit*," and "*small heat network*" remain undefined. Without clear definitions, there is a risk of inconsistent interpretation by regulators, ombudsmen, or the courts—potentially leading to unintended consequences for social housing providers and undermining decarbonisation efforts.

### Complexity of Benchmarking and Communication

Heat pricing involves complex cost structures. While transparency is essential, communicating pricing clearly to consumers is challenging. If extensive guidance is required to explain pricing, the communication strategy may need to be reconsidered to ensure accessibility and understanding.

### Affordability vs. Fairness

A price that is technically “*fair*” may still be unaffordable for households in or at risk of fuel poverty, or for those with additional heat needs (e.g. due to health conditions or older people). We urge Ofgem and DESNZ to explore how existing support schemes can be adapted to better support heat network customers.

### Data Integration and Reporting

Data is central to the success of the fair pricing framework. While we support efforts to minimise the administrative burden, we seek assurance that data collection across consumer protection and technical standards will be streamlined. Heat Suppliers should not be required to submit the same data multiple times, and bulk upload facilities would further assist in .

We believe the current proposals would benefit from further development to ensure they are evidence-based, proportionate, and workable in practice.

We propose the following:

#### Extend the Data Collection Period to Two Years:

A one-year data collection window is insufficient to build a robust evidence base. Without comprehensive and longitudinal data, it is not possible to meaningfully assess what constitutes “*fair*” or “*not disproportionate*” pricing. We recommend that Ofgem extend the data-gathering period to two years to ensure a more accurate, representative, and resilient foundation for future policy development.

#### Undertake Further Research on Price Reflectivity and Investment Needs:

Many heat networks currently operate below full cost recovery, with sinking funds often inadequate to meet future technical upgrade requirements. The implications of the Landlord and Tenant Act must also be factored into any pricing framework. We recommend that Ofgem commission further research to better understand the long-term impacts of cost-reflective pricing and the investment needs across different types of schemes.

#### Develop a Practical and Actionable Definition of ‘Fair’ Pricing:

Once sufficient data and research are in place, we propose a structured framework to define “*fair*” pricing in a way that is both transparent for consumers and practical for landlords and operators.

This could include:

- Establishing key price bands based on scheme characteristics such as size, age, efficiency, and technology type.
- Implementing a simplified segmentation model that reflects:
  - Provider type (e.g. for-profit vs. not-for-profit)
  - Housing type (e.g. general needs, supported housing, extra care)
  - Provider scale (e.g. number of schemes or homes served)

We believe this approach will support a more balanced and effective regulatory framework—one that protects consumers while recognising the operational and financial realities faced by not-for-profit providers.

The commentary hereafter responds directly to the consultation questions posed:

## **Fair Pricing Framework:**

***Q 1: 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.***

***Q 2: Do you agree with our proposals to develop guidance on the application of the fair pricing principles, including how the fairness test could be implemented? If you disagree, please set out your reasons and any alternative proposals.***

*Anchor is aligned with The Heat Network's response. The Heat Network are a peer network of Social Housing Registered Providers operating heat networks:*

We broadly support the Fair Pricing Objectives. However, we remain concerned about the absence of clear definitions for key terms such as 'fair' and 'not disproportionate'. While we recognise the challenges of defining these terms in a diverse and complex market, the lack of clarity creates a risk that they will be informally interpreted by organisations such as Citizens Advice, the Energy and Housing Ombudsmen, or defined through legal proceedings.

Although we agree with the Fair Pricing Principles, we believe there are areas where unintended consequences and risks may arise:

### **Cost Reflective Pricing**

This principle could result in sharp price increases for some heat networks, particularly where costs have historically been under-recovered—often unknowingly. This may place sudden financial pressure on customers and operators alike.

### **Cost Efficiency**

This principle must be clearly linked to the Heat Network Technical Assessment Scheme (HNTAS). More work is needed to address the challenges of energy procurement in the social housing sector. For example, housing providers often limit energy contracts to 12 months to avoid triggering leaseholder consultation requirements under Section 20 of the Landlord & Tenant Act. While this allows for quicker purchasing decisions, it can result in higher energy costs compared to longer-term contracts. Conversely, during the gas price crisis, some providers were locked into long-term contracts at unfavourable rates. These nuances must be considered when making price comparisons.

### **Fair and Reasonable Returns**

While we support the principle that pricing may include a reasonable level of profit, this must be balanced with obligations under the Landlord & Tenant Act. Clear guidance is needed for the social housing sector. We also reiterate the urgent need for a definition

of *'not-for-profit'*, as this underpins many compliance pathways.

### **Affordability**

We particularly welcome this principle as a safeguard against fuel poverty. However, further consideration is needed for situations where a *'fair and proportionate'* price may still be unaffordable for vulnerable households—such as those with health-related heat needs, older people, or those at risk of fuel poverty. DESNZ and Ofgem should explore how existing fuel poverty support schemes can better serve heat network customers. Additional funding mechanisms, such as the Energy Company Obligation, should also be considered to help reduce heat network costs.

### **Cross-Subsidisation**

We would welcome greater clarity on the issue of cross-subsidisation—both in terms of pooled tariffs across a heat network portfolio and where heat network costs are subsidised through general rental income or Council Tax.

### **Guidance and Support**

Clear, practical guidance is strongly welcomed. Many organisations in the social housing sector are seeking a straightforward, accessible 'how-to' guide for heat network compliance. The more clarity Ofgem can provide, the better prepared the sector will be to meet its obligations.

### **Q 3: 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 are aligned with The Heat Network Response:***

As noted in response to Question 1, the lack of clear definitions for terms such as *'fair'* and *'not disproportionate'* presents a significant risk. In the absence of regulatory clarity, these terms may be informally defined over time by bodies such as Citizens Advice, the Energy and Housing Ombudsmen, or through legal rulings. This ambiguity, combined with a case-by-case approach, could lead to a proliferation of disputes, increased administrative burden, and higher costs.

In the absence of a working definition of *'fair'*, robust data will be essential. We believe that at least two years of data will be required before Ofgem can make meaningful market comparisons. While a case-by-case approach will remain necessary—given the wide variation in heat network-specific circumstances that influence customer pricing—clearer guidance and data-driven benchmarks will be critical to ensuring consistency and fairness.

### **Q 4: Does the revised authorisation condition, 'fair pricing', reflect the policy intent?**

No Response

## Market Segmentation:

**Q 5: 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):**

- c. Have we identified the right characteristics for market segmentation, and are these correctly defined?**
- d. Do you agree with the segmentation approach discussed for each of these characteristics?**

*We are aligned with The Heat Network response:*

The term ‘segmentation’ increasingly feels inadequate to describe the complex matrix of characteristics that any given heat network may embody, as outlined in the consultation. Heat networks are inherently multi-dimensional: for instance, two communal heat networks with 50 dwellings each, both built in 1995, may be segmented similarly by size and age, but differ significantly in terms of metering arrangements or tenure. Greater clarity is needed to illustrate these interconnections—ideally through interactive flowcharts or other user-friendly tools.

Crucially, we are still awaiting a clear definition of ‘not-for-profit’, which underpins much of the compliance framework. It remains unclear whether this designation applies to the heat network itself or to the operator/supplier. Further complexity arises when a for-profit entity operates a not-for-profit network—or vice versa. These scenarios must be addressed explicitly.

In parallel, we also seek a definition of what constitutes a ‘small’ heat network operator or supplier. Does this refer to the size of the organisation or the scale of its heat network portfolio? For example, a housing association with 20,000 homes might operate only two communal heating schemes, while another with just 800 homes could manage twenty. Clear guidance is essential to enable organisations to prepare appropriately.

In the housing sector, associations with fewer than 1,000 homes are subject to lighter-touch reporting requirements under the Regulator for Social Housing. Ofgem should take this precedent into account when finalising its definition of ‘small’.

## Data Requirements:

**Q 6: Of the information listed in Table 3 below, what do heat networks already regularly collect and can be easily reported?**

**Q 7: Of the information listed in Table 3 below, which items would be more challenging for heat networks to report?**

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

**Q 9: 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 are aligned with The Heat Network Response:*

Some unmetered heat networks—particularly those that may never be metered (pending the outcome of the HNTAS consultation)—will face challenges in providing much of the required data, such as annual network demand. In these cases, a reduced data reporting requirement must be put in place.

Additionally, certain cost drivers may not be readily available to housing providers. For example, network length is often unknown, and clarification is needed on whether the “age of the heat network” refers to the age of the building, the heating system (e.g. boiler), or another component.

There is also likely to be overlap between data required under this framework and the HNTAS. A mechanism should be introduced to ensure data is only submitted once, avoiding duplication and reducing administrative burden.

## **Cost Allocation:**

**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 are aligned with The Heat Network Response:*

We are awaiting clarity on the treatment of GSOP payments for not-for-profit heat networks, which we understand will be addressed in the Government’s response to the Consumer Protection Consultation. While we fully support the principle that consumers should not bear the cost of compliance failures by heat network operators, we are concerned about how GSOP payments would be funded within a not-for-profit model. If these costs cannot be recovered through heat tariffs, they would need to be absorbed through other income streams—such as rent or local authority funding (e.g. Council Tax). In effect, this would still result in customers bearing the cost, albeit indirectly. This raises broader concerns about unintended consequences. Diverting funds to cover GSOP penalties could impact budgets for essential services and priorities, including:

- New build housing programmes
- Building safety improvements
- Damp, mould, and condensation remediation.
- Decarbonisation and retrofit initiatives.

We urge Ofgem and DESNZ to consider alternative funding mechanisms or exemptions for not-for-profit providers, to ensure that GSOP enforcement does not undermine wider housing and sustainability objectives.

**Q 11: 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 aligned with The Heat Network Response:*



Many housing providers are seeking greater clarity on how tariffs should be structured and what costs should be included or excluded. While we understand Ofgem's intention to allow flexibility in a diverse market, providing a set of standardised examples or reference models would be extremely helpful. These could serve as practical guidance without being prescriptive, supporting consistency and transparency across the sector.

**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?**

No Response

**Q13: Does the authorisation condition, 'cost allocation', reflect the policy intent?**

No Response

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

No Response

### **Price Comparison and Benchmarking Methods:**

**Q 15: 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?**

No Response

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

No Response

**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?**

No response

**Q 18: 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 are aligned with The Heat Network Response:*

We recognise that benchmarking will play a key role in Ofgem's approach to regulating such a diverse and complex market. Progressing with the three proposed benchmarking methodologies is a sensible starting point, with the flexibility to refine them as the data set matures.

**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?**

No response

**Q 20: 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 are aligned with The Heat Network Response:*

Most high-importance cost drivers—such as technology and fuel type, fuel input price, and annual network demand—can be readily provided for metered heat networks. However, unmetered networks are unlikely to be able to report annual network demand, and network pipe length is typically unknown. We recommend that in such cases, a reduced data set be accepted. Additionally, data should only need to be submitted once and shared across relevant frameworks, including HNTAS. For medium-importance cost drivers, metrics such as annual network generation, utility supply type, and whether the network is metered or unmetered are generally straightforward to provide. However, the following require clarification:

- *Heat Network Generation Type (3rd/4th/5th Gen)*: These terms are not widely understood among housing providers. Clear definitions and examples would be helpful.
- *Network Age*: Clarification is needed on whether this refers to the age of the building, the heating plant, or another component.
- *Network Type (Communal vs. District)*: We are aware of proposals suggesting that small district or campus-style schemes—where a few adjacent buildings share a plant room and operator—should be classified as communal. We support this interpretation for regulatory consistency.

**Q 21: 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 are aligned with The Heat Network Response:*

Making Ofgem's benchmarking methodologies accessible and easy to understand is essential for building trust—particularly given their central role in the fair pricing test and any future investigations.

**Q 22: Do you have any other feedback on the proposed approach to price comparison and benchmarking?**

No Response

### Profitability Analysis:

**Q 23: Do you agree with the proposal for ongoing monitoring of profitability through data collection on EBIT margins for all heat networks?**

No response

**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?**

No response

**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?**

No response

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

*We are aligned with The Heat Network Response:*

As not-for-profit organisations, we do not have a direct position on this section of the consultation. However, we would like to raise the following points for consideration:

- Ofgem has confirmed in the fair pricing consultation documentation that the profitability test would apply **only to for-profit heat networks**.
- It remains unclear whether EBIT data might still be collected from not-for-profit heat networks, even if the profitability analysis is not applied. Clarification on this would be helpful.
- We would also welcome clarity on whether profitability is intended to be assessed at the organisational level, the individual heat network level, or both. From an internal management perspective, understanding whether each network operates at a surplus or deficit is valuable.
- As previously noted, a clear and consistent definition of “not-for-profit” is urgently needed to support accurate reporting and compliance.

### Central Price Transparency:

**Q 27: 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.**

No response

**Q 28: 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?**

No response

**Q 29: Do you support focusing on one option or a combination of options in paragraph 6.69?**

No response

**Q 30: Do you support the phasing in of the options described in paragraph 6.70?**

*We are aligned with The Heat Network Response:*

While we do not have the technical expertise to comment on the proposed benchmarking methodologies in detail, we strongly support the principle that any approach—whether a single method or a combination—must be simple and easy for customers to understand. If headline pricing information requires additional guidance to interpret, it risks undermining transparency and trust.

We also note that many social housing providers are unknowingly under-recovering the full costs of operating their heat networks. This could distort the data used to inform benchmarks. Additionally, there are likely to be significant differences in pricing between for-profit and not-for-profit providers, which will need to be clearly contextualised for consumers to ensure fair and meaningful comparisons.

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

*We are aligned with The Heat Network Response:*

**Paragraph 6.71 states:** “For example, a not-for-profit communal heat network might face fewer reporting requirements and a simplified option like market average and price ranges might be appropriate.”

We support this approach; however, we stress the urgent need for a clear and consistent definition of “not-for-profit.”

**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?**

*We are aligned with The Heat Network Response:*

It seems that much of the data required for central price transparency is already being collected through other channels, meaning it could serve a dual purpose and help reduce administrative burden. We also recommend that HNTAS data be utilised

directly, without requiring duplicate submissions.

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

*We are aligned with The Heat Network Response:*

We see these as intrinsically linked.

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

*We are aligned with The Heat Network Response:*

The high-level approach to price investigations outlined so far appears reasonable. We look forward to receiving further details in due course.

Thank you for the opportunity to engage in and respond to the consultation. We look forward to working with you as the regulatory framework is implemented. We would be glad to provide further information, arrange visits to our locations, or engage in further discussions; please do contact us if we can be of any assistance.

Yours sincerely,

A handwritten signature in black ink, reading "Liz Davenport". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Liz Davenport  
Asset Strategy & Sustainability Director  
Anchor