

Barking and Dagenham Response to Heat Networks Regulation:
Fair Pricing Protections Consultation, 2025

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B&D Energy Limited

B&D Energy is a subsidiary of London Borough of Barking and Dagenham.

The objectives of the company are the provision of cost effective energy to residents, provide infrastructure that promotes the regeneration of the Borough, provide sustainable returns to the shareholder and support the transition to low carbon economy.

The Shareholder has oversight of pricing and charging of consumers plus connection charges. B&D Energy operates a fair pricing policy that aligns the cost of energy to our consumers with relevant gas, electricity and operating cost counterfactuals – the best proxy for this is the Heat Trust Calculator. B&D Energy does not operate on a cost recovery basis and therefore we are incentivised to operate efficiently.

The main concern of B&D Energy with regards to this consultation and the related new regulations being introduced to the Heat Network sector is the direct comparisons with the gas and electricity markets.

In the Heat Network market almost all operators are very small, even if supplying thousands of homes. As an example, B&D was set up nine years ago and supplies around 2,000 homes. The business has 9 employees and will not generate any profits until a further 5,000 homes are added to the network over the coming 5 years. In this context there is limited capacity to absorb significant additional administrative burden and while being fair to consumers must have effective mechanisms to recover debts – which otherwise significantly burden the remainder of the limited customer base.

The request is for OFGEM working with DESNZ and other industry bodies to find mechanisms to support residents that are truly proportionate to the large number of small organisations that pre-dominate in the market.

The impact of over-bearing regulation, reporting requirements and auditing will be market failures and lack of investment.

At present B&D Energy do not consider the approaches proposed by OFGEM as proportionate – despite this being a stated aim.

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Fair pricing framework

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.

No.

A simple and proportionate approach is required.

A simple regulation that says the total annual price should be comparable to, or less than, a counterfactual linked to alternative heat sources would largely suffice.

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.
- 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.

Partially. Please refer to our overarching response to this consultation in the answer to question 1.

Principles

Cost reflective pricing: This completely fails to address those networks that employ a 'cost avoidance' or 'price promise' model. For the avoidance of doubt this is the method that is and will be used by all major EScO's in the UK and will be prevalent across heat network zones.

Cost efficiency: A drive from Ofgem for heat networks to drive down costs will, most likely, result in poor customer experiences as operators cut the level of service which would conflict with the quality improvements elsewhere in the wider proposals. B&D Energy operates a low cost model and strives for high customer service, whilst delivering a price promise to consumers – there is nothing in these regulations that will improve efficiency, more likely the opposite.

Fuel procurement: A cap to prices for gas and electricity used in networks supplying residential consumers to avoid the huge price ranges would be welcomed and align the outcome for heat network consumers with residential consumers of electricity and gas.

Capital cost recovery. All capital costs associated with the construction must be recoverable in the form of connection charges and heat costs to consumers. Ofgem should also consider capital costs from subsequent works and upgrades - particularly related to future technical standard requirements and decarbonisation.

Fair and reasonable returns. Investors in heat networks require a known return on their investments; any uncertainty in returns or threats of possible future Ofgem price investigation will simply make this sector un-investable.

Debt repayment. Please confirm that the heat network sector will have the ability to reclaim debt through third party deductions from benefit payments. B&D Energy is also concerned that Ofgem appears to be taking the position that where a repayment plan is agreed but the customer then struggles to make agreed repayments the heat supplier should then accept further reductions. This almost appears to be a charter for non-payment of heat supply charges.

B&D Energy works proactively with all customers but persistent non-payment will negatively impact all other consumers and must be curtailed. Whilst we recognise that it is important to work with customers, if a service has been provided then ultimately the supplier has a right to expect payments. It is also important to note that each operator has to operate within its own limited financial resources – which even for perceived large heat networks with thousands of connections the finances are far removed from those of the electricity and gas supply industry.

Outcomes

It is not clear how some of the stated customer outcomes will be achieved with this framework.

The framework as proposed currently does not give guidance on how capital investment can be recouped over time in a fair manner so no indication of how this can be done fairly.

Do you agree with the proposed 'fairness test'? In particular:

- c. Do you agree with the high-level features of the fairness test (principle based, reasonableness, case-by-case basis, and objectivity)?

No, it deviates from the requirements of a proportionate and simple solution appropriate to the market.

- b Do you agree with our proposals to implement the fairness test discussed in Appendix 1: Fairness test?**

No, it deviates from the requirements of a proportionate and simple solution appropriate to the market.

Market segmentation

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):

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- d. Have we identified the right characteristics for market segmentation, and are these correctly defined?**

B&D Energy believes this produces a confusing matrix of benchmarks which Ofgem will struggle to operate and heat suppliers and customers will struggle to understand.

- e. Do you agree with the segmentation approach discussed for each of these characteristics?**

Please see above comments.

Data requirements

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

B&D Energy does not support the need for such a large and complicated dataset – with the consequent increase in cost to deliver.

B&D Energy does not understand the requirement for quarterly reporting; most of the data types will change annually – there is no benefit in making organisation expend significant effort in reporting quarterly.

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

B&D Energy does not support the need for such a large and complicated dataset – with the consequent increase in cost to deliver.

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

B&D Energy believes this will just create an unmanageable framework which is complex for Ofgem to operate and difficult for the customers/heat suppliers to understand.

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?

B&D Energy as a private organisation has a sound understanding of its cost base and also has the most cost effective and technically efficient operation; to penalise them with huge dataset requirements is not appropriate. In fact, those operators on a cost avoidance model could be largely exempted from this process. As a public sector owned limited company B&D Energy is subject to detailed annual financial audit – an alternative proxy assessment of financial performance or viability is unwanted and unnecessary.

Cost allocation

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?

Cost reflectivity.

The B&D Energy Price promise provides 100% fair prices as they are benchmarked against a standard counterfactual and any cost or operational inefficiencies are borne by the network – not the consumer.

Any guidance or process must include cost avoidance.

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

Price comparison and benchmarking methods

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.

Counterfactual pricing is hard enough to explain to residents even when using a simple tool, such as the Heat Trust Heat Cost Calculator but to add in a multitude of complexity will make explanations and transparency impossible. This whole proposal by Ofgem needs to be simplified.

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

Yes, as long as they are used in a fair manner which reflects the scheme that the occupier is connected to, i.e. a gas boiler counterfactual should not be applied to a low carbon heat network.

A sophisticated but easy to use counterfactual should be developed that can be easily communicated with residents but that takes account of different energy types and resident tenure.

Any external benchmark should have a clear and complete explanation as the point above.

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.

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?

No.

B&D Energy does not believe this delivers the correct outcomes for consumers and is overly complex difficult to understand and open to challenge

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?

See above

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?

See above

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?

See above

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

An updated and clarified Heat Trust Heat Cost Calculator is the most appropriate and proportionate approach for benchmarking.

Profitability analysis

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

As a public sector owned limited company B&D Energy is subject to detailed annual financial audit – an alternative proxy assessment of financial performance or viability is unwanted and unnecessary.

If EBIT comparison is deemed necessary it should be one that uses the output of the formal audited accounts and not create shadow accounts.

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?

See above – this is the norm for some organisations and therefore this data should be accepted by OFGEM.

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.

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

Given the size of Operators and the fragmentation of the market – this analysis of the entire market is unnecessary and overly complex.

OFGEM has the powers of investigation and therefore would be better focused on validating the performance of networks and operators that are seen to be giving poor consumer outcomes – this does not require gathering of excessive information from all operators but as a reaction to consumer feedback.

Central price transparency

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.

B&D Energy only supports the expansion of the Heat Trust Cost Calculator is the one we firmly believe is the only solution which makes sense.

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?

Please see our response above.

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

Please see our response above.

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

No! This would provide a very confusing landscape for customers.

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

No. Another unwarranted complication.

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?

No. If Ofgem insist on using complicated economic models to derive cost drivers and price transparency then there will be a large burden on networks to deliver the mountain of data required and this mountain will be constantly moving. B&D Energy do not understand why Ofgem is persisting with this approach.

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

No these are completely separate topics and should not be conflated.

Price investigations

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

OFGEM has the powers of investigation and therefore would be better focused on validating the performance of networks and operators that are seen to be giving poor consumer outcomes – this does not require gathering of excessive information from all operators but as a reaction to consumer feedback.