

Bring Energy response to the Heat networks Regulation: Fair Pricing Protections Consultation- May 2025

About Bring Energy

Bring Energy Limited, formerly known as Equans Urban Energy, is the market leader in city centre district heating schemes providing heat, cooling and/or power to commercial, public sector and residential customers.

We are heat network developers and investors who design, build, finance and operate district heating and cooling schemes in partnership with the public and private sectors.

Bring Energy's district heating and cooling networks include large multiple energy centre schemes in several major cities (London, Birmingham, Newcastle, Coventry, Southampton, Leicester and Edinburgh) and include prestigious and highly successful schemes demonstrating growth and decarbonisation such as the Queen Elizabeth Olympic Park, Newcastle Regeneration Partnership and Battersea Power Station.

Summary of Consultation Response

Bring Energy welcomes this opportunity to respond to the Heat networks Regulation: Fair Pricing Protections Consultation.

We would like to make the following summary points:

1. Any determination of fair pricing should consider that heat networks vary significantly and have different technical and commercial arrangements that drive legitimate differences in pricing. This is likely to make price comparisons between different networks difficult and not always meaningful and could lead to customers incorrectly perceiving prices as unfair.
2. Any approach to mandating and enforcing price transparency should not undermine commercial confidentiality and threaten competitiveness and should not foster a culture of false benchmarking and contestation of hitherto satisfactory tariffs.
3. We believe that external benchmarking i.e. a comparison to gas and low carbon alternatives (counterfactuals) would work best as this would be easier to understand and interpret unlike the other suggested options which carry risk around misinterpretation and the selection of appropriate characteristics for market segmentation.

4. We think it will be important for Ofgem to carefully consider the likely interaction between wider pricing regulation and any other regulatory requirements imposed on heat suppliers (particularly within heat network zones)- as part of the zone procurement process. This would help avoid the risk of double regulation being imposed on heat suppliers operating within heat network zones, for example by being answerable to each of Ofgem, the Zone Coordinator.
5. In relation to Ofgem's proposed approach to profitability assessment, we warn against reliance on absolute levels of EBIT. We believe that EBIT should be viewed as a proportion of revenues because investors expect profit % margins to be maintained. We have provided further detail on our position on this in our responses to the relevant consultation questions below.
6. We welcome Ofgem's non-prescriptive approach to cost allocation. This will allow heat suppliers the flexibility to recover costs in ways best suited to their specific circumstances.
7. We also welcome Ofgem's proposal to delay the commencement of any data driven pricing investigations until January 2027- at the earliest. This will allow Ofgem time to study market trends and collect the pricing data necessary to inform any future pricing investigations.
8. Ofgem will need to ensure that any grounds for intervention (price investigation) are robust and triggered by credible evidence such as evidence of significantly higher consumer prices relative to the relevant counterfactuals.
9. Ofgem should carefully consider the potential impact the proposed pricing requirements could have on the financial viability of heat network schemes. Unlike electricity and gas suppliers who do not own the infrastructure and can easily exit the market if operations become unprofitable, heat networks have millions invested in buried pipework and energy centres. This means that if the proposed pricing requirements make it unprofitable, heat suppliers could be forced to exit the market- writing off enormous amounts in assets- in the process.

We have provided responses to individual consultation questions below.

Fair pricing framework

Question 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.

Response Q1: We broadly agree with the principle of fair pricing. However, we believe that any fair pricing principles and objectives should be non-prescriptive and should allow for flexibility to address emerging challenges as well as allow for innovative price offerings to customers.

Additionally, in drawing up any fair pricing principles and objectives, Ofgem will need to consider that cost drivers will vary between schemes- depending on network type, fuel input, capital requirements, risk profile, as well as other technical and commercial characteristics.

Furthermore, we think it will be important for Ofgem to carefully consider the likely interaction between the proposed fair pricing objectives and outcomes and any other pricing requirements imposed on heat suppliers (within zones)- as part of the zone procurement process. This would help avoid the risk of imposing double pricing requirements on heat suppliers operating within heat network zones.

Question 2

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.

Response Q2: Yes. We agree with proposals to develop fair pricing guidance in relation to each of the principles outlined within the consultation document. Guidance would help heat network operators better understand Ofgem's expectations around fair pricing.

Question 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?

Response Q3: We broadly agree with the high-level features of the proposed 'fairness test' i.e. that it should be principles based, reasonable, on a case-by-case basis and objective.

Question 4

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

Response Q4: Bring Energy has no comment. *Market segmentation*

Question 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): 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?

Response Q5: Whilst the characteristics for market segmentation listed within the consultation document appear comprehensive, any approach to segmentation could remain problematic as no grouping will be perfect. It will remain extremely difficult to segment the market into comparable groups.

Additionally, important characteristics such as technology and type of heat source are not among the proposed segmentation characteristics listed within the consultation document.

With regard to *Shared Group Loops*, we believe the pricing / cost allocation around 5G networks can be very confusing for clients and difficult to understand. It will be difficult to understand whether these networks deliver value for money without end-to-end data collection being required.

Furthermore, the proposed segmentation characteristics do not distinguish between networks with bulk supply arrangements vs those with end-user supply. This is important as the data which can be supplied will be different in each case. Note that many large networks will have both arrangements in place, with different customers.

Data requirements

Question 6

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

Response Q6: Heat network operators should generally be able to provide the information listed in Table 3 i.e. standing and unit charges, cost drivers etc. However, any data requirements by Ofgem should not be onerous and should not add to existing administrative and resourcing requirements for heat network operators. For example, requiring heat network operators to provide data on a quarterly basis could risk adding an administrative burden on network operators.

Question 7

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

Response Q7: Please see our response to question 6 above.

Question 8

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

Response Q8: Heat network operators should generally be in a position to provide the information listed in Table 7 (Appendix 7). However, the data requirements by Ofgem should not be onerous and should not add to existing administrative and resourcing requirements for heat network operators.

Question 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?

Response Q9: Bring Energy has no comment.

Cost allocation**Question 10**

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?

Response Q10: Yes. We agree with the proposed rule that GSOP payments, compensations, fines, penalties and other redress provided to consumers should not be passed through to customers.

Question 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?

Response Q11: We do not believe that the proposed draft guidance provided represents best practice. In our view, “all parties” (i.e. developers, landlords, tenants) should pay for the any incremental costs they impose on the system. This should not just be limited to consumers as suggested by the draft best guidance provided.

Additionally, we do not agree with the proposal to turn any of the best practice guidance into prescriptive rules. The imposition of prescriptive rules would limit flexibility for heat network operators.

Question 12

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?

Response Q12: We do not believe that cost allocation rules should be applied at all. Instead focus should be on the overall outcome (in this case-fair pricing). If cost allocation must be applied, it should not be applied uniformly across the sector but should recognise the different commercial and technical arrangements across the different segments of the heat network sector. Any approach to cost allocation must also consider grandfathering for legacy and existing heat network schemes.

Additionally, if cost allocation rules are to be applied, they not only focus on fixed and variable costs but should also consider capital contributions /connection charges as these are inseparable.

Furthermore, the imposition of prescriptive cost allocation rules is likely to stifle pricing innovation and the ability of heat suppliers to adopt pricing structures that suit their diverse customer bases and business needs.

Question 13

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

Response Q13: Yes, the authorisation condition, ‘cost allocation’, broadly reflects the policy intent.

Question 14

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

Response Q14: In our view, any approach to cost allocation should not impose restrictions on a heat supplier’s ability to set connection fees, fixed and variable tariffs separately.

Additionally, we believe that “all parties” (i.e. developers, landlords, tenants) should pay for the any incremental costs they impose on the system. This should not just be limited to consumers as suggested by the consultation document.

Price comparison and benchmarking methods**Question15**

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?

Response Q15: We do not agree with the proposed approach for defining heat network prices in a comparable way as it is difficult to find networks which are similar and comparable. For example, we believe that comparator benchmarking is unworkable for all but the simplest schemes. Although you have listed many valid factors in determining different groups of comparable networks, we don't believe it is possible to include enough for a well-founded comparison.

One of the many examples of this is the nature of heat offtake arrangements from Energy from Waste facilities. Firstly, city-scale networks will vary in how much of their energy mix the EfW constitutes and what the other technologies are. More importantly, there are various factors which mean one EfW offtake may be fundamentally incomparable with another. At Coventry we have the ability to take high pressure steam and low-pressure steam, which attracts different Z-factors because they have different impacts on the level of electricity generation required. Other facilities can provide post-turbine condensate, which has zero impact on electricity generation but will probably need the temperature boosting. Our offtake agreement sets prices based on an index of forward electricity prices, set on an annual basis, but I know of others which take actual prices on a monthly basis – still others set prices according to gate fees for waste or a gas index. Another example is the number of waste processing lines and turbines in each facility, which will reflect in the amount of time the engine is offline and heat is unavailable, therefore the cost of providing resilience. Some EfW operators are prepared to provide a guarantee of availability, others are not.

4.33 is also missing some important factors, such as the level of commercial being taken by the heat network developer. This could be driven by the relative dependency on new customers vs those contracted at financial close, whether this new growth comes from existing buildings or proposed developments, construction risks, tariff formulae which protect the operator from volume risk, or many other things. Clearly investors will expect a higher return for riskier projects.

Clearly we are opposed to the notion of these groups but if they are to be a feature of the regulation we would request that there is a route to see the evidence and challenge which archetype our networks are placed in. We are happy for data science to be used but believe it should be possible to understand and debate these groupings without employing consultant data scientists

Question 16

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

Response Q16: We are supportive of using heat pump and gas boiler counterfactuals as external reference benchmarks.

However, any external reference benchmarks (counterfactuals) should be appropriate and reflective of:

- The type of building and its related characteristics and parameters i.e. whether it's a new built or existing older property, the size of the development looking to be connected etc.
- The type of scheme that a building seeks to connect to as well as that scheme's level of decarbonisation. For example, a gas boiler counterfactual should generally not be used to benchmark a decarbonised/low carbon heat network.

We recommend that Ofgem looks at *the WSP/UKDEA: Heat Revenues & Connection Charges Counterfactuals Study* (published in October 2023). In summary, the study recommended that different counterfactuals be used for different building archetypes for example using heat pump counterfactuals for new builds etc.

Question 17

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?

Response Q17: Additional factors that Ofgem should consider in order to ensure a robust heat pump benchmark/counterfactual include avoiding the use of the manufacturer's design COP as the standard benchmark as this does not (in practice) reflect real-world scenarios.

Furthermore, there could be hidden costs which need to be reflected in the counterfactual e.g. the costs involved in connecting to the distribution network for additional power capacity in the case of heat pump counterfactuals.

Question 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?

Response Q18: We believe that comparator benchmarking is unworkable for all but the simplest schemes as it is difficult to find networks which are similar and comparable.

With regard to the listed cost drivers:

1. We think the fuel cost should be wrapped up in the cost of delivered heat and be a high priority cost driver.
2. Ofgem should ensure that costs such as those relating to carbon taxation e.g. UKETS costs- are included within the list of cost drivers.

3. We believe that geographic location should be upgraded to a high priority characteristic, due to its significant influence on network CAPEX costs and ultimately connection charges and tariffs. In addition, we believe it will be important to factor in costs related to accessing third party land/property for the purposes of laying and maintaining pipework.
4. Ofgem should ensure that regulatory and compliance costs such as those stemming from HNTAS are included within the list of cost drivers.

Furthermore, whilst we understand the argument for not wanting to effectively pass on costs to cover network inefficiencies, consideration should be given to the fact that low network efficiencies are often driven by poor return temperatures on the customer side- which in many cases is outside the control of a network operator. While HNTAS aims to ensure that new developments will provide low return temperatures, it's unlikely to cover existing buildings with old heating systems that are not designed with return temperatures in mind. The current lack of understanding and flexibility around network inefficiencies may risk heat network operators avoiding connections to such buildings due to concerns relating to high return temperatures.

Question 19

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?

Response Q19: As previously stated in our response to question 6 above, heat network operators should generally be able to provide the information outlined in paragraph 4.33 i.e. on cost drivers. However, Ofgem will need to ensure that the requirements are not onerous and do not impose additional administrative and resourcing requirements on heat network operators.

Question 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?

Response Q20: Please see our response to question 19 above.

Question 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?

Response Q21: We agree with the proposal to publish a high-level methodology for each benchmark (once data is collected and methods have been tested).

Question 22

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

Response Q22: Our preferred benchmarking option is “External Benchmarking” - which involves comparison against a counterfactual – usually the best alternative, e.g., a gas boiler or heat pump.

We believe this approach would be simpler to interpret and would require less resources than alternative approaches. Additionally, it will be important to avoid using the manufacturer's design COP as the standard benchmark as this does not (in practice) reflect the real-world scenario.

Furthermore, we believe that any benchmarking approach should consider the impact of heat network adoption fees/connection charges on overall pricing determination as well as the age of the network. For example, it would be problematic to benchmark a legacy network against the metrics applicable to a newer more modern and efficient network. We believe that the other benchmarking options proposed by the consultation e.g. (comparator benchmarking) pose challenges such as getting the segmentation characteristics right - given the complexity and number of technical and commercial variables across schemes within the sector.

Profitability analysis

Question 23

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

Response Q23: We warn against reliance on EBIT as an absolute metric but welcome the focus on EBIT margins. A large component of EBIT will relate to the allocation of central costs to individual networks. Bring Energy carries a significant amount of its costs centrally – these costs are for servicing existing networks and corporate/organisation costs - which need to be allocated out to networks. For companies which are not pure-play district heating businesses (like Bring Energy) there will be a degree of judgment which could lead to over-allocation of corporate costs which would reduce EBIT.

Separately, a factor to consider is that additional central costs may indicate a company positioning for growth and developing more heat networks.

The government should note that EBIT margins also reflect the capex invested by the owner in a heat network which must be recovered through time. EBIT margins are expected to increase when heat pumps are installed since these are high capex items that require high profit margins to pay back over time. Hence a high EBIT could be an indicator of how much an owner has invested in a heat network for growth and/or decarbonisation, which we consider to be a positive.

EBIT margins may also reflect the level of commercial risk taken by the heat network developer, where higher returns will be expected for greater risk. Different heat networks have different risk profiles, depending on many factors including the relative dependency on new customers vs those contracted at financial close, whether this new growth comes from existing buildings or proposed developments, construction risks, credit scores of customers, commercial arrangements which may or may not protect the operator from lower consumption than forecast and many other things.

EBIT should be viewed as a proportion of revenues because investors expect profit % margins to be maintained. For example, if there is a period of elevated energy prices (as there was in 2022-23) that feeds through to higher revenues, higher EBIT must be delivered to maintain the same % profit margin. From the perspective of investors, a reduction in profit margin represents higher risk and lower value.

Regarding “excess profit”, we believe that once a heat network has been built then for each new customer connected the network operator should be able to earn "excess profit" so long as customers are not subject to higher prices. If government reduces the profitability of new connections this will significantly decrease the incentive for network operators to grow existing networks, despite this being straightforward low hanging fruit both now and for all networks in the future.

We observe that EBIT margins are volatile depending on the assets and operations. Factors such as the weather and outages of generating equipment can lead to volatility from year to year. Good years make up for bad years and so a level of "excess profit" is required sometimes to maintain normal profits in the medium term.

We would like to take the opportunity to remind the government that we are currently in a period of historically low gas prices that may be driving expectations of low heat prices in the future. Low gas prices mean that the variable price of heat is low and thus the fixed price associated with the capex and maintenance of the network appears relatively high. Furthermore, in the hoped-for transition to heat pumps, heat pumps have a higher capex and thus accentuate the problem: heat costs will be dominated by the capex cost recovery and high capex low-carbon district heat networks will look relatively less attractive.

As we have indicated, there are a lot of factors which need to be taken into account as well as EBIT%. For this reason, we strongly urge that all findings based on EBIT% alone are kept strictly confidential. There could be a lot of reputational damage for the operator and the

sector as a whole if there are preliminary findings indicating overcharging – even if these are overturned at a later stage when other factors are taken into account.

Finally we believe that new heat networks should be exempt from profitability analysis for a certain period, provided they charge within the commitments they made during the zone recruitment process.

Question 24

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?

Response Q24: Please see our response to question 23 above.

Question 25

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?

Response Q25: Yes, we agree that, where the EBIT% assessment flags a potential concern, there is a requirement for a more detailed and nuanced assessment which takes accounts of the factors listed in Q23 before any conclusions are drawn. We also trust that the approach to profitability review will be the same as price investigations. Similarly, as stated in our response to Q34, we do not believe there can be a standard answer regarding appropriate levels of profitability or returns in such a diverse and immature industry.

We believe that specifying a benchmark RoC or WACC is inappropriate in a growing industry with different industry participants. Different heat network operators play different roles, for example on the one hand you have stable networks ticking along, and elsewhere there are companies with ambitious growth plans bringing new investment to the sector. The latter have a higher financial return requirement in return for the development and construction of new networks -often taking the risk of unknown future heat demand.

We would also like to ensure that any in-depth assessments are rare events and do not place onerous demands on the heat network operator.

Question 26

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

Response Q26: No. We do not have any further feedback on the proposed approach to profitability assessment.

Central price transparency**Question 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.

Response Q27: We believe that Option 2- which includes a comparison to gas and low carbon alternatives (counterfactuals) would work best as this would be easier to understand and interpret unlike the other suggested options which carry risk around misinterpretation and the selection of appropriate characteristics for segmentation. Segmentation could be problematic as no grouping will be perfect.

Any requirement for heat suppliers to make public disclosures of pricing data, should consider that heat networks vary significantly and have different technical and commercial arrangements, profiles and usage patterns. This makes price comparisons between different networks very difficult and not always meaningful and could lead to customers incorrectly perceiving prices as unfair.

Additionally, any approach to mandating and enforcing price transparency should not undermine commercial confidentiality and threaten competitiveness and should not foster a culture of false benchmarking and contesting hitherto satisfactory tariffs. Bring Energy supports the provision of transparent information to consumers through heat supply agreements and billing.

Question 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?

Response Q28: As stated in our response to question 27 above, we believe that Option 2- which includes a comparison to gas and low carbon alternatives (counterfactuals) would work best as this would be easier to understand and interpret unlike the other suggested options which carry risk around misinterpretation.

Question 29

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

Response Q29: We support focusing on one option- which in this case is Option 2- which includes a comparison to gas and low carbon alternatives (counterfactuals).

Question 30

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

Response Q30: Please see our response to question 29 above.

Question 31

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

Response Q31: No, we do not support the adoption of different options for different heat network groups described in paragraph 6.71 as this could result in more complexity.

Question 32

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?

Response Q32: No, we do not agree that central pricing data collection requirements are unlikely to put additional administrative burden on heat networks. There is always the risk of additional administrative burden and resourcing requirements- particularly if the data reporting requirements are frequent and wide in scope.

Question 33

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

Response Q33: Yes. We think it is appropriate to link central price transparency with benchmarking. This would enable comparison between the centrally published pricing data and any relevant price benchmarks.

Price Investigations

Question 34

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

Response Q34: We broadly agree with the approach to price investigations set out so far - namely that:

- Ofgem will not commence any data driven pricing investigations until January 2027 at the earliest- to allow for pricing data collection prior to embarking on price investigations,

- and that it is not possible to have a standardised approach to price investigations given the diversity of the sector and the potential lack of consistency on cost allocation across the sector -which may limit Ofgem's ability to make accurate comparisons. A case-by-case approach would be more appropriate in our view.

In addition, and as part of its approach to price investigations, Ofgem will need to:

- Ensure that grounds for intervention (price investigation) are robust and triggered by credible evidence such as evidence of significantly higher consumer prices relative to relevant counterfactuals.
- Consider each scheme's unique commercial and technical arrangements.
- Consider information such as the type of benchmark, price comparator or counterfactual used.
- Consider how pricing investigations will interact with existing customer rights to challenge prices or costs that they perceive as unfair or unreasonable for example via the Energy Ombudsman and other relevant Tribunals.