

## **CESSA Housing Association Response to Ofgem Consultation on the Heat Networks Regulation: Fair Pricing Protection**

Please find our responses to the questions posed by Ofgem in your consultation on the above.

### **Introduction:**

Firstly, we welcome Ofgem's stated intention is to try to ensure that the regulatory burden remains proportionate and that it continues to consider how the regulatory approach may be designed to be fit-for-purpose and proportionate for different types of heat networks. CESSA Housing Association is a small Association that provides sheltered housing to 191 homes (across 5 sheltered schemes) to Veterans who have served in the British Military, or people directly connected to them (i.e. family members or partners). Each scheme has a heat network (powered by a central gas boiler) that provides heat and hot water a) to the communal areas, and b) to tenants' own self-contained flats. Having been built between 1976 and 1987, the heating and hot water provision is centrally metered, with it previously being assessed under the Heat Network Regulations as being 'exempt' due to analysis indicating that it would not be financially prudent to install individual heat metering for individual flats.

As a Regulated Provider, governed by both the Regulator for Social Housing and the Housing Ombudsman, we are already operating in an environment with considerable oversight regarding value for money. As a charitable Friendly Society, our main aim is already to ensure that our residents (some of whom are vulnerable) are supported to live independently in their own homes in a way that ensures their financial independence, avoids financial hardship and protects their physical and mental wellbeing so far as is possible. We, therefore, regularly liaise with external advice and support agencies like Adult Social Care, Citizens Advice, Age UK, SSAFA and the Royal British Legion to ensure that residents are able to access external support whenever and wherever it is needed.

It is also worth highlighting that the regulations already govern how a charitable Housing Provider operates, particularly with regard to passing on costs associated with running a building of multiple occupancy that also contains well-used communal areas, like a communal lounge and kitchen, scheme laundry, guest rooms and, in some instances, craft rooms and assisted bathing facilities. For instance, for Regulated Social Providers with Assured tenants, S11 of the Landlord and Tenant Act 1985 (and extended by S16 of the Housing Act 1988 to include the whole building) states that:

*"Dwellings. Where the Landlord provides heating and/or hot water to individual dwellings, the expenditure on fuel (oil, gas, electricity or solid fuel) including VAT is considered a service. However, this charge is ineligible for housing benefit. The cost of maintenance, insurance and depreciation of any boiler situated with the dwelling will be excluded from the service charge because of the effect of s.11 of the Landlord and Tenant Act 1985...."*

This, therefore, means that the cost of either maintaining or replacing a central boiler or any part of a heat network incurred by a Social Landlord must not be passed on to its tenants.

Consequently, all maintenance and heat network-related procurement costs are funded via the Basic Rent element of the Total Rent paid to us each month by our tenants. The other element is the Service Charge that is calculated annually using data from the management accounts and includes the actual forecast cost of the energy used to fuel the heat networks (i.e. the cost of the gas and the gas suppliers standing charges). Staffing costs associated with providing the heat network are included in an overall management fee (currently 15%), most of which the Association chooses (following the ending of the Supporting People regime), charitably to 'donate' back to tenants to support them with the cost of the hard-wired emergency support alarm system and the staff cost associated with providing low-level support (not Care) to those residents who may need it (neither of which may be claimed back via Housing Benefit for those residents 2

who rely on HB support to remain financially independent. With the exception of the cost of providing a scheme cleaning and scheme manager services, all other staffing costs and repair and maintenance related costs are covered by the Basic Rent element of a tenant's Total Rent<sup>1</sup>. The amount that this may vary is governed by the Government's Policy on Rents for Social Housing, which means that for a number of reasons, splitting out heat network-related maintenance staff spend may adversely affect Social Providers' ability to meet what is also regulatorily required. Changing this may also inadvertently result in tenants having to pay more for their heat network, possibly, and unintendedly causing them financial worry and distress.

<sup>1</sup> Note that 'Total Rent' includes 2 elements – Basic Rent and Service Charges, the latter of which are governed by what it is predicted that it will actually cost to run and deliver the services they cover

When calculating service charges (that are Fixed), each element of it is separately considered line-by-line and code-by-code. Therefore, as is expected under Social Landlord Service Charge preparation guidance (provided in a helpful book compiled by the National Housing Federation), detailed analysis is carried out into what that service element cost to provide in the previous, and most recent, financial year and what it is anticipated to cost to provide in the following. So far as the calculation of energy costs, preparation includes: a) Analysing the number of kWh used at each scheme (we record all monthly meter readings for submission to our energy supplier); multiplied by the unit rate (all energy contracts are procured, inviting tenders from a number of suppliers, on fixed, long-term deals that offer best VfM money for the following fixed-term period – see \* below); plus all standing charges and VAT (levied at the domestic rate of 5%); b) A small downward adjustment is then added to ensure that tenants are not over-charged and that the risk of additional costs remains with the Association, not our tenants.

\*During the energy crisis, we were able to take advantage of a new fixed-term contract that, although it was more expensive, offered the best value available at the time, and therefore, offered both the organisation and its residents protection from the eye-watering high energy costs that then followed, during which the Association incurred additional non-recoverable costs of circa £80k. When last procured, and again, following a procurement tendering process, the Association was able to procure a significant fixed-price reduction that gave tenants considerable savings in the 2025/26 rent and service charge year (effective from 1/4/25 – 31/3/26). The savings achieved then resulted in an overall reduction of, on average -6%, in tenants' Total Rent costs vs 2024/25, despite the Government-agreed increase in Basic Rent for the same period of Sept. '24 CPI + 1% of 2.7%.

Service Charge information provided to tenants already splits out costs into different elements (including for the provision of heat and hot water); and also highlights how much of the heating and hot water costs are attributable to their own personal use within their own flat. This is because this is ineligible for HB, whereas the remainder of the Service Charge is and may be claimed back by those who are in financial need.

We absolutely agree that our tenants and their wellbeing must be the absolute priority and that more detail regarding cost and usage should be provided to tenants in future to help them understand the cost of running the heat network in their scheme. To this end, from 2025 we have already amended the information provided in the annual rent notification paperwork provided in February 2025 to include details of the energy unit prices for their scheme, and this will be further enhanced for the 2026 Rent year. We are always mindful, however, of ensuring that our communications are easy to understand and it is perhaps worth noting that the Government content-prescribed letter required to be given to residents to tell them about the impact on them of the EBRs and EBDs schemes led to a flurry of tenant complaints about the wording that the majority of our residents struggled to understand; they felt that it did not meet Easy to Read guidelines and created confusion rather than minimising it. Hence, there is an absolute need to keep things as simple to understand as possible. If it is of help, we are happy to provide a copy of the Service Charge information already sent to tenants and are also able to offer to liaise with Ofgem to act as a case study if it would be of assistance. 3

Response to Questions:

- Fair Pricing Framework

- 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. *Broadly, but have concerns that it doesn't evidence that the particular constraints surrounding the Regulated Housing sector (i.e. S11 of the Landlord and Tenant Act '85 and S16 of the Housing Act '88) have been considered and taken account of.*

- 2. Do you agree with our proposals to develop the fair pricing guidance in relation to the principles (please note that the 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. *Yes, broadly, but as highlighted above, legally, a registered social landlord with Assured tenants will be unable to comply with any requirement to include maintenance costs. There may be some that could be included (i.e. cost to compile data and procure energy) but these are currently caught up in the management fee charged within a service charge that covers Head Office costs and it would be disproportionately challenging and time consuming (especially for a small HA with only 191 homes) to disentangle these from the other costs covered, as well as, highlighted above, potentially contradictory to the Government's Rent regime.*

- 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. *See above.*

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- 3. Do you agree with the proposed 'fairness test'? In particular: a. Do you agree with the high-level features of the fairness test discussed the Appendix 1: Fairness test? *Yes, but so long as how it might relate to small Social Housing providers set up to provide a Charitable, Social Purpose – i.e. not-for-profit and also provide Heat via the Heat Network in communal areas of a sheltered scheme – that means that heat network customers would be required to take the provision up to ensure that it was provided fairly and equitably to all.*

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- 4. Does the revised authorisation condition 'fair pricing', reflect the policy intent? *Probably.*

- • Market Segmentation

- 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? *Yes, so long as the responses to Qs 1 & 2a are included.*

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

- • Data Requirements

- 6. Of the information listed in Table 3 below, what do heat networks already regularly collect and can be easily reported? *Yes, mostly –*

- 7. Of the information listed in Table 3 below, which items would be more challenging for heat networks to report? *Network length is not currently known and could be challenging to calculate. EBIT calculation (although collected for the organisation overall in the annual accounts for statutory KPI monitoring) would require separate accounts codes set up (only possible and meaningful from the start of the next financial year – i.e. 1/1/26) to monitor specific heat network-related maintenance and planned works spend. So, could only be reported on from January 2027.*

- 8. Of the cost drivers listed in Table 7 (in Appendix 3), which items would be more challenging for heat networks to report? *Network length; Network generation; Other efficiency measures.*

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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? *Yes, the light touch approach taken by the Housing Regulator for smaller RPs with less than 1000 homes would be a useful cross-regulation indicator.*

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? *Yes.*

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? *Yes, but don't agreed that it should be strengthened to be prescriptive, because many of the principles behind the best practice guidance are already enshrined in the regulatory requirements of the Regulator for Social Housing and the Social Housing (Regulations) Act, and to do otherwise could cause unintended contradictions.*

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? *Yes, absolutely, and particularly for providers of social housing who operate heat networks, particularly those who are smaller, e.g. specialist smaller providers like ourselves (as explained above) and/or organisations with a similar purpose e.g. small Almhouses.*

13. Does the authorisation condition, 'cost allocation', reflect the policy intent? *Yes.*

14. What other feedback do you have on the proposed approach to cost allocation? *Only as provided in the Introduction above.*

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? *Yes, broadly. Although extremely concerned that whatever approach is taken, tenants will struggle to fully understand the data they are seeing. NB: Our tenants aged 60+ all found the prescribed letters telling tenants the outcome of the EBRs and EBDS schemes difficult to understand and so, largely did not read them, defeating the objective. Those who did, complained to us about the way they had been written which they found confusing and misleading.*

16. Do you agree with our proposal to use gas boilers and heat pumps as external reference benchmarks? *Yes, although the information on heat pumps is largely irrelevant for the Association as it would be unable to provide sufficient heat to support our customer group in the winter months on its own.*

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? *N/A.*

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? *Broadly, yes.*

19. What is your view on the ease with which data could be reported on the remaining 'Medium Importance' cost drivers set out in paragraphs 4.33? What information to heat network operators and suppliers already collect, and what would be challenging to provide? *As highlighted above, we already collect data on energy consumption and billing. We collect data on maintenance and heat network-related procurement, but it is contained within the general maintenance budget codes so, although it could be split out by the generation of additional budget codes from 1/1/2026, this could not be reported on until from 1/1/2027.*

20. Do you have any other feedback on the proposed approach to price comparison and benchmarking? No.

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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? *That would be helpful and if provided when the final draft is provide for consultation, and would help with establishing any gaps or things that certain sectors (like social housing) would legally be unable to comply with. It occurs to us that even if it proves possible for some things to be disconnected from current costs that are covered by Basic Rent (rather than service charge), any changes to Basic Rent levels are covered again by social housing legislation and the Formula Rent regime and the annual Government Rent settlement (just announced for the next 10 years). This would could possible impact on what a housing provider could do (or wish to do for important business reasons, to extract costs from the Basic Rent and lead to tenants being charged more for the same energy provision, at the same unit rate and original supplier (e.g. BGas) standing charges.*

22. Do you have any other feedback on the proposed approach to price comparison and benchmarking? No.

• Profitability Analysis 23. Do you agree with the proposal for ongoing monitoring of profitability through data collection on EBIT margins for all networks? Yes.

24. How challenging would it be for heat network operators and supplier to provide the data outlined for calculating EBIT margin? What barriers, if any, might affect the accuracy and completeness of the data. *However, this would require additional, separate work by the organisation's auditors (so incurring additional costs), the setting up of specific Finance system codes (currently the heat-network related costs for these are captured either under general staff, maintenance or major works costs), that would not be sensible to do until the start of the next financial year (1/1/26) and could only be reported on from 1/1/27.*

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? *For smaller organisations like a registered provider which is very customer focussed and driven by being able to deliver VfM to its customers, this feels unnecessary – e.g. in 2025/26 Service Charge year, and following the renegotiation of our 2-year fixed price energy deals, our service charges decreased by an average of -6% - leading to an overall reduction for all residents in their Total Rent (despite the 2.7% increase in Basic Rent).*

26. Do you have any other feedback on the proposed approach to profitability assessment? No.

• Central Price Transparency

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? *Each have their benefits and negatives, of the 3, we prefer option 1. However, whichever, the key thing to consider is how understandable is it for tenants, who are the motivating beneficiary of the legislation (if it doesn't meet their primary needs, then it should be omitted or provided in a different way). Reading the descriptions of each, and considering how challenging it has been to understand what is being meant, our view is that for the majority of tenants, it will be confusing to understand and lead them to maybe feeling anxious about something that they don't need to be.*

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? *Unsure – not least because I think, for a small social housing provider this feels like 'a sledgehammer to crack a very small nut' for a sector that is so 'socially driven', i.e. the Association, despite sitting down with our residents every 8 weeks to have a coffee,*

*have never received a complaint about either energy costs or the VfM of the heat network provision. That of course, does not mean that someone is not*

*dissatisfied, just that they have chosen not to raise it with the Association, either informally or formally.*

*29. Do you support focussing on one option or a combination of options in paragraph 6.69? Yes. If it would make it easier for customers to understand.*

*30. Do you support the phasing in of the options described in paragraph 6.70? Yes.*

*31. Do you support the adoption of different options for different heat network groups described in paragraph 6.71? Yes, absolutely.*

*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? No, we disagree, especially for a smaller organisation with only 3.5 employees.*

*33. Do you think it is appropriate to link central price transparency with benchmarking? Unsure.*

- *Price Investigations*

*34. Do you agree with the approach to price investigations set out so far? Please provide reasons and views to support your response? Broadly, other than the concerns highlighted in Qs 1-33.*

*Gill Peckham*

*Director of Housing*