

9<sup>th</sup> July 2025

## **RE: Heat networks regulation: Fair pricing Protections consultation**

Dear Sir or Madam,

CSE is an independent national charity, established in 1979 to tackle climate change and end the misery of cold homes. We undertake practical work to support households and communities to act on energy, alongside original research, and analysis to inform local and national policy.

For over 40 years, we have supported people to take effective action on energy in their homes. We help communities and local councils to understand energy issues, set priorities, and put plans into action. Our research and consultancy team are leading experts in energy system modelling and software development to optimise heat decarbonisation within buildings. Our software modelling underpins the [UK government's National Zoning Model](#). Through our advice service, home visits and one-to-one support, we help around 22,000 people a year to reduce their bills and make their homes warmer and more energy efficient.

**Q1. 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.**

### Objective

We support the objective that consumers pay fair and not disproportionate prices.

### Principles

We agree with most of the principles as you have defined them, however, would make the following comments.

### **Fair and Reasonable Returns**

Whilst network owners and investors should make a fair and reasonable return, we are concerned that heat networks might be managed to release excessive shareholders dividends, as has been seen in the privatised water industry. This sector has seen formerly debt free monopolies become loaded with debt, resulting in a substantial proportion of customers' bills now being spent servicing debt.

The regulations should ensure that the same outcome does not occur in the heat network sector. To capture this risk, we would suggest that the definition at paragraph 2.35 be revised as follows:

“...However, heat networks should not leverage their monopoly status to earn returns **or release shareholder dividends** in excess of what could be expected in compensation for the risks associated with the investment (unless this is merited, in the short term, by exceptional performance).”

## **Additional principles**

### **Decarbonising Heat Networks**

We appreciate that technical targets for carbon intensity will be set out within the Heat Network Technical Assurance Scheme. Furthermore, drivers to decarbonise heat sources will need to be balanced against cost implications for customers and commercial viability. Nevertheless, it seems strange that there is no mention of the need to decarbonise heat sources within heat networks. This is the reason government is supporting the growth of heat networks in the first place. We suggest a further principle is added as follows:

#### **Definition**

Heat network operators and suppliers should seek where technically possible and economically viable to use renewable and waste heat sources within their heat networks and to develop plans for the phased decarbonisation of existing heat networks.

#### **Guidance**

Whilst the varying availability of technically and economically viable renewable and waste heat sources will mean that, from place to place, the pace at which heat networks decarbonise will vary, heat network operators and suppliers should have plans in place to decarbonise their networks.

#### **Outcomes**

We support the consumer and industry outcomes listed but are surprised that vulnerable customers and those in fuel poverty are not specifically mentioned. We would encourage a similar approach to that set out by Ofgem in the domestic electricity

market, unless the intention is to create this guidance and expectations elsewhere. Below we have reproduced an outcome from Ofgem's Consumer Vulnerability Strategy.

We would also expect to see a priority services register established for district heating customers, mirroring what is in place in the electricity and gas sectors. Metering standards including solutions for meter data unavailability should also, at minimum, be aligned to other utility sectors such as electricity and gas. We welcome the recognition of the need for fairness, but customers have different needs and vulnerabilities, and some customers will need additional support to achieve fair outcomes.

### **Principle**

Consumers in vulnerable situations who are struggling to pay their bills should receive accurate bills that are easy to understand. They should receive compassionate, consistent, and affordable support, and flexibility in payment methods and frequencies.

**Q2. 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).**

- 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, we support the areas to be covered by the guidance.

In their draft response, ADE raise what we see as legitimate concerns that no specific guidance on fair or reasonable returns is provided. We agree that more guidance on what would constitute fair and reasonable returns would give clarity to the sector and reduce uncertainty.

The guidance needs to be integrated with the recent DESNZ questionnaire in respect of Community benefits & windfall profits proposals from Heat Network Zoning. This commented that government did not expect heat network operators to make excess profits.

We agree with the consultation proposals that community benefits should come in the form of heat tariff discounts, and if there are unanticipated windfall profits beyond planned profits, these should be shared with customers through heat tariff discounts, i.e. a proportion should be retained by the operator / supplier to incentivise efficiency savings and support the expansion of the sector. It would be helpful to cover this issue within any guidance on fair and reasonable returns.

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.

Q3. 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)?

We support the proposed fairness test and its high-level features.

We agree with the principle of cost reflective pricing and acknowledge that different heat networks will have different levels of technical efficiency which would drive legitimate price differences. Having stated this, given their lack of available choice, customers should not be expected to pick up costs for poorly or inefficiently run heat networks.

As discussed in question 1, we are surprised to see no explicit consideration of vulnerable customers. Customers have different needs and vulnerabilities, and some customers will need additional support to achieve fair outcomes.

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

We support the approach outlined. We would add further questions to section A1.2:

- what is the source of high prices?
- Is there a pattern of high profit taking and debt-leveraging associated with disproportionate pricing?

Q4. Does the revised authorisation condition, 'fair pricing', reflect the policy intent?

Yes.

Q5. 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?

We agree with segmenting the market into profit and non-profit organisations, and that in-depth assessments of profitability may not be necessary for non-profit organisations. However, we agree with the need to benchmark customer pricing. We support the entry of not-for-profit heat networks to capture social and economic benefits for local communities. However, minimum standards of efficiency and service must be provided to safeguard consumers rights and interests.

Q6. Of the information listed in Table 3 below, what do heat networks already regularly collect and can be easily reported?

Q7. 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?

**Q9. 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 support the entry of not-for-profit heat networks to capture social and economic benefits for local communities. We agree with the principle expressed by Community Energy England that consumer protection measures should be proportionate to the respective risks faced by consumers on those networks. However, minimum standards must be provided to ensure consumers rights and interests are safeguarded.

Community Energy England comment that the consumer risk profile for a consumer connected to a shared ground loop network will be lower than for a consumer connected to a high-temperature centralised heat network, given the significant difference in operating costs and risks between the different networks. We agree and therefore consider that streamlined reporting would be justified for this type of system.

We support the principle of requiring different reporting levels for different network archetypes, according to the risk profile for consumers. This will be possible once market segmentation is complete.

**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 agree with this proposal. However, in the case of not-for-profit heat networks (such as those operated by community energy groups), it will not be possible to fine or involve penalties upon them without these costs being passed through to customers.

**Q11. 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?**

**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?**

Q13. Does the authorisation condition, ‘cost allocation’, reflect the policy intent?

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

Q15. 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?

We support the approach suggested.

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

Yes. We welcome the comparison to an air source heat pump benchmark which should be the primary comparator for new heat pumps. Comparisons with gas boilers need to be carefully set out and communicated and this benchmarking method should be well integrated with benchmarks against similar heat networks.

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?

Q18. 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 support the use of comparator benchmarking, however later in the consultation document, it notes “at this stage we do not have sufficient real-world heat network data on prices and cost drivers.” If a comparator benchmarking approach is taken, the initial benchmarks set will be highly influential in setting prices thereafter. They could set the market. We therefore agree with other commentators that in-depth engagement is needed with individual suppliers to set reasonable and realistic benchmarks. There

should also be scope to review them in the future (i.e. every two years), thus ensuring consumers benefit from any significant market changes that result in lower prices.

As discussed in response to question 30, we suggest focusing on option 3, until sufficient data is available to ensure option 1 can be delivered with a level of accuracy to ensure grouping is meaningful.

**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?**

**Q20. 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?**  
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**Q21. 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?**

**Q22. Do you have any other feedback on the proposed approach to price comparison and benchmarking?**

We agree about the need for price transparency. As discussed in response to question 27, given that being on a heat network may not be a choice for many households, it’s important that consumers are reassured that prices are equivalent or lower than the costs of gas central heating, and just because there isn’t competition the costs are not necessarily higher. Comparison to equivalent gas heating prices and historic costs will be helpful here.



It would also be helpful to make available information as to how the sector is regulated, in recognition of its monopoly status, potentially through marketing or communications outside of customer's bills, if and where this is taking place.

Q23. Do you agree with the proposal for ongoing monitoring of profitability through data collection on EBIT margins for all heat networks?

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?

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?

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

Q27. 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.

We agree with the ambition that consumers on heat networks should have clear information which contextualises heat charges. From the options suggested option 3 (RAG Rating on Benchmarks) looks simplest for consumers to understand, comparing prices against a benchmark of networks with similar characteristics using a traffic light system.

Option 1 (grouped comparison) would also work but appears quite complex for consumers to understand, at least how it is presented. ADE have supported this option as allowing a fairer comparison of networks with similar characteristics once sufficient data has been amassed to allow accurate grouping. We accept this point but stress the need to simplify and summarise the data provided, ideally into a traffic light system, to enable customers to understand it.

Billing information should also include the customers' likely equivalent heating costs were their property to be heated by gas (option 3). Given that being on a heat network may not be a choice for many households, it is important that consumers are reassured that prices are equivalent or lower than the costs of gas central heating, and just because there isn't competition the costs are not necessarily higher.

We agree with ADE that the exercise of data gathering and analysis being done for price transparency is potentially more than a consumer tool, and something which can positively drive an evidence-led policy approach, however any consumer information will be much more powerful where it can be contextualised, and clear links can be drawn with wider action being taken by government.

We furthermore support the inclusion of information on the fuel type/source for the network, carbon emissions and heat network efficiency ratings, to provide transparency on the environmental performance of the network, and its contribution to cutting emissions.

We would therefore like to see a standardised heat network bill which is sent to all Priority Service Register customers alongside their regular bills. The Centre for Sustainable Energy supports people in fuel poverty, and through our telephone advice service, home visits and one to one support, we support around 20,000 people a year to reduce their bills and make their homes more energy efficient. We find many of our clients find their energy bills difficult to understand and without a standardised layout it can be difficult for our advisors to guide a customer over the phone on how to understand their bill.

**Q28. 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?**

Yes.

**Q29. Do you support focusing on one option or a combination of options in paragraph 6.69?**

Option 3, potentially integrated with option 1 if made easier to understand for consumers.

**Q30. Do you support the phasing in of the options described in paragraph 6.70?**

We support focusing on option 3, until sufficient data is available to ensure option 1 can be delivered with a level of accuracy to ensure grouping is meaningful.

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

Yes.

**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?**

Yes, we agree. Given the monopoly position of heat networks central price transparency is in consumers' best interests.

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

Yes, we believe contextualising prices is more useful than publishing them without benchmarked comparisons.

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

We agree with the approach set out. Due to the early stage of heat network evolution in the UK, networks are likely to be quite varied, with older networks with potentially higher running costs. The approach set out includes sufficient flexibility to take contextual factors into account and fairly represent customers and network operators alike.

ADE raise concerns that this could give rise to an arbitrary and inconsistent approach, resulting from the lack of clear definition of what is reasonable. This is a legitimate

concern. In the initial stages of implementation price investigations and enforcement could arise because of a misinterpretation of the ground rules on the part of heat network operators rather than any ill intent or intentional bad practice

Our view is that as the regulations are new and will be newly applied, there should be a planned review after 6 months or a year, including in-depth engagement with consumers and the industry. This would take stock of the outcome of price investigations, the effectiveness of the regulatory process and any refinements needed and the clarity of guidance for the industry. We also suggest that during this first phase, fines should not be issued.

#### General Feedback

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?

Please could you present all the questions in one place in an annex (ideally in a word document) so that they can be easily pasted into our response. It takes time to read the report as whole and collate all the questions. This would increase the likelihood of people submitting complete responses.

4. Were its conclusions balanced?

Yes.

5. Did it make reasoned recommendations for improvement?

Yes.

6. Any further comments?