



Community Housing Cymru Response to Heat Networks Regulation: Fair Pricing Protections Consultation July 2025

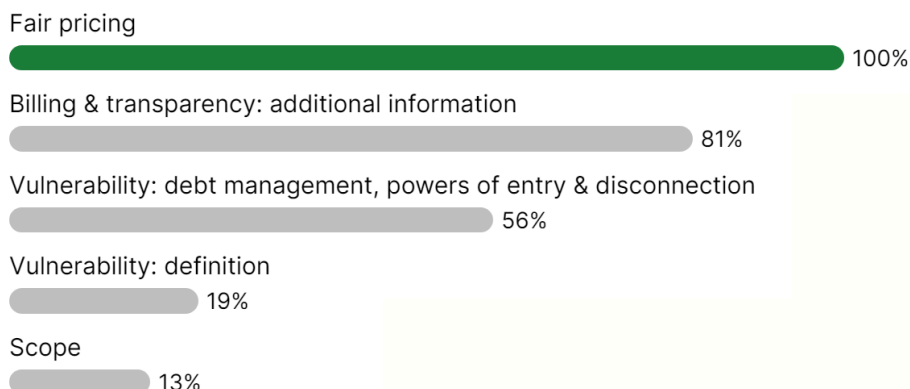
About CHC

Community Housing Cymru (CHC) is the voice of Housing Associations (HAs) in Wales, advocating for a country where good housing is a basic right for all. Our 30 HA members provide affordable homes in communities across all regions of Wales. HAs in Wales are not for profit organisations with social good as their core purpose. HAs provide over 174,000 homes to over 300,000 people, housing one in 10 people in every region of Wales. Alongside their delivery partners in the private sector, HAs make a significant contribution to affordable housing across Wales and are a key stakeholder in the delivery of the Welsh Government's longstanding target to build 20,000 new homes by 2026 to ease the housing crisis in Wales.

As an organisation representing a purpose driven sector whose central mission is the provision of warm, safe, and affordable homes, we strongly welcome and support the need for fair pricing. We ran a workshop for our members in January 2025 as part of our Consumer Protection Consultation response: fair pricing was a hot topic for participants (16 responded):



What's a hot topic for you?



However, the step-change that will be required to meet the new regulations and shift to the obligations of an energy company is not to be under-estimated.

Understanding social housing: context from our members

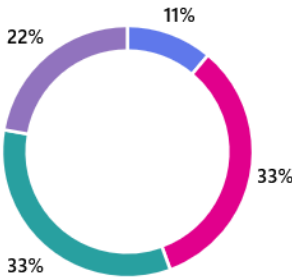
The diversity of the heat network market is reflected in the complexity of the Regulation proposals. Heat networks are only a small part of what housing providers do: on average they make up 5-10% of a wider housing portfolio. None of our members have dedicated internal resource to manage their heat networks, and they are all faced with multiple other pressing priorities, including building safety, damp/mould/ condensation (Renting Homes Wales) and net zero.

As part of our Fair Pricing consultation response, we ran another workshop with our members to discuss the framework and to understand how they currently approach pricing. For example, only 1 respondent to a pulse survey had a written heat tariff policy in place – it shows just how much organisations will have to put in place to meet the new Regulations:



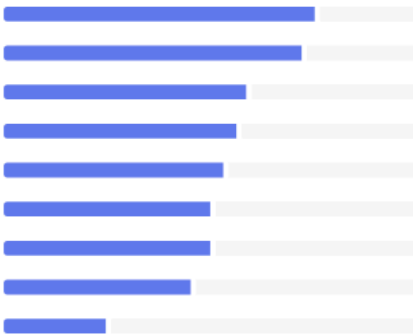
5. For your METERED schemes (if you have any), do you have a written heat tariff policy?

● Yes	1
● No	3
● Don't know	3
● N/A	2



The Fair Pricing Protections are a microcosm of the complexities involved in regulating the sector, so complex they run the risk of never being right with poor outcomes for customers and heat network suppliers alike. We asked workshop participants to rank their issues/concerns with the Fair Pricing proposals - time/resource and complexity came out top:

- 1 Time/resources required to implement
- 2 General complexity of the proposals
- 3 Risk of costs to customers rising / fuel poverty
- 4 Communicating to customers
- 5 Balancing our role as housing provider with being an energy supplier
- 6 How the benchmarks will work
- 7 Providing data
- 8 Principle based approach (rather than definitions)
- 9 Increased level of complaints



A participant added:

"[The] sector is ill prepared for regulation and needs robust clear guidance and support. It also needs a voice in the process of designing implementing the final framework both for pricing and HNMF [Heat Network Market Framework] overall."



The Welsh Context

We would like assurances that existing Welsh housing legislation – such as the Renting Homes (Wales) Act – has been considered and taken into account in the development of the wider heat network regulations. These rules are different to what's in place in England, which means the heat network rules will have to work differently as well.

Furthermore, Planning is a devolved matter which can differ between England and Wales. We would like to better understand how heat network regulation will align with the Local Area Energy Plans in Wales.

Social housing in Wales is already regulated by the Regulator for Social Housing within the Welsh Government. It is important that any heat network regulation aligns with Welsh Government regulation and complements, rather than duplicates, existing Welsh Government regulation in housing and energy efficiency.

Fair Pricing

Our members' view on fair pricing was summed up by one workshop participant:

"We are not in the business of charging disproportionate prices"

The complexity of the Fair Pricing Proposals raises several risks that, unaddressed, could result in poor outcomes for our members and their customers alike:

- **The absence of a definition of 'fair' and 'not disproportionate':** we acknowledge that definitions are difficult in a diverse market but there is a risk that they will become de facto defined by Citizens Advice, the Energy and Housing Ombudsman, and eventually the courts. There also needs to be absolute clarity on 'fair to who': heat network customers vs the wider pool of tenants and leaseholders who will otherwise be paying through their rent: if heat networks are subsidised other tenants who are not using the heat network could end up paying for it. This takes away resources from other registered social landlord functions including building much needed new homes and supporting tenants to sustain existing tenancies.
- **We also still need a definition of 'not for profit' and 'small heat network'.** It's clear from this and previous consultations that a lot of compliance requirements hang on these. We need clarity now so the sector can best prepare for January 2026.



- **Increasing costs for consumers:** with the introduction of individual metering, new requirements for consumer protection, cost reflectivity and debt management, and the substantial costs for HNTAS combined with the not-for-profit (and in many cases loss-making) nature of heat networks, consumers are likely to see significant price increases.
- **Affordability** should absolutely be a central plank to fair pricing, but what happens when a 'fair and proportionate' price is not affordable for households in or at-risk of fuel poverty, or who have additional health-related needs for heat, such as households with terminal illnesses or young children in the home. There is a real risk that prices will increase in the short term as social housing providers realise they have been under-recovering costs to date, and begin to think more strategically about what can be included in their tariffs.
- **Benchmarking and how prices are communicated to customers are important but complicated.** Heat is not a commodity like the buying and selling of gas or electricity: how do we effectively communicate and explain efficiencies, cost allocation, profitability, benchmarking and investment? Any communication that needs further guidance arguably is not working. One of our members has emphasised this to us in their response:

"We can't stress this enough. We've seen the dangers of comparing heat network output with mainstream gas supply costs and it can become very confusing (we believe it takes roughly three kWhs of gas to produce the equivalent of one kWh of heat from one of our heat networks). With any benchmarking we would need to be certain we were comparing like with like."
- **A lack of evidence-based policy:** this is an important principle for regulation especially if the principal aim is to protect consumers. However, there is a lack of data and evidence on current heat network pricing. It is essential that this data and evidence is put in place before pricing principles are developed and enacted. Given the state of the market, we call for a minimum of two years' evidence from the majority of heat network providers be gathered to develop the policy.
- **Data** is absolutely critical to the success of the fair pricing mechanism. We acknowledge Ofgem wanting to minimise the administrative burden of reporting but want to see more on how all the different data – across both consumer protection and the technical standards – will be joined up. We only want to submit data once.



The complexity of the fair pricing principles, the lack of evidence or definition of principles such as 'fair' means it will be impossible for consumers or consumer advocates to understand heat supply costs. We therefore propose the following:

1. Ofgem takes two years to gather data on pricing rather than one, otherwise they are trying to assess 'fair and not disproportionate' without knowing what this is.
2. Further research is carried out to understand the impacts of price reflectivity and investment, given that in the majority of cases schemes are not charging full costs and sinking funds will not cover upgraded technical requirements.
3. After the above is completed, we propose the following to create a more reasonable and effective definition of 'fair' that consumers would understand and landlords could work towards.
 - a. Key price bands are created (eg size, age, efficiency, technology)
 - b. A simplified segmentation model is put in place (profit/non-profit, supported housing/extra care/general needs and size of portfolio/size of housing provider)
4. In return, the Social Housing Sector commits to work openly to their best endeavours, backed by on-going challenge from both the statutory consumers advocates and the Energy Ombudsman, towards the main fair pricing principles whilst the data and definitions of fair and proportionate are developed, and to ongoing and meaningful engagement with Ofgem.



Consultation 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.**
2. **Do you agree with our proposals to develop the fair pricing guidance in relation to the principles? In particular:**
 - a) **have we identified the right areas to be covered by the guidance implementing the fair pricing principles? 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.**

We broadly agree with the fair pricing objectives.

However, we see the absence of a definition of 'fair' and 'not disproportionate' as a risk. We acknowledge that definitions are difficult in a diverse market but there is a risk that they will become de facto defined by Citizens Advice, the Energy and Housing Ombudsmen, and eventually the courts.

While we agree with the Fair Pricing Principles, we do see some potential unintended consequences and risks:

- a) Cost reflective pricing: could lead to sharp increases in costs on some heat networks where costs have previously been unknowingly under-recovered.
- b) Cost efficiency: this needs to be clearly linked to HNTAS. More work needs to be done on energy procurement in the social housing sector to ensure best prices are being secured.
- c) Fair and reasonable returns: the principle that prices can include some level of profit needs to be weighed with housing obligations, and clear guidance given to the sector. We are still awaiting a definition of 'not for profit'.
- d) Affordability: we particularly welcome this principle to help protect customers from fuel poverty. However, what happens when a 'fair and proportionate' price is not affordable for households in or at-risk of fuel poverty, or who have additional health-related needs for heat, such as households with



terminal illnesses or young children in the home? Feedback from participants in our workshop included:

"Residents might cut back on heating if charged directly and risk to vulnerable group in sheltered and extra care"

"Never evicted anyone in extra care in the 16 years been open and have Hardship Fund for people to apply if they struggle with Utilities costs but not an issue for residents in our extra care. Provide financial assessments to all residents before allocation to ensure affordability and advise those on HB ineligible charges to ensure affordable."

Clarity on cross-subsidisation would be welcomed, both in terms of 'pooled' tariffs across a heat network portfolio, and where prices are effectively subsidised through general rental incomes.

Guidance is strongly welcomed. Many in the social housing sector are looking for a 'how to' guide to heat network compliance. The more clarity Ofgem can give the better. For example, one of our workshop participants asked:

"Will there be templates available that all the Sector can use to explain these changes to our customers so that we are consistent and correct in the same messaging?"

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?**

As outlined in Q1, we see the absence of a definition of 'fair' and 'not disproportionate' as a risk, with them becoming de facto defined by Citizens Advice, the Energy and Housing Ombudsmen, and eventually the courts. The 'case-by-case' principle could also result in lots of cases, administration and cost.

Without a definition of 'fair', data will be absolutely critical: we think at least 2 years of data will be required before Ofgem can meaningfully make market comparisons. Taking each investigation on a case-by-case basis will be essential: the prices paid by customers are going to hide a multitude of heat network-specific circumstances.



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

[No response]

Market segmentation

5. In relation to market segmentation:

- 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?**

'Segmentation' is starting to feel like the wrong word to describe the complex matrix of characteristics that any one heat network will identify with, as outlined in the consultation. Heat networks will be multi-segmented: two 50-dwelling communal heat networks both built in 1995 will be segmented the same for size and age, but perhaps differently for metering or tenure. More needs to be done to explain / illustrate these interconnections, perhaps with interactive flow charts or similar user-friendly tools.

Critically, we are still waiting for a definition of 'not for profit': so much of the compliance pathway depends on this. For example, does it apply to the heat network operator/supplier or to the heat network? What happens if a for-profit organisation operates a not-for-profit heat network – or vice versa?

Alongside that, we are also waiting for a definition of 'small' heat network operator/supplier and what that might mean. For example, does it mean a small organisation or a small heat network portfolio? A housing association with 20,000 homes might only have 2 communal heating schemes, or a housing association with 800 homes could have 20. Clarity is required so organisations can prepare.

Data requirements

- 6. Of the information listed, what do heat networks already regularly collect and can be easily reported?**
- 7. Of the information listed, which items would be more challenging for heat networks to report?**
- 8. Of the cost drivers listed, which items would be more challenging for heat networks to report?**
- 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**



Unmetered heat networks – some of which may never be metered (HNTAS consultation pending) – will struggle to provide some of this data (eg annual network demand) and so a reduced data set should be required in those circumstances.

Some of the cost drivers housing providers won't know – eg network length. Clarity is required as to whether the age of the heat network refers to the original building age or the age of the boiler (or equivalent).

Some of the data reporting will overlap with HNTAS: a mechanism should be put in place so the data is only reported once.

Cost Allocation

10. Do you agree with our prescriptive rules that GSOP payments, compensations, fines, penalties and other redress provided to consumers should not be passed through to customers?

We are still waiting to hear the position on GSOP payments for not-for-profit heat networks (expected in the Government response to the Consumer Protection Consultation). While we agree with the intention of not passing these costs through to customers (they shouldn't have to pay for heat network operator/supplier breaches of compliance), we are struggling to understand where these costs would come from in a not-for-profit set up. If they come from our other income streams (ie rent) it in effect means the fines are being socialised across our entire customer base, but it's still customers that are paying. There will also be unintended consequences on budgets for building programmes, building safety, damp/mould/condensation and wider decarbonisation.

11. Do you agree with the draft best practice guidance provided? Should anything be added? Should any of the best practice guidance be strengthened to prescriptive rules?

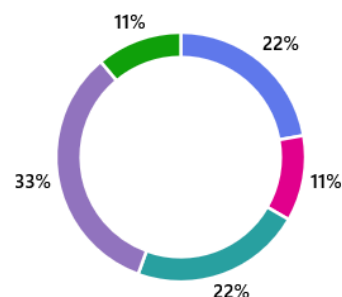
Many in the housing sector are looking for as much clarity as possible on how tariffs should be structured and what should be in/out. While we appreciate Ofgem don't want to limit tariff arrangements in a diverse market, some standard examples would be useful to use as a clear reference point.

In our members' consultation workshop, we asked how many make adjustments for the size of the property in unmetered heat networks:



8. For you NON-METERED (service charged) schemes, what (if any) adjustments to you make for the size of property?

Number of bedrooms	2
m2	1
Don't know	2
N/A	3
Other	1



12. Do you think the best practice approach to cost allocation should differ for different types of heat networks / suppliers? If so, for which types and how?
13. Does the authorisation condition, 'cost allocation', reflect the policy intent?
14. What other feedback do you have on the proposed approach to cost allocation?

[No response]

Price Comparison and Benchmarking Methods

15. Do you agree with our proposed approach for defining heat network prices in a comparable way? Are there any to define price that we should consider?
16. Do you agree with our proposal to use gas boilers and heat pumps as external reference benchmarks?
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?
18. Do you agree with the proposed approach to comparator benchmarking, and our list of potential cost drivers? Are there any relevant cost drivers that we haven't considered?

We know that benchmarking will be an important part of the way that Ofgem regulates the market, given its scope and diversity. Progressing with the three proposed benchmarking methodologies seems sensible. These can be reviewed as Ofgem's data set grows.



- 19. What is your view on the ease with which data could be reported on the four 'High Importance' cost drivers? What information do heat network operators and suppliers already collect, and what would be challenging to provide?**
- 20. What is your view on the ease with which data could be reported on the remaining 'Medium Importance' cost drivers? What information do heat network operators and suppliers already collect, and what would be challenging to provide?**

Most of the high importance cost drivers (technology & fuel type, fuel input price, annual network demand) can fairly be easily provided for metered heat networks: unmetered heat networks would not be able to provide annual network demand. Network pipe length would not be known. Data should be provided once and shared with HNTAS.

Of the medium importance cost drivers, annual network generation, utility supplied and metered/unmetered would be easy to provide. Of the others:

- Explanations would be required of what 3rd / 4th / 5th generation heat networks are: this is not commonly known amongst housing providers
- Network age: as above, clarity would be required to confirm what we're aging (the buildings or different parts of the plant)
- Type of heat network (communal/district): we are aware of arguments being put forward that small district / campus schemes (eg where 2 or 3 adjacent buildings share a plant room and have the same heat network operator/supplier) should be classified as communal. We would support this definition.

- 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?**

Visibility of Ofgem's methodologies in an easy-to-understand format is important to engender trust in the benchmarking, especially as it will be so central to the fair pricing test and any subsequent investigations.

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

N/A

Profitability Analysis



- 23. Do you agree with the proposal for ongoing monitoring of profitability through data collection on EBIT margins for all heat networks?**
- 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?**
- 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?**
- 26. Do you have any other feedback on the proposed approach to profitability assessment?**

As not-for-profit organisations we don't have views on this section of the consultation, other than to query:

- Whether some of the EBIT data might be collected from NFP heat networks anyway, even though the profitability analysis would not be applied.
- If profitability would be measured at the organisation or heat network level (or both): knowing if each of your heat networks are operating at a surplus or a loss would be good internal management practice. As mentioned above, a clear definition of 'not for profit' is urgently needed.

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.**
- 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?**
- 29. Do you support focusing on one option or a combination of options?**
- 30. Do you support the phasing in of options?**

We do not have the expertise to comment on the proposed methodologies but strongly agree that any solution (or solutions combined) need to be as simple and clear for customers to understand as possible. Heat is not a commodity like the buying and selling of gas or electricity: how do we effectively communicate and explain efficiencies, cost allocation, profitability, benchmarking and investment? Anything that needs further guidance to interpret at a headline level is failing.



We know that many social housing providers are unknowingly under-recovering their heat network costs: this could skew the data. There will also be considerable differences between prices charge by profit and not-for-profit heat networks which will also need contextualising for consumers.

31. Do you support the adoption of different options for different heat network groups?

Paragraph 6.71 states “For example, a not-for-profit communal heat network might face fewer reporting requirements and a simplified option like market average and price ranges might be appropriate.” We support this approach but again, we urgently need a definition of not-for-profit.

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?

It appears that most of the information required for central price transparency is already being collected elsewhere and so would serve a dual purpose (and reduce the administrative burden). HNTAS data should also be used (without us having to submit everything twice).

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

We see these as intrinsically linked.

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.

The high-level approach to price investigations laid out so far seem reasonable. We look forward to further details in due course.

For more information, please contact bethan-proctor@chcymru.org.uk