

Heat Networks Regulation: Fair Pricing Protections

Submission to Ofgem
consultation on Fair Pricing
for Heat Network consumers

Michael O'Brien
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1. Introduction

- 1.1 Consumer Scotland is the statutory body for consumers in Scotland. Established by the Consumer Scotland Act 2020,¹ our purpose is to improve outcomes for current and future consumers. We are independent of the Scottish Government and accountable to the Scottish Parliament. Our core funding is provided by the Scottish Government, but we also receive funding for research and advocacy activity in the electricity, gas, heat networks, post, and water sectors via industry levies which are derived from consumers' bills.
- 1.2 Our responsibilities relate to consumer advocacy. In our 2023-2027 Strategic Plan,² we have identified three cross-cutting consumer challenges, which guide our work during this period. They are:
 - Affordability
 - Climate change mitigation and adaption
 - Consumers in vulnerable circumstances
- 1.3 Consumer Scotland is the statutory advocate for heat network consumers in Scotland. As part of this new role we are working to understand the issues and experiences heat network users face, using this evidence to advocate for improvements on behalf of consumers. We also represent heat network consumers on a number of government and industry forums. Consumer Scotland is responsible for the delivery of the new statutory advice service for heat network consumers in Scotland, working in grant partnership with Advice Direct Scotland and the Extra Help Unit at Citizens Advice Scotland.³
- 1.4 To guide our response to this consultation, we have utilised our Consumer Principles. These are based on frameworks that have been developed over time by both UK and international consumer organisations. Reviewing policy against these principles enables the development of more consumer-focused policy and practice, and ultimately the delivery of better consumer outcomes.⁴
- 1.5 Consumer Scotland hosted an online workshop with representatives of consumer-facing organisations to discuss specific elements of this consultation and to seek input. We also engaged with industry and third sector bodies to inform our response. We welcome the

opportunity to contribute to this consultation and support Ofgem's ongoing work to establish its role as regulator for heat networks across Great Britain.

- 1.6 Consumer Scotland supports the principles- and outcomes-based approach to developing fair pricing protections in the heat network sector, as outlined in the consultation. We consider this to be a positive starting point, with further consultation due later this year as part of the development of fair pricing guidance. We have identified areas that we feel would benefit from further policy development, and have suggested that Ofgem go further on a number of key proposals, including that:
- Ofgem should set out its approach to monitoring input fuel costs, to start driving down prices across the sector
 - Prescriptive rules be introduced to determine how metered heat networks allocate costs on bills, including on unit rates and standing charges
 - Ofgem is ready to take action from January 2026 if it suspects, or is alerted to, bad practice related to pricing
- 1.7 Ultimately, the proposals in this consultation represent significant progress in terms of improving transparency for consumers on heat network pricing, and we look forward to working with Ofgem on the next stages of its development.

2. Fair Pricing for Heat Network Consumers

Fair pricing framework

Fair pricing framework

Q1: Have we identified the right set of fair pricing consumer objective, principles and outcomes and are these properly defined.

2.2 In response to the heat networks regulation: implementing consumer protections consultation (henceforth ‘the 2024 consultation’), Consumer Scotland welcomed the fair pricing framework as a useful starting point which would set an expected standard for regulated entities as policy around price protection develops.⁵ This remains our position, given that the principles, as outlined in this consultation, are part of an iterative approach which includes the development of guidance for industry on fair pricing, and which will be subject to further consultation. In short, we remain supportive of the framework because it is part of a process towards more comprehensive price protection in the heat networks sector.

2.3 Our feedback on the framework’s objective, principles, and outcomes, is outlined below.

Objective:

- **Consumers pay fair and not disproportionate prices** – 4.1 of the revised ‘fair pricing’ authorisation condition states that an authorised person must ensure that the charges it imposes are fair and not disproportionate. This consistency between the revised authorisation condition and the fair pricing framework is welcome as it ensures that authorised persons will be required to adhere to the objective of the framework. However, Consumer Scotland does not believe that the term ‘fair’ is sufficiently defined in the consultation text. It is unclear how ‘not disproportionate’ differs from what is meant by ‘fair’ and how the inclusion of both terms enhances the objective. This may cause confusion in how the intention of the objective is understood by authorised persons, and ultimately how this is reflected in heat network pricing.

We therefore welcome 4.2 of the revised authorisation condition which states that the authorisation condition shall be interpreted in accordance with guidance published by the Authority – i.e. the forthcoming guidance presents the opportunity to clearly define ‘fair’, how it differs from ‘not disproportionate’, and what this will mean in practice. This is an issue of considerable importance to consumers and we therefore recommend that the development of the relevant guidance should be progressed as a matter of priority. Consumer Scotland would be pleased to work with Ofgem through this process to offer our expertise and insight in achieving a clear, effective and workable definition. Separately, we note that, much of the intention behind ‘not disproportionate’ may already be covered by the ‘cost-reflective pricing’ principle, as explored further below, in which case simplifying the objective to ‘consumers pay fair prices’ could be considered.

Principles:

- **Cost-reflective pricing** – We agree that prices should be reflective of the underlying cost of providing heat, the additional costs they impose on the system, and the fixed costs of the system. However, we are concerned that there could be a gap between prices that are genuinely cost-reflective and prices that are affordable for consumers – an example being when significantly increased wholesale gas costs are passed through to consumers, resulting in a price shock on bills.⁶ In instances such as this, a balance would need to be struck between what is considered to be sufficiently cost-reflective and what is considered affordable, as consumers being expected to shoulder the entirety of such costs would undermine the policy objective behind fair pricing protection in the sector.
- **Cost efficiency** – Ensuring that heat networks are run on a cost efficient basis is central to achieving fair pricing in the sector. We agree with the areas identified for guidance, but would also welcome a reference to limiting costs resulting from ‘non-technical’ inefficiency. In the retail market, non-technical operating expenses are accounted for as part of efficient supplier costs in the price cap methodology. The methodology also includes an ‘efficiency margin’ – a downward adjustment to benchmarked operating costs which incentivises cost control by ensuring that suppliers can operate at slightly lower costs than the benchmark.⁷

There is a natural overlap here with ‘cost-reflective pricing’ and Ofgem should avoid developing these principles in isolation. On network efficiency, Consumer Scotland recognises that the costs of network inefficiencies are ultimately borne by consumers, and as such we continue to advocate for a funding mechanism for heat network efficiency remediations in Scotland.⁸

- **Fair and reasonable returns** – The inclusion of this principle in the framework is important as there is a need to begin outlining expectations to the sector on what constitutes a fair and reasonable return, and the reference to networks not leveraging their monopoly status to earn excess returns is particularly welcome.

We recognise the complexity involved in setting a fixed level of return across the sector, due to the varying ownership models, performance levels, etc., but we welcome the commitment to undertake profitability analysis and to investigate cases where profit levels are higher than expected.

- **Affordability** – Heat networks need to be recognised as sustainable and affordable to be considered a viable alternative heating solution by consumers, so an affordability principle is key to this aspect of developing regulation. As such, in addition to developing the affordability principle in guidance, Ofgem should look to reflect the recent focus on affordability in the gas and electricity sector when considering this issue in relation to heat networks, thus making it a central tenet of sector regulation from the outset.⁹ In response to the 2024 consultation, Consumer Scotland highlighted that energy prices was the one driver of fuel poverty against which the heat networks sector could have the potential to make a meaningful contribution towards the reduction of fuel poverty in Scotland. We therefore welcome the focus on shock bills, debt repayment plans, the utilisation of sinking funds, etc., in the consultation. As noted above, the principle of ‘cross-reflective pricing’ will likely need to be balanced against the principle of affordability if the provision of heat by the sector is to be genuinely affordable for consumers.
- **Regulatory control** – We are aware through industry engagement that there are often numerous parties involved in the management and operation of a single heat network, so it is important that the authorised person retains control over regulatory outcomes. Specifically in the context of fair pricing, this should serve to drive good practice in accountability around billing processes when services are outsourced.
- **Price transparency** – Concerns around billing transparency are commonly reported in studies into the consumer experience of heat networks, with issues including: lack of understanding of what unit rates and standing charges consist of, bundled heat and service charges, retrospective tariff increases, and charging on unmetered networks.¹⁰ Improving price transparency is central to improving the consumer experience of heat networks by empowering consumers to challenge their supplier on issues related to pricing, and by enabling the regulator to take action. As such, we support this principle being developed as part of the forthcoming ‘billing and transparency’ proposals.

2.4 As highlighted above, there are areas of natural intersection across the six proposed principles. We would encourage Ofgem to consider the principles as a network, or matrix, rather than six standalone priority areas. This will help to ensure that areas of intersection are a benefit to the development of holistic fair pricing guidance, and not a barrier.

Outcomes:

- 2.5 In 2024 Consumer Scotland proposed a principles-based approach to the future of price protection in the retail energy market, with clearly articulated outcomes.¹¹ Although the heat networks sector is only at the start of that journey, the rationale is the same, and we are therefore encouraged that Ofgem's proposed framework takes forward a similar approach to fair pricing protections. We support the inclusion of both **consumer** and **industry** outcomes, but would also suggest that a 'community' or 'societal' outcome be considered which captures the broader impact of a heat network. We recognise that this would require further policy development, and also that there may be a more natural place for such an outcome in other aspects of developing regulation.

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). 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 be included, please specify what changes you would like to see and provide a justification.**
- 2.6 Yes, we are satisfied with the areas identified to be covered by guidance implementing the fair pricing principles. As aforementioned, it would be useful for 'non-technical efficiency', or similar, to be included under the 'cost efficiency' principle. We are also content that elements of 'fair and reasonable returns' and 'price transparency' will be developed as part of other workstreams.
- (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.**
- 2.7 As above, we support this approach as it is part of an ongoing process towards more comprehensive price protection in the heat networks sector, i.e. it is a positive starting point.

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)?**
- 2.8 Yes, we agree with the high-level features of the fairness test. The 'reasonableness' feature outlines that the framework must be interpreted in line with the standard that could reasonably be expected of a 'prudent' regulated entity that follows Ofgem's general authorisation conditions and is well run. This is consistent with the 'notional supplier' which is a tried and tested approach used by Ofgem in the retail market when

setting the energy price cap, to determine what a fair price would be for consumers if suppliers were operating efficiently. This theoretical supplier is assumed to operate under typical conditions – with a certain number of customers, standard wholesale purchasing strategies, etc. – and with costs and revenues based on market averages. Consumer Scotland welcomes replicating this approach in the fairness test, whilst recognising that this will not be straightforward due to heat network market complexity.

- 2.9 It is also worth noting that, where ‘typical conditions’ are used, energy demand is generally higher in Scotland than in other parts of Great Britain. Therefore resources such as the Typical Domestic Consumption Value (TDCV) will often be lower than the average consumption level in Scotland, and the necessary adjustments should be made to reflect this.¹²

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

- 2.10 The fairness test, as presented, appears to be a useful tool for operationalising the fair pricing principles. Its three stages – 1. identifying disproportionate pricing, 2. assessing concerns, and 3. prioritising actions – are appropriate steps by which (a) pricing issues in the sector would be identified, (b) an assessment of who is affected, and how, is undertaken, and (c) relevant information on pricing structure/practices is collected in order to determine what action is required. By incorporating another key aspect of the consultation into the identification stage – i.e. price comparison and benchmarking – Ofgem has made the test feel well-developed and robust, and this helps envisage the process through which ‘disproportionate’ pricing will be identified.
- 2.11 In the next stage of consultation, we recommend that Ofgem provides worked examples of how the fairness test would be used in practice – e.g. who is contacted, what data is gathered, what internal analysis is undertaken, and how/what conclusions are ultimately reached – in order to enable stakeholders to better assess its potential effectiveness.

Q4: Does the revised authorisation condition, ‘fair pricing’ reflect the policy intent?

- 2.12 Yes, we are satisfied that the revised ‘fair pricing’ authorisation condition reflects the policy intent, but please note our feedback on the terms ‘fair’ and ‘not disproportionate’ as outlined above.

Market segmentation

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?

2.13 Our feedback on certain market segments and their corresponding segmentation approach is outlined below. Please note, we are satisfied with the market segments which are not included below and have no feedback on their corresponding segmentation approach.

- **Profit versus non-profit** – In response to the 2024 consultation, Consumer Scotland disagreed with the proposed approach to apply Overall Standards of Performance to non-profit heat networks (as opposed to Guaranteed Standards of Performance) due to concerns that this would result in heat networks being held to different standards and result in inconsistent consumer outcomes. However, in the context of pricing, we recognise that there may be a stronger case for this segment due to the likelihood of differential reporting requirements between profit and non-profit operators. For example, the segmentation approach outlines that certain analyses such as in-depth profitability assessments will not be directly applicable to the non-profit sector.

There are also overlaps here with the **pricing methodology** segment which we recommend Ofgem provides further clarification on. A significant proportion of the heat networks sector operates on a ‘cost-recovery’ basis with only a small minority of Energy Service Company (ESCo) operated networks being run ‘for profit’, which raises questions as to whether a ‘profit versus non-profit’ segmentation realises the policy intention. There is also a question related to outsourcing here, and where landlord heat suppliers that outsource aspects of their operation to unregulated (profit-making) third parties (e.g. managing agents, metering and billing agents) would fall within these proposed segments. Ofgem should provide further clarification on these matters.

- **Housing tenure** – We welcome the commitment here to examine potential interactions between pricing regulation and housing legislation. Consumer Scotland has identified that further work is required to better understand this interaction in Scotland, and we will facilitate/contribute to this, as part of our statutory advocacy role, in 2025-26.¹³
- **Level of vulnerability** – We are supportive of this market segment as a means of better understanding the intersections of regulation with the needs and aspirations of consumers in vulnerable circumstances. However in terms of making this segment workable, we would highlight challenges in identifying, and measuring, vulnerability amongst customer bases. This is especially true in the heat networks

market, as it will not be possible to implement a uniform approach to identifying vulnerability. We would also warn against an over-reliance on consumers self-reporting vulnerability. For example, in 2019 the Commission for Customers in Vulnerable Circumstances identified a lack of willingness amongst energy consumers to reveal that they were in vulnerable circumstances, with as many as eight out of 10 reporting that they would not tell their supplier if they were struggling.¹⁴

Heat networks should be supported to better engage with their customers, to identify vulnerability, and to design services that cater to their needs. This could be done through guidance, by developing a voluntary code of practice¹⁵ on vulnerability, or by encouraging suppliers to work towards achieving a recognised accreditation on consumer vulnerability.¹⁶

(b) Do you agree with the segmentation approach discussed for each of these characteristics?

2.14 See our response to Q5 (a).

Data requirements

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

2.15 Not answered

Q7: Of the information listed in Table 3 below, which items would be more challenging for heat to report?

2.16 Not answered

Q8: Of the cost drivers listed in Table 7 (in Appendix 3), which items would be more challenging for heat networks to report?

2.17 Not answered

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?

2.18 As per our response to Q5 (a), we accept that data submission requirements need to be proportionate, and therefore there are likely to be different requirements for different heat network types. At this stage of the development of fair pricing protections,

Consumer Scotland does not take a view on which networks should have reduced requirements, or what data they should be exempt from reporting, but we encourage Ofgem to utilise its market segmentation framework for the next stages of policy development in this area.

Cost allocation

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?

2.19 Consumer Scotland strongly supports this prescriptive rule being incorporated in an authorisation condition. This sends an important message to industry that, from the onset of regulation, consumers should not be unfairly burdened with costs arising from supplier non-compliance.

2.20 Enforcement of this rule will be a significant challenge, particularly when compliance monitoring processes are in their infancy, but we accept that this will be part of a gradual process. The variance and complexity of heat network billing will also present challenges in identifying bad practice, but Ofgem should have a plan in place to take action from January 2026 if it suspects, or is alerted to, potential breaches. This is explored further under ‘price investigations’.

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?

2.21 We welcome the clarification from Ofgem that heat suppliers must use the most accurate data available to them when calculating charges. As such, we would argue that best practice guidance should go a step further here and that prescriptive rules be introduced which determine how metered networks allocate costs under individual elements on bills – including, but not limited to, unit rate/heat charges and standing charges. We know from stakeholder engagement the extent to which these charges vary across networks, so setting clear expectations here will further improve billing transparency for consumers. In terms of the benefits to industry, this will set an expected billing standard ahead of new metering requirements to be introduced through the Heat Network Technical Assurance Scheme (HNTAS).¹⁷

2.22 We agree that when meter readings are not available suppliers should use reasonable proxies. A prescriptive rule would not be appropriate here, given the variance of approaches to apportioning costs that will be adopted by different types of (unmetered)

networks, and so this is an example of where guidance will be really useful in promoting best practice in the sector.

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?

2.23 See our answer to Q11 on the approach to cost allocation for metered vs unmetered networks.

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

2.24 Yes, we are satisfied that the authorisation condition accurately reflects the policy intent.

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

2.25 Please see our response to Q22 on the need for improved transparency on connection charges.

Price comparison and benchmarking methods

Q15: Do you agree with our proposed approach for defining heat networks prices in a comparable way? Are there any other ways to define price that we should consider?

2.26 Yes, we agree with the proposed approach to benchmarking which compares the prices paid by heat network consumers to particular reference points. The combination of the three proposed benchmarking methods – external, own past price, and comparator – is comprehensive and should help Ofgem to identify cases that could indicate disproportionate pricing.

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

2.27 Consumer Scotland supports the external reference benchmarks as proposed. We agree that gas boilers are the obvious fossil fuel comparator – with a significant proportion of households in Scotland still reliant on mains gas for heat and hot water; and that heat pumps are the obvious zero direct emissions comparator – being arguably the most prominent alternative heating technology in Scotland’s energy transition.¹⁸ However, we would encourage Ofgem to phase out the gas boiler comparator over time, as heat networks begin to support decarbonisation at scale.

2.28 The consultation document outlines that benchmarks already exist for gas boilers and heat pumps, which should minimise development costs for the benchmark and mean that it can be put into practice more quickly. Utilising these existing resources also means that heat network benchmarking will be consistent with other programmes, for example the National Zoning Model, and that these can be updated in tandem.¹⁹

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?

2.29 We are content with the proposed method for calculating a 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?

2.30 We are satisfied with the proposed approach to comparator benchmarking and the longlist of potential cost drivers. We are particularly supportive of the inclusion of 'fuel input price' here in recognition that this is a primary factor in changes in prices over time, and therefore a root cause of the price shocks experienced by some heat network consumers in recent years.²⁰ In the next stages of the development of fair pricing protections, we would encourage Ofgem to set out its approach to monitoring fuel input costs, including how this will interact with work being led by DESNZ on commercial fuel procurement, and ultimately how this will begin driving down prices. Getting this right from the outset will be key to heat networks being regarded as a viable and affordable alternative heating solution by consumers.

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?

2.31 Not answered

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?

2.32 Not answered

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?

- 2.33 We support the proposal to publish a high-level methodology for each benchmark. This will provide transparency around how price comparison in the sector is undertaken, which in turn should aid consumer confidence.

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

- 2.34 Consumer Scotland agrees that price definition should capture the total effective price faced by consumers. We welcome the commitment to collect data on connection charges, as this is an area where industry practice could be better understood – i.e. what costs are levied to new and existing customers and what does this/does this not, pay for. In response to the 2024 consultation we recommended that Ofgem conduct a rapid evidence review on pricing, and connection charges is an example of where such an undertaking could be useful – i.e. to better understand what these charges typically consist of.
- 2.35 We are content with the different types of authorised networks in scope for price definition, as it covers a range of ownership structures and supply arrangements, but we would recommend that this list remains under review so that other types of networks can be added as required, i.e. as the market continues to diversify.

Profitability analysis

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

- 2.36 Consumer Scotland supports the introduction of a monitoring framework focussing on collecting and reviewing EBIT margins for all heat networks. As outlined in the consultation text, this will help establish a baseline understanding of profit levels across the sector, which will serve as a reference point for identifying profitability which appears significantly higher than the industry average. This approach is also consistent with the approach used in the Competition and Markets Authority's 2018 heat networks market study, which will allow for comparison with the findings of that work – with allowances made for changes in the market since then.²¹
- 2.37 Through industry engagement, we are aware of concerns that EBIT is before (i.e. does not measure) capital expenditure, which includes network renovations. This could dissuade networks from carrying out capital works, or penalise older networks that need to carry out significant network renovations each year. It is important therefore that the profitability analysis methodology adopted by Ofgem, be this EBIT or otherwise, recognises where networks have reinvested profits which ultimately benefit consumers – such as improving network efficiency.

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?

2.38 Not answered

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?

2.39 Improved data-collection across the sector will allow for more robust profitability analyses to be developed. But at this early stage in the process, we have not taken a view on which approaches should be considered.

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

2.40 For reasons already referenced in relation to market segmentation, conducting profitability analysis in the heat networks sector will not be straightforward – i.e. a significant proportion of the market is non-profit and/or operated on a ‘cost-recovery’ basis, and there is the issue of operational outsourcing to profit-making third-parties. We recommend that Ofgem provides further clarification on how it intends to overcome these challenges in the design of profitability analysis and that it seeks further stakeholder feedback on these more detailed proposals.

2.41 In instances where profitability analysis identifies a need for further investigation, Ofgem should also look into potential disproportionate pricing, and vice versa – recognising that one may be an indicator of the other.

Central price transparency

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.

2.42 We welcome Ofgem’s recognition that heat network consumers might not have sufficient information to understand heat network charges, and that the lack of information about heat network charges in the public domain limits the ability of consumers to make informed decisions and challenge their bills. This is consistent with the evidence we have obtained through stakeholder engagement and primary research, which has shown that a lack of transparency around pricing and billing confusion are

amongst the most commonly referenced causes of consumer detriment in the sector, and often a contributing factor in instances where there has been a breakdown of trust between consumers and providers.²² Making improved billing information available to consumers is an important step towards closing the transparency gap – both individually (i.e. in relation to consumers’ bills) and across the sector (by enabling price comparison between operators). We also welcome the ambition – as outlined in the consultation text – that central price transparency could ultimately result in heat networks lowering their prices and becoming more efficient.

- 2.43 At this stage of development of the fair pricing protections, we have not stated a preference for any one option of the three approaches proposed, but there are elements of options 1 and 2 that appear desirable – e.g. utilising market segmentation to make a grouped comparison, and providing consumers with a like-for-like comparison with prices charged by their heat network (option 1); and enabling consumers to compare to gas and low carbon alternatives, and building on existing tools such as the Heat Trust cost calculator (option 2). By comparison, a RAG status approach which does not reveal granular data (option 3) would not appear to provide a sufficient level of transparency to deliver the policy intention. Ultimately, Consumer Scotland will be supportive of the approach, or combination of approaches, that maximises pricing transparency to the benefit of consumers, whilst appropriately managing potential consumer risks.

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?

- 2.44 We welcome the consideration that has been given to the risks to consumers that could result from the different options for central price transparency, but we would argue these should not stand in the way of driving improvements in the sector. For example, we recognise that price convergence can occur – as seen with suppliers in the retail market converging around the price cap in the period during and after the wholesale gas crisis²³ – but, as outlined above, there is currently a pricing transparency gap in the heat networks sector which has the potential to damage the reputation of the sector as a viable alternative heating solution, and this needs to be addressed. Similarly with the risk of consumers misinterpreting information, this is undoubtedly a risk due to the complexity of some of the information being provided, but the information available to consumers needs to improve if heat network consumers are to be empowered to challenge bad practice, and if billing processes in the sector are to improve.
- 2.45 One of the benefits of phasing in the preferred option, or combination of options, is that Ofgem can monitor the market for any unintended consequences arising from central

price transparency as it develops (i.e. the risks outlined, or others), and take action to address this.

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

2.46 As above, Consumer Scotland is satisfied with any approach, or combination of approaches, that maximises pricing transparency to the benefit of consumers, whilst managing potential consumer risks.

Q30: Do you support the phasing in of the different options described in paragraph 6.70?

2.47 We recognise the complexity involved in developing central price transparency, and accept that – whichever option or combination of options is taken forward – that this will take time to implement. We recommend that if a phasing approach is adopted, that consumer consultation and feedback plays a central role in determining improvements that may be required before an option is rolled out more widely.

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

2.48 As outlined elsewhere in this response, we accept that that there will be differential data reporting requirements for different heat network types.

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?

2.49 Not answered

Q33: Do you think it's appropriate to link central price transparency with benchmarking?

2.50 We would not suggest that this is a question of appropriateness. It is our understanding that benchmarking is being developed within this context primarily to be able to identify instances of disproportionate pricing – not for transparency. But if the work undertaken on benchmarking also enhances central price transparency, then this link should be utilised. Option 2 appears to do this, by enabling consumers to compare heat network prices to gas and low carbon alternatives – i.e. the external comparator benchmarks.

Price investigations

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

- 2.51 Yes, the approach to price investigations as outlined appears sensible and proportionate. We agree that heat networks should set out a pricing strategy and that investigations take a case-by-case approach – this is preferable to a standardised approach, as there is a need to reflect the diversity of the sector and the varying benchmarks which will be relevant depending on the characteristics of the heat network. We also welcome the recognition that there may be instances where consumers are already covered through housing tribunals and aspects of consumer legislation, and that price investigations should support and reinforce these existing routes. This is a pragmatic approach which should help ensure that price investigations deliver the best outcomes for consumers.
- 2.52 Like other aspects of the fair pricing protections, we recognise that that developing the price investigation process will be complex and will take time to implement. However, Ofgem needs to have a plan for how it will intervene when it suspects bad practice in relation to pricing, or when issues are brought to its attention, during the authorisation window (January 2026 – January 2027). We would encourage Ofgem to engage with stakeholders on its proposed approach to this.

3. References

- ¹ [Consumer Scotland Act 2020](#)
- ² Consumer Scotland (2023) Strategic Plan 2023-2027
- ³ [Greater protections for heat network customers in Scotland | Consumer Scotland](#)
- ⁴ Citizens Advice Scotland (2018) Leading by Example: A principled journey through regulation
- ⁵ [Heat Networks Regulation: implementing consumer protections consultation | Consumer Scotland](#)
- ⁶ [Affordable home residents in Edinburgh hit by 450% gas price rise - BBC News](#)
- ⁷ [Energy price cap operating cost and debt allowances consultation | Ofgem](#)
- ⁸ [Correspondence on developing a heat network efficiency scheme for Scotland | Consumer Scotland](#)
- ⁹ [Affordability and debt in the domestic retail market – a Call for Input | Ofgem](#)
- ¹⁰ [System Critical: No margin for error in new heat network rules - Citizens Advice](#)
- ¹¹ [Ofgem Future Price Protection Discussion Paper: Call for input | Consumer Scotland](#)
- ¹² [National Energy Efficiency Data-Framework \(NEED\): consumption data tables 2023 - GOV.UK](#)
- ¹³ [Consumer Scotland Work Programme 2025-2026 | Consumer Scotland](#)
- ¹⁴ [The Commission for Customers in Vulnerable Circumstances Final Report 2019 - Energy UK](#)
- ¹⁵ An example from the retail market is the Energy UK Vulnerability Commitment
- ¹⁶ An example is the BSI international standard on consumer vulnerability (BSI ISO 22458:2022)
- ¹⁷ [Heat Network Technical Assurance Scheme \(HNTAS\) - GOV.UK](#)
- ¹⁸ [Scottish House Condition Survey - gov.scot](#)
- ¹⁹ National Zoning Model applies to England and Wales only
- ²⁰ [People trapped on controversial 'heat networks' paying energy bills of up to £2,300 a month](#)
- ²¹ [Heat networks market study - GOV.UK](#)
- ²² [System Critical: No margin for error in new heat network rules - Citizens Advice](#)
- ²³ [Monthly switch rate stabilises below half pre-crisis levels](#)