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## **Response to Ofgem's consultation on fair pricing protections for heat networks**

Thank you for the opportunity to respond to this consultation on your proposed fair pricing protections for heat network consumers.

### **About Heat Trust**

Heat Trust was launched in 2015 as a voluntary regulator for heat networks, to fill the gap created by the absence of statutory regulation.

We operate the only consumer protection scheme for heat networks in Great Britain. Our scheme currently protects more than 91,000 domestic and micro-business consumers across 143 heat networks registered by 29 different heat suppliers. Our scheme rules and guidance are intended to be comparable, in terms of consumer outcomes, to Ofgem's standards of conduct for regulated gas and electricity suppliers.

We also act as a wider consumer champion for the heat networks sector, including for consumers who aren't on Heat Trust registered heat networks.

### **Consumer perceptions of 'fairness'**

As a voluntary scheme we're unable to regulate the prices that heat suppliers charge consumers for their heating and hot water. However, in our broader consumer champion role we frequently hear from domestic consumers about what they consider to be 'unfair' prices in the market. In the eyes of these consumers, perceptions of heat network pricing 'fairness' are usually based on the following:

- The absolute p/kWh unit price charged to them for their heat in any given period, and its affordability;
- The relative difference between the heat price and the Ofgem price cap that applies to domestic gas and electricity supply;



- The relative changes in heat price between different charging periods and their ability to predict, budget for and afford those changes;
- The absolute level of the standing charge, and how it compares to their expectations based on past experiences of mains gas and electricity standing charges;
- Any limitations on their ability to reduce their charges by using less heat (e.g. due to fixed standing or service charges and/or unmetered heat networks);
- The transparency of the drivers for both heat charges and for any changes to them;
- The extent to which they are able to easily compare their own charges with those of other heat networks;
- Any perceived shortfall in the service delivered relative to the charges levied (both in terms of heat network reliability and customer service);
- The extent of their ability to query or challenge heat charges, including where they are bundled with other building service charges or rent, and how this compares with the consumer experience in gas and electricity;
- The extent of support offered by their individual heat supplier to help with affordability, debt and vulnerability – and by government generally in the form of price-support or debt-relief schemes – and the comparability of this support to that provided to mains gas and electricity consumers;
- The extent of any detriments caused by inability to afford their heat charges, including debt but also self-rationing and self-disconnection (and risk of losing their home where charges are bundled); and
- Their inability to switch heat supplier or easily leave the heat network due to the monopoly nature of the infrastructure.

Any statutory regulatory framework for heat networks therefore needs to account for all these considerations if it is to result in prices that consumers consider 'fair'. Some of these, such as considerations around unbundling of charges, debt and disconnection, fall outside the scope of this specific consultation. We've outlined our views on these previously in our responses to DESNZ's and Ofgem's heat network consumer-protection proposals and Ofgem's wider consultations on energy debt. You can find those responses at <https://www.heattrust.org/consultation-responses>.

We also support the research published by Citizens Advice this month about heat network consumers' experience of pricing, affordability and debt, the findings of which align with our own insights from our contact with consumers.<sup>1</sup>

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<sup>1</sup> <https://www.citizensadvice.org.uk/policy/publications/system-critical-no-margin-for-error-in-new-heat-network-rules/>



## Summary of our response

### Current proposals remain inadequate and will not deliver fairer prices

The stated objective of the government's planned heat network regulation is to deliver 'fairer prices' and equivalent protections to those already enjoyed by gas and electricity consumers. We must therefore judge these proposals on whether they address unfair prices and deliver such equivalent protections.

As we and other consumer advocates have previously said when the outline of these proposals was set out in the previous joint consultation document with DESNZ, the overall proposals around price protections are inadequate to deliver improved consumer outcomes. In their current form they do not deliver 'fairer pricing' or equivalent price protections to those in place for gas and electricity consumers. This is a serious deficiency in the proposed regulatory framework that needs to be addressed.

Although there are some exceptions, many heat network consumers are currently paying heat prices that are double the price at which a domestic gas customer can produce heat with their own gas boiler (i.e. 15p/kWh for heat versus 7.5p/kWh for heat from a domestic gas boiler<sup>2</sup>). Public support for heat network development will be highly dependent on whether regulations can address this high cost of heat, as heat network consumers will naturally assume that promises of 'fairer' prices equate in practice to 'lower' prices than those they currently experience.

High heat prices primarily result from:

- Heat network operators paying disproportionate, unregulated commercial energy prices (in some cases more than the domestic price cap rate) for the gas or electricity that they use to produce the heat that they then supply to domestic end consumers; and
- Extremely high heat losses from poorly designed, installed, commissioned and/or operated systems, which exacerbate high prices as operators have to purchase more energy to account for the losses.

Whilst unacceptably high heat losses will hopefully be addressed, albeit in the longer term, by the proposed Heat Network Technical Assurance Scheme (HNTAS), there are still no proposals from government to tackle the high cost of domestic heat networks caused by the unregulated and volatile commercial energy markets. We are encouraged that DESNZ is said to be developing ideas in this area, and we call on government to expedite these plans as a high priority. In the meantime, government should urgently consider how it can help heat suppliers to procure energy at more proportionate prices.

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<sup>2</sup> Price of heat from a domestic gas boiler (7.5p/kWh) is based on the July 2025 domestic gas price cap of 6.3p/kWh and a typical domestic boiler efficiency of 84%.



## Other areas of concern

We recognise that in the absence of appropriate levers to address the unfairness of domestic consumers' exposure to unregulated commercial energy prices, Ofgem has a difficult job. However, we believe the proposals set out in the consultation are still inadequate, fail to recognise the need for urgent action and should go much further.

### **Lack of consumer input to regulatory design needs to be addressed**

We are concerned that Ofgem does not yet appear to have in place effective engagement with consumers and all interested consumer bodies over regulatory design and development.

We strongly encourage Ofgem to establish a consumer forum that brings together a cross-section of heat network consumers to help inform its thinking. This could be similar to Ofgem's Consumer First Panel for gas and electricity. In keeping with government's intention to achieve parity of consumer outcomes across heat networks, gas and electricity, we also encourage Ofgem to ensure that it is proactively engaging with all consumer groups that have an established presence in the gas and electricity sectors, but who may not be experts in heat networks and whose resources are spread thin across different sectors. This includes, but is not limited to, National Energy Action, End Fuel Poverty Coalition and Sustainability First.

Current stakeholder engagement in the development of heat network regulations appears to be heavily weighted in favour of suppliers and we fear that this imbalance is sometimes resulting in undue weight being given to supplier interests. An example of this is that the option of a full public register of heat network prices (as used in Denmark and other countries) has been rejected, despite unanimous support for it from consumer bodies. We are concerned that opposition from suppliers, who naturally are unlikely to welcome their consumers being able to directly compare their prices with other heat networks, appears to have outweighed the clear consumer interest for central price transparency.

We're also concerned that Ofgem appears to be adopting the view, put forward by heat suppliers, that publishing this type of data should be avoided because heat network consumers aren't sophisticated enough to understand it. We would consider it to be part of the regulator's role to explain any consumer-facing data it publishes in a way that consumers can understand. The complexity of the heat networks sector appears to be increasingly used as justification for watering down protections. However, while the heat networks sector does have differences from gas and electricity, its consumers require at least as much protection. .

### **Heat network price monitoring requires a different approach**

We are concerned that several of the proposals suggest a lack of understanding that the heat network sector is different in structure from gas and electricity supply. Most heat suppliers are landlords that operate the heat network as part of their building service obligations under housing law, such that heat charges are legally 'service charges'.

Measuring landlord heat suppliers' 'profitability' therefore makes no sense since they are legally restricted to simply recovering costs incurred. The fact that their heat charges reflect these costs does not make the charges 'fair' or 'proportionate', unless the costs themselves are 'fair' and 'proportionate' – both in absolute terms and in the way in which they are incurred. Landlords who can simply pass on their costs have little or no incentive to seek to



reduce them. Landlords also often subcontract all elements of running a heat network to third-party agents such as property managing agents, metering & billing agents, energy brokers, and operations & maintenance contractors. These agents can make a profit even if the landlord cannot.

### **Focus on controlling costs**

We believe that the only meaningful way to shine a light on the causes of high prices, and thereby address them, is by monitoring and benchmarking the different elements of input costs to heat prices (including input commercial gas and electricity costs, metering & billing costs, operation & maintenance costs, capital replacement costs and bad debt). These costs must be monitored at the same frequency as heat prices, rather than annually as suggested in the consultation document.

Profitability analysis of heat suppliers only makes sense for those run as energy service companies (ESCOs), who are usually for-profit organisations but represent a relatively small proportion of the overall sector.

Price monitoring also needs to cover costs billed to consumers via building service charges or rent demands, as well as separate heat charges. Often maintenance costs can be hidden in service charge bills issued separately from the heat bills.

### **Principles-based cost allocation rules needed from the start**

We are concerned that Ofgem proposes to initially set just one cost allocation rule. It will be impossible to meaningfully compare prices across heat networks without clear rules on what elements of costs can be allocated to the variable p/kWh unit charge, the standing charge and (for leaseholders/owners) the building service charge. Cost allocation rules should be based on clear principles set out by Ofgem from the start, to provide consistency and fairness for consumers. Ofgem should not wait for evidence of current practices to be collected to set out these principles.

For example, we have seen evidence that some tenants are currently being charged by ESCO heat suppliers for the maintenance costs of their building's heating system, when landlord and tenant law clearly says this cost should fall to their landlord. Cost allocation rules should prevent these costs being passed on to tenants.

We are also aware of property developers seeking to pass on the initial capital cost of building communal heating systems onto consumers' future heat charges through ESCO concession contracts. They do this by auctioning the ESCO concession to whoever offers to pay them the largest capital 'contribution', rather than who will provide the best service and value for money for consumers. This has the effect of increasing sales profits for property developers at the expense of future residents paying higher heating charges and this practice must be stamped out via a clear cost-allocation rule.



## Charging for heat losses

We should correct an important misunderstanding in the consultation document: At paragraph 3.18 it incorrectly states that efficiency losses '*are largely variable with heat consumption*' and therefore could be allocated to the p/kWh unit charge. Whilst it is common practice to charge heat losses to the unit rate, they are almost entirely independent of heat consumption. They result from the fact that the heat network is kept hot 24/7 whether heat is being consumed or not.

On this basis, there is a case for charging heat losses to the fixed rather than unit charge. Indeed, in the case of buildings with low occupancy levels (e.g. where a high proportion of the homes within a development are second homes) charging these network-level costs via the unit rate can produce very high unit rates for the remaining occupants. This could be a particular concern with mixed tenure developments, where the affordable housing section of the development can have a much higher occupancy rate than the private leasehold section and therefore can bear a disproportionate burden of these network-level costs.

On the other hand, consumers often tell us that they consider the higher fixed charges in the heat network sector to be unfair. Adding the cost of heat losses would make fixed charges even higher – perhaps twice as high. This could have a detrimental impact on low energy users, such as those living alone and could increase the risk of debt and PPM self-disconnection because fixed charges can't be avoided.

The fairest allocation could therefore vary depending on local factors and ultimately the goal must be to drastically reduce heat losses in the first place via HNTAS certification.

## **Proposal to prevent heat suppliers from passing cost of GSOPs to consumers is warmly welcome, but needs further details to prevent abuse**

One proposal we strongly support is the proposal to prevent the cost of Guaranteed Standards of Performance (GSOP) payments, compensation, fines, penalties and other consumer redress payments from being passed through to end consumers.

However, Ofgem needs to clarify how this principle will be applied to prevent these costs from being passed on to consumers *indirectly*. In the absence of a price cap mechanism, Ofgem will need clear rules and monitoring to ensure this doesn't simply result in higher prices for all consumers through heat suppliers (or their subcontractors) building associated risk or insurance premiums into their costs.

We'd be happy to discuss any aspects of our response with you in more detail.

Yours faithfully,



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