



Heat network regulation – fair pricing protections consultation
Insite Energy response May 2025

<https://www.ofgem.gov.uk/consultation/heat-networks-regulation-fair-pricing-protections>

Question	Insite Energy response
<p><u>Fair pricing framework</u></p> <p>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.</p>	<p>Yes.</p> <p>In relation to 2.48, the market still needs Ofgem to advise on how to perform 3rd party deductions from social security benefits. Additionally, proactively identifying residents who need support will be very cumbersome, also potential invasive. The focus instead should be making it as easy as possible for residents to get in touch and ask for help.</p>
<p>2. 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:</p> <p>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.</p> <p>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.</p>	<p>Yes.</p> <p>A – Yes</p> <p>B – Yes</p>
<p>3. Do you agree with the proposed 'fairness test'? In particular:</p>	<p>Yes.</p> <p>A – Yes</p>

<p>a) Do you agree with the high-level features of the fairness test (principle based, reasonableness, case-by-case basis, and objectivity)?</p> <p>b) Do you agree with our proposals to implement the fairness test discussed in Appendix 1: Fairness test?</p>	<p>B – Yes. How will Ofgem perform the fairness test and in what frequency?</p>
<p>4. Does the revised authorisation condition, ‘fair pricing’, reflect the policy intent?</p>	<p>It’s not particularly clear exactly which bit Ofgem are referring to here, but in general, yes.</p>
<p><u>Market segmentation</u></p> <p>5. In relation to market segmentation (please note that we are asking in relation to the considerations discussed in paragraphs 2.58-2.61, segmentation considerations in relation to price benchmarking are considered under Chapter 4: Price comparison and benchmarking methods):</p> <p>a) Have we identified the right characteristics for market segmentation, and are these correctly defined?</p> <p>b) Do you agree with the segmentation approach discussed for each of these characteristics?</p>	<p>Unless otherwise listed below, we agree with those listed.</p> <ul style="list-style-type: none"> • Housing tenure - So long as this is high level to indicate where costs are bundled, this is fine. Otherwise, it would make things very complicated as heat networks have multiple tenure types and they are not always formally documented. There will also be different terminology different heat suppliers will use. • Commercial arrangements – if this means resident-owned schemes, this is fine. • Network build pre-regulation vs. post-regulation – a transition period will definitely be needed. • Type of network – do Ofgem here mean that district heat networks should look at a phased installation of generation equipment, so customers don’t have to cover the cost of expected demand once fully occupied? This practise would be the same across all scheme sizes, just different scales. • Zoning location – we disagree. We do not see what impact this would have on costs. • Should generation fuel type not be considered?
<p><u>Data requirements</u></p> <p>6. Of the information listed in Table 3 (page 39) below, what do heat networks already regularly collect and can be easily reported?</p>	<p>Unless listed in the section below, we think all other elements should be easy to collect.</p> <p>We ask Ofgem to define exactly what they mean by ‘ownership or commercial arrangement’ and confirm the exact date that should be used to determine whether a network is ‘built pre-regulation vs. post regulation’</p> <p>Will dropdown options be provided for most of the criteria?</p> <p>We emphasise again that we think quarterly reporting is overly arduous.</p>

<p>7. Of the information listed in Table 3 (page 39) below, which items would be more challenging for heat networks to report?</p>	<p>Our overarching comment here is that we disagree with the need for quarterly reporting. The more frequently Ofgem asks for reporting, the higher the running costs will be. Ofgem should really consider the value of having all this information at the frequencies being requested. Ofgem also mentions in section 6.67 page 84 that they acknowledge the burden of reporting, so why still suggest quarterly here?</p> <ul style="list-style-type: none"> • Charges & Prices – Not challenging. If heat suppliers are only allowed to change tariffs at most every 6 months, why does this need to be quarterly? • Prices – mostly easy. By reference prices, we assume Ofgem means averages or other reference points of consumption used. • Cost allocation – mostly easy where financial reporting is already performed. Please clarify what Ofgem means by connection charging methodology as we're not familiar with connection charges being allocated directly to residents. Does this cover charges such as change of residency fees? • Cost drivers – operating temperature and other efficiency measures is easy to report on where there is operating software in place e.g., RavenResidential. Otherwise, this could be challenging. • Cost drivers – network length will be very challenging. We think this is only possible on district heat networks and even then, very difficult to determine. Otherwise, the rest is okay.
<p>8. Of the cost drivers listed in Table 7 (in Appendix 3), which items would be more challenging for heat networks to report?</p>	<p>The cost drivers we think will be more challenging for heat networks to report on are:</p> <ul style="list-style-type: none"> • Network length • Age (could offer brackets to make this easier) • Operating temperature (depends on data available) • Bad debt (if metering & billing themselves) • Installed primary heat capacity (we've experienced heat suppliers struggling to provide this) • Type of properties supplied
<p>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?</p>	<p>No, but Ofgem should consider the frequency of data requests from quarterly to annually.</p> <p>Our thoughts (on whether we think worth including or not) on the 4 x cost drivers in Appendix 3:</p> <ul style="list-style-type: none"> - Fuel input price – agree this is helpful to record.

	<ul style="list-style-type: none"> - Profit vs. NFP – This one is key. We think Ofgem’s focus to date has been worrying about ESCos overcharging residents for profit, but what about not for profit (NFP) possibly not looking after their heat networks adequately and overcharging their residents as a result? - Cost recovery approach – Commentary would need to be provided alongside this for Ofgem to understand if this has been a big cause in a change in tariff. We recommend Ofgem rewording this section to make it easier for all heat suppliers to understand what is being asked here. - Function – Not sure this one is clear or needed.
<p><u>Cost allocation</u></p> <p>10. Do you agree with our proposed prescriptive rule that GSOP payments, compensations, fines, penalties and other redress provided to consumers should not be passed through to customers?</p>	<p>In principle yes.</p> <p>However, if GSOPs cannot be passed through to residents, how will this cost be covered on NFP heat networks? What is the alternative? Where does this money come from if there are no other available funds?</p> <p>There are circumstances in which the heat supplier and customer are collectively the same entity/people (e.g., leaseholder owned ‘ManCo’). In these circumstances it won’t be possible to comply with this rule. In other circumstances, where said leaseholder ManCo may choose to recover the cost of GSOPs from suppliers e.g., maintenance/metering & billing provider, these costs will make their way into charges from these providers which ultimately find their way into resident tariffs/standing charges. As such the imposition of GSOPs, etc. will inevitably land with increased customer charges one way or another.</p> <p>What will happen if heat suppliers are found to be recovering GSOPs through tariffs gradually, such as debt contingency?</p>
<p>11. Do you agree with the draft best practice guidance provided? Is there anything that should be added?</p> <p>Should any of the best practice guidance be strengthened to prescriptive rules?</p>	<p>Yes, a case-by-base flexible pricing guide is the best way to ensure diverse heat networks can accommodate the wide variety of factors that go into pricing, including unbundling for transparency.</p> <p>No. At the outset, prescriptive rules will be very difficult given the above-mentioned diversity. In addition, the one prescriptive rule Ofgem has put forward presents problems in certain scenarios (as explained above).</p>

<p>12. Do you think that the best practice approach to cost allocation should differ for different types of heat networks, or different types of suppliers? If so, for which types and how?</p>	<p>We agree with the metered method, as we understand there needs to be a different for unmetered if the data simply isn't there. The challenge for unmetered is the information getting lost or not provided in the first place in terms of no. of bedrooms/property size. We would recommend sq-ft for tariffs.</p> <p>Our view on cost allocation over time is that costs on a per property basis should be calculated to accommodate a fully built and occupied heat network. The proportion of costs which relate to unbuilt or unoccupied units should be paid in full by the developer/landlord/heat supplier and should be factored into overall costs of development. This can be forecast ahead of time. The principle of protecting early adopters from overpaying in this regard is really important.</p> <p>Connection charges are fine, but Ofgem should ensure these only ever cover the actual cost of connection.</p>
<p>13. Does the authorisation condition, 'cost allocation', reflect the policy intent?</p>	<p>Yes.</p>
<p>14. What other feedback do you have on the proposed approach to cost allocation?</p>	<p>We suggest consideration is made to prohibit end users (leaseholders) from paying capital costs twice. E.g., a leaseholder buys property from a developer > a developer sells freehold or leases operation of standalone heat network to an ESCo > ESCo pays developer a capital fee for this > capital fee is recovered from leaseholders (for a second time) through cost allocation. This should be prohibited or clear transparency rules covering this scenario introduced e.g., connection charges only applicable at the point of the property being physically connected to heat network – not at any other point of change in hands.</p>
<p><u>Price comparison & benchmarking methods</u></p> <p>15. Do you agree with our proposed approach for defining heat network prices in a comparable way? Are there any other ways to define price that we should consider?</p>	<p>Partially agree however we question what benefit the definitions provide.</p> <p>Combining unit rate and DSC to calculate a total energy cost makes sense. If Ofgem propose an average, we see value in also providing high and low values. However, we would suggest avoiding splitting residents into categories of low, medium and high usage to reduce the admin requirements of collating this data.</p>
<p>16. Do you agree with our proposal to use gas boilers and heat pumps as external reference benchmarks?</p>	<p>Yes, but why not also compare with electric heating & hot water systems too?</p> <p>As is considered in Heat Trust calculator, the ongoing operational and maintenance costs of gas boilers and heat pumps need to be factored in, as these elements are commonly</p>

	included in heat network tariffs. Other factors to consider are i) differences in CoP of heat pumps, ii) heat demand variability, and iii) variety of bulk electricity contracts.
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?	The proposed method seems fine. However, as mentioned in Appendix 2 , Ofgem must consider the cost implications of gas boiler servicing and replacements for a fair benchmark comparison.
18. Do you agree with the proposed approach to comparator benchmarking, and our list of potential cost drivers set out below and in Appendix 3: Cost driver ? Are there any relevant cost drivers that we haven't considered?	Please see our comments above.
19. 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?	Easy – i) technology & fuel type and ii) fuel input price. Some heat suppliers find difficult – annual network demand Challenging - network pipe length. How should network pipe length be determined? We feel this should only be relevant for district heat networks and even then, this will likely be challenging for many. Are Ofgem expecting to record the length of both buried and exposed pipework? Would recommend instead of this asking whether it's a communal or district heat network, and where district, how many buildings are supported.
20. 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?	<ul style="list-style-type: none"> • i) annual network generation & ii) operating temperature = easy if plant room equipment is metered. • Network generation = needs to be defined as this is not known terminology for everyone. • i) Type of network, ii) utility supplied, iii) metered vs. unmetered, iv) number of customers/properties supplied, v) function, vi) geographic location = easy • Network age = not easy. Brackets would make this helpful. • Cost recovery approach - Will Ofgem provide definitions to be used for this. Would 'level of costs not passed on to consumers' literally be totaling number of GSOPs issued within the reporting period?
21. What is your view on our proposal to publish a high-level methodology for each benchmark (once data is collected	We agree that it is essential that methodology is published regardless of which benchmarking method is used.

and methods have been tested), to provide an accessible overview of the approach?	Archetypal seems more appropriate due to the consideration of heat network size.
22. Do you have any other feedback on the proposed approach to price comparison and benchmarking?	No.
Profitability analysis 23. Do you agree with the proposal for ongoing monitoring of profitability through data collection on EBIT margins for all heat networks?	Yes, but see below.
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?	<p>For large companies, EBIT is calculated as standard. However, we believe this will be challenging for smaller heat suppliers.</p> <p>The correct calculation of EBIT margins does require a full-time accountant. This isn't something that is available to non-ESCo heat network operators. Additionally, for NFP networks Ofgem need to reference the correct language which should be surplus / deficit / breakeven as there should not be EBIT. For smaller heat networks without access to commercial accountants to carry out these assessments a requirement to do so under regulation will add a consideration cost to the heat network which ultimately will be passed on to consumers. As such, this creates a barrier for small heat suppliers as Ofgem are creating the requirement for a professional resource to carry out a financial analysis.</p> <p>With that said, large ESCos may not assess the specific EBIT of a heat network on its own, and instead is covered as part of wider operations, or be willing to share this commercially sensitive information.</p>
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?	<p>We disagree. We do not see any benefit in doing this. For a NFP heat network there is no additional benefit to showing ROCE than there is any other previously mentioned method. The target of a NFP heat network is to not make a profit.</p> <p>The only instance we agree this should be used is where further price investigations are required on a specific scheme/heat supplier.</p>
26. Do you have any other feedback on the proposed approach to profitability assessment?	In respect of reporting frequency, EBIT or other financial reporting should not be more frequent than annually.

	<p>As mentioned above, we feel it's worth noting that a great many heat networks are not operated as separate financial entities/companies. Instead, they form part of a ManCo which has a range of other diverse property-related costs and incomes to calculate and report. Heat income and costs are contained within these current reports, pulling these out into a separate EBIT/surplus deficit for heat networks will entail considerably more administration which = cost to operator and consumer.</p> <p>We do not think Ofgem needs to collect fixed assets and long-term debt figures but simply focus on EBIT.</p>
<p><u>Central price transparency</u></p> <p>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.</p>	<p>We'd like to note that our preference within those contributing to this response were mixed. The most preferred option was Option 1 (4 votes) with 2 x votes to Option 2.</p> <p>Ultimately, we strongly believe that education on heat networks and tariffs needs to come first before sharing of any prices. Please see our views on each of the three options below.</p> <ul style="list-style-type: none"> • Option 1 – <i>segmented approach (grouped comparison)</i>. We believe this one to be the fairest comparison, and groupings can be improved over time. Size is the key factor with price because as a basic rule, more residents = costs can be spread further. We think this is the easiest method for consumers to understand (we disagree with the strengths and weaknesses table). • Option 2 – <i>pooled market average comparison</i>. We think this is a good idea to provide comparisons for similar sized homes, allowing the customer to compare their own consumption against an average. However, first capturing this information (no. of bedrooms/sq ft) and then capturing it alongside live consumption data will create an additional task, as this information isn't usually paired unless a network efficiency system is being utilised. As a metering & billing provider property size information is rarely provided to us and where provided only efficiency monitoring systems are typically built to store this information. The actual methodology is fine, but the data required should be adjusted. Gathering this data will be a massive challenge for older schemes where this might not have been captured. • Option 3 – <i>RAG ratings indicating comparison with benchmarks</i>. As Ofgem has identified, we think this method leaves too much room for misinterpretation. It assumes customers will read the accompanying material. On the other hand, this solution

	would probably drive the most heat networks to improve efficiency, holding them to account. We think this information would be best shared with heat suppliers vs. publicly with consumers so necessary action can be taken to improve efficiencies and costs.
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?	<p>See comments above.</p> <ul style="list-style-type: none"> • Transparency - Option 1 best, then 2, then 3. • No burden on consumers to interpret information/misinterpretation – Option 1 best, 2 very wide, 3 worst. • Don't see any issue with disclosing commercially sensitive information. However, Option 3 is worst if heat suppliers are named. • Surely the information that Ofgem is proposing to be submitted alongside tariff changes (plus significant increases in tariffs) will identify any suppliers that have done 'price convergence'?
29. Do you support focusing on one option or a combination of options in paragraph 6.69?	<p>A combination would work, how it would work is TBC.</p> <p>We think only one comparison should be published otherwise it'll be more confusing for consumers.</p> <p>One method of comparing presented in different ways should be given e.g., table, graph, high/low/average.</p>
30. Do you support the phasing in of the options described in paragraph 6.70 ?	See our comments in question 29. We think the information gathering required to make Option 2 possible is going to be a lot harder than Ofgem think.
31. Do you support the adoption of different options for different heat network groups described in paragraph 6.71 ?	No. we think all heat suppliers should be required to provide the same information. Without this, Ofgem will not be able to compare all.
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?	<p>See our comments in question 27. We don't think there is any additional administrative burden but considerable work for Ofgem to compile all the data.</p> <p>The burden that may come is an influx in customer contacts. This is a good thing if it leads to education and better understanding but could ultimately either increase costs to cope with increased resource requirements or reduce service quality unable to cost with increased contacts.</p>
33. Do you think it is appropriate to link central price transparency with benchmarking?	Yes, with the caveat that benchmarks are contextualised, so they are not misleading to consumers. Ultimately option 1.
<u>Pricing</u>	In general, we agree but will pose a challenge with inefficient private NFP network. If there is no money to pay for efficiency improvements, would Step-In happen here? Scenarios

<p>34. Do you agree with the approach to price investigations set out so far? Please provide reasons and views to support your response.</p>	<p>such as this may require use of HNES funding (or similar) to support, including private leaseholders not just social housing.</p> <p>Comments relating to list:</p> <ul style="list-style-type: none"> • While a non-exhaustive list, it's very relevant to recognise ownership structure/contractual set-up of the heat network, particularly for NFP networks. • By complaints data does Ofgem mean specifically relating to tariffs only? • How much detail will Ofgem expect for methodology? • Please define 'quality of service'. <p>Will Ofgem be setting an SLA for how long investigations will take?</p> <p>Will Ofgem ask heat suppliers to retrospectively change tariffs, and potentially pay refunds in the event of overcharging? If so, there is a considerable additional administrative cost and time burden for doing this.</p>
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