

Heat networks regulation: fair pricing protections



Submission from the National Residential Landlords Association

About us

The National Residential Landlords Association (NRLA) is the leading voice for private landlords. We represent over 110,000 landlords who own and manage more than a million private rented homes in England and Wales.

Our members range from full-time landlords running property portfolios to those letting single bedroom flats. We help our members navigate the private rented sector's regulatory and legal framework by delivering training and advice to ensure they understand their responsibilities and are equipped to provide good quality homes for their tenants.

We are a significant source of market-leading intelligence on the private rented sector and are focused on securing improvements that enable the sector to thrive, benefitting tenants and landlords alike.

For any questions regarding our response to this consultation, please contact us at policy@nrla.org.uk.

Executive summary:

We welcome Ofgem's efforts to improve fairness, transparency, and consumer protection for heat networks. The proposed consultation lays the groundwork for more consistent and fairer outcomes. However, the regulations must take into account the potential impact on certain rental properties such as HMO's (houses of multiple occupation) and converted flats. Without the proportionate adjustments, the proposals risk creating barriers for small landlords and disrupting the private rented sector. In our response, we have pinpointed the following areas for your attention.

- We support the principles of cost-reflective pricing, proportionality and transparency; however, more guidance is needed on the definition of "fair pricing", how it will be assessed and how these principles will apply to smaller-scale systems.
- If rental properties such as HMOs and converted flats are within the scope of the new regulations, smaller landlords could face excessive compliance costs, particularly when considering upcoming regulations like MEES and the Decent Homes Standard.
- We recommend the ability to opt-out of the pricing structure and reporting provisions for all HMO and other small heat network providers where they provide a bills included tenancy agreement.
- The proposed January 2026 implementation date leaves little time for providers to prepare, especially given the complexity of the reforms and the absence of final guidance until late 2025. A delayed or phased approach would give landlords and heat

network operators a more realistic window to adapt, mitigate compliance risks and ensure continued service to tenants.

Response to Consultation

Fair Pricing Framework

As outlined in our response to the Heat networks regulation: Implementing Consumer Protections, published by Ofgem and the Department for Energy Security and Net Zero (DESNZ)¹, we welcome the proposed measures aimed at enhancing clarity, fairness, and transparency for consumers. We recognise the significance of safeguarding vulnerable groups and guaranteeing fair pricing throughout the industry.

Overall, we believe the Government has proposed a fair set of principles that provide a strong foundation for the fair pricing framework. In our previous consultation response, we highlighted the need for greater clarity around the definition of 'fair pricing' and how it would be assessed. This consultation presents a reasonable framework that, if implemented pragmatically, could offer appropriate consumer protections.

However, given the Government's stated ambition to increase heat network coverage to 20% of residential properties by 2050, up from 3% currently², the proposed regulations could act as a disincentive to the expansion of heat networks. This risk is potentially compounded by the current lack of a comprehensive strategy to support the growth of heat network infrastructure more generally³.

The principles of cost-reflective pricing, proportionality, and transparency are well-founded and align with the Competition and Markets Authority (CMA) findings (2018), which indicate that price protections are necessary to address the risks of excessive pricing in this market. The CMA highlights in its 2018 market study that there is wide variability in standing charges and perceived value for money. Small landlords, particularly those operating HMOs or small communal systems, often lack the scale to negotiate fuel or service contracts competitively, resulting in higher per-unit costs that may appear non-compliant with cost-reflectivity principles⁴.

That's why more clarity is needed on how these principles will apply to rental properties like Houses of Multiple Occupation (HMOs) or other small-scale landlord-run systems. The risk is that landlords could face unfairly high compliance costs.

While the legislation is unclear on this matter, we understand that the intention is to exclude most HMO from these requirements. However, we believe it would be

¹ Department for Energy Security and Net Zero and Ofgem, [Heat networks regulation: implementing consumer protections](#), November 2024.

² Department for Energy Security and Net Zero, [UK heat networks: A market overview](#), 2024

³ ADE, [Written evidence submitted by the Association for Decentralised Energy \(WFP0035\)](#), 2024

⁴ Competition & Market Authority, [Heat networks market study: update paper](#). May 2018

appropriate exclude **all** HMO from these requirements as they are not traditional heat networks.

If rental properties such as converted flats with shared energy systems are classified as heat networks under the new framework, this could present significant challenges for smaller landlords. In particular, those managing properties with fewer occupants or operating on narrow profit margins may struggle to meet the regulatory requirements, with compliance costs potentially becoming unsustainable.

This challenge is made more pressing by the relatively short timeframe for implementation. According to the press release accompanying this consultation. The new regulatory framework for heat networks is set to take effect in January 2026⁵. With further consultations still underway and updated guidance not expected until late 2025, this leaves energy providers with limited time to prepare for compliance.

The difficulties presented by this timeline are compounded by the upcoming changes to the minimum energy efficiency standards (MEES) expected in late 2026. For landlords with a small to mid-sized portfolio that operate a small, shared heat network, the combined cost of meeting these regulations, as well as the new regulations on MEES, would likely be overburdensome.

The legislation would also benefit from a clarity on whether any HMO will be classified as communal heat networks, and therefore subject to the full scope of the proposed regulations.

In a recent survey from the NRLA, 38% of private landlords stated that are already planning on selling at least one of their properties due to the new MEES regulations⁶. For small to medium-sized landlords, particularly in the private rented sector (PRS), the introduction of these new requirements alongside the updated EPC regulations also due in 2026 could be overwhelming. The combined financial burden and administrative workload may place significant strain on a large portion of the sector.

Market Segmentation

The consultation's proposal to introduce market segmentation and implement a flexible regulatory approach while remaining aligned with core principles is generally fair. Although we do have some reservations on the proposed approaches to certain characteristics.

The consultation leaves ambiguity around whether shared ground loops (SGLs) should be subject to the same regulations as other types of heat networks. Our view remains that they should not. This is because SGLs operate differently from traditional

⁵ Ofgem, [Heat networks regulation: fair pricing protections](#), April 2025

⁶ NRLA, [Landlords identify EPC tipping point](#), 2025.

heat networks; in many cases, each property maintains full control over its own heat pump and is billed individually based on actual usage⁷.

As outlined in Table 2 of the consultation, tailoring regulations based on whether a network operates for profit and the specific type of heat network in use is a sensible approach. However, the term "communal heating network" requires further clarification. Clear definitions are essential to ensure that the proposed regulations for heat network providers do not unintentionally place undue obligations on small landlords.

Cost Allocation

We acknowledge the Government's effort to avoid a 'one size fits all' approach. As highlighted throughout the consultation, heat networks vary widely in their ownership structures, business models, and technicalities. It is therefore reasonable to conclude that a single, uniform standard would not be suitable for all types of networks.

If HMO and other smaller heat networks do fall under these new regulations, we recommend that they be granted the option to opt out of the pricing structure and reporting requirements where they provide a bills-inclusive tenancy agreement. This exemption would be conditional on landlords not applying separate or additional charges for heat consumption via clauses such as fair usage policies.

Allowing this exemption could deliver benefits to landlords by reducing the cost and complexity of installing individual meters and ongoing administrative burdens. In turn, this would benefit tenants by keeping compliance costs low and minimising the risk of costs being passed on.

More directly, this opt-out would keep costs consistent and stable as the tenant would only be expected to pay the rent each month with no potential for additional charges. Additionally, once the Renters' Rights Bill becomes law, any rent that includes energy costs would be governed by the Section 13 rent increase process, limiting the ability to raise charges to once per year. This would introduce a clear and enforceable safeguard for tenants, ensuring predictability and protection against unexpected increases in energy costs.

The proposed prescriptive rule that any financial penalties or payments related to GSOP (Guaranteed Standard of Performance) should not be passed onto the consumer is a proposal we are supportive of. This would clearly not reflect the policy intent of protecting the consumer from unfair costs. How exactly this will be determined in any price investigation needs further guidance and clarification.

⁷ Alto Energy, [Commercial Ground Source Heat Pump Shared Ground Loop Systems](#)

Cost Recovery

We support the consultation's recognition that certain cost recovery methods, particularly the inclusion of fixed or shared costs within variable per-unit charges, can lead to cross-subsidisation between consumers. This is especially relevant in the private rented sector, where tenants may have varying energy usage patterns but share the same network infrastructure⁸. While Ofgem has acknowledged this concern, there remains a risk that certain aspects of the proposed policy could unintentionally disadvantage some groups of consumers.

In regards to the unbundling of maintenance fees from the cost of heating as laid out in the consultation, we would like to see more clarity on whether the government intends to follow through with this policy as doing so would require all properties under the regulations to be metered.

Any kind of enforced metering along with cost recovery regulations could become overburdensome for small to medium sized landlords. This policy may also create challenges related to enforcement and dispute resolution. Tenants would have the right to challenge unfair charges through the First-tier Tribunal. However, if service charges are separated from usage-based heating charges, it could lead to overlapping responsibilities between the Housing Ombudsman and the Energy Ombudsman, creating confusion over which body should handle specific complaints⁹.

This could have a significant negative impact on the PRS, particularly in HMO and converted flats. The potential cost of installing metering systems, combined with the additional administrative burden and the financial impact of complying with upcoming MEES regulations, is likely to prompt a significant number of landlords in the PRS to exit the market. According to a survey by the NRLA, 33% of landlords said they would sell their property if required to invest between £5,000 and £10,000 to achieve compliance¹⁰.

Under the Renters Rights Bill, the administration and compliance costs may be difficult to recover for landlords who have bills included tenancies. This is due to rents only being able to be increased via section 13. Any rent increase may be challenged at the first-tier tribunal, whether a tribunal will take into account the costs of heat network regulation compliance when determining whether a rent increase is appropriate or not, is unclear. If properties with or without a heat network settle to similar market rents, the tribunal will keep rent increases in line with the market, and the increased

⁸ Trowers and Hamlins, [Heat Network Regulation: Heat Contracts, billing and landlord and tenant legislation](#), 2025.

⁹ Trowers and Hamlins, [Heat Network Regulation: Heat contracts, billing, and landlord and tenant legislation](#), 2025.

¹⁰ NRLA-Dynata, All-landlord Survey, 2025

compliance costs will not be recoverable for landlords of properties that do use a heat network.

Instead, we would recommend the opt-out capability, as the increased administrative and metering costs wouldn't be borne by small HMO landlords, and the tribunal already considers whether bills are included when determining the rent for a property. This would ensure parity between properties that use or do not use a heat network.

There is also the issue of leasehold properties who are unable to get a meter installed due to the freeholder not giving consent.

For unmetered properties also, there needs to be more clarification on how consumers should be charged and how this will reflect the policy intent of maintaining a fairer deal for consumers. Section 3.20 of the consultation suggests that heat network "costs should be allocated on a basis that provides some proxy of usage, such as number of bedrooms or property size" for unmetered properties. There is a risk that dividing costs based on these proxy's is too arbitrary and still would lead to cross-subsidisation between consumers connected to the same network.

This would have a particular effect on HMO and converted flats that may not have the capacity to meet these regulations. It is also the case with a significant number of PRS properties that the cost of heating is costed into monthly rents. The consultation is not clear on how these will be affected by the new regulations.

Timelines

This consultation outlines an implementation timeline that may be unfeasible due to the scope of the proposed regulations and the substantial administrative burden it would impose on landlords identified as heat network providers. This would especially be the case for small to mid-sized landlords if they are to be included within the scope of these regulations.

The consultation proposes an implementation date of January 2026, with final guidance and updated regulations expected in late 2025. The short interval between confirmation and implementation could make compliance particularly challenging. A more realistic approach would be to set a later implementation date, allowing providers sufficient time to understand the new requirements and establish the necessary administrative systems to support compliance. A more suitable approach would be to tie the implementation timeline to another point where the landlord is likely to undertake significant works on the property. For example, the new MEES requirements by 2030, or the introduction of the new Decent Homes Standard in 2035-2037. Aligning new heat network regulations to these related changes in the sector would allow for a more holistic approach to retrofitting and gives those subject to the new regulations ample opportunity to prepare for them.

An alternative approach could be to only require that these measures need to be met when the landlord has vacant possession of the property, so that the landlord is able to undertake several retrofit or improvement works in this area at a time when the property is not tenanted. This minimises the impact on the tenant and allows for large scale works to be done in tandem, reducing costs.

These approaches could be combined, with the landlord becoming liable under the regulations when their property becomes vacant, with an additional backstop of either the MEES or Decent Homes Standard implementation dates to ensure that properties where tenants do not leave are not left behind.