

## Questions

### Fair pricing framework

Q1. 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.

*This is a large list of principles and objectives to follow which might lead to uncertainty and difficulty for entities to follow regulations. Simplicity is key in ensuring that all requirements are understood without ambiguity so district heating entities are able to comply with little/no confusion on how to do so without confusion across multiple pages being lost in a level of detail to find specific requirements to follow.*

*We would suggest that a simple regulation that compared the total annual price for domestic customers, comparable to counterfactuals including lifecycle replacement costs and annual maintenance costs would be sufficient for a vast majority of district heating entities in the UK. If an entity is then found to exceed this threshold, then further investigation and "fair pricing" principles could then be utilised to investigate further, but a basic, simple price would resolve a vast majority of cases.*

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 also be included, please specify what changes you would like to see and provide a justification.

*As above, currently written regulations are effectively guidance and reliant on someone's viewpoint of fair rather than anything definite. With penalties for non-compliance there is currently no clarity on the exact requirements that would be needed for district heating entities to comply. Fairness should be defined with specifics as otherwise this just leads to uncertainty. The focus must remain on simplicity with the regulations, which are simple and clear how you comply and follow them.*

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.

*For Clause 2.20, we wanted to ask how would it be checked/ regulated? Networks will likely overlook larger scale investments to cut short-term costs when all the main metrics are around ensuring prices are as low for customers in the short-term. There will likely be significant*

*investment and a certain level of risk for efficiency measures that will only pay off in the long term but as there is no short-term pay off won't be undertaken unless entities are somewhat required to undertake this investment or monitored over a longer period of time rather than single years at a time. I expect some of this might be detailed in the Technical Standards but could easily be the case that efficiency measures should still be encouraged/ mandated where economic over the long term for entities that meet the technical standards.*

*Specifics should be given on how regulation will ensure entities are forward looking and make long term investments but also how customer experiences will not suffer detriment from operators cutting levels of service to meet fairness pricing or requirements on efficiency.*

*For 2.27, as a more general point rather than just for gas, local authorities may require Heating Networks to use certain Third-Party Intermediaries (such as in the local area or those on a certain framework). There may also be a lack of entities or skilled persons that are able to undertake certain work in district heating due to the size of the sector when compared with gas or electricity utilities- district heating is very specialised in the UK compared to other countries. These elements may therefore be contradictory, not make it possible or cost/time prohibitive to seeking multiple quotes or monitoring levels of costs/ transparency in procurement.*

*Gas prices for district heating networks should be protected by a cap, just the same as gas provided to domestic customers as if they are not, higher gas costs will only end in higher prices for customers at no fault to the district heating provider.*

*Due to the limited amount of skilled entities able to undertake district heating work, a lot of effort to obtain quotes from entities not previously used without surety or protections against bad practices or poor workmanship working on district heating will mean obtaining 3 quotes for work is likely to be prohibitively difficult and cost prohibitive for DH entities to follow.*

*Restriction of fines/ penalties is appropriate but care would need to be taken for purely not for profit entities where the operating nature cannot allow even a surplus in operations. No other additional costs should have a limitation on passthrough to avoid misinterpretation or misrepresentation of costs being passed to customers.*

*For 2.35, we would like some idea on what is seen as a fair return on investment for entities to be able to defend proposed tariff structures to internal stakeholders in advance of regulation and for them to determine long term investment thresholds for what is or isn't a worthwhile investment, including what timeframes for the investments are expected from regulation- without some level of prescriptive guidance it is more likely to lead to delayed investment, mean more challenges, larger changes in prices for customers and shorter term thinking for entities. Due to the risk involved in investing in a new network or a new area of the network is significant, these would need to be large enough to attract wide investment across the private sector, to similar to investment return on similarly risky opportunities.*

*The question of affordability we believe makes things only more confusing to set against- what is affordable might not be fair, and what is fair might not be affordable. We believe sticking to one or the other, and we believe having a tariff that is fair (with this being easy to determine is if it is below a set threshold, or can otherwise be investigated and checked if not) is more appropriate than specifying for affordability (in most cases it is expected that tariffs are both but providing evidence for affordability and determinations of this we believe are not straightforward or simple.).*

*We want to check that as a district heating provider we would have the right to reclaim debt through third party deductions from benefit payments as this is something we need to have should there be a wish to avoid disconnections. There should be a direct link for this and ease to access these funds especially as heat networks are likely to have a large proportion of social housing customers/ customers on benefits due to their nature. As a provider of heat we must have powers to recover our charges from customers- repayment plans are set to recover these- if these plans cannot be met we cannot simply reduce these further as they are already set at a minimum level of recovery- we must have a right to either disconnect or reclaim debt through benefit payments.*

*We would welcome guidance on how capital investments should be recouped over time in a fair manner from customers as currently there does not seem to be a defined way on how this should be done.*

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)?

*Although all the high-level ideas and principles are appropriate, it does not provide any clarity at the outset to entities on what actually would be found as not "Fair" or appropriate, or what would be seen as reasonable by regulation from the outset. With the proposed approach from what we can see, all entities would need to be checked individually each time tariffs are set with large amounts of data for each entity to determine if they are fair and no one would actually know if their prices are fair and compliant to regulations, guessing what tests might be used to determine this. This clarity is needed for internal decision making to take place in preparation for regulation.*

*There needs to be a clear and defined way to screen which is clear to all networks to be checked. As a suggestion for this single clear overall screening figure with no complexity might be overall annual cost/ 20 yearly cost to customers (rather than a set unit/standing charge), or overall surplus/profit made at a defined percentage amount of revenue- i.e. average domestic customer £1500 a year or less for heat or 20% EBIT in a year (once CAPEX and amortisation has been taken off). This should not be misunderstood that anything above/ below these values are not fair/ abusing monopoly power more that checks are appropriate to be checked in more depth and other calculations used for these entities for x amount of time for their individual circumstance.*

b) Do you agree with our proposals to implement the fairness test discussed in

Appendix 1: Fairness test?

Appendix 1 seems a reasonable list of areas to look at but it is not a specific test and we are still not clear on how we would actually be judged.

Some of these metrics are likely to be met while others might not be (and might not be able to be met at least in the short-medium term). We expect there would therefore be some form of calculation and therefore weighting of factors at the outset and if so how would these be rated and what bounds would be set for them (i.e. within 5%/ 10% of a set amount) and we would ask for the comparator to be clear and obvious at the outset- i.e. the entity that is being used

as the comparator (and not just selecting against the lowest price entity for the similar networks)

Q4. Does the revised authorisation condition, 'fair pricing', reflect the policy intent?

We are not against the principles of this test but need concrete definitions and figures to ensure we know where we are at the outset and to convince internal stakeholders what is needed to comply definitively rather than being unsure if we are compliant or not. We believe this should be prescriptive on Prices and/ or how much profit as a screening check on all entities, and only after this is not met that additional checks should take place.

### **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?

- there are a lot of characteristics that are still being considered as part of the segmentation approach, of which a majority are appropriate. However, due to the number of characteristics, it is difficult to get meaningful groups with many networks within if too many used at the same time- even if they are appropriate to us. For comparisons to be not just which is better, I would suggest a minimum of at least 30 networks minimum in each comparator group. It is likely that the application of more than 2/3 of these will lead to a much more complicated process than is required at this stage.

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

Size- appropriate and likely to be one of the main segmentation measures.

Metered vs non-metered- shouldn't be part of segmentation, should be a requirement to at least a % of total network if size of network is such a size.

Profit vs non-profit should not be a segmentation- it just might impact on how and what data is shared rather than being segmented as a different type of network.

Function: Agree that they shouldn't be segmented.

Housing tenure- This is appropriate where a whole network is a communal network rather than a district heating network, which would be the first segmentation. The tenure would only be segmented withing communal networks and not district networks.

Commercial arrangements- shouldn't be segmented against- likely that sizing will complete most of segmentation for this.

Network built pre regulation versus post regulation- shouldn't be segmented against but time should be given ample time and support for pre-regulation built networks to comply. We would

also suggest that exceptions are given if entities are found to mostly comply with almost all criteria but need exceptions for certain areas to remain competitive/ compliance to all other metrics. For instance, prices are low but certain technical figures can't be reached unless prices hugely increase. The figure that can't be reached without uneconomical investment should be given an exemption.

Type of Network- as above, should be a key segmentation- district are likely to have communal networks within them, but district networks should follow district rules, communal to follow communal rules (and their segmentation).

Zoning location- agree should be part of segmentation as there are more rights within a zone. Could be argued that prices outside of a zone should still be fair.

Level of vulnerability- is an important factor, could be percentage of customers/demand that is used by vulnerable customers, likely to lead to higher prices if have higher percentages of vulnerable customers (as needing more regulatory protections and accessible services). This however might be difficult to calculate and share data on, especially as there are large variations between vulnerabilities in customers.

Domestic Vs Non-domestic- most larger networks we would expect to have both domestic and commercial customers and where they do to have different pricing methodologies for domestic and non-domestic customers. This is because it is often not feasible or fair to apply the same methodology across both. There are also often long-term agreements for non-domestic that may be unable to change over to a new type of contract unless regulations enforce this and protect district heating entities from commercial challenges (enabling district heating operators to apply a change in law clause to automatically end any old contracts that currently exist?). Additional thought would be needed particularly here how this would be segmented out.

Shared Ground loops would need to be dealt with completely differently to other types of networks.

Pricing methodology- agree with approach on this.

## **Data requirements**

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

Overall, this is a large list of information requirements and the actual requirements for regulation should be kept to an absolute minimum required for simple and easy to apply regulation.

All items in Charges- though connection charges would heavily be dependent on the property to be connected- particularly dependant on the size of connection, location, distance from current pipeline and number of those connecting at the same time. At this stage a single figure for this couldn't be provided.

Prices- number of customers for mean annual customer bill will be heavily impacted by larger commercial customers, giving meaningless data unless these customers are taken out (and for these having a mean per commercial customer is also not meaningful).

Mean price per unit delivered including any standing charges and maintenance costs would be more useful data but might be difficult to collect and report on.

Cost Allocation- Methodology might be difficult to describe/ share and is somewhat confidential to a level of detail but might be reasonable on a higher-level view.

Cost Drivers (changing from time to time)- might be difficult to at all accurately predict and likely to be wrong, being variable due to a number of factors out of a network's control. Could provide a snapshot at a moment in time but there needs to be clear details on what the calculations should be for efficiency measures, network generation, network demand and where heat losses would come in depending exactly on how these are calculated and which figures are used.

Cost driver (collected at any time)- most in the list are what type of network they are rather than cost drivers as such- most could be provided somewhat simply but would challenge the need for this data.

Financial data- revenue and operating costs could be provided from budgets but might not be simple on what figures should and shouldn't be included when a network isn't a fully ringfenced area or as a separate entity in a larger company or authority. There is likely to be below the line and shared costs (such as HR) that might sit elsewhere in the entity that should be included but details on these costs are not available.

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

Have mentioned this in Q6.

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

This again is an extensive list where a majority of this data should not be necessary to determine if a price is fair or not. We would refer back to having a single comparator for domestic heat rates as a threshold and additional data to only be required if these sweeping checks are not met. To attempt to still otherwise respond how you wish for us to respond (even if in principle we disagree as per the above):

Technology Type- easier

Fuel type- easier -would be a mix of different fuels- the amount used of each type for previous years could be provided.

Fuel input price- medium- likely to be different at different times of the year and might have a contract change throughout as well. Could provide an overall cost of the fuel for previous financial year.

Annual Network Demand- easy/hard- could be provided for commercials- for domestics this is likely to be much more difficult due to the number of customers and access to individual metering data.

Network length- medium- could be provided, though likely to be a good estimate rather than definite size of network due to age of the network

Type of Network- easy, though note that there are communal networks within our district network- so clarity on what is needed to be captured.

Network Generation- easy- though clear definitions must be provided for clarity on what type is what for regulations.

Age- easy- though note that different parts of the same network are likely to be older than other parts and the age of an energy centre could be the same- some elements will have been replaced in the meantime where the physical building might be older/ different ages. Also difference between a purpose-built energy centre/ building and one where a district heating network has been moved within should be taken into account.

Utility supplied- hard- as this can be dependent on individual connection types and can vary across a single network.

Annual network Generation-hard- might be that more could be generated to meet demand at certain times of the year but not at other times. It could also be that the maximum capacity installed is no longer available or underestimated if this maximum is never utilised.

Operating temperatures- easy- though this varies across a day and even more over a year. Specifics on how this information might be needed is important or if an overall average across each quarter is all that is needed, how this average should be calculated.

Number of customers- medium- depends on specifics and whether wanting commercial connections to split to commercial entity or connection point, whether a block of social housing bulk supplied counts as 1 entity or as 90 (with 90 flats at the social housing block). This wouldn't capture the difference between single large customers/ buildings such as arenas compared to a single domestic house.

Number of properties- easy- again unlikely to capture the differences above of larger sized buildings and multiple flats within a single building

Function- Easy- could be multiple of these types at the same time for different customers.

Geographic location- easy determining where connected properties are, much harder for estimates of local land and labour costs for different areas.

Metered vs non-metered- easy to determine which ones are and aren't but might be much more difficult to change from non-metered to metered.

Other Efficiency measures- Hard- likely dependant

Profit/non-profit- depending on definitions.

Bad Debt- depending on definitions- likely hard to provide due to changeable nature.

Installed primary heat capacity- could be given based off design and/or current operations. Likely to not be a straight-forward figure to compare between due to different generation/supply and demand patterns.

Load type- can provide if domestic/nondomestic but accurate data on maximum demand of a building might be difficult as may never have used maximum demand (network not yet seen 1 in 20-year cold spells etc)/ may never be able to fully use maximum demand.

Age and type of properties supplied- Very Difficult without lots of data shared from local government/ central government. Even then would likely require significant resource to produce.

Funding received or costs not passed on- easy- depending on what costs are not passed on/ not allowed to be passed on.

Cost recovery approach- medium, could be provided but guidance and clarity on how this data would need to be shared.

Level of vulnerability- proportion could be provided but unlikely to capture those with more significant vulnerabilities or needs. Details of the vulnerabilities should not be shared to minimise personal data being shared across parties. This is likely to change over time with tenancy changes and might not have sight of all vulnerabilities on a network (people not letting district heating provider know about their vulnerability even if asked, bulk supply customer data not being shared with district heating provider (as supplied through an intermediary).

Housing tenure: Difficult- likely not known for most domestic or commercial properties.

Network built pre-regulation vs post regulation- Easy though might have areas that a pre-regulation entity builds post regulation that would need to be captured separately.

Zoning location- easy

Any data requirements must be easy to undertake with simple and clear definitions on how it should be provided. As from before data requirements should be kept to a minimum to allow regulation but no additional data should be sought (so at most for a majority 1-2 bits of key information rather than the vast amount of data currently envisioned.

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?

Potentially- though would say that currently this is an onerous amount of information to be provided for any type of heat network- at least initially while heat networks get used to providing information and used to being regulated. It is likely that smaller networks (serving less customers/ less total demand/generation) will have less resources to provide information for regulation, potentially requiring additional resource to do so that would impact on their customers more but are potentially most likely to have the highest prices where data should be the most important for.

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?

Yes, this is a reasonable condition to have. Care needs to be taken on purely not for profit entities where all costs directly relate to prices already, so where fines/ penalties also need to be shared somehow. In most cases however this should be applied (including to Local authorities, smaller district heating entities or for social housing providers running district heating, where fines could be taken off from other areas of the business should this be present). A note to make is that entities with proportionally high levels of compensation



payments/ fines should be tracked and looked at by regulation to see what is happening and potentially step in before the situation gets worse, potentially with appropriate actions taken quickly and/or funding and guidance made available where possible to resolve growing issues as soon as possible. This should be one of the main screening checks on an entity (i.e. percentage of GSOP payments/ fines/ complaints for a given operator in a year)

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?

I believe the drafted practice guidance is reasonable but none should yet be strengthened into rules until data and evidence has been gathered on what is causing the worst cases of high prices/ perceived exploitation of monopolistic powers/ unfair allocation or where prices have been too low to fully recover the costs of operating district heating. Care should be taken to allow some flexibility for DH providers to rebalance fixed/ variable costs to unit charges/ standing charges were appropriate to not penalise low users or penalise high consumption.

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?

With these being best practice guidance rather than prescriptive rules, it is not as important to differ for different types of heat networks. Once data has been gathered on how heat networks have initially allocated costs, then grouped based on different types of suppliers, links can then potentially be drawn with outliers to the norm either learnt from or recommended to change. This could take many years of data to build up rather than initially and feel at the outset different “best practice” guidance would not be beneficial.

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

These are reasonable to start to reflect the policy intent and that they should not yet be prescriptive until actual data from regulated operating networks has been gathered for a number of years.

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

Q15. 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?

Although it is important to compare heat network prices, a key difference needs to be made between commercial and domestic customers on networks and how these would be treated in any comparator. For instance, just taking total revenue and dividing by number of customers will likely mean high prices so total usage and capacity of connections needs to be taken into account. We are operating on restricting capacities for commercial customers to open this capacity up to the network for others to connect that we would want to be part of any comparison. This comparison must also carefully reflect standing charge differences between different groups as standing charges for our commercial customers are much larger than standing charges for domestic customers- at least on a connection-by-connection basis due to

the higher maintenance and connection costs for these connections. There also needs to be clarity on if district heating entities must have a single calculation method that they apply for all of their customers or whether appropriate differences can be in place. For instance charging commercial customers differently to domestic customers, and also charging some commercial customers differently to others due to using residual heat/ offtake heat instead of the main network, or having different prices if they are new (commercial) customers not locking themselves into long term agreements (such as a landlord temporarily looking after a building for the short term), or where the commercial customer prefers to have no standing charge for a higher unit charge. There also needs to be clarity if regulation would trigger change in law clauses in ongoing commercial contracts and break any indexation methods in long term agreements with the forcing of any new tariff structure that follows regulation needing to be followed. This would need to be backed up legally centrally (as we will not be able to defend against any challenges made by our current customers) and be prepared to defend against challenges from breaking long term current arrangements. If it doesn't entail enforcing of following the guidance, you will likely have multiple ways of calculating prices for a heat network that wouldn't give a single "price" for the comparison.

An overall annual price for domestic customers including lifecycle replacement and ongoing maintenance as a counterfactual price should be used to provide a clear amount for district heating networks to be compared against. Commercial entities should be excluded from this until further clarity can be provided - or can be included as the annual price for domestic including replacement and maintenance divided by the average domestic customer usage as an average cost per kWh which could be utilised for commercial entities.

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

This is reasonable as long as the full cost of having a gas boiler and heat pump is included and considered, including maintenance of the gas boiler, the efficiency of a gas boiler and all the other elements included in Appendix 2, clearly defined and shown in any comparison. The additional elements and not just the fuel costs often make up the competitive advantage of connecting to district heating. As gas is also not low carbon, a low carbon heat network would ideally only be compared to a low carbon heat source, rather than to gas. Only gas DH/ not low carbon heat networks should ideally be compared to gas counterfactual or as a minimum there should be an element uplifting those prices to take account the wider cost / environmental impact of additional CO<sub>2</sub> and also the encouragement of the government of funding and grants available to invest in low carbon heat sources (which should include funding for connecting to district heating).

**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?**

Certain heat pumps can often not be utilised in certain areas or there is an efficiency loss in certain build up areas. Heat pumps also often need more space than other alternatives – and in certain areas space has a cost to itself for instance where the space required for a heat pump could be used for something else- as an opportunity cost- which should also be included. These should also be taken into account for the benchmarking

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?

This seems overly complex and difficult to understand. If we needed to comment on relevant cost drivers not considered, though it is our preference for the cost drivers to not be utilised in this way:

Number of successful connections for a certain new area/ build out compared to what was originally expected

Contractor availability/ cost increases/ time delays from lack of contractor availability/ skills

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?

All of these high importance figures can vary greatly year on year and can be difficult to predict for a following year (especially around annual network demand and fuel input price that are often out of district heating hands). Providing historic data on this should not be difficult as long as there is a reasonable level of variance allowed in what might actually be the case (such as network pipe length might be difficult to exactly determine if the pipeline has been in the ground 50+ years and what lengths should and shouldn't be included (such as lines with no connections on it, or those that serve very few customers but were still installed as originally envisioned to have more connections on them). Network demand is the hardest to capture due to the difficulty in compiling completely up to date and accurate data for set dates from Domestic customers over a large network, particularly to determine a split between domestic and commercial customers.

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?

Most of these are reasonably easy to obtain but some of them might change rapidly within a short period of time or be variable across the network. For instance, operating temperature would vary during both a single day but also across the year and across the network as heat is taken off by customers and that we operate at higher temperatures in the winter.

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?

We are not against this but would ask that the methodology is shared with district heating entities in advance of when it is released to the general public so that district heating entities

are happy with how they are going to be prepared and have time to amend should they need to change calculations to align to the given methodology in the benchmarking (if required).

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

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

We agree that ongoing monitoring of profitability on data collection on EBIT margins is appropriate for all heat networks, assuming that our suggestions on Q26 are taken into account, particularly those on capital investment (as a 15% pure profit sent to shareholders is more negative than a 20% EBIT margin but where 15% of revenue is reinvested back into the network via capital projects/ investment into the network). This reinvestment is likely to either grow the size of the network and/or reduce costs further in the future for network users that should be encouraged.

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?

We foresee potential issues where a heat network is not an independent entity running a single network. Obtaining costs/ revenue only from a single heat network within a wider/ larger company is important to properly compare. Also, a council ran district heating operation may not be ringfenced out, so reporting of their finances might be more difficult. Proper ringfencing of money/ finances for single heat networks should be undertaken and it is that data that should be shared for regulations.

We would also welcome a longer term approach to EBIT would be fairer with entities not being unfairly treated based on a single year either high/ Low EBIT.

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?

As data collection improves, we expect more in depth assessments could take place, but shouldn't be restricted to defining the best version of this until evidence is gathered on what might be the best metric/calculation to use. It might be that after data is gathered and experience gained that certain other metrics might be more useful in determining if an entity is being ran fairly/ well or if it is abuse their monopoly.

At the outset these should not be looked at and focus should be on making regulation as simple and as easy to understand as possible

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

We would suggest that capital expenditure/ interest on loans spent on capital expenditure should be included as part of the costs for the EBIT calculation to encourage investing in capital project/ efficiency projects. If it is just EBIT, entities may under invest to maintain maximum profits (within the expected levels that are measured) with minimum investment, particularly for companies that have a concession for so many years to run a district heating network that have to hand it back at the end, or companies running down a network to extract maximum value with minimum investment. This is a major concern of ours in general on the lack of regulation in these terms, that there is no enforcement on district heating providers to have a minimum share of profits/ surplus needing to be on capital/ infrastructure improvements. As a suggestion, if EBIT allows for 15% of revenue profits, it should be 15% with no capital included, 25% EBIT with the additional 10% of “profits” needing to be spent on capital expenditure/ interest on capital project loans- encouraging long term investments/ efficiency projects.

If both benchmarking and EBIT margins are being used, which one will take precedence over the other? There might be (probably unlikely but possible) cases where benchmarking against comparators shows a low price but the EBIT margins are high. Would the entity be enforced to reduce prices further, potentially impacting what other entities therefore look like in comparison and not giving incentives for very efficient and effective networks to grow, or would prices stay as they are but entity is enforced to invest and grow network more to enable more customers to benefit from the low price network (this enforcing to invest would be the preference rather than continuing to lower prices further). The opposite may also (probably more likely) be true that pricing is high, EBIT low/negative, to know that support and protection from customer backlash will be the norm when everything may have been done to comply/ have as low as price as possible, rather than being pointed out as not following rules/ exploiting monopoly

We would state that all networks should be a part of this analysis including the “not for profit” sector.

**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.**

Note on all comparisons- it is important to clarify that all price information is an all in price- i.e. includes an annual cost to customers as an average over the lifecycle of the heat source, including any up front costs/ maintenance costs/ replacement costs, especially as this is likely to be lowest for a district heating connection with only minimal costs of replacement being on the customer. It is also important to understand if commercial prices are excluded from any comparator as often commercial connections will have various different pricing indexations and costs based on their specific operations, often varying within a single network and any compiling of costs would be heavily influenced by the inclusion of commercial properties (that are likely to have much higher standing charges (often lower per unit consumed compared to domestic customers) if any are charged). Another point to mention is that different heat networks will have a different average usage for their customers, with low average usage Networks likely having a higher cost per kWh- hence why average cost per customer per year (with extra costs included) should be used instead of just price per kwh.

With all of this in mind, assuming only domestic annual average costs (averaged over lifecycle with replacement built in), for the 3 options:

grouped comparison- Only in the long term, after many years of regulation, we believe this is the most appropriate to use for district heating to distinguish between types. Care needs to be taken on how big groups are/ what the exact way to determine groupings is so that there aren't too many/ too few to make it appropriate. Due to the difficulties in compiling data for the comparison and the need for the data we agree this would take some time to gather enough information on to be useful, so likely to be a long term way after many years and clarifications goal rather than the initial proposal for regulation.

Pooled market average- we believe a useful comparison and likely the initial comparator to customers. As it compares to the other forms of heat it is likely to be heavily used even after more data is available. As above, care need to be taken to include full costs of other sources including maintenance and replacement cost to consumer over lifecycle of asset.

RAG Rating- we don't prefer the use of this and believe this would only lead to confusion and unfair challenges to district heating entities as soon as anyone sees anything except Green- Amber might be fine but wont be seen as that for many customers even if an explanation is given to what it means/ stands for. We also believe that scatter plots and trend lines are not a good way of showing information on price as it often looks confusing or over-simplifies the situation.

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?

We would suggest stripping all commercial prices of heat from comparators and only use domestic prices, removing most risk of disclosing commercially sensitive information, if the costs of domestics are the same across a network. We believe option 1 and 2 strike the right balance of these assuming that information is communicated in a clear and transparent way and that customers have an option to search for their own tariff in a wider table/ comparator against alternative heat sources, with option 1 only being considered after many years of ongoing regulation.

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

Only after a very long time (at least 5+ years of regulation, maybe more,) and only if it is required and option 2 hasn't given the data required. We would suggest initially to focus on a single option and way to present this until ready to phase in other options over time and we would suggest this is on option 2 initially.

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

Only when 5+ years of regulation has taken place should this really be considered (of which separate consultation would therefore be provided in advance of any changes, discussing what would be the current problems and what the new solution to those are. These should not

currently be looked at for simplicity and clarity which should be the main focus for all of this consultation.

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

No, we believe as much as possible that all heat network groups should have the same way of showing prices and comparisons, even if they end up in different groups via the grouping method- all entities should face similar reporting requirements and focus should be on ensuring that these are simple and easy enough for all heat networks to comply to regardless of type or operation or resources available for each entity to comply.

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?

We cannot see that data reporting for benchmarking would be overly burdensome for the larger DH providers but these requirements are likely to be misunderstood, aren't clear and only leads to confusion.

Focus for the first 5-10 years of regulation should be to ensure that data requirements are at an absolute minimum to ensure a level of compliance rather than as much as can be reasonably asked for. Regulations should not be onerous at least initially, perhaps later being more in depth if needed.

Q33. Do you think it is appropriate to link central price transparency with benchmarking?

No

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

We are generally supportive of pricing regulation but this needs to be simplified greatly for the benefit of both customers and DH providers.

Initially would like some indication on a prescriptive figure on what will be seen as unfair pricing and what levels of EBIT would be seen as abusing powers to ensure decisions can be made internally to ensure compliance to regulations from the off, even if these need to be adjusted once additional information is available from gathered data. If entities are above this it might be that they still have fair pricing but are reasons behind this which can be investigated and looked at in more depth, but these should be dealt with separately rather than everyone needing to be separately investigated.

We would also like to continue to confirm that there is a lot of uncertainty and confusion as to what the actual regulations will look like from January 2026 onwards with multiple consultations and questions being asked but nothing in return being clearly and simply communicated and confirmed (at least from our understanding which I don't believe is unusual.

It would be useful if some elements can be confirmed and a brief overview of data requirements and regulations that will be shortly shared with this brief summary/ overview being able to be fitted on a single A4, with more detail available in a separate document, perhaps with some areas still to be confirmed later (such as the technical requirements of heat networks). At the moment it feels like there is a not a single reference area of what might be coming in for regulation and we are trying to pick up the requirements/ what is expected over hundreds of pages from consultation, appendixes and documents. Internally we want to start getting things ready to comply to regulations in January including hiring staff to do so but without regulation requirements being confirmed (and not in a simplified format) it is difficult for us to do so, expecting that we would not be ready due to the uncertainty. This lack of simplicity and clarity is likely to also be stopping entities from investing in DH until all of this is clarified.

Note that just because something might be reasonably easy to obtain doesn't mean that it should become part of the data requirements if it is not significantly useful to have this data for regulation. Focus should be on a minimum amount of data collected from everyone, as simply as possible to achieve the largest benefit and clarity for customers.