



Consultation response: fair pricing protections

Notting Hill Genesis

Background

Notting Hill Genesis (NHG) is one of the UK's leading housing associations, we manage around 67,000 homes and 130,000 residents across London and the southeast.

We are a not-for-profit organisation with a primary purpose of providing homes for lower income households with more than half our homes being general needs properties, charged at social or affordable rent levels. We also offer shared ownership, leasehold, market rent, supported and temporary housing and commercial properties.

We are committed to working better together for our residents, providing safe, warm, and comfortable homes where they can live their lives well.

Alongside improving existing homes and services, we continue to build new homes, we plan to build 3000 new homes over the next five years. The majority of which will be connected to a heat network.

We currently manage around 14,000 homes served by a heat network. With our portfolio ranging from small unmetered communal networks at supported housing schemes to 40 larger metered heat networks managed by our in-house heat network team. We also have several 1000 unit mixed use developments that are managed by ESCO's and around 4,000 properties connected to networks managed by third parties, mostly due to s106 arrangements.

We have a dedicated heat network team who have been regularly engaging with upcoming regulations, including this consultation and have a detailed action plan to help aid our route to compliance by January 2026.

Consultation questions and NHG response

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.

We agree with the general framework proposed. However, we see the absence of a definition of 'fair' and 'not disproportionate' as a risk. We welcome the inclusion of cross subsidisation.

Referring to the cost efficiency principle we'd like to flag the impact that existing housing legislation and social housing practices can have on fuel procurement and request changes in existing legislation to remove complexity. In more detail, S20

legislation requires landlords to consult leaseholders on procurement decisions, this can impact a suppliers ability to procure the most competitive fuel price when compared to other organisations who do not need to abide by these rules. Organisation structure and governance can also impact an organisations ability to act quickly on fuel procurement decisions.

Similarly, there are fewer gas providers willing to contract with social housing providers due to having added complexity around procurement and payment processing, further limiting ability to procure the most competitive fuel price available to the wider market.

All of these factors may result in unavoidable but less efficient fuel procurement which should be considered when carrying out the fairness test.

Referring to the fair and reasonable returns principle, the principle that prices can include some level of profit needs to be weighed with obligations under the L&T Act with clear guidance given to the social housing sector.

Referring to the cost reflective pricing principle, this could lead to a sharp increase in costs on some heat networks where costs have previously been under recovered.

Referring to the affordability principle, a price that is considered 'fair and proportionate' may be unaffordable for some households in or at risk of fuel poverty. We'd welcome more consideration to how existing fuel poverty support schemes can better support heat network customers.

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.

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.

Agree, guidance in all areas that is clear and easy for us and residents to understand will be essential.

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)?

Agree, but taking the above Q1 comments into consideration when carrying out the fairness test is essential.

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

Agree.

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

No comment

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?

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

We suggest that bulk supply or third party should also be a segmented group. Suppliers who receive a bulk supply and then pass this on to residents will have less control over costs and ability to ensure prices are affordable and not disproportionate. In this scenario, there may also be additional administration costs that need to be passed on that are unavoidable which may skew costs.

However, the amount of suggested segmentation characteristics may lead to over complication, and a heat network may find itself in several different segmented groups at once.

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

We already collect the following data that can be easily reported:

- Standing charges for heat
- Unit rates for heat
- Total annual charges across all consumers
- Number of customers
- Annual network demand – though some of this may be based on estimates where we don't have accurate meter readings for some reason.
- Overview of costs recovered through standing charges
- Overview of costs recovered through unit charges
- Annual network generation
- Operating temperatures – only for metered networks.
- Efficiency measures - only for metered networks.
- Number of customers
- Type of network
- Function
- Profit or nonprofit
- Technology type
- Network built pre regulation versus post regulation – will need to know which regulation date you are referring to, e.g. HNMBR or market framework?
- Metered versus non metered.

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

The following information we do not collect or do collect but is not readily available to report on and will require reporting and process development to provide in line with reporting requirements.

- Operating temperatures – for unmetered networks
- Efficiency measures – for unmetered networks
- Network length – We don't hold this information or would need to review schematics to obtain
- Ownership or commercial arrangements – for some networks it is difficult to define
- Revenue
- Operating costs

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

- Network length
- Efficiency measures – not available for unmetered for unmetered
- Bad debt – not available for unmetered
- Load type
- Type of properties supplied – EPC/building type hard to gather data on.

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?

To align with proposed HNTAS requirements, any pre-2015 network should have reduced reporting requirements.

We propose that unmetered networks should have reduced reporting requirements as until meters are installed, a large amount of the data required is unavailable. These systems are usually old and the information held on them is usually lacking or inaccurate making reporting some elements difficult.

There should be reduced reporting for bulk supply as information about operation of the network may not be available.

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?

Neither agree nor disagree. With the nature of not-for-profit cost recovery heat suppliers, the cost of compensation will be recovered via alternative income streams, such as rent, if they are not specifically accounted for in the heat tariff. This aligns with our current approach to tariff setting.

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?

We are disappointed to have such little guidance and prescription proposed when it comes to cost allocation, this is something our residents question a lot and to have clearer guidance on what can and cannot be included in a tariff would be helpful. We recommend providing more detailed guidance on what should not be included in the tariff, still leaving the matter open for different operating models to calculate charges appropriately.

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?

No.

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

Yes

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

As a social landlord, the Landlord and Tenant Act restricts us from passing on the cost of heat network maintenance to those on a shorthold tenancy, therefore these costs cannot be included in the heat tariff. This means that these charges are usually not fully collected and can be subsidised. We request changes to the L&T act to allow for these charges to be passed on via the tariff, making cost recovery more reflective of true cost of running a heat network, and making residents heat charges clearer and easier to compare.

Any unbundling of heat charges from the rent or service charge will need to address this too.

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?

Agree with approach.

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

Agree, however it needs to be made clear that heat pumps should only be compared to heat pump heat networks. If heat pump networks are benchmarked against gas boilers, the heat network will likely always show as more expensive.

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?

No comment.

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?

As above, type of organisation, e.g. social landlord, may be a useful cost driver to consider as housing legislation such as the L&T Act defines how charges are set and therefore would be useful for this to be a comparator for residents in similar organisations.

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?

Gathering data on pipe lengths will be difficult to use this as a cost driver. We do not have this information readily available at our existing networks. Annual network demand may not be available for unmetered networks.

- technology and fuel type – already collected
- fuel input price (p/kWh) – already collected
- network pipe length (metres) – unknown or hard to obtain info for reporting
- annual network demand (kWh) – Unknown for unmetered

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?

- annual network generation (kWh) – already collected
- network generation (for example, 3rd, 4th, 5th generation) - already collected
- type of network (district versus communal) – already collected
- network age (years since first operational) – already collected
- utility supplied (only heat versus heat and hot water) – already collected
- metered versus unmetered – already collected
- operating temperature (Celsius) – Not always known
- number of customers, or number of properties supplied - already collected
- function - already collected
- cost recovery approach and level of costs not passed on to consumers - already collected
- geographic location - already collected

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?

Agree with this approach.

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

Referring to own past price benchmarking – The introduction of regulation will ensure that prices should be cost reflective, this is likely to result in increases in prices that have previously been undercharged or where organisations have been subsidising costs, either inadvertently or not. This benchmarking method may determine that prices have increased disproportionately from previous years, but in fact residents are just being charged correctly when they previously weren't. This should be a consideration of the methodology.

You recognise that fuel costs will be the main driver for changes in costs over time. As previously stated, fuel procurement strategies will vary depending on the organisation type, with L&T Act causing some restriction on procuring the most competitive price. This needs to be considered when benchmarking. The introduction of a commercial energy price cap will limit large fluctuations in fuel costs.

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

No comment

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?

No comment

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?

No comment

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

No comment

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.

As you have identified, all options have pros and cons. Price transparency must be easy for resident to understand and easy for prices to be compared accurately. Complication in this area may result in additional queries from consumers relating to the comparator.

Option 1 – This is our preferred option, however segmentation needs to be granular enough for a proper comparison and residents need to be made aware what segment they are in. This might be very difficult.

Option 2 – In the current market, both low carbon alternative heating and low carbon heat network prices will be higher than gas fuelled. This needs to be clear in the comparison so that a low carbon heat network customer is not comparing against a gas boiler customer.

Option 3 – It is difficult to understand how this would work in practice and what the parameters for the ratings are, these would need to be clearly communicated. We would expect that rating to be based on only price and not compliance.

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?

Agree, it seems like all options have flaws and therefore clear guidance will be essential.

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

We are open to there being multiple options as long as they are clear and easy for consumers to use without guidance from heat suppliers.

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

Yes.

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

No comment

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?

As a whole, fair pricing regulation will add administrative burden as work will be required to ready data for reporting. However, taking price transparency alone, this should not add additional burden. HNTAS data should be used in the reporting process so that we do not have to submit data twice.

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

Yes, when similar technology and fuel is compared.

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

We agree with the approach to price investigation. Initial discussions and data gathering will be essential in determining whether there is an actual price issue or whether the characteristics of the supplier mean that a higher price is unavoidable.