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Contact Nick Abbott

Date 9 July 2025

Dear Sir or Madam,

Response to OFGEM Heat networks regulation: fair pricing protections Consultation

I am pleased to enclose a response to the Heat networks regulation: fair pricing protections Consultation on behalf of Pobl Group.

Pobl are grateful for the opportunity to respond to the consultation and welcome continued engaged with OFGEM in relation to the development of the Heat Network Market Framework.

Furthermore, I am happy to be contacted directly by OFGEM in relation to any of our question responses.

I look forward to hearing more regarding the outcome of this consultation in due course.

Yours faithfully,

N Abbott

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Sustainability Lead

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Consultation Response

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.

As a registered social landlord, it is very much not our business model to charge disproportionate prices for the services we provide to our customers whether that is supply of heating, repairs and maintenance, or catering provision.

Broadly the fair pricing consumer objective, principles and outcomes are reasonably well defined. However, there is clear interaction between them and the proposed technical standards. It is therefore imperative that the objective, principles and outcomes definitions are set and guidance is developed in conjunction with the consultation and refinement of the technical standards. This will be particularly important in areas such as requirements related to metering within a heat network.

In relation to cost efficiency consideration needs to be given to the way in which the social housing sector operates. The costs of maintenance, repair and investment in components, including heating systems is recovered via rent; we are not able to charge for this separately via Service Charge and should not be recovering via other means as this would be double charging. Therefore the ability of our sector to invest for efficiencies is shaped by rental income not tariff charged to customers.

In respect of fuel procurement, as an organisation subject the Procurement Act 2023, the proposed requirements do not pose any specific concerns. We'd welcome the opportunity to share our approach to energy procurement with OFGEM if the chance arises and this is of interest.

The proposal of restricted cost passthrough is completely understandable and very much supported save for one key problem for the social housing sector. We as a sector do not make profit so do not have an accumulation of money within the business from which to pay fines. Furthermore, the costs of operating our business are reflected in the rent we charge. Accordingly, the cost of fines would inevitably be recovered via future rent from all customers. This would simply transfer the unfairness of cost passthrough from our heat network customers to all our customers. The issue highlighted here is of course more related to the structuring of remedies and measures for non-compliance but if there is not clear market segmentation, then the social housing sector could be in significant risk of non-compliance with restricted cost passthrough requirements as we can only pay fines and penalties from rent. We would be happy to discuss this matter further with OFGEM if of interest and benefit.

On the matter of sink funds and invitation to share how they are used, we can confirm we do not operate sink funds. The cost of maintenance and investment in heating and other systems are recovered thorough the rent a customer pays. The use of a sinking fund element within a heat tariff could be considered to be double charging or a breach of law where private heat charges are currently contractually recovered as variable service charges due to the way in which they are incorporated within a tenancy agreement.

Furthermore, creating a sinking fund for contingencies other than investment and repair such as for bad debt or other impacts also brings challenges. As an organisation we are in the business of affordability, supporting some of the most vulnerable in society. Therefore layering cost as a risk mitigation is a challenge to this organisational purpose, especially when those that pay for the fund may well not benefit from it.

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:

Broadly yes; guidance must be developed and provided in relation to the principles to support organisations with interpretation and implementation. If guidance is not developed in a timely manner there is a real risk interpretation will fall to the Energy Ombudsman and Citizens Advice who will interpret and provide guidance by default. Furthermore, in the absence of guidance while many organisations will no doubt strive to do the best for customers, they may well inadvertently go against the principles and policy intent.

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.

Yes although while the rationale for no guidance in respect of fair and reasonable returns is noted, this could create the risk outlined above (guidance is developed by default). Furthermore, 'fair and reasonable' is a relative and subjective concept therefore open to wide interpretation meaning those customers most at risk may not be protected, if for example a private for profit operator takes a loose interpretation in their own favour.

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.

Broadly yes. Guidance needs to be developed in lock step with development of the Heat Network Market Framework and also other elements of the regulatory regime such as HNTAS. Guidance must also be developed in close collaboration with market operators as well as subject to

appropriate consultation. We would be happy to engage with OFGEM directly to contribute to the development of guidance if this is of interest and useful.

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)?

Yes. The case by case basis

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

The proposed content of Appendix 1 does not appear to differ from previous proposals. As such the concerns and challenges previously noted are similar. For example, how will the cost of alternative sources of heating be considered noting for example domestic gas boiler customers would have domestic energy contracts and the domestic energy market operates very differently to the commercial energy market.

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

To an extent noting that some of the specifics are going to be dealt with in guidance and investigations. Therefore it is important the guidance is appropriately drafted with the support and input of the sector as well as subject to consultation.

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?

Overall yes, but further work is recommended to ensure the diverse nature of the heat network market is appropriately reflected and accommodated. In particular the lack of a definition for NFP at present is a concern and which types of supplier / operator will be within the definition.

Size is relevant but context in segmentation will be important, as size alone does not necessarily indicate the impact on customers of the burdens of regulation and reporting. For example, a large commercial operator could operate many small networks with small numbers of customers while perhaps a large housing association operating on a NFP basis that has a number of larger communal heat networks in specialist accommodation.

Metered versus non-metered – agreed.

Profit versus NFP is very important however, the definition of NFP is yet to be provided.

Function – agreed.

Housing Tenure - unsure of the relevance of this other than reflecting the bundling of heat charges common in the social rented and private rented sectors. Housing tenure.

Commercial arrangements – the consideration around right to manage feels appropriate and the approach for such networks may well be appropriate to other market segments such as housing and NFP segments.

Pre/Post Regulation Construction – agreed. A sensible, clear transition period for existing heat networks will be essential. The transition period should be set once full requirements are confirmed and implemented rather than starting from start of regulation when details and guidance for specific elements may not have been produced.

Type of Network – agreed. The impact of the definitions also needs to be taken into account in relation to this segmentation element. For example, those 'district' heat networks which are defined as district simply because they include more than one building but in fact are within one contained site, owned and operated by the site owner so simply a multi building communal network.

Zoning – not relevant in Wales.

Level of vulnerability – agreed.

Domestic versus non-domestic. There should be consideration of the differences in energy markets when considering counterfactuals for each of these customer groups. Furthermore, it would be very useful to understand whether differential pricing would be permitted where a HN served both domestic and non-domestic customers. For example, in the case of an RSL a domestic customer's tariff would reflect their social tenure rental agreement and the recovery of maintenance and investment charges via rent. Whereas the same RSL could have commercial unit leases in place which do not have this same coverage therefore it may be appropriate for the heat tariff to include these additional costs.

SGL – yes this needs to be separated out as the model of operation is very different and the way in which charges and costs are accrued for the customer is different.

Pricing Methodology – seems sensible.

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

Refer to response above.

Data requirements

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

Our organisation holds information about tariffs including make-up of standing charges and unit rates. Some other aspects related to customer charges could be easily collated such as total charges for a period and median / mean cost per unit.

We also hold and record data about fuel input costs and some elements of running costs.

Data on annual heat demand could be provided where metering is in place. However, where there is no metering, heat demand could not be provided or calculated other than as a proxy of fuel input and assumed system efficiency.

We have limited easily accessible or meaningful data in relation to maintenance and repairs, servicing or other costs that could be easily reported. This is not to suggest it could not be collected or collated but to do so will require significant work to achieve it.

We do not currently record data such as operating temperatures and efficiency. This could be collected but would require changes to processes and be a new activity.

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

See response to Q7 in relation to our own organisation.

Precise and detailed reporting requirements need to be provided well in advance of any deadline for provision of data and supporting guidance also provided. This is required in order that all heat networks can fully understand the data requirements and have sufficient time to implement changes internally to collate and record relevant information.

Furthermore, for some aspects and market segments, particularly those such as small operators and NFPs, it would likely be appropriate to provide a transition or longer implementation period. In addition the opportunity to subject data for

validation and scrutiny with feedback from OFGEM prior to making final submission could also be of benefit for smaller operators and NFPs who are likely non-experts in the space.

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

Annual heat network demand where there is no metering or measurement equipment installed.

Network length especially if operator is was not involved in construction / build of the network.

Network generation for same reasons as network length and also as an organisation this is not something we've ever discussed.

Age for same reasons as network length.

Annual network generation for same reasons as annual heat demand.

Other efficiency measures – this is very broad and non-descript to identify whether information would be held and or recorded. Network losses as an example would be difficult to report on for the same reasons as annual heat demand (see above).

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?

This is a difficult question to answer in detail but generally the overriding objectives of regulation should be applied when considering this point. If requirements for data collection and reporting are going to significantly increase costs for customers on a heat network (for example where there are small number of customers over which additional costs of reporting must be spread) then does this align with the overriding objectives of regulation.

Cost Allocation

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 in principle. However, the matter of GSOP payments for NFPs is yet to be confirmed and here such a prescriptive rule potentially cannot be complied by certain NFPs. Social Landlords income is rent money collected from its tenants (and thereby customers of heat networks). It is this very income that would be used for GSOP payments, fines and other financial remedies thereby spreading the cost of such payments of all the landlord's tenants including those that are heat network customers. This appears to fundamentally contradict the intended purpose of regulation.

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?

Broadly yes the best practice guidance appears to be reasonable and agreeable. It would be useful for this guidance to develop over time as innovations take place within the sector or case studies are provided of customer beneficial approaches and specific scenarios or operating models.

It could be worth making the guidance around the split between consumption reflective and non-consumption reflective costs more explicit and potentially prescriptive. This of course is notwithstanding there still being opportunity for examples and approaches where alternative approaches are adopted that work better for customers.

Further, it would be worth expanding the guidance in relation to unmetered networks so there are clear approaches that can be followed and adopted. As part of this, guidance should also reflect the recommended approach for calculating overall efficiency to reflect in the tariff when no metering is available to calculate fuel input : heat output ratio.

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?

Yes noting some heat networks will operate differently in respect of how certain costs are recovered. As set out elsewhere in this response, social landlords recover the maintenance and repair costs through rent so do not need to include this nor should they include it within the tariff.

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

Yes broadly, except in relation to NPFs and the non-pass through to customers of GSOP payments. See responses to earlier questions in this submission for more detail.

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

A route into OFGEM to raise queries, seek guidance, clarification and support could be particularly important, especially for smaller Heat Network operators who have limited resources and internal expertise (external expertise costs likely being passed to customers).

Price comparison and benchmarking methods

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?

Yes and it may be appropriate to progress several of the different methods (average paid per year and typical amount for 'x' user type) to apply both in the

event of comparisons prior to investigation. For example the approach of “a typical x person household in a semi-detached house uses x kWh of heat per year”, how much would this cost in each heat network.

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

No, this should be expanded to include one or more direct electrification alternatives as well. Heat Networks may well represent an excellent more efficient and effective alternative to direct electrification which exists where there is no mains gas in buildings especially high rise urban environments where HNs are expected to play a significant role in future heat provision.

It will also be important to consider the impact of properties thermal performance in comparisons which consider total cost to heat rather than cost per unit or given amount of heating. For example, properties with heat pumps are typically much better insulated than those with gas boilers.

Finally, the differences between the domestic and commercial electricity and gas markets must be fully factored into and controlled for in any comparisons. It is simply not sufficient to suggest that commercial entities can access better pricing due to volume purchased. The counterfactual comparators need to consider energy cost as per the input cost of the heat network or comparable heat network using the same fuel source.

In considering comparison the recovery and use of waste heat for heat networks should also be noted and allowed for.

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?

Yes the approach appears reasonable but will require updating as heat pump technology advances.

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?

Broadly yes.

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?

Technology, fuel type and fuel input price are all already known or should be known in our view.

It will be very difficult for some heat network operators to determine the heat network pipe length especially if the legal entity now operating was not involved

in the original construction. Furthermore, annual heat demand cannot be determined without metering so would be very difficult to provide for unmetered heat networks.

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?

Utility supplied, type and age should be relatively easy and known in our view save for where the current operator / supplier is not the original entity that constructed the network.

It questioned whether "Network generation" (i.e. 2nd, 3rd etc) is a familiar concept and total annual generation will be very difficult to determine for unmetered networks or those without appropriate bulk metering installed.

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?

This is essential for transparency and to support all within the sector as well as end-users and advocacy organisations.

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

Not at this time. We are happy to continue dialogue on the topic and support OFGEM in developing the approach if this of interest and beneficial especially in relation to impact of data collection and reporting and impact of requirements and availability of suitable data.

Profitability analysis

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

No particular view as we are a NFP entity. However would some of this data be collected anyway from NFPs to support data analysis with segments or similar network archetypes?

A clear definition of NFP would be very useful and it is critical this is provided as soon as possible.

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 particular view as NFP. However, diversity of operations and costs and charges not being clearly compartmentalised within operational and internal accounting could make provision of data for EBIT a challenge.

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 particular view as NFP.

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

No as NFP other than to repeat the request for a clear definition of NFP to be provided as soon as possible.

Central price transparency

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.

Option 1:

This option has the potential to be the most informative but also the most inaccessible for consumers other than those with sufficient time, resources, expertise and understanding which it is suggested is likely to be the case for the most vulnerable and those who could most benefit from transparency.

OFGEM would need to confirm into which groups / segments a Heat Network was being placed so the Heat Network could inform customers to ensure they then look at the correct comparator group. This communication would of course need to be updated as Heat Networks upgrade or grow.

Option 2:

Potentially useful but is there a risk a customer is misled into thinking an alternative external comparator would be better for their home due to oversimplification for the purposes of comparison?

Also agree on the misleading nature of average comparisons as different models of operation within the diverse sector frustrate meaningful comparison.

Option 3:

The preferred option developed out into something user friendly and meaningful that combines options 1 and 2.

Options 1 and 2 would represent the background process for creating the RAG type rating rather than the front end presentation of the information to the customer.

The front end should, through selection of a consumers heat network, allow them to access a simplified dashboard showing performance around price and other aspects (complaints received, investigations).

The RAG or equivalent ratings could be supplemented by pricing ranges from comparator groups and counterfactual as per option 1 and option 2 thereby addressing the 'no price data so no transparency' point.

Further there is no specific reason why RAG or equivalent should be automatically generated and left as such if there has been investigations undertaken and no-disproportionate pricing or other issues identified.

Billing can provide clear information to consumers on where they can look to check performance. Thereby giving consumers a nudge.

Heat Networks would check themselves and potentially query with OFGEM to understand process in determining ratings if poorer than expected which would enable inconsistencies in groups etc to be ameliorated. It would also encourage Heat Networks to check their performance and drive improvement, almost gamifying performance from an Heat Network perspective.

We welcome the opportunity to share our thoughts on this in more detail with OFGEM and support the development of the approach including in relation to consumer UAT if appropriate and possible.

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?

The balance needs to be in favour of ensuring the most vulnerable who stand to benefit most from the price transparency check can access and interpret it easily.

It is recommended a user centred design approach is adopted to whatever public tool is produced to ensure it reflects what consumers actually need and want rather than what OFGEM or Heat Networks consider to be appropriate, useful or meaningful.

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

A combination of options should be progressed with a view to producing the best possible consumer facing output over time. However, it is recognised that the first step needs to be an MVP which would likely be based around easily deliverable reference points such as basing on existing Heat Trust tool.

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?

Broadly yes subject to this being relevant and meaningful for the end user.

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?

If reporting is required in a way that is aligned and combined with other reporting the burden is once and once only. For example the worst case scenario to be avoided is reporting the same data multiple times to different entities (e.g. under HNTAS to DESNZ and then to OFGEM under price transparency).

Annual reporting is common in the housing sector so does not seem inappropriate or particularly burdensome.

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

Yes this feels sensible but should be explored further in collaboration with representatives from the Heat Network sector and experts.

Price investigations

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

Yes the approach outlined appears to be agreeable so far based on the information provided within the consultation document. It is critical the commitments to providing detailed guidance are met by OFGEM and other to support the sector with achieving compliance. Furthermore, a central point to seek advice guidance and support for Heat Network operators would be particularly welcome, especially by smaller operators.

This central point for support could include both a place to send questions and queries as well as network or community of practice supported / co-ordinated by OFGEM. Potentially modelled on the CoPs run by the Government Commercial Function for the Procurement Act 2023.

We would be happy to engage with OFGEM further on this if this is of interest.