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Sent by email to:
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Dear Heat Networks Team

Re: Heat networks regulation fair pricing protections

On behalf of SSE's heat networks business, I welcome the opportunity to respond to the Ofgem consultations on heat networks regulation fair pricing protections.¹ I have provided our answers to the consultation questions in Annex 1.

This response relates directly to the deployment of heat networks by SSE Energy Solutions. We take a Whole System approach, providing solutions to help large-scale energy users and local communities that enable the decarbonisation of heat, transport and energy systems. SSE Energy Solutions owns and operates 18 heat networks across England and Scotland.

Our views in response to consultation

SSE wants to drive up standards in the heat networks sector and we fully support the introduction of heat networks regulation. We view fair pricing regulation as an important measure to address the risk of disproportionate pricing, particularly in legacy networks. Legacy networks present higher risks to consumers due to potentially poor technical design and operators' limited experience operating under existing consumer protection frameworks such as Heat Trust, which SSE is a founding member of.

It is essential that consumer protection is delivered in a way that also ensures long-term sustainability for the sector. For this reason, we support a principles-based approach to fair pricing, backed by clear, practical guidance. Critically the consumer protection framework must remain cognisant of the paramount need for the sector to remain attractive to investors, balancing the costs and complexity of protecting customers.

However, we view that there are three key issues that require further consideration ahead of finalising the fair pricing framework:

¹ [Heat networks regulation: fair pricing protections | Ofgem](#)

1. **Significant concerns with central price transparency proposals:** Attempting to give consumers the option to compare local heat network infrastructure, which is shaped by network specific factors, risks misrepresenting fair and justifiable prices. Similarly, we strongly oppose the use of a RAG rating system, as it oversimplifies complex, context-specific pricing. Viewed from a customer perspective, the proposals risk delivering a poor experience, and we question whether sufficient consideration has been given to what consumers will actually gain from them. The likely outcome will be a surge in customer complaints that operators are simply not in a position to resolve as they will not have visibility of the comparative data used in the analysis, nor the circumstances behind the pricing of other networks. The impact of publishing misunderstood or misinterpreted price comparisons should not be underestimated. It could seriously harm the reputation of the heat network sector at a time when uptake and public confidence are critical to meeting decarbonisation goals. We believe the focus should instead be on developing user-friendly tools that allow consumers to compare their prices against the appropriate low-carbon counterfactuals.
2. **Interaction with Heat Network Zoning and the risk of “double regulation”:** We continue to see the potential for “double regulation” as a significant risk, given our understanding that both the Zoning Coordinator and Ofgem will have roles monitoring and enforcing pricing within Zones. We believe that Ofgem, as the economic regulator for the sector, should have sole regulatory oversight of pricing across the market to prevent duplicated powers and complexity, which could deter investment in the sector. We also believe that Ofgem’s approach to monitoring should reflect how rights to a heat network scheme were granted. Where rights have been awarded through a competitive procurement process, such as a zone tender, our view is Ofgem should adopt a monitoring stance that reflects the competitive and transparent outcomes already secured through procurement.
3. **Need for clarity on regulation of established business models:** A variety of business models operate within the sector, and we would like to see more clarity and guidance on how regulation will apply to specific models. For example, the “price promise” model does not align neatly with cost reflectivity principles, yet there is limited discussion on how it will be treated or what expectations will apply. Similarly, where the commercial/delivery model involves time profiled revenue where losses are often incurred in early years and higher profits/investment returns made in later years, it remains unclear how this will be benchmarked and assessed under the fairness test. In our view, these models can deliver stable and competitive outcomes for consumers and should be considered consistent with the objectives of fair pricing.

SSE is committed to working collaboratively with Ofgem on delivering the fair pricing framework and we are happy to discuss any of the points raised in our response.

Yours sincerely,

Brian Clark
Regulation Manager

Annex 1

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.

Overall SSE supports the intended outcomes of Ofgem's fair pricing policy, but we have some reservations around the approach being taken, which we outline under the points below:

1. Adapting the approach to regulation following competitive procurement process
 - In our view, Ofgem should take cognisance of the process by which rights to a heat network scheme were established. Where rights were provided via competitive tender process, for example a zone tender, then Ofgem should be able to adopt a "monitoring" stance, with intervention reserved only for clear deviations from agreed benchmarks set out at zone procurement.
 - The wider market would be subject to full fair pricing regulation, ongoing oversight, and targeted action against outliers with unfair tariffs or poor service. This approach ensures regulatory resources are focussed where most needed, safeguarding consumers most at risk, while protecting the financial viability of developers who adhered to zoning criteria.
2. 'Double regulation' risk in heat network zones
 - We remain concerned that the proposed regulatory approach to pricing does not fully consider the interplay between different bodies likely to have enforcement roles.
 - For example, DESNZ has recently consulted on proposals for windfall profit-sharing within Zones and under current proposals the Zoning Coordinator will have responsibility for monitoring and enforcing pricing conditions of a zone consent at a local level.
 - We have significant concerns that this will lead to 'double regulation', and we view that Ofgem as economic regulator for the sector should be responsible for sole regulatory oversight of pricing and monitoring of excess profits across the sector.
 - This would remove any duplication of powers and avoids a situation where a patchwork of regulation, with potentially conflicting requirements creates uncertainty, complexity and cost for prospective investors which is a deterrent to investment.
3. Overlap with the Heat Networks Technical Assurance Scheme (HNTAS)
 - SSE has concerns that Ofgem's proposals for the framework appear to require heat networks to demonstrate cost efficiencies through technical improvements. However, these requirements should already be addressed under HNTAS, which will provide a mandatory and comprehensive framework for technical standards across all heat networks.
 - In our view, Ofgem should not be extending these powers to assess the adequacy of investment in technical efficiency, as this responsibility rightly sits within the scope of the existing, mandated technical standards regime. The framework must also consider the inter-availability of data between these schemes, to ensure no duplication.
4. Regulatory approach to 'price promise' model remains unclear
 - The regulatory framework and associated guidance must provide further clarity on how the "price promise" model will be treated. Our view is that, where such models deliver stable and competitive prices for customers, they should be consistent with the fair pricing objectives.
 - Under this model, typically following a competitive tender process, tariffs are set with reference to appropriate counterfactual (usually gas boiler heating) and indexed according to a defined methodology over time. This approach provides customers with price certainty and reduces volatility compared to a cost-plus model.

- However, because the tariff structure is not directly linked to the network's underlying cost base, it raises uncertainty around how such tariffs will be assessed under the Fair Pricing principles.
5. A separate “affordability” principle is unnecessary
- SSE strongly objects to inclusion of a separate “affordability” principle. We recommend that Ofgem focusses on enforcing the existing core principles within its remit.
 - Operators are already required to meet other core principles which provide a clear, measurable basis for ensuring that prices are fair, proportionate and not excessive. If these other principles applied effectively, they should prevent overcharging and ensure that customers are paying a price that is justified by the underlying cost base and reasonable investment returns.
 - Embedding a generalised and ill-defined affordability obligation in price regulation risks introducing subjectivity and uncertainty, potentially undermining investment signals and duplicating existing support mechanisms.
 - We view that affordability, in a broader sense, is a societal and policy issue that extends beyond the scope of individual supplier pricing and should be addressed through wider government policies.

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.

SSE supports Ofgem's proposals to develop Fair Pricing guidance aligned with the principle, however we believe there are several important considerations that must be addressed within this guidance to ensure the framework is effective and proportionate. These include:

- Ensuring that technical efficiency requirements which are already governed by HNTAS, are clearly considered out of scope when assessing compliance with Fair pricing outcomes
- Incorporating the monitoring of heat network profitability within heat networks zones, as this aligns with the “fair and reasonable” returns principle and is best overseen by Ofgem as the central regulator (see response to Q1)
- Cost reflective pricing should allow flexibility in cost allocation and we would welcome guidance that supports phased capital cost recovery, aligned with actual customer connections as the network expands (see also response to Q11)
- Clear guidance on connections, in particular to make clear that pricing can be structured to fairly allocate costs and support customer connections even when cost reflectivity varies between customers in different locations
- How Ofgem intends to assess and compare cost efficiency, recognising this may vary based on different factors (e.g. geographic, supply of labour) and the benchmarks Ofgem will use to determine whether individual cost components are considered efficient.
- More widely on efficiency, we would like to see proposals from Ofgem on how networks can be rewarded for high efficiency and investment programmes that deliver such. The current proposals appear to focus only on penalty and are absent of the incentive.

- Further guidance on what Ofgem means by protecting customers from taking on an “inappropriate level of corporate risk”, including how this will be defined, assessed and applied in practice under the framework
- Price transparency guidance should reflect lessons from the gas and electricity sectors, ensuring pricing is presented in a clear and accessible way for customers, without requiring detailed explanations of complex elements (e.g. fuel procurement)

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)?

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

Broadly, we support the application of the 'fairness test' as part of the regulatory framework. However, it is essential that these assessments look at the specific contractual and commercial arrangements underpinning the heat network. Two key scenarios illustrate the importance of this contextual approach:

1. Energy Services Company (ESCo) Model

- Under this model (common across the industry) tariffs are typically set with reference to a long-term pricing methodology. In the early years of a network's life, revenue may not be sufficient to cover the fixed operating costs, while in the later years of the concession, revenues exceed annual costs to recover the earlier shortfall derive a profit and provide an investment return.
- This time profiled revenue is fundamental to the commercial viability of an ESCo contract and reflects the long-term nature of investment. As such, a point-in-time assessment of pricing could produce misleading results unless the whole life cycle is taken into account. It is therefore critical that any fairness assessment recognises this commercial structure to ensure a balanced and informed view of pricing over the duration of the concession.

2. Competitive tenders (e.g. heat network zones)

- Where rights have been awarded through a competitive procurement process, such as a zone tender, we believe intervention should be limited to clear deviations from the agreed benchmarks established during zone procurement.
- The monitoring approach should reflect this, focussing on oversight rather than proactive regulation where procurement has ensured competitive and transparent outcomes.
- Applying a 'fairness test' after a heat network zone has been established creates uncertainty and raises perceived regulatory risk, undermining investor confidence in long-term infrastructure. Ultimately, if developers face the threat of retrospective pricing intervention, they are far less likely to commit capital upfront.

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

SSE agrees with the proposed re-drafting. We believe that pricing guidance should serve as a tool to support compliance by clarifying expectations and best practice. However, enforcement actions should be based on the authorisation conditions, which reflect the underlying policy intent and set out the legal obligations that operators and suppliers must meet under the regulatory framework.

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?

SSE views that all customers should receive the same level of protection under the fair pricing framework, regardless of the size, type of network or network owner/operator. We note that segmentation may be applied based on the size and profit status of a network, which could lead to different levels of monitoring. Segmentation should only be used where a specific protection is genuinely not relevant to a given network – for example, protections designed for communal networks should not apply to bulk suppliers.

As noted in previous answers, heat networks awarded through competitive procurement, should be treated separately, with monitoring reflecting the process through which rights were granted. We also view that more clarity is needed on treatment of the “price promise” model under the fair pricing principles, as clearly this model does not align neatly with the cost reflectivity principle.

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

SSE can report the information set out in Table 3.

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

SSE does not anticipate any significant challenges in reporting the information outlined in Table 3.

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

SSE does not anticipate any significant challenges in reporting the information outlined in Table 7.

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?

As noted, a lighter-touch oversight model is more appropriate for heat networks zones. This could involve high-level reporting against agreed metrics, with Ofgem empowered to intervene if performance deviates from established benchmarks.

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?

SSE agrees with this approach.

While we fully agree that guaranteed standards compensation costs should not be passed through to customers, it is important to recognise this in the context of the wider regulatory framework. The ongoing operational and maintenance costs required to uphold standards, including preventative work to avoid service failures, are legitimate costs that will need to be recovered through customer charges when appropriate. This ensures heat networks can continue to deliver a reliable and high-quality service over time.

More broadly in relation to Guaranteed Standards, we seek clarity on the methodology for measuring GSOP performance. We consider it essential that such regulation is underpinned by clearly defined rules that eliminate ambiguity regarding the conditions under which a payment is required. Furthermore, as new business and service models emerge, such as bulk supply, it is essential that the framework clearly defines the responsibilities of each party and the operational processes for administering compensation payments.

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?

Comments in response to Q2 are also relevant here due to the overlap between the fair pricing principles and cost allocation best practice.

Given the diversity of the sector, we believe that any guidance should be positioned as a best practice resource rather than setting any strict expectations or rules. It is important that the guidance allows for flexibility and does not introduce regulatory requirements through the back door without proper consultation.

Doing so would undermine the intent of enabling adaptable pricing structures that reflect different business models, while still aligning with the principles and objectives of the fair price condition.

In addition, we support the inclusion of best practice guidance to help operators set prices in way that ensures an equitable distribution of upfront capital costs over time. We agree that any approach should protect early adopters from bearing a disproportionate share of these costs. We would welcome guidance that supports phased capital cost recovery, aligned with actual customer connections as the network expands. This could include best practice approaches to setting and adjusting tariffs over time to fairly reflect the share of capital costs associated with each phase of build-out, with pricing structures reviewed and updated as new phases and customers are brought online.

We note Ofgem's suggestion that operators could forecast future numbers and use these protections to allocate capital costs more evenly. However, we have concerns about the practical challenges and risks associated with this approach. Accurately forecasting future growth is inherently uncertain, and there is a risk that investment is made in anticipation of future customers who do not materialise. This could lead to a shortfall in cost recovery, ultimately resulting in higher charges for the existing customer base, which could undermine the principle of fairness that the guidance is seeking to achieve.

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?

As noted in response to Q11. Given the diversity of the sector, we believe that any guidance should be positioned as a best practice resource rather than setting any strict expectations or rules.

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

We agree that the condition aligns with the policy intent set out in this consultation.

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

No further comments.

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?

SSE agrees with the proposed approach for defining heat networks prices in a comparable way.

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

SSE agrees with the proposal to use gas boilers and heat pumps as external reference benchmarks.

As set out in our response to the 2023 Consumer Protection framework consultation, we maintain that the primary focus should be on developing an external benchmarking tool that enables Ofgem to apply a clearly understood and consistent approach to assessing pricing and identifying instances of disproportionate charges. This would give the market greater clarity on the boundaries of acceptable pricing and provide developers with more confidence that charges will not be subject to future challenge. In turn, this would support a more stable and predictable environment for investment.

When assessing pricing and determining whether an operator is pricing disproportionately, it is essential that the regulator uses the most appropriate counterfactual for a given network based on the carbon impact (i.e. comparing those with a similar emissions level). A gas alternative benchmark will become less relevant as wider heating decarbonisation takes effect and increasingly heat networks will be using heat pumps and other low-carbon technologies, to boost or replace traditional gas-fired CHP units. Therefore, the benchmarking approach must evolve in line with the sectors transition, with clear focus on comparing networks against alternatives with similar emissions profiles to ensure fair, future-proofed assessments.

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?

SSE agrees with the proposed method for calculating the benchmark.

We support the use of the National Zoning Model (NZM) input assumptions to develop the benchmark, as this helps to ensure consistent benchmarks and counterfactuals across regimes. The aim should be to create a coherent policy environment and alignment with NZM is essential to avoid working to differing standards.

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?

We wish to reiterate that we raised reservations with Ofgem regarding the comparator benchmarking approach when it was proposed in 2023. Our key concern remains that comparisons between networks in different regions do not provide a reliable basis for identifying instances of disproportionate pricing. This is due to the highly localised nature of network infrastructure, which varies in terms of delivery models and underlying costs. However, we acknowledge that Ofem has taken a minded to decision to proceed with this approach. Accordingly, our response is intended to support improvements to the implementation method, rather than to indicate overall support for the comparator benchmarking model itself.

Our specific feedback on comparator benchmarking is as follows:

- SSE considers the proposed cost drivers for the benchmarking model to be broadly appropriate at this stage. However, we recognise that this framework will need to evolve over time as Ofgem gains a deeper understanding of the sector and as more data becomes available. Ongoing refinement will be key to ensure the benchmarking remains accurate, relevant and reflective of the diverse range of heat network types and operating models.
- The approach must recognise that environmental and geographical conditions play a major factor in driving costs. The physical route of a network can vary significantly depending on local terrain and urban infrastructure. For example, in one area the pipework might need to navigate around major roads, railways and rivers – requiring additional engineering solutions which could significantly increase the cost of construction. Ultimately the benchmarking needs to recognise that heat networks are highly localised infrastructure systems and direct cost comparisons will be very challenging.
- As noted in previous responses, we view that serious consideration must be given to monitoring approaches required for heat networks awarded following competitive procurement process. Overall, we view that this type of monitoring should be focussed on legacy heat networks that present higher risks to consumers due to potentially poor technical design and operators' limited experience operating under a consumer protection framework, like Heat Trust.
- The approach could be made more efficient and meaningful by separating bulk suppliers from in-building (secondary) network operators, rather than assessing them together based on the final prices charged to end consumers. The current approach appears to focus on understanding how much of the end user price is driven by the bulk supply arrangements. In our view, it would be more effective to benchmark primary (bulk) networks and secondary (in-building) networks separately, as each group shares more comparable characteristics, cost structures and operational responsibilities. The split would allow for more accurate and targeted benchmarking, enabling Ofgem to better assess efficiency and fairness within each part of the supply chain.

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?

SSE is satisfied it can supply these data items.

However, it is essential that Ofgem provides clear, detailed definitions for each data item to ensure we fully understand what is required. It is also important to avoid duplication, for example where similar data is

requested for HNTAS, we would expect submissions to be consolidated. Reporting can quickly become time-consuming and costly, and these costs ultimately end up being borne by end consumers. Therefore, it is vital that the reporting process is kept as simple and streamlined as possible.

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?

SSE is satisfied it can supply these data items.

As mentioned above, adding further complexity to reporting will result in increased costs, therefore it's vital that reporting is managed efficiently across regimes.

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?

SSE is supportive of this approach.

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

As noted above, each heat network operates within a unique local context (e.g. technically, geographically and contractually) which means price differences often have valid justifications therefore it is imperative that Ofgem builds a strong layer of internal review and self-checking to understand the reasoning behind a network's pricing before taking any further action. We also expect Ofgem to develop a better understanding over time and using this learning to refine the monitoring framework. This will help to distinguish pricing concerns from cases that are consistent with the principles of fair pricing and risk sharing.

Regarding the proposals to benchmark to own past prices, it is important to also take into account how risk is apportioned within the contractual arrangements. Without understanding the balance of risk and specific cost pass-through provisions in each contract, it may be misleading to assess price changes purely on a historical basis. A price increase may be entirely fair and within the agreed framework, for example where there is a change in fuel prices or unplanned maintenance work.

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

We broadly agree that it can serve as a useful basic screening tool. However, the limitations of this type of profitability measure must be acknowledged and managed carefully to prevent unnecessary follow-up actions. As noted in other responses, benchmarking and profitability assessments must be considered in the context of the operator's business model and other relevant factors. Steps should be taken to assess whether there is a legitimate reason for periods of higher revenue, such as the revenue profile under the EScO model. This often involves lower revenues in the early years and higher revenues later in the contract to recover initial shortfalls. Without considering the full life cycle of the arrangements, such assessments could produce misleading results and trigger unnecessary interventions.

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?

SSE is satisfied it can supply the required data items.

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?

While we agree with Ofgem's approach to undertake more in-depth investigations where pricing concerns are identified, this type of follow-up needs to be fully justified, as it's likely to be resource intensive and will add costs for both the regulator and operators.

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

No additional comments at this stage.

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 an overall point, we remain seriously concerned that Ofgem's proposals to centrally publish heat network prices, while well-intentioned to improve transparency, risks having significant unintended consequences for the sector. We strongly maintain that proposals for grouped comparisons and RAG style systems must be reconsidered. When viewed from a customer perspective, the proposals risk delivering a poor experience. We question whether sufficient consideration has been given to the benefits for customers, and we strongly encourage Ofgem to conduct further market research to better understand customer expectations and preferences regarding this policy.

We believe the priority should be creating a simple, user-friendly tool that enables customers to compare their prices against an appropriate counterfactual based on carbon impact, helping them make informed decisions aligned with both cost and climate objectives. Ofgem's central price transparency proposals must also be considered alongside wider price-related regulatory protections, including price monitoring, technical standards, billing transparency requirements and fairness obligations. These measures, taken together, should be sufficient to ensure strong consumer protections going forward.

Furthermore, we view that that consumer price transparency must be backed by government-led initiatives, supported by industry, to raise awareness of the key cost drivers and the long-term environmental and economic value heat networks offer, linking this clearly to the growth targets and future strategy for replacing gas as the main heating source. Without this parallel effort to raise awareness and build public trust, transparency alone may foster confusion rather than confidence.

Please see below SSE's specific feedback in relation to each option:

1. Market average/comparison to counterfactual

- SSE supports this option as it provides a clear and simple way for consumers to compare prices against a reliable benchmark
- However, to ensure fair comparison, it is essential that customers are directed to compare their prices against the most appropriate counter-factual based on carbon impact.
- Without this, consumers may view cheaper gas boilers as preferable, despite their higher emissions, which could undermine the value of low-carbon heat networks.
- Accurate, carbon-informed comparisons are critical to ensuring fair consumer decisions, supporting market growth and aligning with long-term climate objectives.

2. Grouped comparison

- SSE strongly opposes the use of 'grouped comparisons' for direct customer-facing purposes
- Heat networks are inherently local infrastructure systems, with widely varying delivery models, ownership structures, contractual arrangements, operating conditions.
- Comparisons based on grouping will require careful interpretation and only Ofgem will be in a position to undertake detailed reviews of individual networks and investigate why prices may differ between networks that may appear similar based on initial grouping.
- Publishing this type of comparator data for customers, without any of the underlying context, risks serious misunderstanding. Customers may assume unjustified pricing discrepancies exist, when in reality differences could reflect legitimate local factors or contractual risk allocations.
- This puts unfair pressure on suppliers, who are expected to justify their prices without access to the data or insight into how other networks have been priced.

3. System with RAG rating

- SSE strongly opposes the use of a RAG rating system to indicate performance against price benchmarks. While we understand the intention is to simplify information for consumers, this type of visual grading oversimplifies what is a highly complex and context specific issue.
- A RAG status removes necessary nuance, creating a clear 'good' or 'bad' pricing without giving consumers or suppliers the context needed to understand why legitimate differences exist.
- In our view, this approach is more likely to generate confusion and mistrust than genuine transparency or accountability.

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?

As noted above, we support developing a simple, user-friendly tool that allows consumers to compare their heat network prices against an appropriate counterfactual based on carbon impact. We believe this approach strikes a sensible balance between delivering meaningful comparisons without placing the burden on consumers to interpret complex or potentially misleading data. We continue to have significant concerns about the proposed grouped comparison approach and the unintended consequences it could have for the industry (e.g. confusion, misplaced complaints and reputational harm).

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

We believe the focus should be creating a simple, user-friendly tool that lets customers compare their prices against an appropriate counterfactual based on carbon impact.

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

No. As noted, we view strongly that proposals for grouped comparisons and RAG style systems must be reconsidered.

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

If taken forward, we do not support excluding certain types of networks (e.g. not-for-profit schemes) from grouped comparisons. The purpose of this approach should be to show all customers how their prices compare, regardless of the network's ownership or ownership model. Our biggest concern is that grouping heat networks to compare prices removes the context needed to understand the legitimate price differences. Excluding certain networks risks creating even more confusion for customers.

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 understand that the data requirements for both benchmarking and central price transparency are likely to be similar, and therefore the administrative burden of providing the data itself should be minimal.

However, as noted above, our greater concern lies with the operational impact of certain central price transparency measures – particularly grouped comparisons and a form of RAG system. These approaches risk being misinterpreted by customers, leading to complaints that suppliers are not in a position to resolve. In such cases, customers are unable to switch suppliers and face limited alternatives, with disconnection representing a potentially detrimental outcome for all parties involved. The resulting administrative burden therefore falls not in data provision, but in managing customer dissatisfaction and addressing confusion caused by oversimplified or poorly contextualised comparisons.

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

As noted in previous responses, we do not consider benchmarking to be an appropriate tool for direct customer-facing comparisons unless accompanied with full transparency and explanation. Without proper context, such comparisons risk misinterpretation and could undermine trust rather than enhance it.

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

SSE agrees that price monitoring should focus on areas where the risk of consumer detriment is higher and we would like to see this principle reflected consistently throughout the framework. For example, we believe monitoring should prioritise legacy networks, where the risk of disproportionate pricing is higher, rather than newer networks built to a higher technical standard and developed within zones that have undergone rigorous upfront procurement processes.

We also believe Ofgem should conduct thorough internal checks before pursuing any action with operators. As already noted, considering factors like business models is essential when assessing price differences or profitability. It is also critical that as Ofgem gains experience monitoring the sector, it uses this learning to continuously adapt its models and approach, ensuring resources are targeted where they are needed most.