

By email:

heatnetworksregulation@ofgem.gov.uk

09 July 2025

To whom it may concern,

Consultation Response: Heat networks regulation: fair pricing protections

Scottish Renewables is the voice of Scotland's renewable energy industry. Our vision is for Scotland leading the world in renewable energy. We work to grow Scotland's renewable energy sector and sustain its position at the forefront of the global clean energy industry. We represent over 360 organisations that deliver investment, jobs, social benefits and reduce the carbon emissions which cause climate change.

Our members work across all renewable energy technologies, in Scotland, the UK, Europe and around the world. In representing them, we aim to lead and inform the debate on how the growth of renewable energy can help sustainably heat and power Scotland's homes and businesses.

We are pleased to contribute to this consultation. Scottish Renewables would be keen to engage further with this agenda and would be happy to discuss our response in more detail.

Yours sincerely,



Morag Watson
Director of Onshore | Scottish Renewables

Responses to consultation 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.

The objective and principles set out in Table 1 are right and what should be expected of an efficient, well-run heat network. Paragraphs 2.11 to 2.51 also provide proper definitions of the principles.

We also agree with the consumer outcomes set out in section 2.54. However, the industry outcomes need to be expanded to include:

- The framework supports a level of profit that makes heat networks financially viable by providing owners and investors with a fair return on their investment.

Private sector investment will be essential to building heat networks. To attract this investment, the development of the framework must be shaped by the principle of supporting fair returns proportional to the risks associated with the investment.

While we agree with the objective, principles and outcomes (with the recommended addition above), there are repeated references to the guidance that will need to be developed to support these. Industry agreement with the high-level objective, principles and outcomes must not be used as a proxy for industry agreement with how these will work in practice. Further consultation will be required as the guidance is developed to ensure that the ambitions of this framework can be delivered.

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.

We agree that the list summarised in paragraph 2.53 covers all the right areas for implementing fair pricing, and we do not think changes or additions are needed.

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.

We agree with the proposals to develop each of these areas in guidance. This guidance must be developed in consultation with heat network developers to ensure it is practicable and does not undermine the financial viability of projects.

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, we agree with the features of the fairness test – principles-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?

Yes, we agree with the proposals to implement the fairness test discussed in Appendix 1. However, we are concerned about the practicality of benchmarking given the considerable diversity of heat networks and the communities they serve. Our answer to question 15 covers these concerns in more detail.

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

Yes, we consider that the revised authorisation condition, 'fair pricing', does reflect the policy intent.

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?

We support the principle of market segmentation and think that the right characteristics have been identified and correctly defined in Table 2.

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

Yes, we agree with the segmentation approach discussed for each of these characteristics.

Data requirements

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

While most heat networks already collect much of the information listed in Table 3, there is significant variation in the frequency, methodology and format of information collection. This reflects the considerable variation in the scale and business models of heat networks, as outlined in Table 2.

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

While no area of information was highlighted as being more challenging, concerns were raised regarding the compatibility of information between networks due to the variation highlighted in our answer to question 6 and outlined in Table 2.

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

No consensus emerged regarding which of the cost drivers listed in Table 7 would be more challenging for heat networks to report. The challenges varied by heat network and reflected the variation highlighted in our answer to question 6 and outlined in Table 2.

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?

Concerns were raised about the administrative burden that the reporting requirements could place on heat networks and the subsequent need to raise costs to secure the capacity to address this burden. The reporting requirements must be proportionate and strike a careful balance between gathering sufficient data to ensure consumer protection and minimising unnecessary administrative costs. Without more details of the data reporting requirements, it is not possible to identify where reduced requirements should apply and to which data categories.

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?

The consensus is that GSOP payments, compensations, fines, penalties, and other redress provided to consumers should not be passed through to customers. However, there was a question about how not-for-profit operators would deal with this, and clarity will be required.

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 agree with the best practice guidance provided, but reiterate our response to question 1. Consideration of cost reflectivity must also include provision for a level of profit that makes heat networks financially viable by providing owners and investors with a fair return on their investment.

As this is an emerging area of policy, we believe it is prudent to establish best practice guidance initially. This should only be strengthened to prescriptive rules if there is evidence that the guidance is not delivering the required best practice.

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?

The best practice approach to cost allocation outlined in the consultation document is sufficiently high-level that it could reasonably be applied to different types of heat networks or different types of suppliers without differentiation. However, as more detailed policy and guidance are developed, this may no longer be the case.

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

Yes, the authorisation condition, 'cost allocation', does reflect the policy intent.

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

No other feedback.

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?

While we broadly agree with the proposed approach for defining heat network prices in a comparable way, we are pleased to see acknowledgement of the challenges in doing so in a diverse market with different price and cost structures. We also support continuing to refine the benchmarking methods through real-world testing.

We recommend that 'indicative housing types' be added as a benchmarking metric. This metric would benchmark the cost of heating the indicative housing type via the heat network against heating it using the method generally available in the area. We believe that this would provide a better understanding of the comparability of heat network prices within the local area and mitigate comparisons that are not relevant to the local context.

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

We broadly agree with the proposal to use gas boilers and heat pumps as external reference benchmarks. However, this is with the caveat that these benchmarks should reflect local circumstances.

As approximately 75% of UK homes are heated by mains gas, using a mains gas-fuelled boiler as a reference benchmark is a logical approach. However, a gas boiler benchmark must account for the difference between gas boilers fuelled by main gas and those fuelled by sources such as private LPG tanks, as the cost driver is the fuel source, not the technology.

For the approximately 25% of UK homes not heated by mains gas, a more relevant benchmark would be the dominant heating type in the area.

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?

Our members who install heat pumps highlight that the optimal heat pump system for many properties incorporates rooftop solar PV panels. Income from the electricity generated by these panels through the Smart Export Guarantee (SEG) offsets the electricity costs of the heat pump. This does not appear to have been accounted for in the benchmarking methodology.

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?

Yes, we broadly agree with the proposed approach to comparator benchmarking with the caveats set out in our answers to questions 15-17.

We believe Appendix 3 covers all the relevant cost drivers.

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?

Data on the four 'High Importance' cost drivers set out in paragraph 4.33 could be reported with relative ease. However, a distinction needs to be made between fixed and variable data.

The fixed data on technology type and network pipe length remain unchanged unless there is a significant upgrade or extension to the network. These can be reported with ease. The data on fuel input prices and annual network demand are variable, and the accuracy with which this can be reported is likely to vary depending on the fuel type, metering arrangements, and contractual setup of individual 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?

Data on the 'Medium Importance' cost drivers set out in paragraph 4.33 could be reported with relative ease. However, the same caveat applies as in our answer to question 19, that there is a difference in the ease and accuracy with which fixed and variable data can be reported.

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 support the proposal to publish the high-level methodology for each benchmark once the approach has been developed and tested on real-world data. As part of the real-world testing, we recommend that heat network developers be consulted. This will enable experts from across the spectrum of heat network types to identify any issues during the testing phase.

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

No additional feedback.

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

Yes, we agree with the proposal for ongoing monitoring of profitability through data collection on EBIT margins for all heat networks.

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?

There was no consensus answer to this question. However, we support the proposed approach of an initial light-touch monitoring framework focused on collecting and reviewing EBIT margins for all heat networks, alongside the benchmarking exercise. This will enable the testing of the ease and effectiveness of using this approach, providing an opportunity to evolve it as necessary.

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?

Yes, we agree with this approach.

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

No additional feedback.

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 is our preferred option, and we support the view that this approach allows for a fairer comparison of prices charged by similar heat networks, while avoiding the sharing of commercially sensitive information.

Presenting this information as a minimum to maximum range, where consumers can identify where their heat network in the area falls, would be straightforward to understand. However, the range should be accompanied by brief explanatory notes that help consumers understand why there is a range of prices. This will help consumers understand the reasons why the price offered by their network falls where it does on the range.

Option 2 – We do not support this option as a pooled market average comparison would not be meaningful in the diverse market of heat networks.

If we use the analogy of average house prices calculated through a pooled market average comparison, this may provide useful data on whether house prices are increasing or decreasing, but it does not help consumers determine if the price of any specific house is reasonable and justified. We consider option 2 to be similarly so generalised that it would not support consumers to make an informed choice.

Option 3 – We partially support this option.

If the proposals elsewhere in this consultation identify that a heat network has compliance issues and is not acting to resolve them, then this information should be available and easily accessible to consumers.

However, the RAG system is problematic because it is unclear how consumers should respond to this. Suppose a heat network has some compliance issues and is working to resolve them. How would their resolution and a change in the RAG rating of that network be communicated to consumers who had previously seen the amber rating? There is a risk that a RAG rating may lead consumers to conclude that they should connect to a green rated network but not connect to an amber network when there may be a reasonable explanation for an amber rating that can quickly be resolved.

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 support the overall policy objective of fair pricing for heat networks and the specific policy objective that consumers should have the necessary information to make informed decisions. However, we have fundamental concerns with the central price transparency proposals.

The onus for ensuring that pricing is fair and the responsibility for challenging unfair pricing sits with Ofgem. The central price transparency proposals imply that, through the provision of data, consumers are expected to make informed judgments about whether a heat network is well-run and fairly priced, and if not, they will challenge the pricing. This is an unrealistic expectation to place on consumers.

The objective should be to enable consumers to make an informed decision on whether connecting to a heat network is financially the right decision for them. Once they have made this decision, they should be able to trust that the heat network to which they are connecting is well run and fairly priced. Should there be any issues with how the network is run or priced, they should be confident that robust regulatory processes are in place to address these concerns.

We believe that the central price transparency proposals are likely to be of more value to consumer protection and advocacy organisations that have the in-house expertise needed to make informed judgments based on the data rather than individual consumers. We recommend that these proposals be refocused on ensuring that compliance issues are effectively dealt with through system design and enforcement mechanisms rather than by placing the onus on consumers.

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

See answer to question 28.

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

See answer to question 28.

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

See answer to question 28.

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?

See answer to question 28.

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

See answer to question 28.

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

See answer to question 28.