

Fair Pricing Framework

1. 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.

Agree with all listed, would also like to see something along the lines of 'aim to reduce fuel poverty' in the principles.

Remove the word reasonable in the 'fair and reasonable returns' – this industry is and should remain not for profit and quasi not for profit and be dissuaded from becoming profit and dividend driven like the electricity and gas industries.

2. Do you agree with our proposals to develop the fair pricing guidance in relation to the principles? In particular:
 - a) Have we identified the right areas to be covered by the guidance implementing the fair pricing principles? 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. It would be good to have further regulation to support networks in achieving competitive fuel procurement including price caps and an onus on producers of waste heat to give it to heat networks where technically and geographically feasible.

2.23 add network maintenance, e.g. proactively identifying leaks and replacing network components.

2.30 dividends should also be restricted.

2.33 would like to see further guidance on appropriate sinking funds for resilience.

3. 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 (in principle but it would be good to understand what might trigger ofgem involvement as heat networks will set prices 3-5 maybe more years in advance when considering large capex projects in budgets for example)

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

Please make available to heat networks the cost comparisons you are using / counterfactuals so we can see this in advance of setting prices and budgeting / forecasting.

Profits / rate of return should be calculated AFTER deducting capital expenditure on network renovations otherwise networks will be dissuaded from replacement.

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

Yes

5. In relation to market segmentation:

- a) Have we identified the right characteristics for market segmentation, and are these correctly defined?

EBIT is not appropriate in a capital intensive industry. Older networks have to reinvest into the network annually to keep it going. CAPEX needs to be deducted from EBIT so as not to penalise network reinvestment.

All networks should serve domestic customers, regulation should cover this.

Agree comparison can be made regardless of the network's pricing methodology.

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

Best practice guidance would be useful. Smaller networks will be especially affected by the additional administrative burden and the cost passed onto their customers. Not for profit and quasi not for profit networks to be segmented?

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

Agree with all of these except EBIT, see above, must deduct capital expenditure on the network

Particularly like to see length and age of network

We have all this data available except for:

- overview of costs recovered through standing charges
- overview of costs recovered through unit charges

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

Just the 2 above for us.

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

Age and type of properties supplied – we do not have this data and do not know how it would be possible to collect it

Level of vulnerability – we do not have this data, it would be a large and costly exercise to collate it but we agree with the need for it

Housing tenure - we do not have this data and do not know how it would be possible to collect it

9. 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?

no

Cost Allocation

10. 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 but not sure how you will measure this, particularly if company is paying dividends

11. 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?

Guidance needed in the regulation for what type of cost recovery would be deemed appropriate for standing charge and new connections.

12. 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

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

yes

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

none

Price Comparison and Benchmarking Methods

15. 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 but we must have site of these numbers so we can consider them when setting prices, budgeting and forecasting – networks mustn't be 'surprised' if their pricing is outwith the benchmarks

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

Yes as long as individual networks characteristics are then taken into the round

17. 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

18. 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?

Must include annual replacement / renovation of pipe network, etc. (capital cost not operating expense deducted from EBIT)

19. What is your view on the ease with which data could be reported on the four 'High Importance' cost drivers set out in paragraph 4.33? What information do heat network operators and suppliers already collect, and what would be challenging to provide?

All available to us

20. 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?

See answer to q 8

21. 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?

fine

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

no

Profitability Analysis

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

No. you should also take into account capex on network renovation / replacement in a capital intensive industry otherwise this will be dissuaded.

24. 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?

All data is available, adding item suggested in item 23 also easy to provide

25. 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

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

no

Central Price Transparency

27. 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.

Prefer grouped comparison as it takes into account network age, profile, length, etc.

28. 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?

Consumers will not understand why some networks are more expensive than others, can this be for heat networks only? Not sure how that aligns with pricing transparency though

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

Prefer option 1 but a combination may be good

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

yes

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

yes

32. 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?

Not hugely

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

no

Price Investigations

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