

## Heat networks regulation: fair pricing protections

### Consultation response from Stonewater

#### July 2025

Stonewater is one of the UK's largest social housing providers, dedicated to creating places that people can truly call home. With 40,000 homes, we proudly serve more than 93,000 customers from diverse backgrounds across the country.

Across our portfolio, we have 51 heat networks in operation that are on pre-2015 developments and the majority of these networks do not have individual metering.

Stonewater agrees in principle with the regulation to protect consumers and make sure people are paying fair prices if they're on a heat network. This is because we recognise that they have little to no choice as to who their supplier is.

However, we are very wary of what the regulations mean for us from an operational perspective to ensure compliance if we, as a landlord, are regulated in a similar way to an energy provider. In particular, we are keen to ensure alignment with the existing complaints and regulatory regimes with the Housing Ombudsman and Regulator of Social Housing, in the context that regulation will be increasing in the near future.

For more information on our response, please contact:

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## Our response

- 1. Have we identified the right set of fair pricing consumer objectives, 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.**

Yes, we agree with the principles set out in the proposals.

- 2. 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.**

Yes, we agree with the areas covered. However, it would also be useful to have guidance on operational costs and what is deemed appropriate to reclaim from end consumers, and if there are any items that should be excluded.

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- 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.

Yes, although the consultation appears somewhat contradictory. It identifies certain areas of regulation but then notes that no specific guidance is available for them. This creates uncertainty as to whether these areas will be covered by future guidance or are currently considered out of scope.

**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, although a case-by-case basis significantly limits the amount of guidance that can be provided and results in a lack of clarity for heat network operators. There should be some clear examples set out within this.

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

Yes.

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

No view.

**5. 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?

For the most part, we would agree with the characteristics identified. However, we feel that shared ground-loops should be excluded from this approach unless there are other heat sources also connected to the ground loop which are subject to a charge. Where a household has an individual heating system, there is more choice over the type of system, and the running of that system, including the energy supplier.

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

Yes, with the exception of shared ground loops as described in our response to Question 5a.

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

The majority of the information is available although not currently likely to be stored in one place. However, for networks that are not metered or a pre-regulation system, it is less likely that certain information would be readily available, such as reference prices, operating temperature or other efficiency measures.

We do not currently collect or hold data on the network length. In addition, there may not be data or design information readily available - especially if the network was built pre-regulation.

In relation to financial data, as a housing association and not-for-profit organisation, only costs that can be included within a service charge would be held centrally if metering is not in place.

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

Please see our response to Question 6.

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

We have identified the following as challenging for us to report on, given the variety of systems we have and our approach to charging as a not-for-profit organisation:

- Network length.
- Network generation.
- Network age for older networks – unless there is an option for “X+” years.
- Operating temperature for older and non-metered networks would require a visit to confirm.
- Geographic location could be collected, but if the heat network operator is expected to advise on urban density, there would need to be a consistent approach specified.
- Other efficiency measures, until better defined.

**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?**

Yes, we agree with those highlighted within the guidance. Not-for-profit (with a clear definition), smaller networks (e.g. multiple bedsits or rooms being served by a single domestic boiler) or heat networks being operated under Right to Manage.

**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.

**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?**

We agree with the guidance. One element that we feel could benefit from strengthening is identifying which operational costs are acceptable to recover over and above fuel costs. This element is something that we feel does not strike the right balance between consumer protection and avoiding disincentivising the use of heat networks.

**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 view.

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

No view.

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

None.

**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.

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

We agree this is useful to demonstrate whether heat networks are an effective solution compared to individual heating systems by aggregating results across a large number of heat networks.

It is not, however, a good benchmark to ascertain whether pricing is fair, as the systems and operational costs are not comparable.

**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?**

No view.

**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?**

We agree. Within load type, there may also need to be consideration of communal or unmetered areas within residential accommodation such as lounges, and how these are factored into the charging.

Heat network operators are likely to have different models to charge end users for costs relating to these areas, such as through a service charge, a standing charge on metered supplies or an increased unit rate for heat for the domestic properties.

**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?**

We could report data for three of the four cost drivers. However, network pipe length may be challenging to provide, especially for older networks with no design information on file.

**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?**

It should be fairly simple to provide the required information. For older networks, the age of the network may need to be within a range or an option for over a specified age.

**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?**

Agree.

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

None.

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

We feel this should be limited to profit earning network operators, and that those networks that seek to only recover operational costs should be exempt, provided that "not-for-profit operators" are clearly defined. The network should not be generating a profit, rather than it merely being run by a not-for-profit organisation.

**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?**

The data set out within Table 3 of the consultation should be relatively simple to obtain, with the point previously raised that network length is information that we may not currently hold for older networks.

For calculating EBIT margins, depreciation is the one element that may be more difficult to obtain as different organisations and heat network operators are likely to have slightly different accounting rules with regards to capitalisation and depreciation.

**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?**

We do not have a specific view. Our key interest is ensuring that not-for-profit operators are exempt from this reporting.

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

None.

**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.**

We do not view Option 3 as a standalone option, but supplementary to either Option 1 or 2 by adding a RAG rating system.

A risk to be aware of with RAG rating is that for-profit operators who have a system rated 'Green' may be encouraged to increase prices, which would obviously impact consumers.

We see Option 1 as the more accurate, but more complex to introduce. Both Options 1 and 2 have flaws for comparison. Under Option 1, comparison is more difficult to achieve data comparability, however when it comes to overall costs to end users, the comparisons would still be more valid than comparison to an individual gas or heat pump systems as in Option 2.

**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?**

We have some doubts on the balance, but do not propose an alternative.

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

No.

**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?**

We agree, provided that the network operators are merely expected to provide the required data and Ofgem undertake the benchmarking. Otherwise, there will undoubtedly be more administration required for network operators.

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

Yes.

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

We do not have a view at this time. Precedent will need to be established, with a case-by-case approach referenced throughout the consultation.