

Email to: [heatnetworksregulation@ofgem.gov.uk](mailto:heatnetworksregulation@ofgem.gov.uk)

Dear Heat Networks Regulation Team, Ofgem

### **Consultation Response: Heat Networks Regulation – fair pricing protections**

Sustainability First is an independent charity and think tank focused on promoting practical solutions to deliver fair and sustainable energy and water sectors. We have a long history of engagement on policy, regulatory and market design issues from the consumer and environmental standpoint, and in advocating for strengthened consumer protections and statutory regulation of the heat network sector.

We welcome the opportunity to contribute to this consultation. Unfortunately, we are not able to respond in detail to all 34 questions and consider it more important to address the overall approach, to which this letter responds. We question whether Ofgem's approach to heat network consultation is the best way to engage with those, like us, interested from a consumer and environmental perspective but with limited resources. We would be happy to discuss how this could be improved.

We recognise that a significant and growing minority of households are on heat networks, and it is crucial that they are not unfairly disadvantaged in comparison to other energy customers, to build confidence and facilitate the expansion of heat networks where this is the best approach to decarbonisation of heating. This is a key component of ensuring a *just transition*: ensuring heat network customers are not disproportionately burdened as the UK decarbonises heat. We emphasise the importance of social equity, particularly given that heat networks have a higher proportion of tenants, social housing residents, and those in fuel poverty. In addition, heat network customers are already disadvantaged compared to electricity and gas customers due to their inability to switch supplier. All of this suggests the consumer protection bar for heat network customers should be set higher than for competitive energy supply markets rather than lower.

Indeed, in introducing regulation, DESNZ promised that "... Ofgem will help to ensure consumers get a fair price and reliable supply of heat" including "if prices are significantly higher than those consumers would expect to pay if they were served by an alternative and comparable heating system."<sup>1</sup>

We recognise that Ofgem's task is not easy. But the approach set out in the consultation falls far short of these objectives. In the webinars to explain the consultation, Ofgem staff appeared to be more concerned with fairness to heat network operators than to heat network customers. The consultation document gives the impression of a lack of urgency to address customer detriment. There is an opportunity here for Ofgem to focus on the opportunities, through rebalancing its approach to be clearer on its prioritisation of consumer outcomes.

Ofgem's focus on profitability is unlikely to capture the most important drivers of disproportionate pricing, and the relatively hands off approach contrasts with the price caps that protect most other residential energy consumers. Ofgem needs to consider the materiality of drivers of heat network bills and how they can avoid unfair outcomes to customers, including for example through wholesale gas charges as well as profitability analysis. Any consideration of profitability needs to look through the value chain not just at one element, including the impact of payments to developers for example. In line with its statutory duties, Ofgem should also consider whether higher prices are justified where

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<sup>1</sup> [Energy Security Bill factsheet: Heat networks regulation and zoning \(updated 20 March 2023\) - GOV.UK](#)

service characteristics are more in customer interests (better environmental performance, higher reliability) and conversely, lower prices for poorer performance.

As a priority, Ofgem could collate pricing data from existing networks and make this available. This would shine a light on current practice and enable a wide range of organisations, including academics and consumer advocates, some of whom may have significant relevant expertise, to analyse the data, to identify the most pressing concerns and help inform Ofgem. While Ofgem may consider that it is unable to undertake formal pricing investigations before 2027 (as stated in the consultation), it could and should ask questions of specific networks much sooner to improve its understanding of the drivers of costs. In parallel, Ofgem needs to improve its understanding of customer experience on heat networks, and again this research should be published. This is all part of giving heat network customers more of a voice and more information to give them agency. It can help inform clearer standards for pricing communication to customers in general, and how this should be differentiated for different customer characteristics.

More generally, Ofgem and DESNZ should now move to a default position that protections in place and new customer protections being developed for electricity and gas consumers should also apply to heat network customers unless there is a good reason not to do so. For example, we reference Ofgem's consideration of debt relief<sup>2</sup> and DESNZ's proposals to strengthen the ombudsman scheme.<sup>3</sup>

Further, we question whether ex post investigation and a one-size-fits-all approach to pricing regulation are sufficient. For vulnerable customers, consideration of social tariffs may be needed. For new networks in particular, building on DESNZ's work on heat zoning, there is an opportunity to build in more protection for customers from the outset and to consider an approach to pricing that is more supportive of investment in new heat networks where that is in the best interests of customers. For example, Ofgem should investigate the sort of model described in a recent blog by Sharpe Pritchard<sup>4</sup>. While this may extend beyond Ofgem's current remit, that does not preclude Ofgem advocating a better approach than current powers allow.

Within the specific approach to regulation set out in the consultation, we note that the approach to investigations – when they eventually begin - is left open. Given the scale of the heat network sector, with a large number of to-be-regulated entities, often supplying relatively few customers, we doubt that a bespoke approach, similar to Ofgem's current approach to compliance and enforcement in the electricity and gas sectors, will be realistic or effective. We would urge Ofgem to think through the back end of this process now; to mitigate the risk that it is imposing additional costs on the sector through regulatory bureaucracy now, for outcomes that will provide very small benefits to customers.

We would be very happy to discuss any aspects of this response and how we could contribute to a successful roll out of regulation if that would be helpful.

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<sup>2</sup> [Resetting the energy debt landscape: the case for a debt relief scheme | Ofgem](#)

<sup>3</sup> [Delivering an energy market that works for consumers - GOV.UK](#)

<sup>4</sup> [Zones/RABs and heat networks: The path to an investible infrastructure asset class? - Sharpe Pritchard](#)