

Switch2 Energy – Heat Networks: Ofgem Fair Pricing Protections Response

About Switch2 Energy

Switch2 Energy are the UK's most experienced and largest service provider of end-to-end solutions for residential heat networks. We manage over 800 residential networks with over 100,000 residential properties including the private sector, local authorities, housing associations and ESCO's.

We are part of the external advisory Ofgem working group for future regulation and we have been members of the Heat Trust since inception. We represent a large number of residents within the sector, and we have a real understanding and insight on how any potential change will impact consumers.

Switch2 Energy – Heat Networks: Ofgem Fair Pricing Protections Consultation Response

1. 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.

We support the overall objective of consumers paying 'fair and not disproportionate prices' however we need to refrain from always referring to 'price' and should be looking at 'annual costs'. Consumers on heat networks are charged for their usage and fixed charges which include operational and maintenance costs towards the upkeep of the network and therefore it is not a direct and fair comparator to a unit cost in the domestic energy market.

We believe Ofgem should be the data collector and collate all the key metrics that feed into key consumer protection areas such as tariffs/pricing. There is a view from other organisations that they may be some duplication for reporting with the upcoming Heat Network Technical Assurance Scheme (HNTAS) however we must have one data collector. This has worked well in existing practices with all Heat Trust submitted data being shared directly with Ofgem.

We have also seen instances and misuse of the terminology 'fair', and it can be used as a loophole to justify non-compliance based on an individual interpretation. This was prevalent with the application of government support schemes such as The Energy Bill Relief and Discount scheme where some operators did not pass the full support based on their opinion of 'just and reasonable'. We would welcome further guidance on how achieving fair prices can be demonstrated and more importantly recorded if potential investigations may be necessary.

We must not lose sight of what the objective is and to impose an overcomplicated set of data that does not provide the desired customer outcomes. It must be added that previous CMA report did not find widespread instances of unfair pricing and therefore the principles are excessive based on

previous insight.

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.

We support guidance especially with tariff methodology and being provided information on what can and cannot be included as part of tariff setting. This information must be prescriptive and include the production of a statement of account which provides a breakdown of fixed costs including sinking funds and bad debt provisions to provide consistency.

It cannot be underestimated the inconsistencies within the sector on how costs are allocated in tariffs, and we would strongly urge standardisation (this may require several alternative models to choose from depending on the heat network business model).

Bad Debt - Additionally, as described there is bad debt across heat networks which is unsustainable and whilst fair pricing framework is aligned to consumer protection, there needs to be guidance for operators on how this can be effectively managed.

Experienced heat network operators will have built in a bad debt provision into the tariff, however what happens if this needs to be significantly increased due to continual non-payment due to economic pressures. Additionally, due to the proposed flexibility for customer repayment plans, how do operators continue to operate without making necessary adjustment to cost.

We would welcome guidance on how prices should be communicated to the customer as ultimately, the overall objective is to provide the customer the transparency, they have been charged fairly in accordance with the cost of operating the scheme. This includes guidance on poorly managed and inefficient schemes and whether transparency highlights further issues.

We welcome further development and guidance on procurement and hedging however it is important to differentiate between district heating and freeholder owned residential heat networks where the strategy will be vastly different.

Many freeholder owned residential heat networks will be restricted due to contractual obligations which includes a specific requirement to procure annually (Landlord and Tenant Act). The government should consider setting up and supporting group purchasing schemes for residential heat networks which would protect residents on small schemes being disadvantaged.

With regard to the residential heat network sector, we disagree with the statement that “the framework does not discourage growth of the heat network sector”. We have received feedback from several organisations who are concerned about the uncertainty and the additional cost of

future regulation (especially when no other building service has this level of regulation). This is actively encouraging them to seek other solutions to heat their buildings.

Q3. Do you agree with the proposed 'fairness test'? In particular: a) Do you agree with the highlevel 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?

We agree to the principle however we believe this could be achieved by adopting a much-simplified approach utilising a smaller set of data. We believe including information such as profits (in percentage or GBP) can be misleading and does not necessarily identify disproportionate pricing.

For instances of prices that are deemed to be disproportionate to the rest of the market, then Ofgem should undertake further investigation however there should not be a requirement to provide all the accompanying data as requested within Appendix 1 and the rest of the consultation unless required as part of further investigation due to concerns of excess profiteering.

Whilst we see some benefits and flexibility on a case-by-case basis, it creates ambiguity and a lack of transparency, and we would strongly urge that a newly regulated sector should have more defined areas.

Whilst we may understand the focus on profit when dealing with a district heating operator that operates a district heating scheme in a discreet company we do not recognise this in the residential heat network sector where the heat networks are run as a building service which needs to recover costs.

It should be made clear what costs are "before profit" especially where plant replacement and improvement works being funded. The correct use of sinking funds and provisions is important to ensure transparency and sustainable heat networks.

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

Yes, we support the wording provided there is an explicit definition of what 'fair' constitutes. Whilst we believe the authorisation condition is clear in writing, the suggested input to reach the desired output does need to be reviewed.

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

Whilst we understand the intention for market segmentation, we would challenge the application within the proposal and believe there are too many variables which make it unmanageable and too complicated. The reiterative objective is to make it easy for consumers to understand and for Ofgem to get a high-level overview on whether there may be practices of customer detriment.

We have reviewed each characteristic as part of the proposed approach, and we strongly urge more explicit guidance or clearer terminology. Whilst we agree about tenure and specifically about the landlord responsibility to maintain the network including the infrastructure, we need a definition of what infrastructure is covered as it does not feature in the Landlord and Tenants Act as it was not created with Heat Networks in mind.

Shared ground loops (SGL's) are very different to heat networks and they should not be included. They are equivalent to individual heat pumps, and they should have their own separate arrangements and not be conflated with heat networks. A common ground loop requires no fiscal heat metering all the energy used to generate the domestic heat is delivered through the domestic electricity supply.

We fully support the separation of district heating versus residential heat networks (owned by the building owner) however we are concerned with terms being used such as 'exploring' and 'likely' where there are definitive and substantial differences between large scale district networks and residential communal heat networks and this will have a significant impact on pricing.

They need to be distinctly separated and there must be a willingness from Ofgem to understand the current heat network sector.

Heat should be benchmarked at the building level meters (often where the district heating company sells heat to the residential heat network)

We do not believe there should be reduced reporting requirements or exemptions based on volume of customers or profit or not-for-profit status. There should be the same level of transparency and accountability across all schemes as anything less would mean the operator does not have the management information to run a successful heat network. This applies to the proposal to exclude existing heat networks who should not be exempt.

Regarding the regulatory role cited in this section, It is important to establish and understand contractual responsibilities, whilst we agree that regulation should sit with either the heat network owner or a long-term concession holder, however the terms of these contracts vary which includes who owns the assets, who is responsible for debt and who is ultimately the decision maker and this needs to be made explicitly clear.

3. Data requirements

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

Heat network operators should be able to provide the data types of 'charges', 'prices' and 'financial data' and all the subset information listed within the detail section.

We think that annual cost of heat should be the most important measure on residential heat networks as the unit(kWh) price and standing charges vary so much depending on type of building and commercial model.

Collecting standing charges may be complicated where the standing charge is dependent on dwelling type or size.

We do not believe reporting should be quarterly as it is acknowledged that the cost driver

characteristics do not change over time and reporting should be annual.

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

We have concerns that the list in Table 3 is very extensive and could put a significant financial burden on customers who will have to pay for the administration.

Data collection requirements should be as lean as possible, and the benefits should be clear.

We disagree with trying to segment heat networks based on cost drivers as these will be too difficult to collect in a standardised and meaningful way. On consideration we feel that heat network segmentation should be kept to a minimum or indeed removed.

If upon concerns of pricing, a heat network would then justify their charges and annual cost of heating homes on the network. A network would have to declare what is included in the recovery and any other factors of concern that were relevant.

With regard to cost allocation, we seek clarity on whether Ofgem expect a profit and loss account to be created for each individual network rather than entire portfolio. If so, guidance must be provided as to what must be included.

Additionally financial data does not provide enough detail and whilst we support that any data must be directly linked to the costs associated with operating a heat network, we feel that some organisation's will find it difficult to separate these from other associated costs of running the scheme.

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

We firmly believe that many heat networks will not be able to provide the necessary information such as network pipe length and it is another complex metric that adds no value and deters from the overall objective.

We disagree with trying to segment heat networks based on cost drivers, these will be too difficult to collect in a standardised and meaningful way. On consideration we feel that heat network segmentation should be kept to a minimum or indeed removed. Our thoughts are at the movement that heat networks should have to clearly justify their charges and annual cost of heating homes on the network. A network would have to declare what is included in the recovery and any other factors of concern that were relevant

The proposal of network age isn't suitable on face value and needs to be developed especially with investment through Heat Network Efficiency Scheme (HNES) and where there have been upgrades and replacement which will result in mis-reporting and potential incorrect grouping.

We would question the sheer volume of information requested within the cost driver and believe it is overcomplicating the objective and excessive data could result in misleading information.

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

No, there should be no exemptions.

If the objective is to minimise customer detriment and remain transparent and this can be achieved through limited data requirements then surely, this could be applied to all heat networks.

Historically, we have seen many not-for-profit organisations struggle to accurately understand the true costs of a heat network and we feel that by limiting the data set to just a specific group will only increase the lack of knowledge required to upskill in this area.

We would like there to be further analysis and a comparator to how other countries and regions such as Scandinavia report on costs and what lessons and outputs especially from a consumer perspective have been learnt.

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?

Yes, we agree in principle, however we still await clarity from Ofgem and Energy Ombudsman on how sitewide claims to the Energy Ombudsman for issues such as tariffs or frivolous complaints and the associated case fees will be handled.

Whilst we do not expect to see payments etc passed to residents, we are concerned that the increase of redress fees will cause significant detriment to the operating costs of certain networks.

Sitewide redress case fees which do not happen in the domestic energy market are unsustainable will result in the tariffs being increased as it the only mechanism available to recover costs.

There must be guidance on how sub-contractors and service providers who manage a significant percentage of residential heat networks are told how to apply any applicable credits.

Additionally, due to the number of third parties involved in the sector such as billing agents and operation and maintenance contractors, we seek clarity on how compensation will be applied when they are already written into legal contracts.

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 partially agree with the best practice guidance, however there needs to be a holistic approach on how fair pricing can be achieved. There are several models such as cost reflectivity, cost avoidance and price promise which may lead to positive customer outcomes.

There must be a fluid way of how tariffs are managed and a better understanding on what can and cannot be apportioned to fixed costs and variable costs. Tariffs must reflect the true cost of the network and again, we have seen plenty of examples where tariffs in other countries adopt a more holistic approach to where the costs can be apportioned to.

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 heat network industry should be split into two sectors, District Heating and Residential heat

networks.

We can see that a different approach would be useful for these two sectors.

District heating is in the business of delivering heat to buildings and campuses from large energy centres across the public domain and has very different costs, especially in the recovery of capital to residential heat networks

Residential heat networks on the other hand are in effect a shared building services provided by the building owner in much the same way as systems in the building and have very different cost drivers. It will be easier to be more prescriptive in the residential sector as the cost drivers tend to be less diverse and more operational focus.

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

Yes, although we are concerned that it is implied there is a requisite to ensure cost allocation practices are consistent with the cost allocation guidance to ensure consistency with fair pricing principles.

The overall objective is to meet the fair pricing principles and whilst guidance may assist in achieving this deliverable, it should not form as an explicit authorisation condition as operators could still fair pricing through different practices such as cost avoidance/recovery.

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

Separation rules for district heating and residential heat networks would again be useful in this regard. Many of the differences in business model exist in the DH sector and not so much in residential heat networks.

It is not necessary to strictly allocate what may be perceived as fixed and variable costs to fixed and variable rates in the tariff. Some costs can be allocated to dwelling size, some per meter point and some by consumption. But a strict approach may not lead to the best customer outcomes where fairness may dictate that high or low users and not advantaged or disadvantaged.

4. Price comparison and benchmarking methods.

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?

No, the proposals are over complicated. We are losing sight of aiming to provide fair and most importantly transparent pricing to customers and for Ofgem to identify when there may be instances which require further investigation.

Whilst for the district heating sector there may be a case to focus on the price of heat in the residential heat network sector, the focus should be on the annual cost of heating the dwelling.

Comparing the price of heat at a building level heat meter is valid but it is not valid comparing the

price of heat at a dwelling final customer heat meter due to the variations in the secondary distribution network and building construction.

Within the residential heat network sector, it could be reasonable to use the equivalent of the gas and electricity industry TCR (Tariff Comparison rate). The concept would need to be modified due to the variations in average consumption between different heat networks (based on the secondary distribution and building fabric variations).

Additionally, lessons learnt from the TCR and the CMA showed it took basic costs into account and did not include other factors such as customer service levels, which might be the reason to switch however customers on a residential heat network cannot switch so the TCR might be more suitable.

In the residential heat network sector, there are also challenges where the heat network scheme has different tariffs dependent on the leaseholder with some schemes having mixed tenure types such as private leaseholders and social housing which results in a group of residents having their tariff heavily subsidised.

Rather than solely being focused on the term 'price', we should consider the term 'annual cost' and what is the cost to operate a network and whether it is deemed fair against the national average. Customers are not concerned about what other networks in other regions are being charged but whether they are getting a price that is not disproportionate in the sector.

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

Yes, we agree that gas boilers are a useful tool for external reference benchmarks in the short-term for existing heat networks that are not decarbonised however this will become less relevant and a low-carbon counterfactual such as heat pumps should become the most relevant benchmark.

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?

Yes, we broadly agree however any benchmark needs the same consistent approach to benchmarking across the sector with relevant context to the customer.

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?

No, the list of potential cost drivers is exhaustive and creates an additional administrative burden with no clear output on how this will benefit consumers or regulated entities.

Residential Heat Network Consumers are focused on the annual cost, and this should be the key metric for Ofgem to analyse to identify disproportionate prices rather than comparing and viewing each individual cost driver for a network.

Despite the list being exhaustive and generally not supporting the principle, we believe metered versus unmetered networks should be included within the high importance to fully compare the annual cost ensuring reliable cost allocation.

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?

As stated previously, we feel many regulated entities, especially in existing and older heat networks will not be able to provide accurate network pipe length. Whilst the rest of the information requested is obtainable.

We no longer believe that segmenting these cost drivers would be reliable and cost effective. We would suggest that heat networks should comment on any significant drivers that are resulting in the annual costs.

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?

We do not believe there to be an issue with providing the information in the medium importance list but would question the benefits and costs of administration.

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 agree with the proposal in principle however it is difficult to comment on the specifics without visibility of what this may look like. We seek clarity on who the accessible overview is aimed at, would this be the operator/supplier or the end user?

We are also concerned about the practicality and usefulness of these benchmarks considering the significant range of types of networks.

There must be clear guidance on how suppliers and relevant frontline facing teams can explain this to customers as we would expect to see an increase of queries and as an industry, we need to be working together and aligned with data presentation.

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

We need to be very clear and stop conflating district heating with residential heat networks.

We strongly recommend that market research and consumer focus groups on existing heat

networks are utilised. The holistic objective is to provide transparency and allow existing customers to understand whether the prices they are being charged are fair and reasonable.

We have seen misuse of the Heat Trust calculator from the perspective of customers who are looking to move to a Heat Network property who wish to understand the potential cost implications which the calculator isn't designed to do. Additionally, the cost of repairs and maintenance for the rental market is included as part of their tenancy agreement and therefore the figures quoted can be misleading.

5. Profitability Analysis

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

No, we believe the following:

- a) District heating and residential heat networks should have separate rules.
- b) On residential heating works EBIT and margins are the wrong terms to use. The terminology of 'under' or 'over' recovery should be used instead.
- c) Ofgem should be very clear what can and cannot be included in the cost recoveries in residential heat networks.

It is essential that the definition of profitability is provided. Profit is usually defined as a benefit or advantageous, however there are several reasons why this is misleading and does not provide a true reflection of performance.

If financial data must be published, there would need to be explicit guidance on what is not considered 'before profit' such as sinking funds and provisions for future work/upgrade/call-out charges.

We are aware of many operators who have third party contracts with operation, maintenance and billing service providers where they are charged ad-hoc for charges and need to factor this into future costs.

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?

We need to reiterate the point about the key differences between district heating and residential heat networks.

Building owners would find this challenging as this is not generally how these networks are managed. They are managed based on recovering the costs and are not as a profit centre for their businesses.

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?

The use of more in-depth profitability assessments may be suitable for district heating however we need to distinguish between the difference between district and residential heat networks.

No, we are concerned about the lack of clarity as to why we would have to go through the granular detail where we should be looking at a much simpler dataset first then potentially providing some of the additional data as outlined in the proposal but only for investigatory purposes.

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

For District Heat Networks, the growth of the sector is critical and will need significant investment and investors will expect a reasonable return. If it can be evidenced there are no instances of customer detriment, the importance of profit margins becomes less relevant.

We would also like to understand the role of the supplier, especially on a long-term concession agreement and the demarcation between operator and supplier. We feel that these two constructs are not appropriate to the industry and were introduced based on the Gas and Electricity industry before the policy makers were experienced.

6. Central Price Transparency

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.

We have commented on the proposed options however there must be a separate approach for district heating delivering heat to a building level meter compared to a residential heat network.

Option 1 – might work for district heating but we believe it is too complicated for the residential sector.

Option 2 – in the residential heat network sector this would have to be based on average annual cost against the equivalent for individual heat pumps and domestic gas boilers.

Option 3 – we are not sure how this would work on its own, but we could see this being incorporated into option 2.

For all options, we need to consider the level of transparency, especially in the local authority and social housing sector which are often heavily subsidised, and we have concerns on how mixed tenures on same residential heat networks would be displayed.

We believe from consumer feedback (option2) and the Heat Trust calculator whilst not a direct cost comparator is the most interactive option and would allow a customer to input their price and

to understand whether the price they are paying is 'fair'. Although this requires much more extensive feedback and development.

Whilst we are not sure how the RAG system may work, we believe this could be an option in the initial stages for consumers to get a high-level overview and understanding, however there must be context as to what is displayed and to be used as a guide/indicator until Option 2 is available.

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?

No, the intent is there but not the output which is confusing, and this would require extensive consumer research from consumers on existing networks covering different demographics and prospective customers and for them to articulate what the information is displaying.

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

We do feel there may be some added value for having multiple options which would satisfy different customer needs.

A RAG system could be used as an indicative guide for residents to be able to make a quick informed view on whether the scheme and there could be options for a more interactive tool however it is critical that the information is clear and accessible for all options and the results cannot be misinterpreted especially when comparing the same dataset across the different range of potential options.

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

Yes, we support phasing in however there does need to be consideration on how customers would be kept informed during development and clear context when the options are available.

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

The only distinction should be between district heating and resident heat networks.

We do not support a combination of different options for different heat networks apart from the above. We have raised concerns about how heat network groups will be categorised and believe this could cause further confusion for customers.

Additionally, we are concerned that certain groups of customers from historically poor performing heat networks and should have full visibility of pricing and/or costs will be excluded due to how their network has been categorised.

We would question if limited data for these networks was sufficient for customers, then why it wouldn't be sufficient for all customers across every heat network.

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 support the principles of price transparency, but we are concerned that the additional work needed will result in increased costs.

We feel it is important to make the measures as simple and lean as possible. They should not go over and above the minimum needed to operate a residential heat network successfully. That of course needs to be defined carefully.

Many small residential heat networks are run on a voluntary basis and these volunteers will need clear and consistent guidance and prescriptive rules.

As a company involved in the operation of over 800 residential heat networks, we need a clear and consistent understanding of the additional administrative burden so we can resource appropriately. We would welcome Ofgem to our offices to understand the operational impact this would have, which will provide a better understanding on the additional work required.

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

Yes, provided the customers are well informed and there is relevant context although the question/statement is very broad. We reaffirm our view that anything that benefits the consumer is a good thing, however we must not over complicate matters.

7. Price Investigations

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

No, there is a lack of clarity with the information provided. Additionally, many of the proposals are cited on a case-by-case basis which could lead to an inconsistent approach and

Whilst we understand the need for enforcement action, there does need to be a degree of caution that many heat network operators are not intentionally over charging and the tariff reflects the true cost to operate the network. Penalties such as specific pricing restrictions could lead to significant detrimental impact especially if instances of debt increased throughout the following year. There must be clear consideration to the operator especially if there is justification to the price charged and we are concerned that Ofgem could in effect set a precedent such as lowering price which isn't financially viable or sustainable.

Whilst we note the phased approach which will begin from 2027, we would like clarity on how

Ofgem will work with heat network operators who are contractually tied into prices during 2026 or operators who are making pro-active steps to improve their transparency yet have had years of systemic issues and are adapting to regulatory change.

For further information or any questions, please contact:

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