

Heat Networks Regulation
Fair Pricing Protections Consultation
Response from Wandle Housing Association
July 2025

Wandle Housing Association are a housing provider based in South London, with over 7,000 homes across nine boroughs.

As a purpose-driven housing provider, we strongly welcome and support the need for fair pricing. However, the step-change that will be required to meet the new regulations and shift to the obligations of an energy company is not to be under-estimated.

The diversity of the heat network market is reflected in the complexity of the Regulation proposals. Heat networks are only a small part of what housing providers do: on average they make up 5-10% of a wider housing portfolio. Only a very small number of housing providers have dedicated internal resource to manage their heat networks, and are faced with multiple other pressing priorities, including building safety, Awaab's Law and net zero.

The Fair Pricing Protections are a microcosm of the complexities involved in regulating the sector, so complex they run the risk of never being right with poor outcomes for customers and heat network suppliers alike. We particularly see risks around:

- **The absence of a definition of 'fair' and 'not disproportionate':** we acknowledge that definitions are difficult in a diverse market but there is a risk that they will become de facto defined by Citizens Advice, the Energy and Housing Ombudsmen, and eventually the courts.
- **We still need a definition of 'not for profit' and 'small heat network'.** It's clear from this and previous consultations that a lot of compliance requirements hang on these. We need clarity now so the sector can best prepare for January 2026.
- **Benchmarking and how prices are communicated to customers are important but complicated.** Heat is not a commodity like the buying and selling of gas or electricity: how do we effectively communicate and explain efficiencies, cost allocation, profitability, benchmarking and investment? Any communication that needs a further guidance arguably is not working.
- **Affordability** should absolutely be a central plank to fair pricing, but what happens when a 'fair and proportionate' price is not affordable for households in or at-risk of fuel poverty, or who have additional health-related needs for heat, such as households with terminal illnesses or young children in the home? DESNZ and Ofgem need to give more consideration to how existing fuel poverty support schemes can better support heat network customers.

- **Data** is absolutely critical to the success of the fair pricing mechanism. We acknowledge Ofgem wanting to minimise the administrative burden of reporting but want to see more on how all the different data – across both consumer protection and the technical standards – will be joined up. We only want to submit data once.

Consultation Questions

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.**
- 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.**

We broadly agree with the fair pricing objectives.

However, we see the absence of a definition of ‘fair’ and ‘not disproportionate’ as a risk. We acknowledge that definitions are difficult in a diverse market but there is a risk that they will become de facto defined by Citizens Advice, the Energy and Housing Ombudsmen, and eventually the courts.

While we agree with the Fair Pricing Principles, we do see some potential unintended consequences and risks:

- a) Cost reflective pricing: could lead to sharp increases in costs on some heat networks where costs have previously been unknowingly under-recovered.
- b) Cost efficiency: this needs to be clearly linked to HNTAS. More work needs to be done on energy procurement in the social housing sector to ensure best prices are being secured whilst working alongside leaseholder consultation requirements (Section 20 of the Landlord & Tenant Act). Housing providers often only procure their energy for 12 months to avoid the need for consultation (given that energy purchasing decisions often have to be made quickly to get the best price), which means they can pay more for energy than if they secured a longer-term contract. This should be taken into account when price comparisons take place.

- c) Fair and reasonable returns: the principle that prices can include some level of profit needs to be weighed with obligations under the Landlord & Tenant Act, and clear guidance given to the social housing sector. We are still awaiting a definition of 'not for profit'.
- d) Affordability: we particularly welcome this principle to help protect customers from fuel poverty. However, what happens when a 'fair and proportionate' price is not affordable for households in or at-risk of fuel poverty, or who have additional health-related needs for heat, such as households with terminal illnesses or young children in the home? DESNZ and Ofgem need to give more consideration to how existing fuel poverty support schemes can better support heat network customers.

Clarity on cross-subsidisation would be welcomed, both in terms of 'pooled' tariffs across a heat network portfolio, and where prices are effectively subsidised through general rental incomes.

Guidance is strongly welcomed. Many in the social housing sector are looking for a 'how to' guide to heat network compliance. The more clarity Ofgem can give the better.

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

As outlined in Q1, we see the absence of a definition of 'fair' and 'not disproportionate' as a risk, with them becoming de facto defined by Citizens Advice, the Energy and Housing Ombudsmen, and eventually the courts.

Without a definition of 'fair', data will be absolutely critical: we think at least 2 years of data will be required before Ofgem can meaningfully make market comparisons. Taking each investigation on a case-by-case basis will be essential: the prices paid by customers are going to hide a multitude of heat network-specific circumstances.

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

We would largely agree with this, but some points need clarification as outlined in this response.

Market segmentation

5. In relation to market segmentation:

- 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?

‘Segmentation’ is starting to feel like the wrong word to describe the complex matrix of characteristics that any one heat network will identify with, as outlined in the consultation. Heat networks will be multi-segmented: two schemes 50 dwelling communal heat networks both built in 1995 will be segmented the same for size and age, but perhaps differently for metering or tenure. More needs to be done to explain / illustrate these interconnections, perhaps with interactive flow charts or similar user-friendly tools.

Critically, we are still waiting for a definition of ‘not for profit’: so much of the compliance pathway depends on this. For example, does it apply to the heat network operator/supplier or to the heat network? What happens if a for-profit organisation operates a not-for-profit heat network – or vice versa?

Alongside that, we are also waiting for a definition of ‘small’ heat network operator/supplier and what that might mean. For example, does it mean a small organisation or a small heat network portfolio? A housing association with 20,000 homes might only have 2 communal heating schemes, or a housing association with 800 homes could have 20. Clarity is required so organisations can prepare. Wandle currently has seven heat networks, with a further one in development. This results in having circa 300 properties on these heat networks, but as an organisation, Wandle are reasonably sized with 7,000 properties across the wider portfolio.

In the housing sector, housing associations with fewer than 1000 homes have lighter reporting requirements to the Regulator for Social Housing and it would make sense for Ofgem to align with this.

Data requirements

- 6. Of the information listed, what do heat networks already regularly collect and can be easily reported?**
- 7. Of the information listed, which items would be more challenging for heat networks to report?**
- 8. Of the cost drivers listed, which items would be more challenging for heat networks to report?**
- 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**

Unmetered heat networks – some of which may never be metered (HNTAS consultation pending) – will struggle to provide some of this data (eg annual network demand) and so a reduced data set should be required in those circumstances.

Some of the cost drivers housing providers won’t know – eg network length. Clarity is required as to whether the age of the heat network refers to the original building age or the age of the boiler (or equivalent).

Some of the data reporting will overlap with HNTAS: a mechanism should be put in place so the data is only reported once.

Cost Allocation

10. Do you agree with our prescriptive rules that GSOP payments, compensations, fines, penalties and other redress provided to consumers should not be passed through to customers?

We are still waiting to hear the position on GSOP payments for not-for-profit heat networks (expected in the Government response to the Consumer Protection Consultation). While we agree with the intention of not passing these costs through to customers (they shouldn't have to pay for heat network operator/supplier breaches of compliance), we are struggling to understand where these costs would come from in a not-for-profit set up such as Wandle. If they come from our other income streams (ie rent) it in effect means the fines are being socialised across our entire customer base, but it's still customers that are paying.

11. Do you agree with the draft best practice guidance provided? Should anything be added? Should any of the best practice guidance be strengthened to prescriptive rules?

Many in the housing sector are looking for as much clarity as possible on how tariffs should be structured and what should be in/out. While we appreciate Ofgem don't want to limit tariff arrangements in a diverse market, some standard examples would be useful to use as a clear reference point.

12. Do you think the best practice approach to cost allocation should differ for different types of heat networks / suppliers? If so, for which types and how?

We do not have a particular response to this question.

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

We would broadly agree with this, but some clarity is required as outlined previously.

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

We do not have a particular response to this question.

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 to define price that we should consider?

- 16. Do you agree with our proposal to use gas boilers and heat pumps as external reference benchmarks?**
- 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?**
- 18. Do you agree with the proposed approach to comparator benchmarking, and our list of potential cost drivers? Are there any relevant cost drivers that we haven't considered?**

We know that benchmarking will be an important part of the way that Ofgem regulates the market, given its scope and diversity. Progressing with the three proposed benchmarking methodologies seems sensible. These can be reviewed as Ofgem's data set grows.

Many housing providers would be interested to know how their pricing compares to their peers / similar heat networks: it can be a useful metric for the internal business case for how tariffs are set.

- 19. What is your view on the ease with which data could be reported on the four 'High Importance' cost drivers? What information do heat network operators and suppliers already collect, and what would be challenging to provide?**
- 20. What is your view on the ease with which data could be reported on the remaining 'Medium Importance' cost drivers? What information do heat network operators and suppliers already collect, and what would be challenging to provide?**

Most of the high importance cost drivers (technology & fuel type, fuel input price, annual network demand) can fairly be easily provided for metered heat networks: unmetered heat networks would not be able to provide annual network demand. Network pipe length would not be known. Data should be provided once and shared with HNTAS.

Of the medium importance cost drivers, annual network generation, utility supplied and metered/unmetered would be easy to provide. Of the others:

- Explanations would be required of what 3rd / 4th / 5th generation heat networks are: this is not commonly known amongst housing providers
- Network age: as above, clarity would be required to confirm what we're aging (the buildings or the plant)
- Type of heat network (communal/district): we are aware of arguments being put forward that small district / campus schemes (eg where 2 or 3 adjacent buildings share a plant room and have the same heat network operator/supplier) should be classified as communal. We would support this definition.

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?

Visibility of Ofgem's methodologies in an easy-to-understand format is important to engender trust in the benchmarking, especially as it will be so central to the fair pricing test and any subsequent investigations.

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

N/A

Profitability Analysis

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

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?

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?

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

As not-for-profit organisations we don't have views on this section of the consultation, other than to query:

- Whether some of the EBIT data might be collected from NFP heat networks anyway, even though the profitability analysis would not be applied.
- If profitability would be measured at the organisation or heat network level (or both). As mentioned above, a clear definition of 'not for profit' is urgently needed.

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.

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?

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

30. Do you support the phasing in of options?

Having attended the Ofgem workshop on Central Price Transparency, we know what a complex area this is. We do not have the expertise to comment on the proposed methodologies but strongly agree that any solution (or solutions combined) need to

be as simple and clear for customers to understand as possible. Anything that needs further guidance to interpret at a headline level is failing.

We know that many social housing providers are unknowingly under-recovering their heat network costs: this could skew the data. This has previously been the case at Wandle for metered heat networks, and is possibly the case for the unmetered heat networks.

There will also be considerable differences between prices charge by profit and not-for-profit heat networks which will also need contextualising for consumers.

31. Do you support the adoption of different options for different heat network groups?

Paragraph 6.71 states “For example, a not-for-profit communal heat network might face fewer reporting requirements and a simplified option like market average and price ranges might be appropriate.” We support this approach but again, we urgently need a definition of not-for-profit.

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?

It appears that most of the information required for central price transparency is already being collected elsewhere and so would serve a dual purpose (and reduce the administrative burden). HNTAS data should also be used (without us having to submit everything twice).

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

We see these as intrinsically linked.

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.

The high-level approach to price investigations laid out so far seem reasonable. We look forward to further details in due course.