

Consultation Response to Ofgem – Heat Networks Regulation: Fair Pricing Protections

We welcome Ofgem's proposals to ensure that prices for heat networks are fair, transparent, and reflective of the underlying cost of providing heat. We are supportive of the principle that pricing should be cost-reflective and delivered in a fair and reasonable manner for consumers.

However, we note that the consultation does not specifically address how gas and electricity should be procured—despite this often being the primary cost driver in heat provision. We recommend that procurement practices be considered within the framework, and that Ofgem develop and share good practice guidance to support consistency and efficiency across the sector.

We also support the principle of pricing transparency. However, further guidance is needed on how suppliers should consistently communicate the breakdown of end prices and tariffs in a way that is accessible and easily understood by consumers. We would welcome the development of a consumer-friendly pricing template to help standardise communication and reduce the risk of consumer confusion or complaints where appropriate detail has been provided but not clearly understood.

Market Segmentation and Data Reporting

We agree that market segmentation is a critical consideration and should reflect the diversity of heat networks. Data submission requirements should be proportionate and tailored to the characteristics of each network. Many current operators may not yet have the systems in place to collect and report all required data. We therefore recommend a transition period, supported by clear guidance and templates, to allow operators to build the necessary processes. New networks developed post-regulation can then align with these structured processes from the outset.

Definitions of Profit and Non-Profit Networks

We believe the definition of profit versus non-profit networks should be based on the end-user group, rather than the ownership model. This approach better reflects the impact on consumers, who ultimately bear the costs, regardless of the operator's status. For example, one of our blocks is owned by an investment company, the heat network operator is a management company, but the customers are both shared owners and rented customers.

Cost Allocation, Standing Charges and Variable Heat Charges

We support the principle of removing standing charges and incorporating them into variable heat charges, as this ensures that customers who do not use heat are not unfairly required to contribute to the cost to provide the heating. This approach aligns with the principle of cost-reflective pricing and promotes fairness.

However, we believe this principle should be applied consistently across all customer types, including commercial entities supplying gas to heat networks. Ensuring that both domestic and commercial consumers are subject to the same cost allocation logic is essential for maintaining fairness.

We also encourage Ofgem to consider the implications of a model where only some customers contribute to standing charges, depending on how these costs are structured. If fixed costs are recovered solely through variable charges, there is a risk of cross-subsidisation, where high-usage customers disproportionately bear the burden of shared system costs, similarly would this risk an over recovery, allowing for non-intentional profits to be made. We recommend that Ofgem assess the fairness of such outcomes and consider whether additional guidance or rules are needed to ensure fair and reasonable cost recovery.

Implications for Housing Associations

As a Housing Association, we are keen to understand how the new regulations will interact with existing housing legislation. We support the unbundling of heat charges from service charges as a positive step for consumer protection. However, this shift increases the debt liability for housing associations, rather than energy suppliers, and this financial impact must be considered in the regulatory framework.

Additionally, if housing associations are unable to recover costs associated with GSOP payments, fines, penalties, or redress, these costs will need to be absorbed elsewhere—potentially reducing funding for essential services such as health and safety or the development of new homes.

We also highlight the potential future costs associated with changes to viability categories for metered and unmetered networks, and any required efficiency upgrades. These costs will either fall to housing associations or be passed on to consumers. Ofgem should consider whether it is fair and reasonable to pass such costs to current customers, especially when benefits may accrue to future residents. If housing associations are expected to absorb these costs, this again reduces available funding for other priorities. These

considerations should be integrated into the fair pricing framework to avoid placing disproportionate financial burdens on housing providers.

We recommend that best practice guidance be developed specifically for housing associations, covering both fair pricing and technical standards.

Data Transparency and Benchmarking

Further clarity is needed on the scope of the central price transparency objective. Will all reported data—such as pricing, efficiency, network size, tenure, and metering—be made publicly available? If so, it is essential that this data is clearly defined and consistently benchmarked. Without this, there is a risk that consumers will compare non-equivalent data, leading to misunderstandings about performance and affordability, and potentially increasing the volume of complaints.

We also recommend that definitions and benchmarks be aligned across both operator reporting and consumer-facing platforms to ensure consistency and clarity in public data presentation.

Business Users and Fair Pricing Protections

Finally, we seek clarification on whether fair pricing protections will apply to business users within heat networks, including those who are end users or intermediaries in a longer supply chain. Ensuring protections are extended appropriately will help maintain fairness across all user types.