

Response [REDACTED] to Ofgem consultation of 30 April 2025

Heat networks regulation: fair pricing protections

Introduction

1. Whilst acknowledging that Ofgem wishes to recover some of the time lost in receiving its powers to regulate Heat Networks (“HNs”), I am very concerned that a consultation on pricing proposals can be issued before conclusions were published on the last consultation on consumer protection. Fair pricing remedies do not exist and should not be assessed in isolation from other competition and consumer protection remedies that Ofgem or its stakeholders may propose.
2. Lack of timely sight of the previous conclusions and related consultation responses denies stakeholders proper access to the further evidence and reasoning used to develop the current proposals. In doing so, it reduces the effectiveness and risks the validity of the current consultation process. This is especially the case if key issues arising from that consultation process have been discussed informally with some stakeholders as they would then have an undue advantage in responding to this consultation. But for the knock-on effect on implementing the regulations and guidance, I would be suggesting a brief extension of this consultation to better allow issues from the consumer protection document consultation to be reflected.
3. It is important that Ofgem does not repeat this mistake when consulting on the draft guidance on fair pricing. It is not clear when this is planned, as paragraph 2.7 states Autumn 2025 but paragraph 1.27 states a more ambitious Summer 2025. In any case, Ofgem should publish conclusions on the current consultation document as soon as possible, and before the consultation on pricing guidance, as it will be meaningless to comment on guidance without seeing decisions on the higher-level principles. It would also be useful to publish responses to the 30 April consultation document as soon as possible from now so that stakeholders can draw on them to develop thoughts for the pricing guidance consultation.

Chapter 2 Fair pricing framework

Questions 1 & 2

4. The Table 1 fair pricing principles in general look good. I make some related points below.
5. On **cost-reflective pricing** (from paragraph 2.11), the definition should clarify that prices *at each individual HN* should reflect the specific circumstances of that individual HN. This is because customers should not cross-subsidise ones on other (possibly less efficient) HNs.
6. It is important to explicitly require that the costs to be reflected in prices are ones that are *efficiently incurred* (when considering factors such as the technology used and the customer base). There is limited value in requiring prices to be pegged to costs if there is no incentive to cut those costs to more efficient levels. This is consistent with the government’s impact assessment on implementing HN regulation, which did not allow for excess profits. This basic principle should not be contradicted by a broad strategic goal to grow the HN sector.

7. Guidance should clarify that prices should be adjusted promptly to reflect changes in cost over time. For example, if a supplier increases its number of HNs or exports more heat to other district or communal HNs, in both cases it spreads fixed costs more thinly and raises wear and tear on assets (which should imply a capital cost contribution).
8. Guidance should clarify also how various public sector grants and subsidies for HNs relate to cost-reflective pricing. Specifically, should such subsidies reduce the sum recoverable from customers for capital costs, or are they intended to raise whole-life profitability, as an investment incentive?
9. Paragraph 2.17 does not acknowledge the possibility of a low or no standing charge tariff option, as has been proposed for non-HN customers. As many of the same principles are relevant, a full analysis of that option should be consulted on, with the pricing guidance consultation being a good opportunity. The same criteria should be explicitly applied so that any difference in approach is backed up by evidence and reasoning, not unsupported assertion. This is especially the case as such an approach is hardly burdensome for suppliers; a simple spreadsheet could manage multiple tariffs and adjust them according to relative take-up, to ensure that it covers overall costs and a reasonable return.
10. Not having a comparable range of tariff options on HNs is likely to give the HN sector a worse comparative reputation. Such harmonisation should be included as soon as possible, as HN suppliers that benchmark usage charges to non-HN supply might raise their charges as an impact of new low/no standing charge requirements on non-HN suppliers. Ofgem could easily consult on options allowing HN suppliers some flexibility. For example, where a HN supplier levies standing charges, they could be required to at least offer a second tariff with standing charges set at a maximum % (e.g., 25%) of the first tariff.
11. Ofgem should confirm when it expects suppliers to be charging fully cost-reflective prices. I suggest that the broad direction of regulation has been clear enough for some time and that the absolute deadline to charge cost-reflective prices (and be subject to action for failure to do so) should be 3 months following the publication of Ofgem's first pricing guidance document.
12. I suggest that at the start of regulation, it should be quicker than usual to make prices more cost-reflective, as some pricing may have simply been excessive due to the lack of regulatory scrutiny to date. Another reason to require early price adjustments to be cost-reflective is that suppliers using price benchmarks to non-HN energy suppliers may be gaining major windfall profits if their cost drivers differ markedly from the companies more directly affected by wholesale prices in recent years.
13. Guidance should, indeed, explicitly confirm whether there is any place for benchmarking prices against non-HN suppliers, rather than using one's own costs plus suitable returns. There was nothing in the consultation document to indicate support for this, but it would be useful to explicitly confirm this to provide clarity for customers and regulated parties. I suggest that such benchmarking is inappropriate as it does not incentivise HN suppliers to review, reduce and justify their own costs and deliver efficiency savings over time to customers.

14. On **cost efficiency** (from paragraph 2.19), in general a good set of criteria is set out. However, given the starting point of significant potential for excessive prices (and low transparency of such excesses), I proposed that more be done to encourage HNOs to follow the principles as soon as possible.
15. Specifically, I suggest that, for at least the first 2 years of regulation, HNOs should be required to report on a) the steps they have taken to create such efficiencies – for example by changes in procurement and outsourcing - and b) what percentage savings have been made on each cost item and total costs. Such submissions would be far less onerous than any work done to achieve such efficiencies. Ofgem data request formats could be standardised to produce aggregated sectoral data as well as helping to target investigations.
16. On **restricted cost passthrough** (paragraphs 2.29-2.30), I support the proposed authorisation condition. However, I consider that the *internal costs of handling upheld complaints*, as distinct from the costs of penalties, redress etc, should also not be borne by customers. The cost of handling complaints that are upheld should not be covered by customers, as that would reduce supplier incentives to address the cause of complaints and as customers are unable to switch from HN suppliers if their charges rise in response to higher complaint-handling costs. The existence of HN monopolies is a valid basis to take this amended approach relative to areas where consumers can switch supplier. For audit purposes, this would require suppliers to separately account for the cost of upheld and not upheld complaints.
17. In this regard, it would help all parties if customers on a HN could make a communal complaint. This is particularly the case as there is a high risk that new regulation and more pricing transparency will increase complaints. As well as limiting complaint-handling costs, such a facility would help to give a voice to those less able or willing to complain individually (e.g., where housing and HN service provided by same entity).
18. On protecting consumers from **corporate risk** (paragraphs 2.33-2.34), I propose that full transparency should be provided by authorised parties to customers about how their contributions to capital costs have been made and managed/invested. Annual statements should be issued to customers with bills, covering the following: capital receipts and spending, returns accrued in the fund, the current balance of the fund and the percentage of planned replacement capital investment that it covers. This approach is justified by the potential high costs to customers if these costs and the relevant fund are not well-managed.
19. I also propose that each authorised entity should be required to place funds for future capital spending into an account that is a) ring-fenced, to enable full transparency of capital flows and balances, b) earns a reasonable real-terms level of return that is consistent with the expected timescale for expenditure (for example, higher returns should be expected if most capital expenditure is expected after multiple decades as more funds could be held in longer-term fixed investments).
20. Such requirements on capital funds are partly important as customers may at some point own the HN asset and/or be more directly involved in dealing with any imbalances. Such involvement is likely to follow the acquisition of right-to-manage or freehold status, which is likely to become more common.

21. I consider that the **fair and reasonable returns** paragraphs (2.35-2.36) give suppliers no good steer for setting prices. Paragraph 2.35 rightly states that returns should be related to risk. Paragraph 2.36 states that Ofgem may investigate where profitability is higher than it would expect. It also states that Ofgem will have regard to how profitability compares with the weighted average cost of capital (or 'WACC'). However, paragraph 2.36 also states that no specific guidance will be given on appropriate levels of return, on the basis that those will be affected by multiple factors such as performance, risk and ownership model.
22. The obvious contradiction with the above approach is that if Ofgem is using data to assess whether to investigate profitability more closely, its monitoring will need to use the same kind of nuanced criteria that it says it is not going to publish in guidance. If it is using such criteria internally, it is a missed opportunity to not publish a related form of guidance externally. This would act as a useful steer to suppliers on profitability. There is a suitable opportunity to consult in the first pricing guidance on suitable *ranges* for profitability (which could initially be broad) based on the key criteria identified. Also, as Ofgem will have a limited capacity for investigations, most suppliers will not face a fairness test on pricing. Guidance on ranges of returns could therefore have a useful impact and can of course be refined later.
23. The complexity of rate of return is an insufficient basis not to cover this issue in the pricing guidance consultation. Other issues with HNs – for example Step-In measures, are also complex, partly due to the variety of providers, but that has not prevented detailed consultation on the options and complexities involved.
24. Guidance would also be useful to set out more clearly what is meant by such terms as performance and risk, as applied to heat networks. Performance could, for example, be seen as mainly technical or financial. Risk may often not be much of a concern given the monopolistic nature of heat networks but could be more of a concern for legacy HNs with poor technical standards. Risk may also be minimal for HNs in local authority ownership.
25. It would also be useful to set out in guidance the factors that might be seen as mitigating high returns. These might include efficiency improvements, but these could only justify higher returns for a limited period as the goal should be to replicate a market without economic rents. Some regulated markets' price controls consider profits and efficiency gains over a 4-year period, so maybe that is a suitable time over which to compare returns and efficiency gains. I also raise this issue under profitability, at paragraph 65.
26. On **affordability** (from paragraph 2.37), the proposals are (as for some other parts of the consultation document) generally not supported by any evidence or reasoning. For example, rejecting direct restrictions on cross-subsidisation is just an asserted position. This gives a limited basis on which to contradict the proposals, and so is poor standard of consultation.
27. I note that **cross-subsidisation** is listed as a possible issue for pricing guidance. If a requirement is subsequently added for low or no standing charge tariffs, there should be a review of such guidance and the general approach on cross-subsidisation restrictions.

28. The discussion here of cross-subsidisation only covers that between customers on a specific HN. However, there are related issues that need clarifying that go beyond the HN's primary customer base. The first issue is whether customers receiving heat that is exported from a local HN are entitled to the same prices as the 'primary' customers of that HN. For example, if residents with freehold status are HN contract managers, could they legitimately direct that their own prices are cross subsidised by customers to whom heat is being exported, given that the latter is a new commercial relationship?
29. The second issue is one of wider geographic cross-subsidisation. Where a supplier operates at multiple HNs, is it acceptable to charge all customers the same, despite differences such as the size of the customer base, the local cost profile and the specific HN technologies used? My own supplier take such an approach and, moreover, has not changed its standing charges formula in over 10 years despite building later HNs that /should reduce average standing charges. On the face of it, standardised charging between multiple HNs, and failing to update standing charges to reflect new business, cannot be cost-reflective. Geographically identical charges are also inconsistent with the approach on regional price caps for non-HN energy supply.
30. On avoiding **shock bills** (from paragraph 2.44), there is clearly a balance to be struck between sinking fund contributions that are too small (causing bill shock) and ones that are too large. To avoid some customers over-contributing to sinking funds (and past capital spending), I propose that over time, suppliers should equalise each customer's capital charges, by transferring refunds to earlier customers of that HN (funded from higher capital payments from newer customers). Related to this, a customer leaving the HN should receive some repayment of their total sinking fund contributions. This should be manageable for suppliers as a large proportion of customers is unlikely to leave in a short time. This seems a suitable issue for guidance, so it would be useful to consult on options for this in the pricing guidance consultation.
31. On **outcomes** (from paragraph 2.54), I disagree with the implicit assumption that some degree of disadvantage for HN customers is justified relative to consumers on alternative heat sources. This is the difference between a zero disadvantage and one that is 'not undue'. There is likely to be a continuing lack of real transparency when moving into a property about the existence of a HN and the implications of being a customer. Customers therefore cannot be considered as accepting the lack of competition involved. The regulatory system for HNs should be designed to avoid any disadvantage, not just an 'undue' one, whatever that might mean.
32. When considering the desired industry outcome – that the framework should not discourage growth of the HN sector - it would be useful for Ofgem to explicitly state that the growth that is to be encouraged by the framework is not at any cost to customers, but rather is growth based on *reasonable* returns plus *efficiently-incurred* costs. To put it another way, Ofgem should confirm that growth in the sector – intended to benefit all UK citizens – will not be funded more on average by worse outcomes for HN customers (without a choice of supplier) relative to non-HN customers.

Question 3

33. Broadly speaking I agree with the **fairness test**, partly as it is suitably flexible. Whilst objectivity is necessary, I consider that assessing the investigated party's profitability is more robust for decision-making than price benchmarking and so is less likely to lead to appeals against enforcement decisions. Price benchmarking could, however, be used to legitimately prioritise investigations and inform the questions asked.
34. In applying the fairness test, it would be useful for Ofgem to clarify how public subsidies for capital (and any other) costs will be accounted for when assessing suitable returns from customers over the lifetime of the HN. When capital and installation costs are mentioned at paragraph A2.6 (in discussing external pricing benchmarks), accounting for public subsidies is noted as a consideration. I raise the interpretation of this issue at paragraph 8 above.
35. More broadly, Chapter 1 confirms that no proposals for direct price regulation are being made, as confirmed in 202, but that this would be kept under review. It would be useful, after the work of setting up the new regulatory mechanisms is complete, for Ofgem to set out tests for what would justify a greater level of intervention, so that it is clearer when and if the necessary thresholds are breached.

Question 4

36. I do not agree with authorisation condition 4.3 that requires that AC4 should not come into force until Ofgem publishes its pricing guidance. Guidance is simply that, and the burden of proof should be on providers to comply from the beginning of the regulatory framework. The date from which remedies can cover excessive pricing behaviour should not be extended by any delays in producing guidance (especially as guidance needs to be consulted on in a timely manner). If excessive pricing walks like a duck and quacks like a duck, the lack of guidance doesn't mean it can't be shown to be a duck. I would therefore change this to something more like 'The Authority will publish the guidance referred to in paragraph [4.2] as soon as possible after [Authorisations are first introduced to regulate Heat Networks.]'
37. The distinction between clauses 4.4.1 and 4.4.2 is not clear, as both concern how Ofgem will do its work. It may be that 4.4.1 refers to the investigation process or is higher-level than 4.4.2. In any case, I do not think the distinction is obvious.

Question 5

38. On **market segmentation**, I only have one comment. Table 2 (pp32-3), under 'Function/Building Owner', states that the responsibility for pricing regulation compliance sits either with HN (and building) owner or the ESCo. However, I suggest that it may be more complicated. For my own HN, the contract between the freeholder and the ESCo allows prices to be influenced by the former, rather than there being an either/or situation. The contract terms at each HN are what matters. Residents here expect to acquire the freehold in the near future and may well seek to change the ESCo or the contract terms. Resident governors may then have more say, but pricing should still be a shared responsibility.

Questions 6-9

39. On **data requirements** I am not close to the supply side so cannot comment on the questions asked. However, I suggest that the items proposed for annual data collection at

paragraph 2.65, including cost drivers, should be collected (at least for the first two years of regulation) on a 6-monthly basis instead. This would encourage regulated entities to think more about their cost profiles and what they can do to raise efficiency. Ofgem will also then have more information to refine its pricing guidance on reasonable rates of return and related issues.

40. I also have some specific comments on Table 3:

- the 'Charges' and 'Cost allocation' headings should include specific headings for capital cost recovery, as these common charges may be a significant share of the total
- under 'Prices' I suggest inserting the words 'annual mean' before 'number of customers' as total customer numbers may vary across the year (e.g., during phased new estate builds)
- I suggest that cost driver information should be collected at the time of registration, to help with a) monitoring and targeting of investigations, b) developing benchmarks for costs and returns, and c) revising pricing guidance sooner based on real-world data

Chapter 3 Cost allocation

Question 10

41. I agree that the proposed types of payments and penalties should not be passed through to consumers. However, as I comment at paragraph 13 under restricted pass-through, the definition should be broadened to cover the supplier's costs of handling those customer complaints that are upheld. This proposal, if accepted, would change the draft authorisation condition at paragraph 3.23.

Question 11 & 12

42. The best-practice guidance on cost allocation (from paragraph 3.13) could include a section on how capital funds should be managed. I cover this issue above at paragraphs 18-19 under corporate risk, and at paragraph 30 on shock bills.

43. Given the potential for very unequal capital costs and contributions over time, I would suggest adding a formal obligation to be fully transparent to customers on the management of the capital fund (see paragraph 18). This transparency would incentivise an equitable approach by providers, to reduce potential over-recovery and over-early recovery.

44. The above issue on capital funds applies more to customers on HNs with ESCOs, especially where they might take on a contract management role of ESCOs when getting Right-to-Manage or freehold authority. Some other guidance issues could well only relate to certain types of entity, e.g., not-for-profits may vary from commercial providers in some ways.

Question 13

45. The proposed authorisation condition reflects the proposed policy intent but obviously would need amending if my or other proposals are accepted.

Question 14

46. At paragraphs 3.3-3.4 under 'Previous consultations' (the paragraph numbering for this chapter is awry at the start), there is reference to the consultation in February 2025 on a zero standing charge option. It is stated that consultation on applying the same principles to HNs

could follow that wider review, **if** Ofgem considers that further proposals are necessary for HNs. However, I consider that not to consult publicly on the same issue for HNs, having seen the issues raised, would be unjustifiable. This is supported by the fact that customers in the two sectors face different charging options and so may have different perspectives to express in consultation.

47. I also refer to this issue above at paragraphs 9-10.

48. On monitoring cost allocation (paragraph 3.12), I suggest that Ofgem should collect information on the recovery and management of capital costs, given the significant potential impact of those on equity between different customers over time and the disproportionate impacts if sudden investment is needed from customer charges due to capital funds not being properly managed. This information would enable a stress test to be done on capital funds, resembling principles used in banking.

49. I accept (as stated at paragraph 3.5) that HNs have a diversity of cost structures and so cost allocation decisions should not necessarily be prescriptive. However, given the absence of competition in the sector, this very diversity will make it extremely hard to monitor the market and provide useful guidance. This kind of competitive problem is why I have previously proposed (in response to the latest Ofgem/DESNZ consumer protection document) a bulk switching facility for customers to an alternative supplier. Guidance and enforcement covering diverse cost allocation seems far harder than setting suitable rules for regulated entities to recover capital investment if customers switch from them, thus combining preserved investment incentives and greater price competition.

50. I have not seen Ofgem's reasoned explanation as to why bulk customer switching could not work, and why it is not possible to set cost recovery rules that preserve investment incentives. Such broad regulatory options warrant a proper analysis and discussion of design options for a suitable switching remedy (e.g., minimum time between switches), not the vague statements about deterring investment that I have so far received on this issue. I have never been referred to such an analysis, so I assume that it has not been conducted. However, I understand that the principle of switching may already have been accepted by being considered potentially applicable to university campuses.

Chapter 4 Price comparison and benchmarking methods

51. My comments on this section are not given under the specific questions as I found that format too disjointed in this case.

52. I agree that it would be useful to do benchmarking, partly as it could give more public transparency of criteria and enable customers and their representatives to compare charges with similar HNs. I do however see limited value in such transparency. I discuss transparency issues more under the relevant chapter.

53. In terms of Ofgem's own practices, I suggest that benchmarks could not just be used by to identify outliers (paragraph 4.1). They could also generate (for internal and external use) indicative paths for pricing (for different types of HN technology) based on expected efficiency savings over time. Such pricing paths should be the expected outcome if regulation were replicating a more competitive environment.

54. I agree that Ofgem should benchmark total charges (paragraph 4.13), not each charging element. But I consider that it might help for Ofgem to confirm in guidance whether a supplier's own use of external benchmarks for charging is appropriate (e.g., it is valid only to the extent that the supplier's cost drivers are substantially the same as the benchmark). I comment on this issue above at paragraph 13.
55. On reading paragraph 4.14, it seems to me that differences in heat consumption could well be affected by climate. I note that paragraph A2.9 refers to the availability of energy efficiency data that gives typical demand figures by various factors, including region.
56. On cost drivers (paragraph 4.33), the criteria do not seem to cover the costs of standing charges or capital cost recovery charges, despite these being a potentially very high percentage of total charges. A related point is that there is no mention of the importance of the total number of customers/HNs supplied by a regulated entity, despite costs being able to be averaged between HNs.
57. Whilst benchmarking outliers could help to target price investigations (paragraph 4.6), I also suggest that it should be possible for *any* supplier to be investigated with limited notice on a random basis (see paragraph 86 below). Such uncertainty about the prospect of investigation may incentivise more improvement in total than just improving on outliers.
58. It is perhaps not, therefore, important to be too precise or rushed in developing the benchmarking methodology. Rather, the complexity of selecting suitable benchmarking with real-world data instead suggests an initial more rough-and-ready approach to monitoring and investigations, to enable earlier and broader scrutiny of the sector, albeit less detailed.
59. Rather than wait until 2027, Ofgem could simply input data into a spreadsheet (at the time of registration) on price and the type of technology. This could enable an early comparison of prices and projected costs based on the main cost drivers for each HN. Ofgem could then begin a basic, administrative level of further data-gathering for any supplier exceeding pre-determined average prices. Initially, Ofgem could simply write to them indicating that their prices look relatively high and requesting further explanation of both current and recent prices, as well as plans to reduce prices/costs. These responses could be used to target more detailed investigations later, but in the meantime even this process should help to constrain prices. If the same approach is applied to all pricing submissions, even a simple approach is defensible.
60. I consider that modelling prices, not costs (paragraph 4.46) is acceptable as it should serve the same purpose of producing indicative prices and prioritising investigations.
61. On own past price benchmarking (from paragraph 4.49), it is important to clarify whether and how far back such benchmarking is valid. For example, my HN supplier has always set unit rates based on a non-HN sector pricing benchmark, and those will have been affected especially by recent large increases in wholesale inputs in the non-HN sector. However, this may have generated windfall profits if the costs drivers of my own HN have been different. In such an example, if past pricing by a supplier was based on factors that Ofgem would not consider valid now, then benchmarking now to own past prices should be similarly invalid.

Chapter 5 Profitability

Question 23

62. I agree with the proposal for ongoing EBIT profitability monitoring. As with pricing the burden of proof could be placed on the suppliers with the highest EBIT margins (or those exceeding a pre-determined threshold) to explain the reasons. As part of that response, they could have to give details of margins for the previous few years. This could initially be by brief correspondence based on data at registration, with responses used to consider further action.

Question 26

63. Whilst agreeing with paragraph 5.2 that excess profits and inefficiencies are different, both derive from the market power that cuts incentives to cut costs or limit profits. Doing nothing to allow a bulk switch of supplier just creates extra work to distinguish in each case between different, less effective, administrative remedies.

64. Whilst agreeing with the view at paragraph 5.11 of keeping regulation proportionate on the sector, I consider that it is important that all HNs feel on notice of potential for a more in-depth random investigation, to incentive them to manage themselves effectively (see paragraph 86 below). Also, it may well be possible to investigate much with well-trained administrators, not high-cost investigators.

65. Paragraph 5.13 rejects the idea of a profit cap per se, whilst stating that sustained excess profits might cause Ofgem intervention. I consider it important that Ofgem indicates the kind of period it means by 'sustained', including how long it would expect providers to gain higher profits due to retaining cost savings (and therefore incentives for efficiency improvements) rather than passing them on to customers. For example, it would be useful to state how far Ofgem implicitly expects to see the same kind of price trajectory as might exist in a price-regulated market where competitive outcomes are replicated over perhaps a four-year period.

66. Whilst I agree that Ofgem should not monitor the profitability of not-for-profit suppliers (paragraph 5.14), in that case such suppliers should confirm that all the revenue received from customers on the HN is ploughed back into the ongoing operation and investment needs of that HN, not used for other purposes such as subsidising other HNs run by the same supplier/HNO.

Chapter 6 Central price transparency

67. I do not answer the specific questions as my comments are mainly broader ones that are relevant to all options. I answer as a HN customer myself and one who is familiar with using various price comparison information.

68. Any central price transparency information should be both clear and actionable by customers. However, whilst Ofgem might in due course produce decent pricing projections, I am not convinced that the information will be that useful as a) the projection for a specific HN may not reflect its own efficient costs, and b) suppliers have no genuine incentive to share their cost and revenue data, as their monopoly status means customers cannot

switch. Customers, in short, will not really have reliable and actionable information. As such, central price transparency measures are likely to raise expectations that will not be fulfilled.

69. Of course, central price transparency may not need to be considered as a remedy if customers were empowered to do a bulk switch of provider (and potentially of network operator) - as will be required in a supplier failure situation (and on a more emergency basis). Price transparency would not be so important if competitive tendering revealed more appropriate levels of costs and pricing. I refer to such a switching option at paragraphs 49-50 above.
70. That being said, I will comment further on price transparency. Broadly, these proposals are said to be a vehicle for consumers to challenge prices. However, unless customers also get information on the *specific* costs of their own HN, the value of the effort and resource on pricing information will be limited. I have asked my own ESCo for various information on behalf of fellow customers, to assess its prices and profits, but it refused to provide answers on the grounds of commercial confidentiality. It then confirmed this approach in response to representations from my own MP (also a Minister). My supplier stated that the required information could be provided if residents acquire RTM status (or, as is expected in our case, the freehold). Therefore, a useful level of transparency (along with any contractual role to do anything about prices) will probably only exist for customers if they get formal (contractual) rights to get (and use) deeper information than broad price indicators would provide.
71. Without such deeper information, I do not see how price transparency would give customers sufficient data to take the issue further. For reputational risk to be an issue, a supplier would need an important presence beyond HN activity which might be affected, or it perhaps would need to be big enough to attract the attention of politicians. Political support has not, however, been sufficient in my own case, despite my ESCo being a known brand with multiple HNs nationally.
72. Customers might seek to use pricing data as a basis for formal complaints to the supplier. However, without cost data to include in complaints, and with no provider obligation to disclose that, complaints are not likely to succeed. This will just pass the extra cost of complaint-handling into higher customer charges. It would be very helpful if this concern were addressed by accepting my proposals (at paragraph 16-17) to limit the cost of legitimate complaints.
73. As an alternative, if price transparency measures indicate that a supplier's prices exceed the expected level, customers might refer complaints to the Ombudsman. Indeed, the Ombudsman might face a huge mountain of such complaints in response to price transparency information. However, it is unclear that, without access to specific HN cost information, the Ombudsman would be in a good position to investigate and take binding decisions on pricing, even if that is within its remit in practice.
74. If comparative pricing data is to be provided, by far the most consumer-friendly measure would be to set up an interactive on-line tool. This should be based on multivariate data (once it is available) and should allow customers to input data about their type of network, usage, and charges. The output should compare customers' charges and what they might

expect to pay. It would also be useful to require suppliers bills to refer to the comparison tool on bills and/or link to it from their own on-line customer dashboards.

75. Producing a simple mean figure for expected charges as the output of such an interactive tool may be over-precise (given the diversity of HNs) and so excessively raise customer expectations of price reductions. Therefore, a (limited) range for expected prices could be provided instead, at least initially. The size of that range should depend on the reliability of the input data and the projection.
76. I do not support more broad-brush pooled industry-wide averages (from paragraph 6.40) as they would not give customers as much information to seek to gain from the benefits of cost reductions on their specific HN. Market-wide averages would include many inefficient suppliers and networks without significant incentives or resources to change. Their inclusion would unfairly drag up the expected price level indicated to customers. Being easy to understand is no benefit if the data are unrepresentative.
77. A comparison to non-HN supply is not valid as it implicitly defends the existence of HN monopolies rather than assuming that customers should obtain the benefits of cost efficiencies on those HNs as if monopolies did not exist. HNOs may benefit from certain efficiencies that large suppliers do not, and their smaller size may enable more nimble operational changes. Customers should not be denied the benefit of such potential efficiencies by being given the message that they should be happy not to pay higher prices than for more traditional supply. This position is supported by the caveat quoted with the Heat Trust comparison calculator with gas heating costs, which states that the calculator is not intended to show whether the prices paid by HN customers are fair.
78. An alternative (or additional) method of centralised price transparency that Ofgem might consider is to publish a traffic lights-based assessment of the pricing of each supplier, based on its monitoring and investigation activity. This may raise the legitimacy of the sector (depending on the typical scoring) and could encourage construction companies to give contracts to ESCOs with better ratings. This might especially be the case if local planners set planning conditions to require minimum Ofgem ratings for the regulated entities that will build and run new HNs. Planners could also set such conditions when freeholders submit subsequent planning applications, thereby enabling original operators and/or suppliers to be changed (based on required contract terms linked to planning).
79. More broadly, Ofgem authorisations might tackle concerns on pricing, profitability, and transparency of those matters on other ways. Firstly, authorisation conditions could require HN operators and suppliers to have certain conditions in their contracts with each other and/or their construction company/freeholder to promote the support of customer interests (these could be defined more specifically if needed). These contract conditions should require the regulated entity to share requested information concerning consumer outcomes, for example data on pricing, costs, and profitability, which enable the construction company or freeholder to trigger a break clause if customer interests have not been promoted.
80. There could also be an authorisation requirement on the owners of HNs to provide detailed information to customers or their representatives where customers of a HN get right-to-

manage powers or possession of the freehold. This would give such customers a clear view of specific costs and profitability, better enabling them to drive price changes or to raise a complaint based on accurate data.

Chapter 7 Price investigations

81. Even with the broad powers of a broad authorisation condition, and even with significant guidance, I consider that excessive pricing is likely to be a major and persistent problem and will remain below the radar in most cases. The monitoring, audit and investigation processes are resourced to only focus on the worst cases of excess pricing (and other authorisation breaches). Regulated parties may imagine that they will not be caught. Moreover, the expected growth of the sector will make it even harder to keep up with the detailed regulation task required, especially regulating detailed pricing and assessing whether specific providers have taken appropriate steps to raise efficiency.
82. In the absence of any bulk switching facility (see paragraphs 49-50 above), I have discussed elsewhere, I therefore am sceptical about the potential of the new regulatory framework to deliver the intended outcomes. This is even the case for those customers who may have a greater role in managing supplier contracts due to their housing tenure, as their bargaining power will still depend on contract details on pricing and break clauses. However, I will make some comments on price investigations.
83. It is stated that pricing investigations will not happen before January 2027 as they will depend on monitoring data and information. For a growing sector that has never been subject to regulation, this is far too much delay, especially as the plan is to conduct limited numbers of pricing investigations. The obligation for pricing to be fair and not disproportionate can apply from January 2026, so regulated entities could be investigated at any time from that point once the investigation process and remedies are confirmed. It would cause undue detriment to delay investigations until a sector-wide prioritisation of suppliers has occurred, especially as the sector will be growing anyhow in that time, changing those priorities.
84. It is a long time since the CMA study of HNs did not find systemic high prices across the sector. Since then, the wider energy market has seen major price changes. Some HNs may have similar cost drivers, and some may benchmark to prices despite not having the same cost drivers. Differences from non-HNs seem inevitable given the lower or zero-carbon generation and the lack of long-distance distribution costs. This increased potential for ongoing windfall profits supports the case to not delay investigations until 2027.
85. Responsible HNOs should be attending to current proposals and preparing for provisional pricing approaches and other regulations already so should be compliant as soon as possible after 2026, especially if relevant decisions/detailed authorisations are proposed some time in advance of that. HNOs should already know how much profit or loss they are making, especially if their prices are not integrated with wider housing charges.
86. I agree that a risk-based approach is generally best, focusing on risks on individual HNs. However, if Ofgem undertakes that some pricing investigations will be done on a *random* basis, that would incentivise all regulated parties to adjust their prices more quickly in line with requirements and guidance. Such random investigations could also start much sooner

after January 2026 - once an investigation process and remedies are confirmed - as they do not depend on detailed prioritisation between all regulated entities. Such earlier investigations could be done in a way that deliberately samples different types of heat networks, which could help to inform the more standardised assessment and investigation process from 2027. Random-sampled investigation has a read-across to benchmarking methodology (see paragraphs 57-9 above).

87. As part of the risk-based approach, I consider that it is worth prioritising investigations that cover high number of customers. This would help to protect the highest number of HN customers more quickly, before detailed prioritising evidence is available. This would probably mean a focus on suppliers that run multiple HNs. That would be beneficial as it would enable an overview of common cost recovery where shared facilities are charged to multiple HNs (and potentially also used by non-HN activities).
88. Imposing consumer redress is mentioned at paragraph 7.2 as a potential pricing remedy. I consider this to be a powerful tool as it could incentivise earlier compliance if suppliers know that past excessive pricing can be corrected for. Ofgem should clarify that pricing redress should apply as soon as authorisations begin (see paragraph 36 above), so that regulated entities know that penalties for excessive pricing do not begin from the date that investigations can take place. To be equitable to all customers and providers, this will require all Ofgem investigations to assess a provider's pricing from the start of its authorisation and apply any remedies from that date. The onus would thus be on all authorised entities to demonstrate early compliance.
89. I note that the use of competition law is mentioned at paragraph 7.6, but action by sectoral regulation seems preferable as it should better enable appropriate remedies to be determined based on the potential benefits to customers on different types of HNs.
90. Ofgem should consider the remedy of requiring a change of supplier and/or requiring that an existing supplier faces a competitive tendering process. To consider this remedy, I propose that Ofgem seeks out examples of where customers have been able to re-tender for a replacement supplier, and the resultant impact on prices (and service quality). This information may provide evidence of how commonly this could be used as a pricing remedy.
91. Paragraph 7.7 states that HNs will usually be contacted about disproportionate pricing on Ofgem's own initiative or following a complaint. I suggest that a large volume of complaints may occur in the initial years of regulation (at least). It may therefore help to manage expectations by setting out thresholds for complaints to be investigated further, in terms of the number of complaints and/or who has referred them to Ofgem (e.g., Citizen's Advice or the Ombudsman).
92. At paragraph 7.10, it is stated that investigations will usually focus on cases of most consumer detriment. Whilst I agree with that, some random sampling will put all HNs on notice that their pricing might be investigated. Assuming a normal distribution of detriment, changing pricing behaviour by putting the whole sector on alert (including the imposition of properly backdated pricing penalties including redress) may significantly reduce overall detriment in the sector.

93. Referring for example to paragraph 7.22 on information relevant to pricing investigations, there is little specific mention of capital cost recovery. Investigation of those charges should consider capital spending and receipts, and how receipts should be limited due to any public subsidy).

Appendices

94. Appendix 3, paragraph A3.8 refers to averaging heat prices over a longer period for benchmarking purposes, to balance out HNs' different timings of fuel procurement contracts. A3.11-12 also refers to charges being smoothed to spread one-off costs. Whilst Ofgem's data will undoubtedly improve over time, it is important to act soon rather than wait until comparisons are comprehensive, especially as new heat networks are expected to keep appearing. It is totally legitimate to act against any supplier that is found to be over-pricing, even if worse culprits are identified later. The proper level of redress provided to customers of one HN should not be affected by the redress provided to customers of a different HN at another point in time.
95. Appendix 5, paragraph A5.3 recognises that there is a trade-off in accuracy of cost modelling vs data collection costs and that there are limitations in interpreting the results of the regression analysis. If investigations are chosen on objective criteria, so that reasonable fairness exists in how likely each HN is to be assessed and have an extra compliance burden, I consider that high accuracy is not important. What matters is how well the different methods prioritise different HNs to be subject to extra attention. The opacity of machine-learning outputs is defensible if the outcomes of selected investigations show such prioritisation to be justified. And as I have commented elsewhere, there may be value in a random element in investigation selection as it could cause more HNs to keep their pricing and costs under more regular review.
96. On Appendix 6 (profitability), I wonder whether rough-and-ready ROCE figures could be of some benefit, without over-engineering the issue. Ofgem could request self-declared ROCE data, the basis of valuation, and whether intangibles excluded. These responses could indicate the need for further investigation. There would be a need to state whether capital employed should be reduced to reflect public subsidies provided to build and run the HN.

[REDACTED]

8 July 2025