



Department for
Energy Security
& Net Zero

ofgem

Heat networks regulation – consumer protection

Government response

April 2024



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General Information

This document sets out the government’s response to the Heat networks regulation – consumer protection consultation¹, **a joint consultation by the Department of Energy Security and Net Zero (DESNZ) and Ofgem**, which was published on 4 August 2023 and closed on 27 October 2023. It provides a summary of responses to each question in the consultation and a brief overview of our policy proposals in each area of the different consumer protection areas.

We received 111 responses to the consultation. A diverse range of stakeholders provided their views, with respondents consisting of 30 heat network operators, 21 local authorities, 12 housing associations, 11 trade associations, seven individual heat network consumers, five managing agents, four non-governmental organisations (NGOs), three consumer advocacy organisations, three consultants, three charities, two meter providers, two management firms (for local authorities), two energy service companies (ESCOs), one university, one specialist and care housing group, one ombudsman service, one local authority association, one joint submission by two fraud associations, and one developer.

Contact details

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¹ www.gov.uk/government/consultations/heat-networks-regulation-consumer-protection

Introduction

Heat networks will play a crucial role in decarbonising heat in buildings. They are also an important part of securing the UK's energy independence through local, low carbon heat sources and reducing the cost of living through efficient, affordable heating in densely populated areas. Our analysis shows that heat networks could provide about 20% of total heat by 2050. They currently provide about 3%².

The government therefore expects the sector to grow rapidly in the coming decades, and we are committed to facilitating that growth. We are unlocking private investment by introducing heat network zoning in England³ and giving developers rights and powers to build and expand networks quickly and cost effectively. This will provide investors with certainty on the scale, capital costs, and rates of return of new networks, which will be key for increasing investment into the sector. We are also supporting capital schemes through the Green Heat Network Fund (GHNF), a capital grant fund that is enabling new and existing heat networks to adopt low and zero carbon technologies. The GHNF was recently allocated further funding and extended to 2027/28 due to its strong pipeline of potential applicants. In tandem with the GHNF, we have introduced the Heat Network Efficiency Scheme, which provides grants to existing heat networks to improve operating efficiency and address detriment to customers. Alongside creating the conditions for increased private investment in large-scale heat networks that can be built rapidly, we are introducing a regulatory framework to improve consumer outcomes and increase consumer confidence in heat networks as a technology that can provide fairly priced, reliable, and low carbon heating and cooling.

In 2018, the Competition and Markets Authority (CMA) recommended regulation of the sector in its heat networks market study⁴. The government proposed this in a 2020 public consultation, with the government response published in 2021 setting out our approach to regulation⁵. In July 2022 the government introduced the Energy Act 2023⁶ as a Bill to Parliament. The Energy Act 2023 appoints Ofgem as the heat networks regulator and provides for the introduction of an authorisation regime for heat networks supported by authorisation conditions. These conditions will include standards for fair prices and transparent information for consumers, a high quality of service, minimum standards, and carbon limits. The Act also provides for the establishing of a licensing regime which will enable those building new heat networks or modifying existing ones to be given the same powers enjoyed by other utilities, such as the right to dig up roads. In addition, it provides for establishing Step-In arrangements to protect consumers in the event their supplier goes out of business and to ensure their heat supply is maintained. Finally, it appoints Ofgem as the Scottish licensing authority. The Scottish Government will consult separately on the elements of the framework that are devolved to it, including conditions relating to emissions, fuel poverty and consents, under the

² www.gov.uk/government/publications/heat-and-buildings-strategy

³ www.gov.uk/government/collections/heat-network-zoning

⁴ www.gov.uk/cma-cases/heat-networks-market-study

⁵ www.gov.uk/government/consultations/heat-networks-building-a-market-framework

⁶ www.legislation.gov.uk/ukpga/2023/52/contents/enacted

Heat Networks (Scotland) Act 2021. Consumer protection and authorisations conditions will apply to Great Britain as a whole.

Protecting heat network consumers is a priority for government, which is why we are regulating the sector and using secondary legislation to enshrine Ofgem's role as regulator. The Department for Energy Security and Net Zero and Ofgem jointly consulted on the first elements of the new regulation, seeking views that will inform the development of consumer protection requirements in secondary legislation and authorisation conditions. While the Energy Act 2023 sets out the overarching powers and principles for regulation, the regulatory requirements will set the specific standards and duties with which the sector will need to comply. Ofgem, supported by the Energy Ombudsman, Citizens Advice, and Consumer Scotland, will conduct market monitoring and compliance work, and will have powers to take enforcement action against regulated entities that breach requirements. While the Energy Act 2023 sets out the overarching powers and principles for regulation, the regulatory requirements will set the specific standards and duties with which the sector will need to comply. Ofgem, supported by the Energy Ombudsman, Citizens Advice, and Consumer Scotland, will conduct market monitoring and compliance work, and will have powers to take enforcement action against regulated entities that breach requirements.

The heat networks regulation consumer protection consultation⁷ sought views on consumer protection requirements around pricing, quality of service, transparency of information, and consumers in vulnerable circumstances. It then sought views on the scope of these rules and how we should phase them in. It also sought views on Ofgem's approach to implementing and enforcing regulation, including through guidance, market monitoring, compliance, and enforcement activity, as well as its approach to delivering the cost recovery regime, following the public consultation in 2021-22⁸. The consultation document was accompanied by an Impact Assessment setting out the benefits and costs of introducing consumer protections and a license regime for rights and powers. The responses we have received from the consultation have directly fed into the development of the policy areas outlined within the consultation document. Whilst we are able to outline firm positions for some areas in our response here, several policy areas will be consulted on further to help us to develop and finalise our position.

Consumer protections and Ofgem's measures for enforcing them will be scaled up in three phases. The first phase in 2024 will involve Ofgem conducting market engagement and internal preparatory work, including development of digital systems, that will underpin its market monitoring, compliance, and enforcement activity (see 'Compliance and enforcement' section for further information). The second phase will see the initial tranche of consumer protection requirements enter into force in 2025. Shortly after this, the third phase will see all other protections enter into force for a fully operational consumer protection framework. The diagram below illustrates these phases and key milestones in each:

⁷ www.gov.uk/government/consultations/heat-networks-regulation-consumer-protection

⁸ For more on the cost recovery consultation see: www.gov.uk/government/consultations/recovering-the-costs-of-heat-networks-regulation

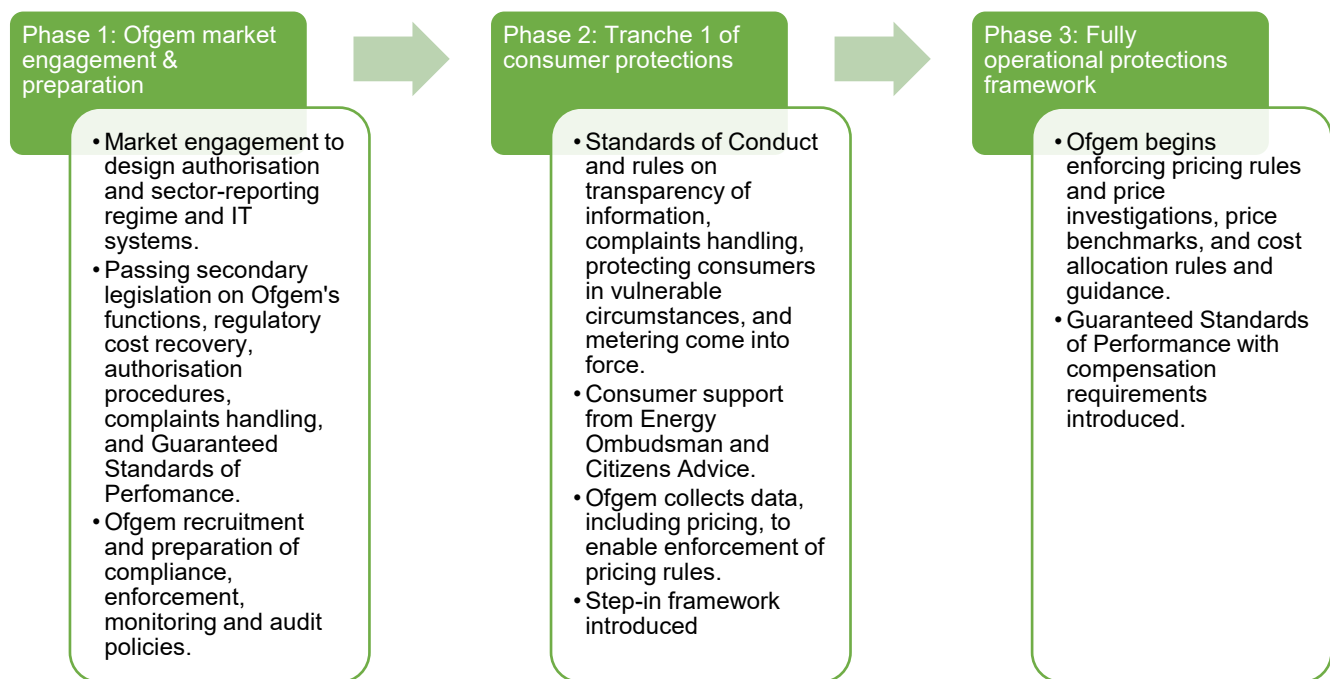


Figure 1 - Three phases of introducing the consumer protection framework

As illustrated above, at the start of the second phase, Ofgem will begin operating as regulator and administering the authorisation regime. This will involve all operational heat suppliers and heat network operators being automatically authorised to continue operating subject to them meeting notification requirements set by Ofgem. We will phase in consumer protection requirements, with some coming into force within the first year of regulation. Ofgem is engaging with the sector to design the digital infrastructure and processes that will allow suppliers and operators to engage with, and where necessary apply to, Ofgem for authorisation purposes. If you are a heat supplier or heat network operator and would like to engage with this process, you can contact Ofgem at heatnetworksregulation@ofgem.gov.uk.

Heat Trust currently run a voluntary consumer protection regime. In order to ensure continuity of consumer protections, we expect heat suppliers who are registered the with Heat Trust to remain registered until the start of Phase 3, when full protections will be in place.

We intend to introduce heat network zoning in England from 2025. Through powers relating to zoning in the Energy Act 2023, areas may be designated as 'heat network zones' where heat networks are expected to be the lowest cost solution for decarbonising heat. These powers also provide that certain buildings in zones may be required to connect to district heat networks within a specified timeframe. In light of this, as part of the recent zoning consultation,⁹ we sought views on whether certain consumer protections should be extended to more types of consumers in zones, such as larger non-domestic consumers. The government will respond to that consultation separately later this year.

⁹ See: www.gov.uk/government/consultations/proposals-for-heat-network-zoning-2023. The consultation ran from 18 December 2023 to 26 February 2024.

Summary of responses and government response

The following section outlines the main themes coming out of stakeholders' responses to each of the 75 questions within the consultation document. For questions which asked for a Yes or No answer, a table is provided with a breakdown of the 111 respondents into 4 categories: Yes, No, Not Answered (no check-box response submitted), and Comments. A similar tabular breakdown is provided for questions that ask for support or opposition, or purely comments.

At the end of each section of the document, we have provided the government's response to the main points made by respondents and highlighted any changes to our policy proposals relative to the consultation stage.

Below each question, we have provided a summary of the main themes to emerge from each question and, where appropriate, the number of respondents making a particular point. In some instances, the numbers presented in the text do not correlate with the numbers in the table. This is because in many instances respondents made more than one point within their answer. This also reflects the fact that some points were made by respondents who only left a comment.

Please note that whilst not every single response we received for individual questions has been outlined in our summaries, we have considered and noted each response during our analysis and response development. We have aimed, where possible and appropriate, to keep summaries succinct, catering to the readability and conciseness of the document. We have also broken-down responses, internally, into stakeholder groups to better understand the context to which respondents have answered specific questions. For example, we have taken specific note of responses that have come from associations representing numerous organisations where opinions may be representative of a collective view. Whilst this breakdown is not included in the summaries below, it has been used in our development of the response.

Scope of the regulation and authorisation regime

Question analysis

Q1. Do you agree with the scope outlined in this section and which networks the regulatory requirements should apply to? Please provide views and evidence to support your position where you can.

Question 1	Response	Percentage ¹⁰
Yes	65	59%
No	20	18%
Not answered	26	23%
Comments	77	N/A

Table 1

While most respondents expressed support for the proposed scope and which networks regulations should apply to, almost all respondents who gave a yes/no answer also provided further comments on a range of themes related to the question and the wider section.

14 respondents raised concern about the potential impact of regulatory burden on smaller organisations or those operated by volunteers, especially in the social housing and leasehold sector, and the ability of these sectors to achieve compliance with regulations.

14 respondents noted potential for duplication of regulatory responsibilities in the social housing sector and recommended that compliance with obligations to the Regulator of Social Housing and under the Landlord and Tenant Act 1985 be able to be leveraged to achieve compliance under heat networks regulations.

The importance of considering different cost models in the heat networks sector was a sentiment raised by respondents of various interests. 10 respondents highlighted the differences between for-profit networks such as those operated by Energy Service Companies (ESCos) and others operated under a not-for-profit or cost passthrough model such as by social housing providers and Right-to-Manage (RTM) companies. It was noted that ESCos generally operate larger networks, have financial resources to invest in improving network efficiency and managing customer debt, and can spread costs across their portfolios. Conversely, networks under the not-for-profit or cost passthrough model tend to have limited financial resources and may be smaller networks without economies of scale benefits, or legacy networks with technical challenges.

¹⁰ Percentages included within tables throughout this document have been rounded to the nearest integer. Thus, percentages within tables may not always add up to exactly 100%.

Segmentation

There was support amongst respondents for a segmented approach to regulating the market with nine respondents voicing this sentiment in relation to the social housing, the leasehold sector, and smaller networks.

On social housing, respondents raised potential complexities in aligning pricing obligations with service charging practices, noting that service charges are generally set well in advance of understanding actual heat usage, this was cited as a particular issue where individual dwelling meters are not installed. Stakeholders from the social housing sector were also concerned about their ability to meet technical standards, and recommended a longer timeframe to meet regulatory requirements.

Respondents from the leasehold sector noted that some ownership structures would provide leaseholders effective control of their heat supplier/operator, and therefore consumer protections such as fair pricing, transparency, Guaranteed Standards of Performance Payments (GSOPs) should not be required.

Some respondents supported segmentation to allow for proportionate regulation of smaller networks including seven who recommended an exemption or de minimis threshold based on either the number of consumers on the network, network capacity or the total number of consumers across an entity's portfolio.

Definitions

While most respondents supported the definitions for 'communal' and 'district' networks, eight respondents described the prevalence of a type of network consisting of multiple buildings connected to a single energy centre, contained on a single freehold site and usually managed by a single entity. They noted that inclusion of multiple buildings meant these networks would be classed as district networks but contended that they are more akin to communal networks and the 'communal' definition should be expanded to include them. Respondents had concerns that obligations more relevant to regulating large scale multi-site networks would be imposed on single site networks, that the authorisation process for multiple buildings would be onerous, and that there were challenges to reporting compliance data at an individual building level. It was also noted that multi-building networks on a single title can be considered as a single building for the purpose of services charging.

A number of respondents noted the complex nature of heat networks and seven requested further clarity through clear guidance on roles and definitions.

Four respondents requested further clarity on the definition of industrial networks and how regulations would apply to secondary uses such as ancillary space heating. In relation to industrial networks and self-supply networks, three respondents sought clarity on how the supply of heat to subsidiaries would be regulated.

Two respondents requested clarification on the status of Houses in Multiple Occupation (HMOs) and two sought further information about the basis for the definition of ‘micro-business’.

Scope inclusions

The inclusion in scope of Shared Ground Loops (SGLs) where consumers are connected to a common heat source but also have individual heat pumps to provide heating to their building was raised by eight respondents with half seeking further clarity on how regulations would apply to this sector. Two respondents supported inclusion to ensure that consumers on these networks would be covered by consumer protection rules. Two respondents opposed inclusion, contending that operators of SGLs do not sell heat, but charge consumers a flat fee for access to the system. These respondents also noted the cost effective and low carbon nature of SGLs and recommended against any obligations that may inhibit expansion of the technology.

Four respondents requested clarification on the status of Variable Refrigerant Flow (VRF)/Variable Refrigerant Volume (VRV) systems and three of these recommended inclusion in scope to ensure consumers received protections.

Our proposed approach is outlined on page 19.

Q2. Do you agree with our proposed activity definitions for heat supplier and heat network operator and our assumptions around the organisation of district and communal networks?

Question 2	Response	Percentage
Yes	62	56%
No	20	18%
Not answered	29	26%
Comments	66	N/A

Table 2

Most respondents expressed support for proposed activity definitions for heat supply and heat network operation and the assumptions around the organisation of district and communal networks. 80% of respondents who gave a yes/no answer also provided further comment in response to this question.

Respondents raised various factors which could complicate identifying the party which would be considered the ‘operator’ or ‘supplier’, and where regulatory responsibilities would sit. Consumer advocates highlighted the importance of clearly designating responsibility, so consumers can seek accountability for faults, poor service, and unfair treatment.

Eight respondents discussed the assumption that for most networks, a single entity would act as the supplier and operator with four voicing agreement and four disagreeing. Respondents provided evidence detailing how ownership and responsibility for infrastructure is often split between multiple parties, especially for in-building networks, and the ‘operator’ is not always the owner or in full control of network assets. Two respondents urged that the role of Operations and Maintenance (O&M) contractors in both operating heat networks and managing supply to customers should be considered.

Three respondents suggested that clearly defining further roles such as ‘consumer’ and ESCo could assist the market to understand who would be responsible for certain obligations. Two respondents noted that heat suppliers may not have a direct relationship with end-consumers, especially under the service charging model where the supplier’s final customer would be the freeholder. End-consumers in this instance would be charged for heating as part of a service charge.

One respondent recommended that the regulations should provide flexibility for contractual arrangements to determine which entities meet the definition of operator and supplier and provide an option for those obligations to be delegated through a notification to the regulator.

Three respondents noted that a network heat source may not have any involvement in wider network operations and sought clarity on how these entities would be treated under regulations.

Three respondents highlighted that Shared Ground Loops may not fit well into the definitions of operator and supplier and two recommended enabling flexibility in the framework to allow different technologies and models of heat supply to grow.

Our proposed approach is outlined on page 19.

Q3. Do you agree with our proposal for the separate authorisation of entities where there is a ‘bulk supply agreement’ in place and operation / supply for district and in-building networks is split?

Question 3	Response	Percentage
Yes	58	52%
No	13	12%
Not answered	40	36%
Comments	57	N/A

Table 3

Most respondents who engaged with this question supported the proposed approach of separate authorisation of entities where a ‘bulk supply agreement’ is in place and there is a separation in operation and supply between the primary and in-building networks.

Of the 57 respondents who provided further comment, six respondents highlighted the likely future growth of the ‘bulk supply’ model and four respondents agreed the boundary between primary and in-building networks was a logical boundary for authorisation.

Eight stated that the requirement to authorise each ‘relevant’ heat network was overly burdensome, especially where primary and secondary networks are operated by the same entity. There was support for streamlining of authorisations in this instance to simplify the process for regulated entities.

As with responses to other sections of the consultation, there were calls for detailed guidance to support the market to gain clarity on obligations and responsibilities. Three respondents suggested that implementation of the proposal should be assessed as part of Ofgem’s monitoring activities.

Three respondents raised concerns about the potential time and cost impacts to development of obtaining authorisations.

Two respondents noted that Shared Ground Loops often exist as what might be considered as multiple separate networks on a single site. They suggested that these should be considered as a single network for the purposes of authorisation.

Our proposed approach is outlined on page 19.

Q4. Do you consider that our approach to regulation is suitable for the large number of small networks in the sector?

Question 4	Response	Percentage
Yes	56	50%
No	22	20%
Not answered	33	30%
Comments	65	N/A

Table 4

Most respondents expressed agreement that the approach to regulation is suitable for the large number of small networks in the heat networks sector.

13 respondents raised concerns about the potential costs and administrative burden of regulation for small networks. However, there was support for the principle that all consumers should be afforded the same protections, regardless of network size, as recommended by eleven respondents. Some of these stakeholders explicitly rejected a de minimis threshold.

Six respondents advised that consumer protection elements would be challenging for their networks with three respondents suggesting charities would struggle financially as a result of regulation.

As noted in response to previous questions, some respondents called for longer timeframes for implementation, especially for small networks to be able to comply with regulations.

Our proposed approach is outlined on page 19.

Q5. Do you consider there to be any consumer protection rules proposed in this consultation that small networks will struggle to comply with? Please provide rationale.

Question 5	Response	Percentage
Yes	42	38%
No	13	12%
Not answered	56	50%
Comments	67	N/A

Table 5

We received 22 responses that highlighted increased costs for smaller networks as being significant, due to requirements such as online functionality, setting up complaint procedures, and other requirements that require capital and operational funding. There were concerns that these added costs may ultimately be passed onto consumers.

Although the vast majority of respondents believe all heat network consumers should receive equal protections, key areas that were flagged as being particularly more challenging for smaller networks relate to the management of a Priority Service Register (PSR), billing frequency, complaints procedure, cost allocation, and guaranteed standards of performance.

24 respondents flagged limited resource and employee capacity as being a particular limiting factor for smaller networks to potentially become compliant with all the proposals.

13 respondents expressed views that much of the information and proposals may be too complex for smaller networks to provide, due to the lack of in house legal/regulatory teams, and other relevant expertise.

In regard to both limited resource and lack of expertise, respondents felt the proposals may become too onerous for smaller networks, and lead to increased costs through the need for additional resources. Many respondents suggested that targeted guidance for smaller networks may be able to assist in these regards.

One respondent expressed concerns over the impact assessment that accompanied the consultation document noting that it did not consider, for example, the cost of setting up a formal complaints handling procedure for smaller networks.

Our proposed approach is outlined on page 19.

Q6. (a) Do you agree with our proposal to not capture very small building conversions and annexes? (b) What would be the advantages and disadvantages of including them? (c) Are there any other similar scenarios that you believe we should not capture? Please provide rationale.

Question 6 (a)	Response	Percentage
Yes	63	57%
No	5	5%
Not answered	43	39%

Table 6

Question 6 (b and c)	Response
Comments (b)	44
Comments (c)	17

Table 7

Eight respondents agreed this would cause less regulatory burden on very small building owners with five of them further noting it is positive due to avoiding unnecessary admin costs and complexity which may cause these heat networks to become uneconomical.

Though there were significantly more respondents agreeing with the proposal than disagreeing, four respondents stated they would like a wider definition of the exclusion to ensure smaller communal heat networks are not within scope.

Two respondents were concerned that this could potentially create gaps that domestic consumers living in very small property conversions could inadvertently not be covered by consumer protection measures.

Three respondents who agreed with the proposal also advocated for heritage buildings that are grade listed or within conservation areas to also be considered for exemption, particularly from the technical standards.

There were a variety of responses to question 6(c) which asked if there were other scenarios that should not be captured. One respondent highlighted an example where a school leases out a small, connected building to a 3rd party organisation, for example a nursery.

Another stakeholder put forward that properties with a higher proportion of vulnerable consumers should be covered under other regulations for example retirement home regulations.

One respondent also agreed that micro networks created by building conversions should not be included. They suggested a higher threshold so that some small blocks of flats are exempt which was also supported by another respondent. The respondent also proposed a similar rationale should also apply to common rural scenarios where a single mass system heats 2-3 adjacent converted farm buildings.

Our proposed approach is outlined on page 19.

Q7. Do you agree with our proposed approaches for the authorisation of existing and new heat networks?

Question 7	Response	Percentage
Yes	59	53%
No	15	14%
Not answered	37	33%
Comments	69	N/A

Table 7

Of the respondents that answered the question a significant proportion supported the proposal. 14 respondents believed it would be beneficial if the timeframe of the initial period included in transitional arrangements was extended beyond the proposed 12 months.

Eight respondents believed the need for networks to be authorised would be an administrative burden on them. In particular, not-for-profit operators would not have the required internal resource available. One respondent further believed a site-by-site approach has the potential to be a burden for a growing sector and could risk hampering the pace of development.

Two respondents requested further clarification around the process, and advocated for heat networks that already have planning permission or are being built to be considered as existing networks under the transitional arrangements.

Our proposed approach is outlined on page 19.

Q8. What are your views on the potential use of Heat Network Metering & Billing Regulations¹¹ (HNMBR) notifications data to support the information provision process for existing heat networks? Are there any specific actions around notifications due this year that you feel could further facilitate this process?

Question 8	Response	Percentage
Strongly support	20	18%
Support	33	30%
Neither support nor oppose	11	10%
Oppose	2	2%
Strongly oppose	1	1%
Not answered	44	40%
Comments	59	N/A

Table 8

Almost all those who responded supported the potential use of HNMBR notifications data to support the information provision process for existing heat networks.

33 respondents highlighted the use of HNMBR data as potentially streamlining the data reporting requirements, and supported efforts to reduce the duplication of data submissions. This would include the Office for Product Safety and Standards (OPSS) potentially providing any submitted HNMBR data to pre-fill data fields that would otherwise be required for submission under the proposed requirements.

However, we received eight responses that noted not all heat networks would be registered, and thus captured, under the HNMBR. One respondent expressed concerns over whether the use of HNMBR would be General Data Protection Regulation (GDPR) compliant.

Additionally, two respondents noted that Shared Ground Loops (SGLs) are currently not classed under the HNMBR's existing definition of communal and district heat networks.

Eight respondents suggested that data provided under the Energy Bill Relief Scheme (EBRS) and the Energy Bills Discount Scheme (EBDS) could also be used to reduce the amount of data required to be reported again under our proposals.

Our proposed approach is outlined on page 19.

¹¹ More information regarding HNMBR can be found here: www.gov.uk/guidance/heat-networks

Government response

Scope of the regulation and authorisation regime:

Scope and defined activities

A majority of respondents to the consultation supported the proposed scope of the regulation and authorisation regime for heat networks. However, stakeholders provided feedback on a range of issues including: definitions in the regulatory framework; technology types included and excluded from regulation; and the potential impact of regulation on specific market segments and organisation types. We will refine definitions (further explanation given below) and include proposed revisions when we consult on authorisation conditions consultation in Summer 2024.

We will continue to develop and implement a regulatory regime for heat networks, managed by Ofgem, and require authorisation to carry out regulated activities, namely the operation of relevant heat networks (meaning district and communal heat networks) and the supply of heating, cooling or hot water to consumers through a relevant heat network.

It is important that entities in the market can identify their role in the regulatory framework and clearly understand their obligations and responsibilities. In light of the challenges raised by stakeholders in attributing the roles of ‘operator’ and ‘supplier’ on a given network, we will refine the definitions for the regulated activities of operation and supply. We also acknowledge that some stakeholder feedback has challenged the assumption that both activities will usually be undertaken by the same entity. While split responsibility may not be a common occurrence, we will retain the ability to authorise these activities separately for such occurrences and to allow potential specialisation within the industry in future. We will seek to implement a streamlined approach in the authorisation process where activities are undertaken by the same entity.

We agree with respondents that the degree of control an entity has over heat network assets is an important consideration in understanding whether they are undertaking regulated activity. We intend to develop guidance in respect of who is likely to be captured as the ‘operator’ of a heat network; the guidance will point to the entity that has significant control over heat network assets, the ability to invest in the network and make decisions on repairs and maintenance. These factors directly influence outcomes for consumers such as network reliability, network efficiency and future compliance with the Heat Networks Technical Assurance Scheme (HNTAS) rules; it is therefore appropriate that regulatory responsibility sits with the controlling entity. Similarly, the ‘supplier’, as the entity that has the heat supply contract (or equivalent contract) with the customer, has control to set the terms of that contract and therefore significant influence over consumer outcomes.

We understand that some functions of operation and supply may be subcontracted, such as through an operations and maintenance contractor or a billing and metering agent,

however, we do not think these situations would generally constitute a delegation of regulatory responsibility. Although, in some cases long-term concession arrangements such as the ESCo model, with control of assets being contracted out, may make the ESCo the appropriate body to be regulated.

We intend for authorisation conditions to define the roles of operator and supplier. Despite calls to do so from some respondents we do not see it necessary to formally define the roles of ESCos, Operations and Maintenance (O&M) contractors or other parties that may be involved in supply and operation as these vary from case to case, and models may change in future as the market evolves.

The definitions for communal and district heat networks, established in the Energy Act 2023, will be retained and we do not intend to expand the communal heat network definition to include networks of multiple communal buildings within a single site.

This means this network type, due to the inclusion of multiple buildings, would be classed as a district network, along with larger scale, multi-site networks.

While expansion of the communal definition was requested by some stakeholders, we do not agree that this change is required to address concerns raised. There are currently no additional regulatory obligations proposed for district networks and our approach to streamlining authorisation of connected networks for single entities (discussed further below) will mitigate administrative burden of the application process. If, in future, greater obligations are proposed for district networks over communal networks, we will consider the appropriateness of applying these to single site district networks managed by a single entity. The authorisation application process will be subject to further consultation in Summer 2024.

Houses of Multiple Occupation (HMOs) that are not divided into 'separate premises' do not meet the communal heat network definition as they share a basic amenity e.g. a bathroom, toilet, or cooking facilities. This means that even where they include a shared heating system, they will not be considered to be a 'relevant heat network' and are therefore outside the scope of regulation.

Similarly, other single buildings with shared heating systems which are not divided into separate premises will not be included in the scope of regulation e.g. nursing homes and student accommodation with shared facilities. There will be no requirement to authorise these networks. Where these buildings are supplied by a district network, that network will still need to be authorised. Similarly, self-supply heat networks, such as hospitals, prisons, university buildings and any heat network where a single entity pays for heating on behalf of consumers, will be subject to carbon emissions and technical standards requirements and so will need to hold an authorisation.

Domestic, non-domestic and industrial customers

The type of network, in which the regulated entity will be authorised to undertake defined activities, will determine whether consumer protection measures and other measures

apply under the regulatory framework. Communal and district networks with connections to domestic consumers and microbusinesses will be required to meet consumer protection measures, as well as metering, technical standards, decarbonisation (from 2025), and general authorisation, monitoring, compliance, and audit requirements. Consumer protections will not apply to district and communal networks that do not supply domestic or microbusiness consumers. We set out our thinking on page 122 on commercial customers of heat networks.

In the consultation document, we outlined the proposed definition of a microbusiness as a business that meets either of the following two criteria:

- (1) it consumes less than 247,000 kWh of heat per year; or
- (2) it has fewer than 10 full-time employees or an annual turnover of less than €2 million.

This definition is based on the gas and electricity market definition of microbusiness but has been tailored to reflect that consumers buy heat and not gas. Setting the threshold at these levels will help ensure policy interventions are targeted towards those most in need of support while still ensuring that larger businesses retain the flexibility to negotiate on their own behalf.

On industrial customers of heat networks, we have amended our suggested approach in response to feedback. In order to ensure Ofgem and government have an accurate understanding of heat network coverage across the country, entities operating or supplying through heat networks to exclusively industrial customers will need to be authorised; however these entities will be outside the heat networks decarbonisation requirements and wider consumer protection standards. This change is due to feedback from industrial heat network stakeholders and to avoid duplication with wider government policies on industrial decarbonisation that were released subsequent to the consultation. The question of whether minimum technical standards should be applied to industrial heat networks will be subject to further consultation in Summer 2024. A table showing which requirements apply to different types of network can be found in Appendix 2. A definition for industrial heat network will be provided in the authorisation conditions and guidance and we intend to model this on the Town and Country Planning (Use Classes) Order 1987¹² definition of industrial process.

Stakeholders advised that industrial networks may also heat ancillary spaces such as offices, warehouses and staff areas on industrial sites. Where this occurs in a network operated by the same entity that occupies buildings in the network, this will be considered self-supply. We understand that supply of heat to subsidiaries may also occur on industrial sites and we expect that entities will be able to evidence this relationship, in order to be considered as self-supply activity.

¹²Town and Country Planning (Use Classes) Order 1987, www.legislation.gov.uk/ukSI/1987/764/contents.

The application of technical standards to self-supply networks will also be subject to further consultation in Summer 2024.

On how heat network regulation will consider Small and Medium Enterprise (SME) customers, this question is dealt with more fully on page 104 of this government response. We asked whether the consumer protection measures should be extended beyond covering heat networks supplying domestic and microbusiness to also include heat networks serving SMEs. Following this engagement we have not arrived at a final position and will put forward further proposals later this year.

Stakeholders noted that a network heat source or energy centre may be operated independently of the rest of a heat network and sought clarification on the status of this activity under regulations. In this scenario when the heat source (e.g. energy from waste incinerator or waste-water treatment works) is a separate legal entity to the heat network operator, and does not meet the definition of a heat network operator or supplier, then the heat source owner would not be a regulated entity. Whilst we envisage that the heat network operator will report to Ofgem on heat sources supplying heat to a heat network, we do not envisage those heat sources being regulated entities. Heat network operators will need to ensure that there are sufficient contractual terms in the agreement with third party owned heat sources to ensure they can comply with their obligations, for example protecting continuity of supply for consumers.

Shared Ground Loops (SGLs)

We acknowledge that consumers on SGL networks have greater control over their heating and cost factors than those on traditional heat networks, such as the ability to choose their electricity supplier which sets the largest cost component of their heating (and cooling). However, consumer outcomes on SGL networks will be strongly influenced by the performance of the loop system and it is important that regulations protect consumers connected to these networks. Heat networks which include a shared ground loop will therefore be included in the scope of regulation.

In applying consumer protection measures and other measures such as authorisation, monitoring and compliance to entities undertaking operation and supply activities on SGL networks, we will ensure that requirements are relevant to the characteristics of this technology type.

Buildings with air-conditioned systems relying on local compressors, purely ducted air or variable refrigerant volume/flow (VRV/VRF) will not be considered heat networks and therefore will be out of scope of regulation as long as they are not also heated or cooled by a heat network.

Authorisation and bulk supply agreements

A majority of respondents supported proposals to require separate authorisations of entities where there is a 'bulk supply agreement' in place and operation / supply for district and in-building network is split. We agree that the boundary between primary and

secondary networks is also the logical boundary for authorisation within connected networks. We consider it is unlikely that entities will hold in-depth knowledge of the particulars of networks to which they may be connected, but do not operate / supply within. This further supports the logic of this approach to authorisations in connected networks.

We intend to proceed with a model for authorisation which requires separate authorisation for each entity undertaking regulated activities on either side of a connection between networks. A consequence of this model is the scenario where for a single district network, there could be multiple communal buildings, each with their own authorised in-building operator/supplier in addition to the authorised district operator/supplier to non-domestic consumers. We acknowledge stakeholder concerns that this is potentially burdensome and will develop a streamlined authorisation process for where connected networks are controlled by the same entity.

It is our aim in developing this streamlined process that an entity is able to apply for authorisation for all aspects of a network where they operate/supply, in a single process. This may include multiple authorisations for different connected relevant networks within the same authorisation process.

Some stakeholders, outside of the formal consultation process, have proposed that heat network regulation ensures that there is a transparent separation of the operation of communal from district heat networks to ensure that consumers have transparency on performance and costs across their network, and therefore clearer routes and opportunities to seek redress. Other stakeholders have proposed that authorisation of district and connected communal heat networks under control of the same regulated party should be achieved under a single authorisation but that customers should have a single point of contact with which to raise issues and complaints with. We will take these differing views into consideration as we develop our approach to authorisation and ongoing regulation.

District heat networks selling heat to communal heat networks, if operated poorly, can cause consumers issues which the communal network may not be able to rectify if the contractual agreement between the two entities does not allow them to. It can also happen vice-versa that communal networks can cause consumer issues for the wider district network. The 'bulk supply agreement' contracts between district and communal networks should be robust and provide the supplier / operator purchasing the heat sufficient contractual influence to meet their responsibilities for consumer outcomes on their network.

Our approach to authorisation of connected networks raises the potential of split responsibilities and accountabilities for some consumer protection measures such as pre-contractual transparency and Guaranteed Standards of Performance (GSOP). We have also identified that having a single point of contact on a heat network would be highly beneficial for consumers. We propose to address this in more detail and provide more

specifics on the exact regulatory responsibilities for the district and communal networks, in the subsequent consultation on draft authorisation conditions in 2024.

Impact on smaller heat networks

We acknowledge that smaller heat networks, including those operated by volunteers such as in the social housing and leasehold sector, may have less available financial and organisational resources to engage with the regulator and meet regulatory requirements. We have also heard from stakeholders that it is important that all heat network consumers are covered by consumer protections, regardless of the size of the network.

Additionally, we acknowledge that the social housing sector currently complies with regulatory obligations that potentially overlap in some areas with proposed regulations for heat networks. We address this point in our government response to the approach to protecting consumers and regulating the sector section. This can be found on page 28.

Principles-based regulation in areas such as cost allocation, consumer protection, market-led Step-In, and billing will enable small networks to comply with regulation in proportionate and cost-effective ways and, where possible, enable them to continue existing established practices if they already achieve minimum standards.

Stakeholder feedback has suggested a need for a varied approach to different segments of the market on the basis of characteristics such as network size, organisation type, and cost structure. In response to consultation feedback, Ofgem are considering regulatory approaches to ensure the framework is proportionate for different types of heat network in order to reduce the burden on small and micro businesses. Small networks will be able to comply with regulation in proportionate and cost-effective ways, providing outcomes for consumers are met.

Furthermore, in recognising that smaller networks in general are likely to be disproportionately impacted by proposals that require capital and operational funding, we will look into how any supporting guidance can also cater to these networks.

Alongside the staggered roll out of these proposals, which will allow time for networks to become accustomed to their new obligations, where possible we will seek to reduce the burden placed on all networks where possible and appropriate, and particularly those of a smaller and not-for-profit nature. More information regarding this phased roll out can be found on page 8.

Impact assessment

In addressing the concern expressed regarding the impact assessment that accompanied the consultation document, there is limited data on heat networks, especially about small networks which makes it difficult to separate and calculate the effect of this policy on those networks alone. It is also difficult to accurately measure the size of the market that are small and micro businesses as a firm with only one heat network may operate this alongside other business functions. Given these data issues, we have used an expected

average costing within our analysis. Therefore, larger businesses with efficient processes may have lower costs and small/inexperienced businesses may have higher costs however we expect this to average out to approximately the figure we have estimated.

Despite these data issues, we acknowledge that consumer protection rules may cause smaller networks relatively greater costs, particularly in relation to setting up complaints processes and monitoring any issues on the network. We also understand that smaller networks may currently lack the ability to set up debt support mechanisms, such as payment holidays and the restructuring of debt, which may require capital that smaller networks may not possess. Government policy is that all domestic consumers on any heat network, regardless of size and other differences, should have access to consumer protections outlined in the consultation. As flagged previously, Ofgem will be investigating the potential use of segmentation, that may aid in this regard and we will set out our proposed segmented approach to requirements when we consult on consumer protection measures in 2024.

Small building conversions and annexes

The majority of respondents agreed with our proposal not to capture very small building conversions and annexes. Given this support we will be proceeding with this proposal. However, we also recognise the need for greater clarity regarding how these very small building conversions and annexes are defined. We have chosen to apply exemptions drawing on definitions from the Housing Act 2004, in particular section 254 of the Act which defines both a single house in multiple occupation and a single converted building. Houses of multiple occupation will be entirely exempt from regulation where they are not divided into separate premises. Acknowledging that some large converted buildings should be considered a communal heat network, we will exempt buildings considered to be single converted buildings that have a single source appliance with a capacity of less than 45 Kilowatt thermal. We will keep this under review and seek, where possible and if appropriate, to align such definitions across the wider heat network programme as it develops.

Authorising existing and new heat networks

Our proposed approaches for the authorisation of existing and new heat networks mostly generated support, with some concerns around the administrative burden for networks. Under the proposals, existing networks would automatically become authorised. New networks would have to apply for authorisation. While this has caused some concern from a number of respondents about the proposed timeframes, we are of the opinion that 12 months is an adequate period of time for the operator or supplier of a HN to provide details of their heat network to Ofgem. We recognise the impact that the registration process for authorisation for existing entities, and the wider application process for new networks, may have in generating additional administrative tasks for networks, however Ofgem will be open to feedback on the process if issues are identified once the process is initiated. We are keen to work with stakeholders to ensure the process is appropriate.

In regard to the potential use of Heat Network Metering & Billing Regulation (HNMBR) notifications data to support the information provision process for existing heat networks, we recognise the almost unanimous desire for notifications to be as streamlined as possible. We also understand the need for the notification process itself to be more accessible and convenient. Currently, HNMBR notifications are reported via filling out an Excel template, which are subsequently emailed directly to the Office for Product Safety and Standards (OPSS), which sits in the Department for Business and Trade (DBT). In line with the feedback received from respondents, Ofgem are currently working on developing an online platform and reporting tool, that will allow networks to directly report online.

Given the strong support, we will also investigate further the technical and legal feasibility of using HNMBR notifications to reduce the reporting burden for networks. In addition, we will investigate whether the use of HNMBR notifications would reduce the reporting/time burden in practice, particularly focussing on whether the data would translate over in a useful way. It could be the case that this would unnecessarily complicate the reporting process. Furthermore, whilst there may be scope for cross-over in information collected via HNMBR notifications and our proposed data reporting requirements, we note that during the registration period and ongoing monitoring there will be divergences in the potential data collected.

Recognising the responses that also pointed out the potential use of data provided under the Energy Bill Relief Scheme (EBRS) and the Energy Bill Discount Scheme (EBDS) to further streamline the reporting process, we will also investigate the technical and legal feasibility of their use. Similar to HNMBR notifications, if it is proved to be technically and legally possible to use EBRS and EBDS data, we will test whether this would reduce the reporting/time burden in practice.

Approach to protecting consumers and regulating the sector

Question analysis

Q9. (a) Do you agree with the proposal to use a mixture of principles and prescriptive rules to protect consumers? (b) Do you agree with our assessment that parts of the sector are likely to want directive rules and supporting guidance to help them comply?

Question 9 (a)	Response	Percentage
Yes	71	64%
No	12	11%
Not answered	28	25%
Comments	74	N/A

Table 9

From the 83 responses to this question, 71 were in favour of the government’s proposal. Most respondents agreed that the approach was flexible enough. Although they agreed in principle, four respondents could not comment further without fully knowing the principles the government would propose. The majority agreed that a blend of principles and prescriptive rules to protect consumers would be best going forward.

Five respondents also commented they would want extensive guidance alongside principle-based rules to ensure the diverse sector understands the minimum requirements.

Of the respondents who had concerns, three believed it could be a considerable increase in administrative burden and would want further consideration of the impact on not-for-profit heat network operators.

Four respondents also put forward the idea of Ofgem having some dedicated support services to assist not-for-profit networks to meet the notification requirements during the Initial Period.

Two respondents from housing associations welcomed the proposal to use a mixture of principles and prescriptive rules. These two respondents noted that housing associations are already regulated via a similar approach, and urged that the heat network regulation align and work with their existing regulatory requirements.

Our proposed approach is outlined on page 28.

Question 9 (b)	Response	Percentage
Yes	44	40%
No	6	5%
Not answered	61	55%
Comments	22	N/A

Table 10

Respondents generally supported the idea that part of the sector would want directive rules and supporting guidance. Three respondents suggested this would be better suited for small heat networks. Two respondents believed prescriptive/directive rules can be varied to cover different size networks, which could potentially be altered in a way that they become less onerous for small heat networks.

One respondent suggested that directive rules be implemented regarding how to on-cost distribution losses. Another respondent suggested that such rules would be useful to outline how the cost of heat is apportioned on a non-ESCo secondary network, and how to act in scenarios where data becomes missing (due to various circumstances, such as meter failure).

One respondent highlighted that directive rules may be beneficial if the connections are in local authority properties where there may be overarching rules present. This is because there may need to be a requirement to change tenancy agreements to comply with rules at a significant financial cost to heat supplier or local authority.

Two respondents noted that directive rules could be useful in helping to avoid confusion, and as a result of that, additional and unnecessary costs.

One respondent suggested that guidance should be prioritised over the use of directive rules, with the latter perhaps being unable to cover all use cases (that would benefit from such rules).

Another respondent suggested that any directive rules developed should be consulted on.

Our proposed approach is outlined on page 28.

Government response

Approach to protecting consumers and regulating the sector

This section of the consultation presented a high-level proposed approach that would drive forward consumer protections. We agree with the majority of respondents and will seek to develop an approach to protecting consumers and regulating the sector through a balance of principles and prescriptive rules.

We also recognise that respondents from various sectors are keen for our approach to consider existing regulatory structures. These include existing housing legislation, such as the Landlord and Tenant Act 1985 (which extends to England and Wales) and the Housing (Scotland) Act 2006, which provide some protections for the private property sector, and similar social housing regulations. Where appropriate, we will take note of these regulatory structures, and explore whether exemptions should be made to: aid the consumer in understanding who to complain to; help manage the potential regulatory burden on regulated entities; and provide Ofgem or other regulators clarity on the scope of their remit.

Respondents were strongly in favour of directive rules for parts of the sector, accompanied by supporting guidance. These focussed on areas where significant complexity may benefit from clear cut rules. We will explore further which parts of the sector would benefit from directives rules based on the feedback we received from respondents. As with many of the proposals throughout the consultation, we recognise that smaller networks, and those that are not-for-profit, may experience a disproportionate level of burden due to increased administrative tasks and the lack of in-house legal expertise. Where appropriate, we will ensure that any supporting guidance produced will help alleviate some of these administrative pressures.

Overarching principles – Standards of Conduct

Question analysis

Q10. Do you agree with the introduction of an overarching Standards of Conduct principle for all heat networks? While we expect all heat networks to identify and support customers in vulnerable circumstances, we would be keen to understand if any networks would find this particularly challenging to deliver.

Question 10	Response	Percentage
Yes	77	69%
No	7	6%
Not answered	27	24%
Comments	68	N/A

Table 11

The majority of respondents agreed with the introduction of an overarching Standards of Conduct principle for all heat networks as many believe it is essential to establish fairness and transparency across the sector.

One common theme throughout the comments was they would like sufficient guidance on how vulnerable customers should be identified with three respondents proposing it could mirror the same characteristics used for gas and electricity. One supported the use of the Ofgem vulnerability strategy definition however another respondent believed the definition is very wide and could be open to interpretation.

Two respondents suggested smaller Heat networks may find compliance difficult and should be given support rather than exemptions. One respondent noted small charities with only a few voluntary staff already struggle to find volunteers and the threat of enforcement may make it even more difficult.

Four respondents although they agreed suggested the cost of implementing this should be considered with a further two respondents suggesting it may cause an unreasonable financial burden.

Four respondents from the social housing sector stated it is likely to be challenging to adopt all the elements proposed in the Standards of Conduct in particular for older legacy networks. This is because they may find some of the requirements hard to adopt as they are unlikely to exist in their current operating models, and some retrospective activity will be necessary to implement them. Two of these respondents suggested that Ofgem should offer more lenient timings for implementation.

Our proposed approach is outlined on page 31.

Q11. Do you think we should further consider requirements on consumer engagement and including the consumer voice in heat networks’ decision making?

Question 11	Response	Percentage
Yes	55	50%
No	27	24%
Not answered	29	26%
Comments	74	N/A

Table 12

Many of those in support of the proposal believed it would be crucial to the ongoing success of heat networks given it is a developing and growing market.

Respondents within the housing association sector stated they already have initiatives embedded in their organisations to strengthen their relationships with residents and any additional initiatives may add further cost to the end user. Any further initiatives should align with those already in place.

Six respondents believed it is important to ensure that appropriate information, impartial advice, and support is available as current awareness is low with one respondent suggesting Ofgem/DESNZ support an educational campaign to boost consumer knowledge.

Two respondents suggested consumer engagement should be proportionate and consumer engagement should not result in an increase in costs to the end customer. If Ofgem regulate the level of community engagement, support and guidance should be given for each size of organisation of how to target this engagement. Smaller networks have less resource, and this would be an additional cost burden.

Three respondents noted this may be creating additional complexity to already challenging scenarios around decarbonisation of communal heating systems, and questioned whether tenants could object to landlords investing in replacing gas based communal heating systems.

Our proposed approach is outlined on page 31.

Government response

Overarching principles – Standards of Conduct

This section of the consultation outlined a high-level proposal to draw on Ofgem's existing Standards of Conduct from gas and electricity and implement a similar, cross-cutting principle to 'treat domestic consumers fairly and tailor consumer services to their needs'. Given the strong support from the vast majority of respondents for this principle, we intend to develop this proposal further. In addition to the proposals outlined, we will be exploring whether we should introduce an additional 'security of supply' concept to the overall Standards of Conduct, that is centred around the reliability of networks. If developed, we will likely present our thinking regarding this in our upcoming consultation due to be published in Summer 2024, regarding technical standards.

As part of the proposal, we will consider and provide an approach to defining and identifying what constitutes a vulnerable consumer and we will publish proposals in the forthcoming consultation on consumer protection measures. We recognise that this is a key area that respondents were keen to understand further. Whilst we will aim to align this with current approaches in other markets, such as gas and electricity, and wider government alignment, we will ensure that it is appropriate for the heat network sector.

We will ensure that any supporting guidance produced takes into account smaller and not-for-profit heat networks, to help alleviate some of the administrative burden. This will also be aided by our proposed approach to regulating the sector, which will be rolled out in a staggered and phased manner. This will provide networks time to become accustomed to the proposed, overall standards of conduct.

Finally, including the consumer voice in heat networks' decision making was widely supported among respondents. Stakeholders from sectors such as social housing noted how similar initiatives and models are currently in place where they operate. We agree

that with the drive towards decarbonising networks and the eventual implementation of technical standards, it will become increasingly vital to engage with consumers on planned maintenance and retrofits, particularly regarding why these upgrades and other forms of maintenance are essential. We intend to proceed with the policy position that consumer engagement should be integrated into decisions which impact consumers, particularly relating to: heat network retrofits and efficiency works; major maintenance that might lead to long-term disruption to services; and connection of new buildings to district heat networks, where it may affect overall quality of service.

We expect that these rules will be introduced through authorisation conditions, and specific rules on phasing in these requirements will be set out in the upcoming consumer protection consultation and guidance publications.

In the long term, we hope to engage further with industry, and gain knowledge from key stakeholder groups who already operate consumer engagement models, to better understand how this requirement could be best implemented. We recognise concerns around the asymmetry in information between networks and consumers potentially creating adverse impacts around decision making and feedback, and the need to ensure networks are able to carry out these essential works to decarbonise and upgrade networks. As such, when understanding what best practice in this area may look like, we will be keen to ensure it has a balanced approach.

Fair pricing

Question analysis

Q12. How often should Ofgem (a) update any public register of pricing data? (b) How often should heat suppliers be required to submit pricing data to Ofgem?

Question 12	Response
Comments (a)	79
Comments (b)	53

Table 13

Most respondents favoured an annual basis approach to updating the public register of pricing data. Some respondents noted that annual data publishing is common in private and social housing, meaning there would be greater alignment with current industry practices. We received one response that favoured a quarterly approach and one response favouring a bi-annual (every two years) approach.

Regarding how often should heat suppliers be required to submit pricing data to Ofgem, most respondents proposed that annual submissions would be most suitable. A common theme was

that this would maintain the balance between any administrative burden and the benefit of collecting pricing data for the market. Respondents also mentioned the most common frequency of price update is on an annual basis.

A smaller proportion of the respondents proposed half-yearly, monthly, or quarterly, considering how often price changes occur. One respondent mentioned quarterly to align with the gas and electricity market.

Our proposed approach is outlined on page 57.

Q13. (a) What are your views on Options 1, 2, 3 and 4 for centralised price transparency? (b) What combination of options would work best? Please provide detail on why a particular combination could work well.

Question 13a [Option 1]	Response	Percentage
Strongly support	7	6%
Support	7	6%
Neither support nor oppose	15	14%
Oppose	16	14%
Strongly oppose	10	9%
Not answered	56	50%

Table 14

Of those who responded, most did not favour Option 1 of having a full heat networks register with their prices and key characteristics shown at a network level. Respondents noted that whilst this option does provide the most transparency, it can also lead to issues of information overload or misunderstanding the nuances of price-setting within the heterogeneous heat network market, leading to higher complaints and dissatisfaction levels. There were also concerns about disclosing commercially sensitive data that could impact competition within the market.

This option also places a large challenge and administrative burden on heat networks, with a disproportionate impact placed on smaller networks who operate on a cost-recovery basis. Respondents felt that in such scenarios, it is likely that networks will pass on the additional burden onto the final consumers.

Respondents also noted that this option may present challenges for smaller and not-for-profit organisations who do not have high levels of data granularity.

Question 13a [Option 2]	Response	Percentage
Strongly support	10	9%
Support	27	24%
Neither support nor oppose	12	11%
Oppose	7	6%
Strongly oppose	3	3%
Not answered	52	47%

Table 15

Option 2, which is a segmented approach of listing different groups of heat networks according to their characteristics, received the highest level of support amongst respondents, who generally noted that this option allows for a fairer comparison of similar heat networks whilst maintaining commercial sensitivities.

However, some respondents raised the concern of appropriately identifying the segments that would allow for valid comparison of prices. Another concern raised is that, similar to other options, this approach will place an administrative burden on networks that could lead to an increase in consumer prices if passed on.

One respondent flagged that this option would require detailed data on the efficiency of heat networks, which will not be possible until the proposed Heat Network Technical Assurance Scheme is operational and provides suitable codified data reporting.

Question 13a [Option 3]	Response	Percentage
Strongly support	9	8%
Support	24	22%
Neither support nor oppose	11	10%
Oppose	4	4%
Strongly oppose	4	4%
Not answered	59	53%

Table 16

Option 3, which involves across market average and comparison to gas and low carbon alternatives, received a higher level of support from respondents than Options 1 and 4. Respondents noted that this option is similar to the current approach undertaken by Heat Trust

and would protect network commercial sensitivity. Some also pointed out that this option allows for consumers to quickly determine fair pricing at a glance, providing the easiest way of comparison for end consumers to understand.

However, some respondents expressed concerns that this option would not be able to fully address the requirement for price transparency within the heat network sector. There was also concern about how this option would take into account different business models.

Question 13a [Option 4]	Response	Percentage
Strongly support	2	2%
Support	6	5%
Neither support nor oppose	19	17%
Oppose	19	17%
Strongly oppose	7	6%
Not answered	58	52%

Table 17

Option 4, which is providing information on the best and worst performers across the market, received the lowest level of support from respondents. Respondents noted that this option would require the standardisation of comparison methodologies, which could be cumbersome to design. Additionally, some felt that this approach would not fully address the requirement for price transparency.

One respondent proposed a combination of option 3 and 4, where consumers can have comparison to alternatives while focusing on identifying the best and worst performers to encourage improvement and identify best practices.

Question 13b	Response
Comments	69

Table 18

Overall, 69 respondents provided a written comment to supplement their responses to this question. Due to significant cross-over and similarities with responses received to question 14, the summaries for both have been combined below.

Our proposed approach is outlined on page 57.

Q14. What do you foresee as the main challenges of each option for centralised price transparency?

Question 14	Response
Comments	73

Table 19

Respondents provided a wide range of challenges for the implementation of a centralised pricing transparency mechanism:

- The extent to which options can balance proportionality and practicality are a key issue, alongside the ability to maintain and respect commercial sensitivity.
- There could be difficulty in accounting for a wide variety of variables in a diverse industry. This includes, for example, the variety of different tariff structures and variety of costs recovered, which could present issues when attempting to make any valid comparisons.
- Some respondents noted challenges within the information collection process, including ensuring that we are getting accurate and timely information from the market, data protection and commercial sensitivities. Standardisation would also be required to allow for a fairer comparison, which could be burdensome.
- The potential lack of public understanding of the information presented could paint an inaccurate picture of the market.
- There is likely to be a significant administrative burden incurred by most of the heat network providers. The costs could potentially be passed onto the final consumers.
- Interactions with existing legislation such as the Landlord and Tenant Act 1985 would present challenges in price comparison.
- Pricing pressure could disincentivise investment in better technologies.

Additionally, some respondents flagged that factors such as connection fees and power purchase agreements (PPAs) could lead to misunderstanding of prices.

Two respondents proposed an alternative of establishing a common price formula that considers scheme and network efficiencies.

Whilst acknowledging the use of pricing information for Ofgem itself, some respondents questioned the use of publishing such information to consumers as such information could lead to confusion and improper complaints being made. Three respondents mentioned the lack of evidence regarding disproportionate pricing in the sector, citing the findings of the CMA market

study in 2018¹³ and the 2022 Heat Network Consumer and Operator survey¹⁴, questioning the necessity of proposed policies.

Our proposed approach is outlined on page 57.

Q15. What are your views on a general obligation on heat networks to provide fair and transparent prices, accompanied by rules and/or guidance, setting out minimum expectations, principles, and good practice? We are particularly interested to hear from leasehold arrangements, not-for-profit networks and small players.

Question 15	Response	Percentage
Strongly support	28	25%
Support	37	33%
Neither support nor oppose	8	7%
Oppose	2	2%
Strongly oppose	1	1%
Not answered	35	32%
Comments	69	N/A

Table 20

Respondents largely expressed support for a general obligation on heat networks to provide fair and transparent prices, with many expressing a desire for any obligations to be proportionate and balanced. Rules and guidance should be set up in a way to accommodate the diversity of the market, and balance consumer outcomes with administrative burden.

Some respondents highlighted full tariff transparency as a necessary facet of any obligations on heat networks, with information and explanations for customers on payment rates. Other responses also emphasised the need for obligations to drive better tariff and cost management, fairness, and data accuracy.

One respondent emphasised an outcome-based approach to any obligations, with guidelines and a code of practice. Another proposed licence conditions for network suppliers operating on a for-profit basis and voluntary codes for small network suppliers.

Of the respondents who raised concerns with the obligations, there was a general preference to avoid rules being too prescriptive to avoid administrative burden, and one respondent suggested using prescriptive rules to establish minimum standards. Some respondents also

¹³ https://assets.publishing.service.gov.uk/media/5b55965740f0b6338218d6a4/heat_networks_final_report.pdf

¹⁴ <https://assets.publishing.service.gov.uk/media/64ccc0bb995827000dc1e8ec/heat-network-consumer-and-operator-survey.pdf>

expressed concerns regarding the realistic expectation of the regulatory outcomes and the administrative burden it could place on heat networks, with one respondent proposing segmentation based on network sizes to determine how prescriptive the rules should be. Few respondents also suggested the implementation of a de minimis threshold based on customer numbers, relating to an exemption from the requirement to provide data.

There were concerns expressed regarding establishing clear definitions on transparency and fair pricing – something that would require a complex analysis to evidence. One respondent proposed a Red-Amber-Green (RAG) rating system to analyse fair pricing.

Some respondents pointed out difficulties that may be present in certain segments in determining fair pricing. One example given is when heating is included in rent pricing in rural areas, where the heat network is fed by fuel taken from the landlord’s holding. Some respondents suggested exempting the charity sector from all but the most basic requirements.

Two respondents noted social landlords who do not charge their tenants should be exempt from data submission requirements. Finally, one respondent commented on the greater level of support that may be needed for smaller operators to implement and adhere to the principles.

Our proposed approach is outlined on page 57.

Q16. Do you agree with the broad set of outcomes (in the bullet point list on page 41) that would define our expectations on fair pricing?

Question 16	Response	Percentage
Yes	60	54%
No	11	10%
Not answered	40	36%
Comments	57	N/A

Table 21

Respondents expressed broad support for the set of outcomes that would define our expectations on fair pricing. Concerns that were flagged by respondents generally centred on the impacts on leaseholds, the balance between affordable pricing and technical efficiency, definitions of fair and disproportionate, and the achievability of the outcomes presented.

Respondents highlighted the complexity of pricing goals within existing legal frameworks, such as those in leasehold and freehold. One respondent noted that there are pre-existing rules in social housing regarding how prices are charged. Another respondent noted the complexity presented in scenarios where landlords hire external operators who bill the final consumer. One respondent noted limited incentives for landlord schemes to reduce costs or being constrained in their resources.

Some respondents questioned the definition of fair and disproportionate, along with pushback on the points made in the consultation about “making excessive profits” and “reasonable rates of return”, arguing that if prices are “fair” and competitive, District Heat Networks (DHNs) should be allowed to make larger profits to provide incentives for efficiency measures and increased investment. They also argued that there is also risk that that is borne by investors that should be compensated, and that such regulation could deter investment. Respondents also commented that there should be proper definitions of “excessive profits”, “reasonable rates”, and “significantly above”.

Respondents also noted the trade-off between technical efficiencies and cost. One social housing respondent noted that they have limited capital and operating expenditure budget, along with subsidy schemes for their tenants. As this respondent noted that the scheme is often run at a loss, this will provide difficulty in increasing technical efficiency while maintaining the subsidised cost.

Respondents who disagreed with the proposal argued that the cost implication of regulation will increase the final price for consumers. There was some pushback on having regard to affordability when setting prices due to factors out of the control of the operators. Finally, one respondent noted that if certain cost-pass elements are restricted (e.g. operators/suppliers are not allowed to recover the costs from customers), there is a question of who should eventually pay for the costs if they are operating on a cost recovery basis.

Our proposed approach is outlined on page 57.

Q17. We are interested in stakeholder views on the balance between prescriptive rules (setting minimum standards) and general guidance, that could be introduced across all heat networks. Which areas¹⁵, should be covered in rules, which should be covered in guidance, and which should be left to the market?

Question 17	Response
Comments	66

Table 22

We received mixed views on the preferred approach for each area. In some cases responses were evenly split between those who favoured more prescriptive rules and those who favoured the use of general guidance instead, while in other areas one option was clearly preferred. Four respondents also thought that no rules or guidance should be in place for some of the areas (e.g. leaving the relevant area to the market). A table summarising respondents support for each approach broken down into the different areas can be found in Appendix 1: Fair pricing – rules and guidance.

In relation to network efficiency, respondents from the operator/ESCo/industry group sector highlighted that any approach should be principles based, with further details and expectations

¹⁵ See consultation document, Table 4 (page 42) and Appendix 1: Fair Pricing – rules and guidance

to be outlined through future technical standards. One respondent suggested that network efficiency rules/guidance should be required for all systems in new builds.

Among the consumer advocacy group, one respondent noted that there should be a greater emphasis on requirements to raise overall sector standards.

Within the trade associations group, one response flagged the necessity of having sufficient data for any prescriptive rules, and that general guidance is a good target to strive for. After sufficient data is collected, then they think segmented prescriptive rules can be considered. Given the diversity of the market, their view is that principles and guidance may be more appropriate. Another respondent suggested there should be minimum efficiency rules achieved through the introduction of mandatory technical standards.

In relation to site and business comparisons, among the operator/ESCo/industry group, one respondent noted that any information released to the public would have to be done in a manner that avoided confusion and generated overall benefits.

In relation to cost reflective pricing, among the trade associations group, one respondent noted that due to the diversity of the sector, producing prescriptive rules for cost reflective pricing would be very difficult.

In relation to rates of return, from the operator/ESCo/industry group, one respondent noted that due to the diversity of the sector, producing prescriptive rules for rates of return would be exceedingly difficult. Another respondent commented that analysing rates of return as a snapshot may be a misleading process, due to the different lifecycle of investments and schemes.

In relation to restrictions on passing on fines, among the operator/ESCo/industry group, one respondent noted that where heat networks are operated on a cost recovery basis, the fines should be passed to service providers. Another respondent noted that the purpose of these restrictions should be to ensure that customers do not pay for operator failures.

In relation to debt management, among the trade associations group, one respondent noted that it would be beneficial for smaller networks who may lack financial expertise to have such rules in place.

Our proposed approach is outlined on page 57.

Q18. Should cost allocation rules be applied uniformly across the sector, or should there be different rules for different segments? If the latter, what segmentations do you suggest? Please cite examples of good practice for your suggested approaches.

Question 18	Response	Percentage
Applied uniformly across the	16	14%
Different rules for different	39	35%
Not answered	56	50%
Comments	66	N/A

Table 23

Most respondents were in broad agreement that any rules or guidance for cost allocation needs to consider the diversity of the market, and that a uniform cost allocation may not be possible or have a desirable outcome. Many respondents suggested that segmentation could be a more sensible approach that can consider the diversity of the market, and that the rules should accommodate different delivery models by setting clear and well-defined principles, rather than having prescriptive rules for different segments.

Respondents generally noted the following factors that should be taken into account for any potential segmentation:

- District vs communal.
- Metered vs unmetered.
- Profit vs not-for-profit.
- Domestic customers vs non-domestic customers.
- Different technology and heat sources.
- Existing agreements (financial or otherwise that were in place/agreed upon before regulation comes in).
- Legal framework (for example, interactions with Landlord and Tenant Act 1985).
- Age of the network.
- Size (volume of supply).
- Segments for ambient/shared ground loops that have different charging mechanisms.

Respondents also noted that there are other factors that we should consider, such as subsidised costs, connection charges and capital contribution/sinking fund aspect.

Some respondents suggested that there should be uniformity in the cost allocation rules for optimal comparison, with some flexibility in a transition period. During this transition period,

segmentation could provide this flexibility with the goal of eventually moving to uniform cost allocation rules.

Two respondents suggested that any rules on cost allocation should be voluntarily adopted and not mandated, or that such rules should not be implemented at all. Suppliers should be allowed to allocate as they deem appropriate and defend their policies. One respondent proposed that there should be a de minimis threshold based on size (heat generated).

Given that the cost allocation policy has not yet been laid out, some respondents noted the necessity of undertaking this complex exercise with an impact assessment, and the possibility of industry engagement to encourage adoption.

Our proposed approach is outlined on page 57.

Q19. (a) How are the current tariffs charged by heat suppliers broken down into the components of standing charge and variable charge? (b) What are the variables affecting the cost components and what are their accounting / financial methodologies? We would also be interested to know how very small networks decide how to set standing and variable charges.

Question 19	Response
Comments (a)	74
Comments (b)	24

Table 24

Responses to these questions have been combined, then broken down into different stakeholder industry groups.

Consumers and consumer advocacy groups

- One respondent indicated that their current tariff is broken down into a standing charge rate and variable rate.
- Three respondents indicated that there is no breakdown information between the charges, and that only an overall price is received.

Heat Network Operators/ESCo/Other Industry Participants

- Most respondents indicated that fixed charges consist of maintenance and operation costs, bad debt provision, heating of communal areas and administration charges.
- One respondent noted that fixed charges also include a fraction of standing charge/fixed costs that are incurred by the operator/supplier from a different utility provider.
- Most respondents indicated that variable charges included fuel costs and efficiency losses.

- One respondent mentioned that any commodity price risk usually sits with their customers in the variable charge.

Local authorities, housing associations and landlords

- Respondents in this group presented mixed feedback, with a variation in either charging an overall cost to consumers or charging consumers separate standing and variable charges.
- For variable charges, respondents in general mentioned charging fuel costs and efficiency loss, with one respondent also adding a margin for overhead/bad debt.
- One respondent noted that the allocation of standing and variable charge is quite diverse in the market, depending on the network size, consumer type and ownership.
- Respondents noted that standing charges often include depreciation and maintenance, metering and billing, and utility standing charge if the operator/supplier incurs such costs from a different utility provider.
- One respondent noted that they charge the standing charge through tenancy rental charges and recover variable charges separately.
- For non-metered dwellings, one respondent noted that there is a single fixed charge operating with a sinking fund/reserve.
- For leaseholders, one respondent noted that they include the heat costs in the service charge statements.

Our proposed approach is outlined on page 57.

Q20. How prescriptive should these rules be? What are the constraints and issues that need to be considered during the transition period and beyond?

Question 20	Response
Comments	66

Table 25

Approximately 15 respondents showed support for a minimum level of prescriptive cost allocation rules to avoid ambiguity, improve transparency and standardise operational procedures. Some respondents noted that without some prescriptive rules, it will be difficult to achieve consistency to compare performance, monitor market-wide levels and identify inefficiencies. Prescriptive rules will also allow for identification of missing costs or grey areas that need to be highlighted and clarified. The pricing rules should be prescriptive enough to ensure robust consumer protection, allow for easy recourse for investigation and step in. One respondent pointed out that the level of prescriptiveness should depend on the government objectives with fair pricing, balancing consumer interest with that of heat networks and the impact on innovation.

Some respondents argued the focus should be on the overall pricing and not the structure of the pricing itself. Pricing guidance combined with transparency, monitoring and pricing

investigations should be enough. There should be some guidance on what can and cannot be recovered, but the method of recovery should be left to the heat networks. It should be left to the market to ensure their prices are competitive against the set benchmark. If prices are fair, the rules shouldn't be too prescriptive.

Concerns regarding prescriptive rules mainly revolved around the impact on innovation and HN operators, the ability to comply with prescriptive rules for smaller and medium-sized heat networks, the diversity in the market, legacy commercial arrangements, and interaction with existing legislation. There were concerns that prescriptive rules will stifle innovation and investment in the market, and restrict companies from providing innovative propositions on pricing structure to customers.

There was broad support for a combination of prescriptive rules and guidance along with market segmentation. One respondent commented that rules should be prescriptive enough to avoid ambiguity, while allowing for some flexibility to recognise the diversity in the existing market. This should also take into account different heat networks with different types of funding, legacy commercial arrangements, operational model, size, and ownership structure. Some argued that the focus should be on new heat networks.

Respondents pointed out the need for a transition period. Initial guidance for standing and variable rates would be beneficial, moving towards more uniform prescriptive rules. One respondent commented that there should be sufficient notice of timeframes and milestones to allow operators and suppliers to prepare for the introduction of regulations, with guidance provided in advance to allow sufficient time for implementation.

Existing landlord and social housing regulations have been pointed out as a potential overlap when setting up prescriptive rules. Constraints in existing legislation should be taken into account for certain segments of the market that may not be able to comply with general prescriptive rules.

Our proposed approach is outlined on page 57.

Q21. What are the main implementation challenges with the different options?

Question 21	Response
Comments	56

Table 26

Respondents presented a variety of different implementation challenges that would be presented by the different options. These include:

- Five respondents noted increased administrative costs, due to the need to bring in additional resource and change existing pricing and IT systems.

- 16 respondents noted issues with the necessary data collection, establishing a methodology, and any segmentation that would provide benefits for price protection whilst being sufficiently flexible to be adopted by a diverse sector.
- 11 respondents noted potential unintended consequences for end consumers of different socio-economic backgrounds, and the impact it may have on existing prices consumer currently pay¹⁶.
- Two respondents noted concerns about the ability to ensure consistency between the metered and unmetered markets.
- Two respondents noted the potential interaction with existing legislation, such as the Landlord and Tenant Act 1985.
- One respondent noted the impact guidance and rules could have on both the financial viability of different heat network schemes in development, and on the prices consumers pay.

Our proposed approach is outlined on page 57.

Q22. (a) What are your main sources of funding for daily operations and general policies for financial management, for example bad debt management and recovering capital expenditures (where relevant/possible)? Please refer to page 98, at the end of the Appendix 1 (of the consultation document), for a detailed breakdown of information requested. (b) If you operate more than one heat network, do you allow cross-subsidisation between heat networks and if so, what are your policies governing this (where relevant/possible)?

Question 22	Response
Comments (a)	52
Comments (b)	19

Table 27

Respondents who provided information to question 22 typically answered that the funding of daily operations (such as cost of fuel and other operating and maintenance costs) is recovered from customers.

For fuel costs, six respondents said it is recovered through unit rate charges. Three respondents said it is recovered through variable charges, with one respondent stating this did not include a unit rate. Three operators said they recover the cost of fuel through service charges or standing charges. This seems to be more common in unmetered properties or when they operate in the leaseholder space. System efficiency is typically taken into account

¹⁶ As part of the Public Sector Equality Requirement (PSED) we will consider the impacts on those with protected characteristics, as well as on society and promote equality.

when calculating the unit rate or variable charges, however some respondents said that a share or all system losses were included in fixed charges.

Ten respondents answered that other operating and maintenance costs are recovered through standing charges. Four responded these costs were recovered through rent or service charges. For one operator these costs were absorbed within the company budget.

Three respondents raised that in the case of tenants on shorthold tenancies, the cost of maintenance and operation of heat networks should be included in the rent given Section 11 of the Landlord and Tenant Act 1985. However, they noted that some social housing providers do include an admin charge in their tariff.

For bad debt, from the respondents who answered this question more than half noted that they mostly tend to recover bad debt through bad debt provision, which is largely recovered from all customers via back-billing, standing charges or service charges. One respondent noted that there is typically no bad debt in leasehold space. One local authority uses indemnity insurance to cover bad debts, while another local authority uses rent arrears.

For capital expenditure, there is a mixture of recovery from upfront connection charges, unit rates, standing charges, self-funding, external funding such as government funding via RHI¹⁷ or corporate debt facilities. For respondents operating in the leasehold space, some of the capital expenditure is recovered from rent, service charges or upfront from a social landlord. One respondent noted that not all operators in the market use sinking funds.

Two operators commented that they use sinking funds for depreciation.

Three respondents said they cross-subsidise between heat networks. Of these, two explained that they charge all their metered domestic customers the same heat rate. One operator thought cross-subsidising masks underperformance of some sites and does not drive behaviours to improve.

Eight respondents noted that they do not cross-subsidise between heat networks. Two respondents said they do not cross-subsidise for heating costs. However, one of these said there will be some cross subsidy for operating and managing costs as these are centralised for many of their properties. Another two respondents said there is no cross-subsidy for leasehold blocks.

Our proposed approach is outlined on page 57.

¹⁷ Renewable Heat Incentive

Q23. What gas procurement practices and hedging approaches and strategies do you use (where relevant/possible)?

Question 23	Response
Comments	55

Table 28

Responses to this question have been broken down into different stakeholder industry groups.

Heat Network Operators/ESCo/ Other Industry Participants

- Nine respondents indicated that they use brokers.
- Three respondents indicated that they have hedging strategies, while one respondent mentioned explicitly that they do not.
- Four respondents indicated that they have annual contracts for gas, while three respondents indicated that they have multi-year contracts.
- One respondent stated they would like to see restrictions on gas procurement eased by excluding gas procurement from Section 20¹⁸ of the Landlord and Tenant Act 1985.

Local authorities

- Six respondents mentioned that their gas supply contract is procured as part of the Local Authority procurement arrangements.
- One respondent mentioned that they have a flexible gas procurement strategy and one respondent mentioned that they have a “forward purchasing hedging” strategy.
- Two respondents mentioned that they have multi-year contracts.

Housing associations and landlords

- Three respondents mentioned that they use brokers.
- Two respondents mentioned that that they have annual gas contracts.
- One respondent mentioned that they have multi-year contract.

Industry Trade associations

- One respondent noted that the approach of their members ranges from buying on the spot market to long-term fixed price contracts over three years.
- The Section 20 requirement was mentioned as a barrier in procuring long-term utilities contracts in the leasehold sector.

Our proposed approach is outlined on page 57.

¹⁸ Limitation of service charges: consultation requirements

Q24. (a) What are your views on the proposed benchmarking approaches? (b) Do you agree that Ofgem should develop options 2, 4 and 7? With each approach, what are the main considerations and implementation challenges for the sector that should be considered when developing the methodology?

Question 24 (a)	Response	Percentage
Strongly support	5	5%
Support	28	25%
Neither support nor oppose	16	14%
Oppose	3	3%
Strongly oppose	0	0%
Not answered	59	53%

Table 29

Question 24 (b)	Response	Percentage
Yes	34	32%
No	13	12%
Not answered	63	57%
Comments (a and b)	63	N/A

Table 30

Question 24 (a)

As can be seen in table 30, 33 respondents that answered this question are supportive of our proposal on benchmarking, with only three respondents rejecting our general benchmarking approach. We discuss the responses to each of the proposed methods below.

Option 1 – no benchmarking (Prices are not assessed against any published benchmark but Ofgem will still develop price benchmarks for their own purposes)

Three respondents supported having no benchmarking.

Two respondents supported external benchmarking (option 2) but only for information purposes.

Option 2 – External benchmarks (Comparison against a counterfactual – usually the best alternative, e.g. gas boiler or heat pump)

42 respondents were supportive of this option, with 10 out of the 42 being conditionally supportive on the methodology using their preferred comparator. 15 respondents either rejected or did not explicitly support this option.

The benefits pointed out by respondents revolved around the simplicity of the methodology in terms of its implementation, the level of transparency and ease of use by customers, and its cost effectiveness, with one operator noting that this approach would require less resources relative to others.

Respondents noted some concerns regarding the proper development of the methodology for this benchmark. The concerns were broadly around the methodology to determine the counterfactual used, segmentation, and considering certain differences in the methodology followed. 12 respondents noted that the technology used as a counterfactual is a key factor in developing an appropriate benchmark, with two respondents arguing that comparing a gas network with heat pump alternatives would not provide effective benchmarking, and two respondents noting the importance of considering carbon emissions in order to support decarbonisation policies. One operator noted the importance of establishing the key aspects of the pricing fairness rules for this methodology.

Nine respondents said that to allow for meaningful comparisons with appropriate counterfactuals, there is a need for segmentation within the market as varying factors can lead to different suitability of counterfactuals within the same market. Some of the factors mentioned include source of energy, carbon emission levels or other network characteristics. Four respondents noted concerns around consumers' ability to interpret the comparisons.

Three respondents rejecting this option raised concerns that older, less efficient schemes would likely compare poorly against a counterfactual and worried about consumers not understanding the reasons why.

Option 3 – Across market average (Heat networks compared to a market average benchmark)

Five respondents supported this option, while 63 respondents either rejected or did not explicitly support this option.

The benefits of this approach pointed out in the responses included greater transparency, incentive to reduce overcompensation and maintaining balanced approach to price transparency. One respondent proposed that given the diversity of the market, using an average or mean with a standard deviation range would be a useful benchmark.

Alternatively, one respondent argued that given the diversity of the market, this approach would not give meaningful information.

Option 4 – Comparator price-based benchmark (Networks' prices are compared to others with similar characteristics that affect costs)

43 respondents were supportive of this option, while 14 respondents either rejected or did not explicitly support this option.

One local authority noted that one of the benefits of this benchmark is that it would incentivise efficiency and innovation in the market. Its effectiveness as a comparative tool was also highlighted in the comments, with one housing association noting that it would be useful for customers as a comparison tool and an operator pointing out that it would allow for appropriate comparisons between heat networks through market segmentation. One local authority noted that this approach is the most practical approach to start with.

Most of the drawbacks raised by the respondents revolved around segmentation or comparison issues, data challenges and high costs. Nine respondents raised concern on the approach to segmentation to ensure proper comparisons, given the diversity of the market and the number of variables affecting the cost of running heat networks. One operator noted that efficiency comparisons could unfairly imply neglect or poor management. Two respondents noted the data-intensive nature of the methodology, pointing out concerns that Ofgem might not have enough data, at least initially. Finally, four respondents noted that the complexity of the methodology could pose high costs for Ofgem.

Finally, one operator commented that this approach could be implemented when regulation is more established and market segmentation better understood.

Option 5 – Cost based (Each network's prices are compared against its costs to determine whether prices are reflective of costs plus a reasonable return)

Three respondents supported this option, while 65 respondents either rejected or did not explicitly support this option.

One respondent said that this option would offer the ability to recover costs associated with legacy heat networks and new heat networks without being deemed disproportionate due to improper comparisons. One trade association thought that this option might be relevant for cost recovery schemes where the prices of such schemes are not currently being compared to an external benchmark.

Respondents also raised a few concerns regarding this methodology. One respondent said that this methodology would be complex to manage whilst providing minimal benefits. This was echoed by a charity that also thought this methodology would be a weak consumer protection tool. One local authority argued that it might disincentivise investment if profits are capped, with another pointing out that this methodology might only be relevant for profit-seeking organisations.

Option 6 – Efficiency/incentive based (A reference price would be based on a methodology (efficiency benchmark) of how costs are passed onto to consumers through the price of heat).

Two respondents supported this option, while 66 respondents either rejected or did not explicitly support this option.

Respondents supporting option 6 considered the incentive on efficiency its main benefit. One charity thought it would also deal with the issue of overcompensation.

In terms of drawbacks, one operator raised that the ability to influence efficiency was not always within control of the ESCo. One local authority said that it was too difficult for consumers to understand.

Option 7 – Comparison to own prices (Under this method, the prices set by each heat network would be compared to its own past prices over several years to detect significant deviations that are not explained by input cost fluctuations).

42 respondents were supportive of this option, while 15 respondents either rejected or did not explicitly support this option.

Respondents noted the cost effectiveness of this method, with one operator pointing out that this would be the most cost-effective method amongst all the options and one local authority commenting that this method would minimise regulatory burden. Price transparency is another benefit highlighted, with one metering provider commenting that customers would benefit from accessing price information and another respondent noting the usefulness in highlighting disproportionate pricing. Finally, one operator argued that it would be good to monitor network efficiency using this benchmark methodology.

Conversely, respondents also noted drawbacks, mainly revolving around the effectiveness of the benchmark for consumer protection, and the omission of the role played by efficiency in price setting. Three respondents commented that this benchmark would merely reflect how prices fluctuate, with one charity also noting that customers won't be able to compare prices with other heat networks and one operator commenting that the benchmark would not identify disproportionate pricing.

Lack of data is an issue highlighted for implementation. Two respondents noted that Ofgem would not have enough past pricing data available and would not be possible to establish such a comparator immediately.

Finally, two respondents pointed out that that consideration would need to be made to any changes in billing methodology, for example where previously customers on a HN had paid service charges for the heating usage and have subsequently moved onto individual billing via heat meters.

General benchmarking comments

One operator recommended that heat networks be benchmarked on three different metrics: gas purchase price, network efficiency and end price to customer. A consumer advocacy body also thought that the benchmarking would need to compare key elements of cost, efficiency and profit margin for ESCos.

One local authority thought that benchmarking should focus on networks that don't operate on a cost recovery basis only. One housing association proposed that installations below 750kw

should not be benchmarked as they thought small rural heat networks would show above the benchmark.

Question 24 (b)

As can be seen from table 31, 34 respondents were supportive of Ofgem further developing options 2, 4 and 7. Out of the 34 respondents 26 supported Ofgem to further consider all three options, while eight respondents were supportive of some subset of the three options.

Three respondents argued that the combination of these options should allow sufficient data sources to cover relevant ranges of benchmarking approaches for Ofgem to make informed decisions and appropriate approaches. A local authority recognised that the three different approaches present distinct trades-off for regulating the sector. However, one trade association thought that developing multiple benchmarks in parallel could create confusion for consumers.

Two respondents thought that the adopted approaches should remain flexible and be reviewed as part of Ofgem’s regular monitoring to ensure effectiveness, avoid unintended consequences, and excessive administrative burden and costs for regulated parties.

13 respondents said they disagree with our proposal to develop options 2, 4 and 7 on benchmarking. Further analysis of the comments revealed that two of the 13 respondents were supportive of developing options 2, 4 and 7, but thought some of the other options should be considered as well. Nine out of the 13 respondents supported one or two of the preferred options. Therefore, 11 of the 13 respondents supported some combination of options 2,4 and 7 despite answering no in their yes/no response.

The remaining two respondents consist of one operator rejecting the development of any benchmark, and one managing agent that did not provide further comments.

Our proposed approach is outlined on page 57.

Q25. (a) What are your views on how Ofgem should approach segmenting the market for price benchmarking? (b) What are the main characteristics that should be considered?

Question 25	Response
Comments (a)	63
Comments (b)	29

Table 31

47 respondents generally agreed that some level of market segmentation would be needed for price benchmarking for the comparisons to be valid. One local authority said that it was important to strike the right balance between comprehensiveness and simplicity. Two respondents said that further work with industry would be required to develop a segmentation methodology.

12 respondents generally agreed with the listed characteristics for market segmentation in the consultation document. Further analysis of the comments revealed certain characteristics that respondents considered to be generally important:

- 15 respondents emphasised segmentation based on profit vs not-for-profit and five respondents on ownership/commercial arrangements.
- 14 respondents emphasised size.
- 13 respondents emphasised age of the heat network.
- Seven respondents highlighted metered vs non-metered.
- 12 respondents noted technology (in terms of heat generation, carbon emission, network efficiency).
- Two respondents noted segmentation based on consumer demand.

Some respondents added other characteristics that they thought were important for market segmentation but were not included in the consultation:

- Four respondents proposed building characteristics and consumer type,
- Three respondents proposed geographical segmentation.
- Three respondents proposed funding structure.
- Two respondents proposed back-billing practices.
- One respondent proposed quality of service.
- One respondent proposed procurement policies and two respondents proposed price cost structure.

One operator noted that many social housing networks may have improper cost allocation due to costs being spread over both heat network and non-heat network activities (such as staff costs), and that these factors also need to be considered in any benchmark.

One consumer advocacy body suggested limiting further segmentation beyond the different pricing models (e.g. metered versus unmetered systems, and landlord versus EScO), arguing all consumers require affordable heat irrespective of their heat networks' type or age. Another made a similar argument, warning segmentation should not facilitate higher prices to consumers and reiterating the aim should be providing consumers with fair and transparent pricing.

Ten respondents opposed segmentation for price comparisons or had concerns it would not be viable, at least at an initial stage citing difficulty given the large number and complexity of factors that would need to be considered. Other arguments raised concern around the administrative burden on smaller networks around information provision for this type of reporting.

One operator recommended it would be better to allow the data gathering to start providing useful and relatively consistent information and this can then shape the market segmentation

in future. Similarly, one trade association thought that, while segmentation at this stage could lead to misleading interpretations and comparisons across the sector, segmentation may have more value once the sector has scaled-up.

One trade association had concerns that Ofgem will not have the data required for segmentation in order to provide price comparisons and, therefore, suggested a single external benchmark was best.

Our proposed approach is outlined on page 57.

Q26. (a) What are your views on how Ofgem should approach guidance on price investigations? (b) Do our proposals cover the type of content stakeholders would expect?

Question 26 (a)	Response
Comments	55

Table 32

The summary of these responses has been combined below with the summary for question 26b.

Question 26 (b)	Response	Percentage
Yes	27	24%
No	4	4%
Not answered	80	72%
Comments	9	N/A

Table 33

Respondents expressed general support for the approach to price investigations. Two respondents raised concerns regarding the potential lack of consistency on cost allocation across the sector, that would limit the ability to make accurate comparisons.

Six respondents highlighted there should be proper use of benchmarking and data, with continuous evaluation of the methodology. Three respondents noted there should be greater clarity on the process of the price investigation, and what information and documentation would be needed in carrying out the process. It is further noted that not all heat network operators may have the documentation necessary to support this.

Six respondents suggested that price investigations should focus on identifying the worst cases of breaches, with a gradual increase in enforcement within the sector. Four respondents requested that a standardised formula be used in any price investigations.

Two respondents expressed concerns that the proposed rules are too prescriptive, whereas one respondent mentioned the potential reputational damage that a price investigation could have.

Finally, one respondent suggested the ‘grandfathering’ of legacy heat networks, advocating that the new regulatory provisions would apply to newer heat networks, not older heat networks.

Our proposed approach is outlined on page 57.

Q27. What information and evidence should Ofgem be seeking as part of our monitoring activity to identify where there is a case of disproportionate pricing?

Question 27	Response
Comments	60

Table 34

Respondents noted the following information that would be useful for Ofgem to collect in the process of price investigations:

- 19 respondents noted costs.
- 12 respondents noted price comparison and historical pricing.
- Eight respondents noted performance and technical standards.
- Five respondents noted cost calculation methodology.
- Four respondents noted complaints.
- Three respondents noted return on investment and financing structure.
- Two respondents noted quality of service.
- One respondent noted other revenue streams.

Our proposed approach is outlined on page 57.

Q28. Do you agree that price regulation, such as a price cap or profit regulation, should not be introduced in the near term but that this should be kept under review?

Question 28	Response	Percentage
Yes	61	55%
No	8	7%
Not answered	42	38%
Comments	64	N/A

Table 35

Most respondents supported the principle that price regulation, such as a price cap or profit regulation, should not be introduced in the near term but that this should be kept under review. Eleven respondents emphasised that whilst they were supportive of the outlined position, it is important to keep this option under review, and that Ofgem should be ready to act if there was evidence of widespread consumer harm – notably if disproportionate pricing is found. Two respondents agreed that price regulation should not be implemented in the near future; however, they did not agree that this should be kept under review.

Four respondents agreed with our proposal provided that other provisions to protect consumers were made. One trade association suggested that DESNZ should consider how existing fuel poverty support schemes might need to be adapted to serve the growing number of vulnerable energy consumers connected to heat networks. One NGO raised concerns that heat network users were less protected than other users with individual electric or gas heating.

One consumer advocacy body, whilst agreeing that a direct price ceiling mechanism would be challenging to introduce, said that government needed to consider price regulation of non-domestic energy supplied to heat networks serving domestic consumers, especially once the current EBDS for heat networks ends on 31 March 2024.

12 respondents argued that implementing price regulation in the sector would be very difficult and complicated. Respondents' concerns revolved around complexity and diversity of heat networks complicating the introduction of such regulations, the nature of not-for-profit heat networks that would be unduly impacted by such regulations and the lack of data needed to introduce such regulation.

Seven respondents thought that the sector is not mature enough for this type of regulation in the short-medium term, and therefore this would risk stifling its development, potentially impacting customers. One respondent rejected the idea of price regulation on the basis that costs have to be recovered, with another respondent highlighting that a cap risks both insolvencies and price increases. Two respondents said that a price cap would only be acceptable provided there would also be a price cap on incoming gas supplies.

Eight respondents disagreed with our proposal on price regulation. Some of these respondents noted that either price regulation was needed now, or at least, a framework should be developed now in case it was needed in future. One consumer advocacy body highlighted that, until regulatory rules and guidance were able to make a demonstrable difference to the efficiency, and therefore cost effectiveness, of heat networks, there was a real danger customers on these systems would continue to struggle and build up unaffordable debt levels. Therefore, it argued that preparatory work had to be undertaken to define what price regulation should look like for heat networks and under what conditions it might be triggered and for how long.

One charity argued that there was already evidence of consumer harm with substantial numbers of cases where the price was far above the societal norm. It also rejected the notion that the industry was new and added that considerations of people's wellbeing should come first over risk of businesses insolvency.

Finally, one operator said that it did not see any issues with profit regulation.

Our proposed approach is outlined on page 57.

Government response

Fair pricing:

We intend that price investigations and some of the fair pricing protections begin after the initial period ends, which is expected to be around 12 months after the regulatory framework is established.

Transparency

Most respondents favoured an annual approach when asked about frequency of price reporting, with a minority of respondents noting that pricing information should be updated as frequently as the changes in the pricing. Our view is that quarterly reporting on pricing data is necessary to ensure that the policy captures most of the price changes that occur in the market. We will keep this in review, but think that this approach would better align this policy with transparency principles, which require that pricing information is updated as often as the price changes.

Regarding how national price data for heat networks will be published (centralised price transparency) we proposed four different options. Option 2 (a segmented approach where aggregate prices would be published by segments such as age or technology) and Option 3 (where prices would be published for the whole market and compared to gas and low-carbon counterfactual technologies) gathered the most support from respondents. There was also a proposal for a system with RAG rating to indicate how suppliers are performing relative to a benchmark without revealing granular data and reducing the risk of confusion over information presented. We believe that a price transparency requirement across the market will be in consumers' best interest, keeping in mind the importance of balancing the policy objectives of price transparency and the

administrative burden placed on the industry to provide information. Furthermore, we remain mindful of the need to provide information to consumers in an appropriate way to avoid unnecessary confusion. Following this consultation, we intend to further develop Options 2 and 3, as well as consider the additional option of a RAG rating. We will further consult on our proposals for price transparency as part of a wider pricing consultation expected later this year.

Comparison methodology and benchmarking

Respondents were mostly supportive of our proposed benchmarking approaches for how Ofgem should identify instances of disproportionate pricing, with Option 2 (external benchmarks) Option 4 (comparator price-based benchmark) and Option 7 (comparison to own prices) gathering the most support. Additionally, respondents also expressed some concerns about the viability or suitability of some of them in terms of implementation and achieving the policy objectives. Based on the feedback received, we will continue to build on the proposed approach for benchmarking by further considering developing options 2, 4 and 7. We will continue to develop our thinking around the questions of market segmentation, timing of implementation, methodology and transparency in relation to benchmarking. We will further consult on our approach to benchmarking as part of the wider pricing consultation expected later this year.

Fair Pricing objectives

Respondents were broadly supportive of a general obligation on heat networks to provide fair and transparent prices. We acknowledge that the market is very diverse and that rules and guidance around fair and transparent pricing should accommodate that diversity, as well as the need to balance consumers' interests with the administrative burden placed on industry participants. In line with most of the feedback received, we believe that there should be a general obligation on heat networks to provide fair and transparent prices, accompanied by rules and/or guidance, setting out minimum expectations, principles and good practice. We will further refine our fair pricing policy by developing our approach to an outcomes/principle-based Authorisation Condition, refining the proposed list of outcomes in the Authorisation Conditions consultation document and developing different approaches that may be appropriate for certain market segments. We will also be further developing expectations around disproportionate pricing, reasonable rates of return, and excessive profits (among others) to ensure that operators/suppliers adhere to the fair pricing objectives and guidance. We will further consult on this area as part of the wider pricing consultation expected in Autumn 2024.

Cost allocation

For cost allocation, most respondents thought there needs to be consideration of the diversity of the market, and that a uniform cost allocation rule may not be possible or even desirable. We have noted this and will further develop our thinking in this area, drawing upon the feedback provided in this consultation, and by conducting further stakeholder engagement and data gathering to inform our proposals. Following this

consultation, we intend to consider how to best segment the market for cost allocation; explore the transitional arrangement approach and implementation challenges; and investigate the possible overlap of cost allocation rules with existing legislation, as well as the impact of the rules on affordability for different market segments, particularly on customers in vulnerable circumstances. We will further consult on cost allocation as part of the wider pricing consultation expected in Autumn 2024.

Price investigations and compliance

Respondents mostly agreed with our proposed approach for price investigations. We will continue to build on the proposed approach by drawing upon the feedback received to this consultation and further stakeholder engagement. Following this consultation, we will explore the concerns and challenges raised by respondents, as well as the feedback around what information and evidence should be used to identify disproportionate pricing. We will further consult on our approach to price investigations as part of the wider pricing consultation expected in Autumn 2024.

Price regulation

The majority of respondents agreed with our proposal that price regulation, such as a price cap or profit regulation, should not be introduced in the near term but that this should be kept under review. We remain of the view that the benefits of a price cap are outweighed by the risks to consumers, given the nascent and diverse state of the market. However, we are acutely aware of the impact high and volatile energy prices can have on consumers, something that has been raised by a number of charities and consumer advocacy bodies. This can lead to high consumer debt, presenting risks for both consumers and risks to supplier solvency. We will continue to consider all options for how to protect consumers in a way that is sustainable for the sector.

Quality of service and supply of heat

Question analysis

Q29. Do you agree with this approach to regulations related to complaints handling?

Question 29	Response	Percentage
Yes	58	52%
No	14	13%
Not answered	39	35%
Comments	67	N/A

Table 36

Respondents were largely in support of standardising the complaint handling process for heat networks. The majority of respondents who expressed concerns were in regarding to how Ofgem's rules on complaint handling would interact with existing obligations, particularly those in housing regulations.

13 respondents made calls for Ofgem's complaints regulations to dovetail with other sectors, and for them to be phased in.

Five respondents questioned processes when regulations are not in agreement.

Eight respondents argued that our approach must be proportionate and not result in additional costs to the consumer.

Some respondents expressed concern regarding what constitutes a "heat" complaint, and the likelihood that complaints are made to the most relevant entity.

Several respondents questioned the role of the Energy Ombudsman and what additional training their staff would be undertaking to manage heat network consumers.

Five respondents made suggestions regarding specific improvements we should include for the HN complaints process.

Our proposed approach is outlined on page 73.

Q30. Do you agree with the proposed core elements of the Guaranteed Standards of Performance

Question 30	Response	Percentage
Yes	62	56%
No	11	10%
Not answered	38	34%
Comments	58	N/A

Table 37

Though there were significantly more respondents agreeing with this proposal than disagreeing, many respondents that agreed qualified their stance with certain dependencies. Eight respondents stated that the proposals broadly align with existing practice in the sector such as the standards set by Heat Trust.

Four respondents who agreed highlighted the importance of Guaranteed Standards incentivising the provision of a reliable supply of heating and hot water for customers, and for improving customer satisfaction levels in an expanding market. There were suggestions of additional areas to be considered within the core elements, however, there was agreement with keeping the initial regulatory framework closely aligned to existing practice in the sector.

Six respondents broadly agreed with the proposals, however, stated that the type of heat network should be considered when developing more detailed policy. Concern was raised by several respondents regarding the reliability of older heat networks, where the ability to apply the same Guaranteed Standards as modern heat networks may be limited and could result in significant financial consequences.

Six respondents who agreed with the proposals raised concern regarding the cost of compensation payments being passed onto other consumers on the heat network through future price increases, if levels are set too high, most of this group were not-for-profit organisations.

Seven respondents who agreed suggested that guidance will be required, including where responsibility will lie, such as where the heat network operator and the heat network supplier are separate entities, stating that it is not always clear what the cause of an interruption is, and that suppliers should not have to compensate for interruptions that are out of their control.

Several respondents who positively supported this question have stated that standards need to be clearly defined, including a robust definition of what qualifies as an interruption to supply. There were comments from two respondents who supported the proposals, that the time frame for meter repairs needs to be realistic, stating that repairs can often be complex.

Five respondents who did not agree, were concerned about the financial consequences of compensation payments, most of this group stated that the cost would need to be recovered from other consumers on the heat network. One respondent commented on the diverse nature of the heat network market, in comparison to other utilities consisting of large suppliers with better financial stability. Three respondents argued the Guaranteed Standards would be an additional administrative burden, stating that existing housing regulations require them to provide a reliable supply of heat.

Our proposed approach is outlined on page 73.

Q31. Heat network operators and heat suppliers only: Can you provide us with information on the Guaranteed Standards of Performance (with or without compensation) that you currently have in place? Please include those you have placed on external contractors through contract.

Question 31	Response
Comments	44

Table 38

13 respondents stated that they apply Heat Trust standards, or have members that apply the standards, offering compensation payments to consumers if supply fails to meet the minimum standard of quality and level of protection for consumers, set within the rules. One operator respondent commented that Heat Trust standards are placed on them through contract, an approach that they welcome. Another respondent stated that they place Heat Trust standards onto external contractors through contract. Three respondents noted that they align with Heat Trust standards on metered schemes only. Two operator respondents provided detail of the Guaranteed Standards they have in place, which exceed Heat Trust standard.

Seven housing association or local authority respondents provided detail of the Guaranteed Standards they currently have in place, most provide a 24-hour emergency call out service for heat and or hot water outages, and the provision of an alternative heat supply during outages. Four of these respondents provide additional standards, including a minimum notice period for planned interruptions, a minimum restoration time for unplanned and planned interruptions, and compensation for missed repair appointments. Three respondents stated that they offer compensation payments if they fail to meet the standards. Compensation amounts varied, broadly ranging from £2 per day to £54 per day for outages. The higher compensation payment of £54 per day for outages was included in a contract that is placed on external contractors through contract. Two respondents in this group do not offer compensation payments.

Six respondents stated that they have no specific Guaranteed Standards of Performance in place for heat networks, they are covered by external gas repairs and maintenance contracts, most of which include compensation payments for outages and missed appointments. Respondents in this group noted that existing contracts are often long term and difficult to

change, and existing compensation regimes may be lower than existing practice in the sector, such as those set by Heat Trust.

One local authority respondent who places Guaranteed Standards on external contractors through contract, requires compensation payments for failure to meet the standards, but noted this only applies to the small number of modern heat networks they own, not to the larger proportion of older heat networks. This was echoed by a trade association who commented that consumers on these networks would seek redress through the Housing Ombudsman.

Our proposed approach is outlined on page 73.

Q32. (a) How should Guaranteed Standards of performance work for heat networks operating on a cost recovery model? (b) How can we avoid consumers paying for their own compensation through higher prices in the future? (c) How can we further incentivise reliability for these networks?

Question 32	Response
Comments (a)	54
Comments (b)	25
Comments (c)	21

Table 39

Part A

There was a mixed response to this question. Some respondents stated that this is an area of concern, others stated that Guaranteed Standards of performance should not be determined by the type of heat network, noting that all consumers should be entitled to the same level of standards.

The most common concern was that the same customers that are impacted by failure to meet standards, will effectively have to fund their own compensation payments through future charges, some respondents noted that this is especially true for small heat networks that don't have a wide consumer base to spread the cost of compensation payments.

Three respondents noted that many of the cost recovery or not-for-profit heat networks that they operate are old and require substantial financial investment to improve reliability, noting that funding compensation payments would make this situation worse. Three respondents suggested compensation levels are introduced with a scaled approach, where consideration is given to factors such as the age of the heat network.

Several respondents stated that this type of heat network should be exempt from compensation payments, suggestions included the use of non-financial penalties to incentivise reliability and efficiency.

There were several responses that stated it is common for heat suppliers to shift the responsibility of compensation payments for Guaranteed Standards onto their operation and maintenance contractor. It was noted that this can lead to higher operation and maintenance costs as the contractor might cost the risk into their contract price.

A positive response from an operator respondent commented Guaranteed Standards incentivise them to operate a reliable heat network, compensation payments are not funded by customers, but treated as a manageable risk to their return. This response was echoed by a further three respondents who stated that heat networks should be well maintained to ensure reliability, and that there should be an allowance for operation, maintenance, and repair.

Part B

Several respondents suggested that regulations could prevent this situation, by specifying the recovery of compensation payments must not be a reason for price increase.

One respondent stated compensation levels should be set based on the size of the heat network, to assist small heat networks that don't have a wide consumer base to be able to spread the cost of compensation payments.

One respondent suggested the provision of government funding through schemes such as the Heat Network Efficiency Scheme (HNES) to improve the reliability and efficiency of existing heat networks.

One respondent suggested the requirement for not-for-profit or cost recovery networks to hold insurance which would cover the cost of Guaranteed Standards compensation payments, this was echoed by another respondent who stated insurance is a measure used by some of their members to protect against the financial consequences of compensation payments.

Part C

Several respondents stated that setting standards and monitoring requirements for the operation and maintenance of networks could be an approach to incentivise reliability, one respondent included a comparison to the Renewable Heat Incentive scheme (RHI) where boilers require maintenance on an annual basis.

One operator respondent highlighted the importance of meters to allow for effective performance monitoring.

Two respondents suggested a public heat network operator rating table, where reliability data is published, could be an approach to incentivise reliability.

Our proposed approach is outlined on page 73.

Q33. (a) Do you agree that Guaranteed Standards of Performance should apply to all domestic and microbusiness consumers, regardless of who operates the network? (b) Do you agree that business consumers larger than microbusinesses should be excluded and allowed to negotiate their own service levels and compensation amounts?

Question 33 (a)	Response	Percentage
Yes	53	48%
No	10	9%
Not answered	48	43%
Comments	41	N/A

Table 40

Most respondents agreed that Guaranteed Standards of Performance should apply to all domestic and microbusiness consumers, stating that all consumers within this group should be entitled to the same minimum level of service, the importance of Guaranteed Standards providing an incentive for heat network operators to provide a reliable and efficient supply was highlighted.

Some respondents who agreed, did so with certain dependencies. Three respondents stated that a flexible approach should be considered where factors such as the age and size of the network are considered; the common concern was for the older and the not-for-profit heat networks. One operator respondent agreed with the proposal but stated that compensation payments should not apply to heat networks operating on a cost recovery model.

Two respondents who agreed that Guaranteed Standards should apply to all domestic consumers, requested a clear definition of a microbusiness.

Although responses to this question were mostly positive, some respondents provided counter arguments. Two respondents raised concern regarding the cost burden that would be placed on leaseholders, suggesting leasehold blocks should be exempt. Other respondents who disagreed stated there should be exemptions for small and not-for-profit heat networks. Two Housing Association respondents disagreed with the proposal, stating that existing housing law requires them to provide a reliable supply of heating and hot water.

Our proposed approach is outlined on page 73.

Question 33 (b)	Response	Percentage
Yes	28	25%
No	13	12%
Not answered	70	63%
Comments	21	N/A

Table 41

Most responses were supportive of business consumers larger than microbusinesses being excluded and allowed to negotiate their own service levels and compensation amounts. Several respondents stated that service levels and compensations amounts are negotiated as part of their contract. Other respondents who agreed stated that this aligns with practice in other utilities, allowing greater flexibility for this type of consumer.

Three respondents who were supportive have requested guidance to assist business consumers in developing and setting reasonable service levels, noting that as there is no option to switch supplier it is important that negotiated service and compensation levels do not disadvantage businesses. This was echoed by several respondents who highlighted the importance of guidance for small and medium sized enterprises, who may not be experienced enough to effectively negotiate their own service level and compensation amounts.

Three respondents who disagreed, commented that all consumers should be treated equally. Two respondents have argued that a basic level of Guaranteed Standards of Performance should be applied to business consumers.

Our proposed approach is outlined on page 73.

Q34. Do you agree that the proposed Conditions, in Table 6, could be appropriate for heat networks?¹⁹ We are interested in views and evidence on how the Conditions could be adapted for heat networks and examples of good practice.

Question 34	Response	Percentage
Yes	40	36%
No	13	12%
Not answered	58	52%
Comments	58	N/A

Table 42

The majority of those that answered the question agreed that the proposed Authorisation Conditions could be appropriate for heat networks, with modifications to reflect the diversity of the sector and the range of ownership types.

A minority of respondents did not support the licence conditions, arguing that the risk of failure does not justify the requirements. This included representatives from social housing who considered existing obligations in this sector were sufficient, and representatives from leasehold ownership models who considered that the risk of failure is low where they cannot exit from their heat network role separately from the overall building ownership.

Respondents from the charity sector and consumer advocacy bodies supported the conditions, wanting to see similar requirements to other utilities, with one specifically commenting on the importance of networks being able to comply with the operational capability principle to deliver essential consumer protections.

Many respondents stressed the importance of guidance and templates to support the sector in complying with the proposed requirements, and time to allow heat networks to put arrangements in place. Others considered that the requirements should be tailored to different segments of the market, and some commented, or expressed concern, that costs of compliance will be passed on to consumers. In a related vein, some respondents welcomed the recognition of existing protections in housing legislation, and called for requirements and compliance to be streamlined.

Six respondents explicitly supported the licence condition on being open and cooperative with the regulator applying across all networks, while considering that asset control, financial responsibility and Customer Supply Continuity Plan (CSCP) conditions should be tailored

¹⁹ The proposed Supply Licence Conditions: Financial Responsibility Principle (FRP) – SLC 4B, Operation Capability Principle (OCP) - SLC4A, Control over Material Assets, Principle to be open and cooperative with the regulator – SLC 5A, and A Customer Supply Continuity Plan (CSCP) – SLC 19A. – See pages 56-57 of the consultation document here: www.gov.uk/government/consultations/heat-networks-regulation-consumer-protection

depending on ownership model. One stakeholder noted it was important that compliance was considered at the parent company, or controlling entity level, in both public and private models.

Our proposed approach is outlined on page 73.

Q35. (a) What are your views on obligations and protections that are currently in place for ensuring continuity of heat supply in the case of failure? (b) If you consider further requirements or a regulatory safety net is required, please expand.

Question 35	Response
Comments (a)	60
Comments (b)	8

Table 43

In response to the first part of the question, stakeholders addressed existing protections in both private and public housing, which helped confirm our own analysis. A frequent comment made by stakeholders was around the lack of failures by heat networks to date.

Eight respondents referenced a heat network supplier/operator’s responsibility under the Landlord and Tenant Act 1985. One of these respondents suggested this afforded adequate protection for private market housing while one other suggested this rule is helping to limit heat network failure risk.

Four respondents referenced existing protections in social housing regulation. Similarly, one of these respondents suggested this afforded adequate protection for social housing while one other suggested this regulation helps limit heat network failure risk.

There was also limited response on the question of what a regulatory safety net might look like. Ideas included funding from Government to invest in networks, appointment of a ‘panel’, whereby issues with a heat network’s health would trigger Ofgem to invite members from a pre-existing approved panel of other network suppliers/operators to assume control of the failing network and address issues.

There was also support for contractual Step-In, including examples provided by stakeholders of arrangements they have in place.

Our proposed approach is outlined on page 73.

Q36. (a) What are your views on heat networks being contractually required to have a contingency plan in place to ensure the continuity of heat supply? (b) Should this obligation apply to all heat networks, including small networks?

Question 36 (a)	Response	Percentage
Strongly support	17	15%
Support	23	21%
Neither support nor oppose	9	8%
Oppose	4	4%
Strongly oppose	1	1%
Not answered	57	51%
Comments	59	N/A

Table 44

A summary of responses for this question has been combined with question 36b.

Question 36 (b)	Response	Percentage
Yes	28	25%
No	13	12%
Not answered	70	63%
Comments	16	N/A

Table 45

Almost half of respondents provided a response to this question. Of those who did, a majority supported a requirement on heat networks having contractual step-in arrangements in place, though this support was lower in response to Part b when asked if it should apply to all networks.

Some respondents advocated tailoring this requirement to network size and complexity, while of those who opposed the requirement, the majority considered small communal networks where costs would be passed on to consumers should be excluded.

The scope of this requirement generated a number of points including:

- The requirement should only apply to generation asset owners, and not in bulk supply models.

- This should be considered at organisation level rather than individual network level.
- Consideration of how it applies where operator and supplier are different at one site.

As with other related questions, respondents called for templates, guidance and a lead in time to allow networks, in particular small networks, time to put compliance arrangements in place. A couple of respondents raised implementation concerns, considering that it would be hard to find third parties to provide backup arrangements, and one advocating a lead in time of 3 years to avoid pressure and inflated prices in the market.

Respondents made additional suggestions, for example recommending that authorisation conditions include expectations on responsibility for compliance where activities are outsourced. Multiple respondents considered that a ‘pooling’ mechanism be developed so that a market is developed for arrangements to support compliance for smaller networks.

Our proposed approach is outlined on page 73.

Q37. (a) What are the challenges and costs of placing this obligation on existing heat networks? (b) What timescales or transitional period would be needed?

Question 37	Response
Comments (a)	55
Comments (b)	18

Table 46

There were a number of themes that emerged from stakeholder responses to this question, with some stakeholders including feedback on Customer Supply Continuity Plans as well as contractual step-in requirements. The themes were:

- Stakeholders identified a number of implications of such a requirement, including changes to contracts requiring legal expertise, technical expertise, and the identification of backup providers or heat sources.
- Where contracts need to be renegotiated, or alternative back up providers identified, stakeholders considered a transition period was needed, suggestions from immediately to up to five years, with 24 months the most common timeframe suggested.
- A number of stakeholders considered this would not be needed for new networks, and should be in place from authorisation.
- Stakeholders raised concerns about the costs of introducing this requirement, and how these costs would be passed on to consumers, though some considered this was “worth it” due to the risks of customers being off supply, and reputational damage to the sector.

- Some stakeholders offered practical suggestions to support implementation, including templates and guidance, and a central framework of contractors that could be utilised by the sector.

Concerns were raised by property owners about what backup arrangements could be identified, and argued such requirements were not justified where they could not exit heat network operation separately from building ownership. We also had responses from consumers who want to see requirements introduced as quickly as possible to provide consumer protection.

Our proposed approach is outlined on page 73.

Q38. How should Ofgem monitor compliance with the requirement for heat networks to have a CSCP in place, recognising the scale of the sector, number of plans that should be in place and the overall approach envisaged for monitoring and compliance?

Question 38	Response
Comments	54

Table 47

There was support from respondents to having a requirement for a CSCP and networks self-certifying that it was in place. However, there were differences in the level of scale or how it would be assessed when providing a CSCP. Stakeholders in the private sector and social housing highlighted the importance of taking existing plans, such as Business Continuity Plans (BCP) or Disaster Recovery Plans (DRP), into account, in order to prevent administrative burden.

Four stakeholders, all of whom were operators, were against the requirement for networks to have a CSCP in place. The most common reasoning being that CSCPs wouldn't be possible for their network or should only be provided in certain circumstances.

Four stakeholders recommended that CSCPs should be required at the company level rather than the individual network level as a way to mitigate administrative burden. They considered that, if not the entire plan however, then at least certain aspects of the CSCP could be provided once in order to avoid repeats of information.

On the frequency of monitoring, seven stakeholders from across the market agreed with using an annual declaration. However, three operators recommended existing networks having more than year to initially meet this requirement, suggesting 24 months or three to five years instead.

Our proposed approach is outlined on page 73.

Q39. (a) Should guidance be provided on the content of the CSCP? (b) What key things should be covered in guidance? (c) Should there be minimum standards and how might these be different for various types of network?

Question 39 (a)	Response	Percentage
Yes	47	42%
No	1	1%
Not answered	63	57%

Table 48

Question 39 (b and c)	Response
Comments (b)	50
Comments (c)	18

Table 49

The majority of respondents who commented, agreed with the need to provide guidance on the content of the CSCP. The disagreement with providing guidance on a CSCP focused on whether a plan would be feasible in the stakeholder's situation due to their type of network.

Nine stakeholders highlighted how providing templates alongside guidance would benefit the sector. They considered that both the guidance and template would need to address current plans and obligations in order to prevent creating additional administrative burden for relevant heat networks. On the approach to templates there were differences between responses as to whether this would be a one size fits all or different versions tailored for sectors/sizes of networks.

15 stakeholders from across the market supported identifying minimum standards for the CSCP. The prominent reasoning provided by stakeholders was that minimum standards would help with standardisation of CSCPs as well as naming conventions and definitions. Three stakeholders against establishing minimum standards highlighted the difficulty given the variety of systems within the heat network market.

Stakeholders also addressed what key things they thought should be covered in guidance, highlighting key areas from the consultation or additional areas where guidance would be beneficial. These additional areas to cover included contractual and heat supply arrangements, the energy centre and network design and the responsibilities of the network's senior management for the governance, oversight and management of the CSCP.

Our proposed approach is outlined on page 73.

Government response

Quality of service and supply of heat:

Complaints

Given the largely positive response to our proposals on complaint handling, we are confident in moving forward with the proposals in this area. However, we recognise the clear concern that these regulations may produce additional administrative and financial burdens for heat networks, both for those who already operate a complaints procedure under a different regime and the many smaller networks who will be developing a procedure for the first time. We will be exploring how our regulatory approach can adapt to reflect the diversity of the heat network market, while still focused on delivering good consumer outcomes. We also recognise calls for guidance made by respondents, this will be a key part of our approach to driving good practice in complaint handling. Stakeholder engagement will continue to be a key part of future policy design in this area, including with the Housing Ombudsman to address the concern of overlapping obligations and with the Energy Ombudsman as they prepare for their new role as the Alternative Dispute Resolution service for heat networks.

Guaranteed Standards of Performance

We set out in the consultation our proposed core elements of Guaranteed Standards of Performance including, amongst others, requirements on heat networks to keep registers of interruptions and requirements with potential for compensation on providing adequate notice of planned interruptions. Feedback on our proposed core elements was mostly positive. Respondents acknowledged the alignment with existing practice in the sector such as those set by Heat Trust and highlighted the importance of Guaranteed Standards to build consumer trust in a market which is expected to experience considerable growth. We consider Guaranteed Standards an important area of consumer protection but want to ensure that the regulatory and cost impact is proportionate and realistic. We recognise there could be challenges for certain networks in delivering the standards and understand the need for guidance to assist certain networks to implement them. We will engage with stakeholders as we develop our approach to guidance.

We welcome respondents' feedback on the existing Guaranteed Standards of Performance that they have in place and how the standards should work for heat networks operating on a cost recovery model. Responses will help us to refine our proposals, we will engage with stakeholders to further explore and consider how the standards could apply across different market segments considering factors such as the size, age, and ownership model of the network, and to help us set appropriate compensation levels, ahead of a further policy consultation this summer.

Most stakeholders agreed that the Guaranteed Standards should apply to all domestic and microbusiness consumers regardless of who operates the network, highlighting the importance of consumers within this group being entitled to the same minimum level of

service. In line with what we said in the consultation, we want the standards to encourage a reliable and efficient supply.

Most respondents were supportive of business consumers larger than microbusinesses being excluded from the proposed standards and allowed to negotiate their own service levels and compensation amounts. Feedback from respondents told us that this is normally negotiated as part of their contract and that it aligns with existing practice in other sectors. However, considering feedback from respondents who did not agree and given the proposals for Heat Network Zoning,²⁰ in particular for certain non-domestic buildings within heat network zones being required to connect to a heat network, this is an area we want to further explore to help us refine our policy proposals. We recognise that as there is no option for heat network consumers to switch supplier, we want to further consider whether protections should extend to non-domestic consumers. We acknowledge the request for guidance to assist business consumers in developing and setting reasonable service levels and we will engage with industry to identify best practices and as we develop our guidance.

Market-led Step-In arrangements

There was broad support for the high-level proposals aimed at minimising the risks to consumers from disorderly failure of heat network.

We intend to take all the proposals forward for further development, and will consult again later this year on these areas:

Authorisation conditions - We will take forward drafting of conditions that require heat networks to be open and cooperative with the regulator, which we consider is important across the regulatory framework. We also consider conditions around financial responsibility, asset control and operational capability will play an important role, and we will engage further and bring more detailed proposals and analysis forward for further consultation.

Customer Supply Continuity Plans – We will develop guidance on key categories that CSCPs should contain for operators and suppliers, and how we will utilise self-certification and the audit regime to monitor compliance with this requirement.

Contractual Step-In – we consider that requiring operators to identify a contractual Step-In party is likely to be an important part of the Step-In framework, and will explore further whether this should also extend to suppliers. We want to understand further how prevalent these arrangements are in existing networks, and where other obligations may provide a similar level of protection.

Across these proposed obligations, stakeholders welcomed the recognition of existing protections, for example in social housing. We will explore how complementary obligations may be able to be used to evidence compliance with any new heat network

²⁰ www.gov.uk/government/consultations/proposals-for-heat-network-zoning-2023

requirements, ensuring we minimise the regulatory impact while ensuring customers are protected. We'll also put forward proposals for how these obligations should apply to suppliers and operators.

Further consultation on these proposals, and regulatory backstop provisions will be published in 2024. This will include proposals for how the Energy Act 2023 provisions on Special Administration and Transfer Schemes could be developed.

Protections for consumers in vulnerable circumstances

Question analysis

Q40. Do you agree with the proposal to require heat suppliers to operate a Priority Services Register and provide specific services for consumers who need them? As previously stated, we would really welcome views from networks that would find it particularly challenging to deliver this.

Question 40	Response	Percentage
Yes	71	64%
No	9	8%
Not answered	31	28%
Comments	72	N/A

Table 50

20 Respondents strongly agreed with the proposals and some stated that they currently operate a Priority Services Register (PSR) either voluntarily or through their Heat Trust commitments. Several respondents stated this should be a minimum requirement to support consumers in vulnerable circumstances and others stated that the proposal seems logical as it is a requirement in other utilities.

A further 17 respondents, mostly housing associations and local authorities, who are in favour of the proposal, have stated that they already have a system in place to identify customers in vulnerable circumstances, however, have asked for guidance as to how existing records could be enhanced to prevent having to create a new system or having to maintain two separate systems.

Other respondents who broadly support the proposal, have raised concerns about the amount of resource required and the administrative burden that will be placed on some networks, including existing or small heat networks, with suggestions of a phased approach to implement the proposed PSR and specific services for consumers in vulnerable circumstances.

The provision of guidance was suggested by several respondents, including the format of the PSR and how to provide services, such as communication and information in accessible formats.

16 Respondents who support the proposals have asked if PSR data sharing across other utilities will be available, some have stated that heat networks should be considered in the ongoing discussions regarding greater data sharing between utilities.

14 Respondents have asked for a clear vulnerability definition, with concern raised regarding vulnerable circumstances being open to interpretation.

Of the respondents who said no, two stated this was due to all consumers on the heat network they operate being vulnerable consumers, and that their consumers can change on a regular basis, meaning a PSR would be out of date quickly, suggesting that small networks within the care sector should be excluded. Three respondents who said no, have stated that the administrative burden would be onerous, and that the cost would likely be passed on to consumers.

Our proposed approach is outlined on page 85.

Q41. (a) Do you agree with our approach to drive good debt management practices and deter disconnection? (b) Do you agree that assessing ability to pay and offering tailored repayment plans is possible for small heat networks operated/supplied by small entities?

Question 41 (a)	Response	Percentage
Yes	61	55%
No	9	8%
Not answered	41	37%
Comments	65	N/A

Table 51

Responses to this question have been combined below with the summary to question 41b.

Question 41 (b)	Response	Percentage
Yes	26	23%
No	12	11%
Not answered	73	66%
Comments	22	N/A

Table 52

Though there were significantly more respondents agreeing with this proposal than disagreeing, many respondents that agreed qualified their stance with comments. 38 respondents agreed with the proposed approach and would welcome the introduction of rules that follow established best practice in gas and electricity to protect consumers, with agreement that it is an important area of consumer protection in an expanding market.

Seven respondents who agreed with the overall approach, have commented that due to the nature of the heat network market which consists of a high number of small, or not-for-profit networks it will be difficult to follow established best practice from gas and electricity, a sector which consists of large organisations who have the resources to offer the proposed approach. Some respondents commented they do not support the offering of affordable repayment plans that are below average monthly bills.

Four respondents raised concerns about prepayment meter installation, stating that it is not feasible in many cases for technical reasons on certain networks or due to high costs.

Respondents who did not agree with the approach stated that it would be an excessive burden for small networks. Others raised concerns regarding heat networks where debt is between the leaseholder and tenant, commenting that in most of these cases it would not be feasible for a leaseholder to offer repayment plans so the debt will be transferred back to the leaseholder if the tenant does not pay. Two respondents who disagreed, have stated the back-billing time restriction of 12 months would conflict with existing legislation in the Landlord and Tenant Act 1985.

Three respondents from charity and trade association organisations, positively supported the possibility of small heat networks assessing the ability to pay and offering tailored repayment plans, highlighting the importance of all consumers being protected by the rules.

Four respondents who did not agree with the possibility of small heat networks being able to provide the proposed measures stated that some small heat networks would not be able to withstand the increased cost burden.

It was suggested that the provision of guidance and sharing best practice would assist small networks with assessing the ability to pay and offering tailored repayment plans.

Our proposed approach is outlined on page 85.

Q42. (a) What is your current policy/process for debt management and disconnection? Please provide us with information on the number of disconnections, and outline whether your approach varies across networks (eg unmetered/metered, smaller/larger heat networks). (b) Is there anything specific you can share on how you approach customers who might be in vulnerable circumstances?

Question 42	Response
Comments (a)	54
Comments (b)	16

Table 53

Part A

13 Respondents stated they do not disconnect including several respondents that cannot disconnect due to the physical setup of the heat network. One small heat network operator stated that any bad debt is written off, as repayment plans place a cash flow burden on the business. Three respondents confirmed that all customers have meters.

Two respondents stated that disconnection does not occur, and that housing related law applies in the case of non-payment where heat is paid for as part of housing charges. When a leaseholder is in arrears it can result in forfeiture, where the landlord can terminate the lease. Four respondents stated that heat is paid for through rent or service charges and there is no specific heat debt management or disconnection policy so the arrears process for non-payment of rent or services charges applies.

Seven respondents have stated that they do not disconnect customers in vulnerable circumstances, eight offer pre-payment meter installation as an alternative payment method, with one respondent noting that this is only possible on modern heat networks that they operate. Most of this group were heat network operators.

Some respondents, including operators, local authorities and housing associations provided evidence of current debt management processes. 13 respondents said they offer re-payment plans, 11 respondents stated that they send three or more reminder letters prior to disconnection, while some respondents said that they try to engage via telephone, text message or in person visits. Three respondents commented that disconnection is a last resort, although a necessary option to prevent high levels of bad debt. One operator respondent provided evidence of the number of disconnections at circa 3% of non-paying customers in the last 12 months.

Two local authority respondents stated all customers have pre-payment meters, both can monitor and identify where customers are not using heat or have low credit, allowing them to proactively engage and support their customers. Two respondents stated that all customers have pre-payment meters, one of whom uses smart pre-payment meters, which have arrangements in place to prevent self-disconnection, including a setting to prevent

disconnection during weekend hours for no credit, and emergency credit alarms to alert a customer to top up the meter.

One ESCo stated that they offer affordable repayment plans, by clearing debt on a prepayment unit and deducting an agreed amount from future tops ups. In certain cases where a social landlord is in place, the landlord may be willing to step in to assist, preventing the tenant accruing debt and to protect the ESCo from high levels of bad debt.

Part B

One operator stated that they would not disconnect a consumer in a vulnerable circumstance without contacting their landlord for intervention, however, noted that the lack of PSR on many heat networks means that this disconnection prevention is limited. Another respondent stated that they would never knowingly disconnect a consumer in a vulnerable circumstance for non-payment.

One operator stated that they are flexible in their debt management and disconnection policy for consumers in vulnerable circumstances, providing examples of placing pre-payment meters into credit mode, or not acting on credit meter disconnections.

One operator stated that they do not disconnect consumers in vulnerable circumstances during winter, and if a consumer has a vulnerability which means they are dependent on heat, they will not disconnect them at all.

One industry respondent stated that consumers in vulnerable circumstances are provided with additional support including repayment plans, free top ups for pre-payment customers, and a dedicated email address for consumers who are in payment difficulty.

One respondent stated that consumers in vulnerable circumstances are prioritised during interruptions, by providing services such as alternative heating.

Our proposed approach is outlined on page 85.

Q43. What do we need to consider when exploring a disconnection ban for the sector? We welcome evidence you can provide on benefits to consumers in vulnerable circumstances (including what groups of consumers should be protected), impacts on wider consumers (including specific financial impacts on other consumers on the network), and impacts on heat suppliers (for example with regard to cashflow and financial stability).

Question 43	Response
Comments	54

Table 54

Nearly half of respondents provided a response to this question. A common point made by respondents was that a disconnection ban would increase bad debt for the sector, which would

have a significant impact on the financial stability of heat network suppliers, particularly small or not-for-profit heat networks. Five respondents stated that any bad debt would need to be recovered from other customers on the heat network, through future price increases.

Five respondents stated financial support from government for consumers in vulnerable circumstances would help to prevent other consumers on the same heat network having to pay for any bad debt, and to protect the financial stability of the heat network supplier.

Several respondents stated the importance of clearly defining which groups of consumers will be protected, with suggestions that consumers who are chronically sick or have a long-term disability should be protected by a disconnection ban. Respondents noted that a disconnection ban can lower emotional stress during the heating season.

Three respondents stated that a disconnection ban would have a positive impact for consumers in vulnerable circumstances, noting that access to heat and hot water is essential to the health and wellbeing of consumers. Responses included the importance of protecting consumers who are medically dependent on heat and hot water due to medical conditions.

Several responses were supportive of following the existing Heat Trust practice with specific protections for certain consumers in vulnerable circumstances during the heating season (usually October to March), however, noted that they do not support the proposal of a wider disconnection ban, stating the significant impact it could have on the financial stability of heat network suppliers, and that an increase in bad debt could impact the expected growth of the sector.

Our proposed approach is outlined on page 85.

Q44. Do you agree that non-payment of heat charges when part of housing charges should follow housing non-payment protection rules?

Question 44	Response	Percentage
Yes	42	38%
No	6	5%
Not answered	63	57%
Comments	33	N/A

Table 55

Seven respondents who agreed with the proposed approach, stated that it would be the sensible approach, most of whom commented that it would be difficult to differentiate if non-payment of housing charges was due to the heat charge element. Two respondents noted that this is the appropriate approach for the many older heat networks which are unmetered and cannot define a fair allocation of costs.

Two social housing providers who agreed stated that the approach would prevent potential conflict with existing housing legislation.

One operator respondent was supportive of the proposal, however noted that appropriate technology should be used to allow consumers to have consumption-based bills.

Six respondents disagreed with the approach, the main concern raised was that consumers often lack protection for non-payment of housing charges, stating that consumers can face disproportionate outcomes, including the risk of eviction, which would not be the case for consumers who pay separately for heat related charges. It was also stated that where consumers are leaseholders and are in arrears with housing charges, it can result in forfeiture of a lease.

Our proposed approach is outlined on page 85.

Q45. On your heat networks, do consumers on PPMs pay the same amount as consumers on credit meters? If PPM consumers pay more, please provide more detail.

Question 45	Response	Percentage
Yes	21	19%
No	8	7%
Not answered	82	74%
Comments	46	N/A

Table 56

Six respondents noted that the differences between the cost of operating meters on a credit and pay as you go basis can often mean that in theory those consumers on prepayment meters (PPM) could pay less.

One respondent suggested that comparisons of this nature between prepayment and credit meters is not possible, given that charges for the former are not broken down into fixed and variable rates.

One respondent suggested that those on PPMs could go into slight debt, which would be recovered via temporary increased tariffs, or ‘slicing-off’ the top of the next top up.

One network operator highlighted a site where residents pay higher standing charges to reflect the operational costs of a PPM.

One respondent suggested that where a metering and billing company has been employed by the network provider consumers on PPMs could be paying higher rates.

Our proposed approach is outlined on page 85.

Q46. Do you agree with our approach for ensuring that consumers in vulnerable circumstances do not resort to self-disconnection or self-rationing and that PPMs are only used where appropriate for the consumer?

Question 46	Response	Percentage
Yes	42	38%
No	10	9%
Not answered	59	53%
Comments	55	N/A

Table 57

Most respondents that answered this question were in agreement with our proposal that we collectively minimise the number of vulnerable consumers resorting to self-disconnection and/or rationing and PPMs are installed as a debt management measure however a variety of processes and guidelines were proposed.

Four respondents broadly agreed with the approach and said they support a ‘friendly disconnection’ approach whereby disconnections are restricted to certain times.

Three respondents noted it should always be the consumer’s choice and no one should be forced onto a PPM – particularly not without their knowledge and permission. One respondent expressed that consumers should be encouraged to engage with heat networks at the earliest opportunity and offered support.

Three respondents from not-for-profit and small heat networks stated the proposals would create an additional administrative burden and overhead costs on companies operating PPM. With one respondent expanding, the ability of smaller heat networks, that run on a not-for-profit basis, to comply with this approach and provide more flexibility on repayment plans is likely to be limited as they will not have sufficient financial headroom.

One respondent also highlighted consumers might see their installation as an intrusion, potentially causing a negative effect on their mental health.

It was also noted by one respondent that as a minimum they would expect heat networks to replicate the new PPM rules outlined by Ofgem in September 2023.

Our proposed approach is outlined on page 85.

Q47. Should we include financial vulnerability as a required consideration for whether a PPM is ‘safe and reasonably practicable’?

Question 47	Response	Percentage
Yes	44	40%
No	12	11%
Not answered	55	50%
Comments	44	N/A

Table 58

Five respondents noted that they agreed in principle but would like further clarification on the definition of financial vulnerability proposed, highlighting that they have concerns that the criteria need to be well defined and precise.

Two respondents highlighted that consumer circumstances can change over time therefore should be reassessed on an ongoing basis to ensure it remains an appropriate charging method.

Three respondents reported small heat network operators are unlikely to have the expertise or skills to judge financial vulnerability.

Two respondents agreed in principle however stated that many users prefer prepayment systems as a means of household budget control, and that should not be removed as a consumer choice.

Some respondents noted that the proposal should be aligned, where it is relevant, with requirements within gas and electricity regulation.

Two of the respondents that did not agree with adding financial vulnerability as a consideration proposed an alternative, providing additional support to vulnerable residents via the prepayment service, for example additional emergency credit or lower repayment plans.

Our proposed approach is outlined on page 85.

Q48. Do you consider these measures to be achievable across all segments of the market? Please provide rationale.

Question 48	Response	Percentage
Yes	22	20%
No	25	23%
Not answered	64	58%
Comments	46	N/A

Table 59

Five respondents raised the issue of the installation costs of PPMs, especially for smaller and not-for-profit heat networks. It was also highlighted that PPMs may not be accessible to all properties.

Five respondents raised concerns over the ability of smaller and/or not-for-profit networks to achieve these objectives in the initial period proposed. One respondent further suggested that these provisions may be achievable for large heat meter suppliers but potentially unworkable if the supplier has a small customer base and is a not-for-profit company.

Four respondents noted that PPM meters offer access to consumption and usage data that provides for higher levels of scrutiny and support, believing these consumer protections and additional support provisions to vulnerable consumers are achievable across the heat network market.

Our proposed approach is outlined on page 85.

Q49. Do you agree with this approach to regulation for ensuring heat networks have sustainable cash flows and only install PPMs involuntarily as a last resort?

Question 49	Response	Percentage
Yes	37	33%
No	14	13%
Not answered	60	54%
Comments	40	N/A

Table 60

Respondents highlighted that prepayment is a favoured approach for some not-for-profit heat networks and they opt to install and use prepayment meters in all new developments. They believe regulations should not impede them being able to operate in this way. One respondent

noted that many consumers prefer and request PPMs so that they can manage and budget for their energy payments more effectively. They emphasised that it is important to remain considerate of the benefit of prepayment meters.

Two respondents expressed concerns that the proposal assumes the installation of prepayment meters is an option, which they believe isn't in most cases.

Four respondents noted that installing a PPM must only be as a last resort and then must follow clear guidelines and controls to protect consumers. They would only ever seek to fit one as a last resort, where appropriate, and after already making attempts to engage with the consumer.

Many respondents highlighted that PPM meters can be actively monitored through metering and billing contracts, and customers who persistently use their emergency or friendly credit can be offered additional support. PPM meters can also help provide customer clarity on costs, budgeting, and flexible payment choices.

Two respondents agreed in principle, as they believe it is important for suppliers to have sustainable cash flows and use PPMs to effectively manage bad debt.

Our proposed approach is outlined on page 85.

Government response

Protections for consumers in vulnerable circumstances

Priority Services Register

Feedback on our proposal to require heat suppliers to operate a Priority Services Register (PSR) and provide specific services for consumers who need them was mostly positive and we intend to proceed with the proposal. We recognise that certain heat networks will find it challenging to deliver this, and we will engage with industry to develop guidance to assist with the process.

Respondents asked if data sharing across other utilities will be available. In the Department for Business and Trade Smarter regulation consultation²¹ the benefits that a single multi-sector PSR service could bring for vulnerable customers were set out. We are also aware of the collaboration between energy and water companies that has allowed some retailers to start sharing the data they have on vulnerable customers. We agree that heat networks should be considered in future PSR data sharing plans and want to further explore how heat networks can ensure the PSR is set up in a way that could make this a possibility in the future.

Approach to drive good debt management practices and deter disconnection

²¹ www.gov.uk/government/consultations/smarter-regulation-strengthening-the-economic-regulation-of-the-energy-water-and-telecoms-sectors

Respondents mostly agreed with our approach to drive good debt management practices and deter disconnection. We consider our proposals to be an important protection for heat network consumers, however we will further explore how the approach could work across different market segments and will look to implement the approach ensuring that the regulatory and cost impact on small and not-for-profit networks is proportionate and realistic. We will further engage with industry to develop guidance and acquire best practice examples to assist heat networks, such as those operated/supplied by small entities who may find it difficult to implement our proposals.

Having considered feedback provided by respondents, we will give further consideration to our proposed back-billing limit of 12 months and will further explore the potential conflict with existing legislation in the Landlord and Tenant Act 1985 where there is an 18-month rule.

We welcome respondents feedback on current policies and processes for debt management and disconnection and how they approach customers who might be in vulnerable circumstances. Responses will allow us to further explore how to ensure customers are adequately protected and supported when they are struggling to pay their bills, and how this applies to the heat network sector.

In our consultation, we proposed as a starting point using the existing rules set by Heat Trust on disconnection of vulnerable customers during the heating season (October-March). This proposal had general support, with 64% of respondents agreeing, but we noted that there were some concerns raised about the definitions of vulnerability used. We acknowledge that the proposal is an important protection for customers in vulnerable circumstances, and that we may want to go further than the definition used by Heat Trust. For example, there is much recent evidence on the impact that fuel poverty has on children, and countries such as Spain have responded by prohibiting disconnection of households with children up to the age of 16. We will look to provide greater protections for households with children, whilst considering what the impact may be on heat network viability.

Disconnection for non-payment should always be a last resort, but we will also consider what impact a disconnection ban for vulnerable customers beyond the heating season (i.e. during the warmer months) and consider whether we should expand on the disconnection ban to other seasons. Feedback from respondents on key considerations for a disconnection ban will help us refine our policy proposals further, supporting us to identify which additional groups of customers should be protected from disconnection.

Rules regarding non-payment of heat charges when part of housing charges

We initially proposed that where heat charges form part of housing charges, these should follow housing non-payment protection rules. We recognise that this might not deliver good consumer outcomes, and so we will use feedback from stakeholders to help us to refine our proposals ahead of a further policy consultation later this year. As part of this, we will engage with the Department for Levelling Up, Housing and Communities to

explore options for separating heat charges from those protection rules, where the Landlord and Tenants Act 1985 applies.

Defining a consumer in a vulnerable circumstance

We acknowledge the request for a clear definition of a consumer in a vulnerable circumstance, and the importance of it across the vulnerability protections and Standards of Conduct. In line with what we said in the consultation we would expect to draw from well-established definitions of vulnerability in regulated sectors when developing the definition and will further explore any heat network sector specifics as part of the process. We may want to go further than the definition used by Heat Trust for vulnerable customers, and we may explore a wider more specific definition where appropriate. As stated above we will consider the inclusion of financial vulnerability and how this is defined. We will consider and consult on our approach to defining and identifying what constitutes a vulnerable consumer later in 2024.

Protections for consumers in vulnerable circumstances section of the consultation

The most common response was in agreement with our approach as set out in Appendix 4 of the consultation, that we should collectively minimise the number of vulnerable consumers resorting to self-disconnection and or rationing and that PPMs should only be used where appropriate for the consumer. In line with our original proposal and stakeholder feedback, we will continue to proceed with replicating the Gas and Electricity Supply Licensing Conditions and Ofgem's code of practice provisions as outlined in Appendix 4 of the consultation which takes efforts to identify domestic consumers on PPMs that are self-disconnecting and whether they are in vulnerable circumstances. These include offering domestic consumers on a PPM additional support credit, such as emergency credit and friendly-hours credit, unless technically unfeasible.

We recognise smaller heat networks/not-for-profit may experience disproportionate burden with regard to PPM measures and therefore will investigate further if guidance is appropriate and will continue to develop our thinking around market segmentation.

Responses varied on whether these measures to protect vulnerable consumers on PPMs would be achievable across all segments of the market. Regarding these measures, we will review the Initial period and how it is presented. The staggered approach to the introduction of regulation should aid in allowing networks to prepare to comply with these important protections.

Feedback from the approach proposed for ensuring heat networks have sustainable cash flows and only install PPMs involuntarily as a last resort was largely supportive. We will continue to build on the proposed approach by drawing upon the feedback received to this consultation and further stakeholder engagement.

Transparency of information to the consumer

Question analysis

Q50. Do you agree with our proposal to increase the rollout of individual AMI heat meters? If you disagree, please indicate why, and provide evidence to support this view.

Question 50	Response	Percentage
Yes	56	50%
No	12	11%
Not answered	43	39%
Comments	54	N/A

Table 61

Seven stakeholders felt the specification of the advanced meter infrastructure (AMI), as highlighted in Appendix 3 of the consumer protection consultation, needed to be further defined and fit for purpose for the heat network market. Five of the stakeholders that disagreed with the proposal indicated that they did not know of any heat metering devices that met our proposed specification.

Nine stakeholders who agreed with the proposal had concerns around cost, indicating that many heat networks run on a variety of business models and as such some run on a cost recovery basis, with some networks already running at a loss. There are concerns that the proposal to increase the roll out of advanced meter infrastructure (AMI) heat meters, will have financial implications which may be passed on to final customers, some of which are vulnerable.

Two stakeholders in support of the proposal highlighted concerns on the need to have “right of access” in place to meet the demands of the proposals.

One stakeholder flagged concerns regarding the supply chain not being strong enough to meet such proposals, including having the personnel to conduct heat meter installations.

Our proposed approach is outlined on page 101.

Q51. (a) If yes, are there any functions not in our specification that should be included? (b) If no, would any changes to the specification have a substantial impact on your answer?

Question 51	Response
Comments (a)	40
Comments (b)	12

Table 62

Six stakeholders who responded to this question felt the advanced meter infrastructure (AMI) specification needed to be broken into various elements as currently it refers to parts of the entire system, both within the network but also at the operator and billing network system and grouped under metering which they found confusing. They also shared the same sentiment that our metering specification was skewed towards gas and electric metering and as a result required further definition.

Two stakeholders requested further detail in the technical standards consultation. One stakeholder advised we engage with heat interface unit (HIU) software engineers on this metering specification question. One stakeholder advised our technical specification should consider consumer interoperability and access needs as well as those of the service provider.

Our proposed approach is outlined on page 101.

Q52. Is it reasonable or technically feasible to require that dwelling level meters be installed in common/public areas outside of that dwelling? If not, why?

Question 52	Response	Percentage
Yes	23	21%
No	25	23%
Not answered	63	57%
Comments	58	N/A

Table 63

Four stakeholders indicated heat interface unit (HIU) are installed within dwellings and heat meters form part of the package. Eight stakeholders raised concerns on space constraints within the common areas. Three stakeholders advised the proposal is best introduced in new build heat networks.

Two stakeholders identified that such proposals are likely to be rejected by architects and designers due to fire safety regulations.

Three stakeholders disagreed with the proposal to install meters in common areas, because meters that have been installed in common areas in the past have resulted in access difficulties for customers.

We also had one stakeholder who felt putting the metering device far from the heat interface unit (HIU) is impractical as heat metering devices consist of multiple interconnecting parts and cable length which can have an impact on the operation of the meter.

In addition, concerns were raised regarding metering devices exposed to ambient temperature, with one stakeholder indicating heat metering devices are technically designed for indoor installations and putting them anywhere else will expose them to a variety of ambient temperatures which may affect its operation.

Three stakeholders, representing buildings that fall under conservation listed buildings, highlighted that regulations around such buildings, would not allow for retrofitting dwelling meters in common areas.

Our proposed approach is outlined on page 101.

Q53. Do you agree that an equivalent approach implementing standards of accuracy and processes for pattern of construction and manner of installation regulation in the heat meters market is proportionate? If no, please provide an explanation and support with any available evidence.

Question 53	Response	Percentage
Yes	48	43%
No	6	5%
Not answered	57	51%
Comments	40	N/A

Table 64

One stakeholder indicated the need for clear distinction between the heat meter itself and supplementary PPM device/ in home display when developing the regulation. One stakeholder indicated the need to have a conformity assessment body. One stakeholder advised such standards should match European Union (EU) standards. One stakeholder proposed the introduction of the metering code of practice to the heat network sector. The stakeholder who disagreed felt heat meters are dependable and could last for 20 years.

Two stakeholders welcomed this proposal however advised that prior to implementing the proposal, meter testing centres should be set up, and readily available to meet demand and cater for any sudden rise.

Two energy suppliers felt that metering devices do not necessarily drift in accuracy. When meters have been tested in the past following questions of reliability, these were found to be in full working order.

One stakeholder felt we do not have adequate test centres in the UK to meet these proposals and the costs involved in carrying out this process will be significant.

Our proposed approach is outlined on page 101.

Q54. Do you agree with our view that accurate consumption tracking with HCAs is effectively impossible?

Question 54	Response	Percentage
Yes	47	42%
No	4	4%
Not answered	60	54%
Comments	40	N/A

Table 65

Three stakeholders mentioned there are over 60 million heat cost allocators (HCA) currently installed across the EU, which indicates its wide use across the continent. Three stakeholders indicated heat cost allocators are used for consumption monitoring when not technically feasible to install heat meters. Two stakeholders from the social sector indicated tenants are not following best practice by hanging towels on radiators.

One stakeholder noted heat cost allocators (HCA) are unreliable and create challenges of data collection due to the multiple data sources for data aggregation and collection.

Eight stakeholders agreed that heat cost allocators were not entirely accurate however highlighted their numerous benefits. One of such benefits is consumption monitoring. Stakeholders identified a gap in the unmetered network stating that we have 60% of networks currently unmetered and heat cost allocators help close this gap to ensure costs are allocated to individual customers, energy consumption is monitored and guidance on heat consumption from heating systems is provided.

Another benefit indicated by stakeholders was that heat cost allocators are fit for purpose to provide consumption monitoring and allocate costs in heritage/conservation buildings where infrastructural change is limited or prohibited.

Our proposed approach is outlined on page 101.

Q55. (a) Is the cost effectiveness tool fit for purpose, and should we continue using a similar tool for meter installations? (b) If you think we should retain the tool, what changes do you think could be made to the tool? (c) How would these changes increase meter installations in existing unmetered networks?

Question 55 (a)	Response	Percentage
Yes	15	14%
No	18	16%
Not answered	78	70%

Table 66

Responses to this question have been combined below with question 55b and c.

Question 55 (b and c)	Response
Comments (b)	50
Comments (c)	14

Table 67

Two stakeholders felt the cost effectiveness tool (CET) is not fit for purpose as the reduced part of the tool underestimates the value of metering which has left many networks unmetered. One stakeholder felt metering is not best for everyone and advocated the expansion of the exempt class.

Of the stakeholders who supported this proposal, one stakeholder felt the cost effectiveness tool provides protection for residents in unmetered schemes where meters would not work, for example care and support schemes.

One stakeholder indicated there is no possibility to introduce heat metering for all heat networks without huge investment in refurbishment of heating systems that will take decades to achieve. The stakeholder recommended the use of heat cost allocators for consumption-based billing as transitional technology until refurbishment is undertaken.

One stakeholder preferred a simplified version of the cost effectiveness tool that will incorporate accurate carbon savings, additional energy benefits and the social value of metering.

Our proposed approach is outlined on page 101.

Q56. Do you agree that the Open class of existing Regulations should be either reformed or revoked? If not, please explain why, if possible, providing evidence to support your views.

Question 56	Response	Percentage
Yes	30	27%
No	5	4%
Not answered	77	69%
Comments	37	N/A

Table 68

One stakeholder believed the onus should be on building owners to justify not installing meters. Three stakeholders advised on expanding the exempt class while one stakeholder supported the removal of the open building class, suggesting moving the heat network to either exempt or viable class for simplicity and to reduce administrative burdens.

A not-for-profit network indicated lack of resources to meet metering obligations would be an issue if the Open class were revoked. A non-for-profit highlighted need for capital funding to be provided by government, like the Heat Network Efficiency Scheme (HNES), to allow for not-for-profit organisations to carry out meter installations. One stakeholder recommended regulations must ensure that consumers who are tenants (rather than homeowners) do not face additional costs for meter installation.

We had a stakeholder who recommended a review of the cost effectiveness tool (CET) might be the best approach before considering narrowing the scope of the Open class. While another stakeholder indicated the only way to reduce bills would be to reduce the heat demand of the building by implementing fabric improvements.

Our proposed approach is outlined on page 101.

Q57. Do you agree with the proposed rules on billing information, frequency, and method?

Question 57	Response	Percentage
Yes	58	52%
No	12	11%
Not answered	41	37%
Comments	54	N/A

Table 69

Most respondents agreed with the proposed rules on billing information, frequency and method, and the majority of respondents supported having some form of supporting guidance.

A common theme raised by respondents disagreeing with the proposals, primarily local authority and housing association organisations, was how the proposals are likely to increase administrative burden for smaller and not-for-profit networks with costs potentially being passed onto the final consumer.

Two respondents (charity or NGO) suggested additional metrics to include in billing information statements. This included fuel source, total greenhouse gas or carbon emissions for a billing period, and network efficiency. The respondents recognised that this is proposed as part of the information provided per-property transaction but supported including this information as part of billing post property transaction. A respondent also supported including the type and price of the fuel source, date of purchase, and access to information to make comparisons with other fuel types.

Three respondents proposed consideration for making annual statement requirements to be optional where consumers already receive regular billing information.

Two local authorities supported allowing registered social landlords to opt out of metering and billing requirements and retain flat rate systems, and for networks where the heat charge is included with tenant's rent charges or leaseholders with their service charges.

Across respondents, there was strong support for templates and guidance on what good billing practices could look like. We will seek to engage with stakeholders as we develop this.

Our proposed approach is outlined on page 101.

Q58. Do you agree with the proposed rules on back-billing, price change notifications, and heat supply contracts?

Question 58	Response	Percentage
Yes	43	39%
No	17	15%
Not answered	51	46%
Comments	60	N/A

Table 70

Overall, most respondents agreed with the proposals on Heat Supply Contracts and Price Change Notifications. Respondents were less supportive of the proposals to change back-billing limits from 18 to 12 months.

Twenty respondents expressed concerns over the proposed back-billing limits of 12 months. Respondents largely disagreed with this as it would conflict with existing legislation in Section 20b of the Landlord and Tenants Act 1985. Some respondents stated they would support the introduction of new rules on back-billing if they were done in conjunction with any necessary amendments to the legislation.

Charities and consumer advocacy respondents supported the back-billing changes to better support consumers. They recognised that although the Landlord and Tenant Act puts an 18-month limitation on service charges, it does not mean that it should take 18 months to issue accurate heat bills to consumers.

Eight respondents expressed some concern that the proposals for Heat Supply Contracts and Price Change Notifications did not sufficiently cover unmetered properties. With this, seven respondents wanted confirmation on whether Heat Supply Contracts would need to be retrospectively placed into properties that did not already have them and how Price Change Notifications will work for sites where heat charges are recovered by rent or service charge.

Our proposed approach is outlined on page 101.

Q59. Do you agree that this package of measures on pre-contractual transparency will provide prospective consumers with sufficient information prior to and during a property transaction? What other information and mechanisms for providing that information should we explore further?

Question 59	Response	Percentage
Yes	52	47%
No	7	6%
Not answered	52	47%
Comments	56	N/A

Table 71

A common theme throughout the responses was that the effectiveness will depend on consumer awareness, ease of access, stakeholder collaboration and resources like centralised templates or an online guide.

Two respondents suggested using some of the data heat networks will be uploading to Ofgem into their digital platform to provide the sales market with the information they require to avoid duplicating information by other means.

Two respondents requested the list of information should include the existence of PPM if available.

Four respondents also believed new tenants or homeowners could be provided with a welcome pack from the heat network supplier setting out key information including contact details as some consumers do not realise they are on a heat network until they receive their first heat bill.

Three respondents had reservations about using Energy Performance Certificates (EPCs) as they stated they are not fit for purpose in old buildings and in exposed island areas with a further two believing the cost of providing this information seems disproportionate to the benefit.

The importance of having a feedback mechanism once operational was also highlighted to improve the service.

Our proposed approach is outlined on page 101.

Q60. How can we ensure pre-contractual transparency for prospective consumers in new developments?

Question 60	Response
Comments	52

Table 72

Some respondents agreed that the obligation should be on the developer selling to provide transparency and information regarding a network. Some suggested that the developers should include any heat sale agreements in contract packs.

Three respondents believe it should be a legal requirement that sale and letting contracts are required to declare that a property is on a heat network.

Of those that had some reservations, two respondents didn't believe there would be enough detailed information to provide to customers on new developments, with one highlighting that it wouldn't be possible without an agreed energy strategy; developed energy design; and agreed contract (ESCo Concession Agreement, Supply Agreement). The other respondent flagged that without a heat tariff and heat supply agreement, there would be insufficient information to provide customers.

However, one respondent flagged that it is vital that tenants in new developments are fully aware of heat supply arrangements in advance of completion of the transaction.

Other proposals put forward included creating standardised information templates which incorporate heat network details, providing online resources and considering mandatory disclosure requirements, with two respondents also suggesting there should be consumer education campaigns.

One respondent suggested that base heat usage data should be available for properties.

Another respondent noted that any information provided should high-level, factual and easy to understand for potential consumers.

Our proposed approach is outlined on page 101.

Q61. What issues do SMEs connected to heat networks typically face and are issues growing in volume and/or severity? Please provide evidence and reasoning to support your position where possible.

Question 61	Response
Comments	32

Table 73

Three respondents raised that Small-to-Medium Enterprises (SMEs) lack awareness of heat networks. With this they mentioned that:

- Microbusinesses do not understand the nature of the supply and how to fit out their premises to use a heat network.
- It would be useful to have a similar pre-occupation guide for SMEs on heat networks, with more generic info and FAQs.

One respondent mentioned security of supply as an issue.

Three respondents mentioned lack of or limited resource as an issue for SMEs. They mentioned:

- Small businesses are unlikely to have an energy manager and may not have particular expertise when choosing an energy contract or deciding to connect to a heat network.
- Small businesses are also much more similar to a domestic consumer than a large corporate business when it comes to energy and heat use and general understanding of the retail energy market.
- SMEs are generally quite restricted on resource. Therefore, having someone who can go out and negotiate this type of energy arrangement can be barrier to connect to a network. This results in SMEs choosing not to connect to the network as it is too time consuming and challenging.

Three respondents raised challenges related to higher heat cost, complex contractual obligations, limited competition & billing transparency issues. Concerns raised included:

- Security of supply.
- Gas and electricity markets not having different rules/protections for SMEs (including micro-business).
- The level of VAT applied at 20% compared to 5% for domestic customers.
- Rising energy costs, evolving contract complexities and lack of competitive alternatives.

Our proposed approach is outlined on page 101.

Q62. What consumer protections would you expect to apply to SMEs? Please provide evidence and reasoning to support your position.

Question 62	Response
Comments	37

Table 74

11 respondents answered No Comment, N/A, or insufficient knowledge.

Nine respondents supported SMEs having the same or similar consumer protections as domestic consumers, rather than treating them as large corporations as they are unlikely to have the skill, capacity and knowledge to effectively negotiate on these issues.

Four respondents queried the 247,000kWh/year threshold, with two respondents wanting clarity from Ofgem/DESNZ on the basis for setting the microbusiness threshold at 247,000 kWh of heat per year. Two respondents proposed that businesses consuming more than 247,000kWh/year would be fully able to directly negotiate their own terms and conditions so should be excluded from consumer protections.

Three respondents suggested protections should encompass transparent billing and pricing, and accessible Dispute Resolution Mechanisms. With this, two respondents also suggested:

- Fair contract terms.
- Price change notifications.
- Supply reliability assurance.
- Option to access alternative suppliers.

One respondent didn't support SMEs protections being extended to larger business as they will have the opportunity to negotiate their own service levels when they connect to a network.

Our proposed approach is outlined on page 101.

Q63. Do you agree with the proposed rules and activities for introduction in the first year of regulation? Are there any that you think should not be introduced in the first year?

Question 63	Response	Percentage
Yes	46	41%
No	10	9%
Not answered	55	50%
Comments	58	N/A

Table 75

Of the responses received a large proportion agreed with the proposed rules and activities for introduction in the first year of regulation. Of those who did not agree, respondents noted:

- Concerns over pricing, metering, and Step-In.
- Smaller heat networks will likely struggle to meet the requirements, particularly around pricing, vulnerable consumers, metering, and Step-In.
- General concerns over additional costs arising from the increased administrative burden.

Respondents suggested detailed guidance and active support from Ofgem for those who have no regulatory experience, whilst also recognising the diversity of the industry. One respondent suggested that the initial period should last between two to three years, as opposed to one.

Finally, respondents who expressed concerns generally highlighted that Ofgem should consider sectors that are already regulated elsewhere (e.g., housing, water) and to determine what information can be shared amongst regulators or excluded for Ofgem if already provided to another regulator.

Our proposed approach is outlined on page 101.

Q64. Are there any other rules or activities that we should introduce in the first year of regulation?

Question 64	Response
Comments	53

Table 76

24 respondents noted that there should be no other rules or activities that we should introduce in the first year of regulation. However, two respondents noted that the current list of rules and activities alone were already too onerous for smaller heat networks.

In regard to further suggestions for other rules or activities, respondents noted:

- Price caps becoming mandatory.
- Guaranteed Standards of Performance being made a priority.
- Early requirements for supplying data to Ofgem must go further than just largely focussing on pricing data.
- Cost allocation rules should be introduced from the start.
- Transparency rules.
- A measure of CO2 emissions.

Some respondents noted that Ofgem should set out how it intends in the first year to receive, process, and publish all of the uncleaned and manually generated data that it will receive. Furthermore, there should be clear guidelines for handling emergency situations, and the launch of a comprehensive consumer education campaign to inform consumers about their rights and the benefits.

Finally, three respondents noted their main issue is the risk, as identified in the Impact Assessment, of having non-registered heat networks under the HNMBR. Thus, they believe some effort should be given by Ofgem to the identification of this “data gap” and how to bring these networks into the regulatory regime in the first year. Ofgem should work on further on the identification of data gaps presented by non-identified heat networks.

Our proposed approach is outlined on page 101.

Government response

Transparency of information to the consumer

Metering

We welcomed engagement with this topic. We confirm that we will remove the Open class and discontinue the cost effectiveness tool under the new regulatory regime. Energy price rises have changed the fundamentals of the policy and we agreed with respondents who noted that rates of meter installation have not been in line with the aims of the policy.

We will instead look to define instances where meters should not be installed through the equivalent to the exempt class with an expanded list of circumstances. We will consult on this list later, as well as with final proposals on installation of meters in communal parts and our stance on heat cost allocators (where feedback was more mixed) later this year.

We welcomed the strong support for our proposed approach to increasing rates of heat meter installation. We will further refine the Appendix 3 specification, presented in the consultation document, through engagement with respondents to the consultation as well as future public events to arrive at a final specification which will be published by the technical standards code manager in advance of heat network regulation. We noted responses to the questions on heat cost allocators and have not arrived at a final stance.

In response to support for question 53 we have decided that the Office for Product Safety and Standards (OPSS) will be responsible for regulating heat metering accuracy for heat networks under the future regime. Wider division of responsibilities on regulatory requirements in relation to metering between OPSS and the technical standards code manager is the subject of continuing policy development and will be further explained as part of our forthcoming consultation on technical standards drafting.

Future specifications for metering will be the responsibility of the code manager and OPSS.

Billing information, frequency, and method

The responses to this consultation question broadly supported our proposals and next steps. We understand respondents' requests for guidance and templates on billing practices and will engage further to develop this. We recognise that some smaller and not-for-profit networks expressed some concern with the proposals. We are developing the proposals further and will further clarify the proposals for metered vs unmetered networks. We will do further work and engage stakeholders to consider whether we should take into account the needs of different market segments in our approach.

We are keen to explore options for including additional information on consumer bills. We are interested in market and consumer appetite for including greenhouse gas emission information on billing information and will look to engage with stakeholders on this. On billing practice, we are developing work to conduct some behavioural insights work and analysis to engage with consumers on what good bill practice could look like. We are developing our policy position on these areas and are aiming to consult with stakeholders on these in Summer 2024.

Back-billing, price change notifications, and heat supply contracts

The responses to this consultation question support our proposed approach and next steps on back-billing, price change notifications, and heat supply contracts.

We understand respondents' concern over back-billing limits, and we will do further work on this proposal. We will consider different options for this policy area including whether we should take into account different market segments in our approach, for example having different back-billing limits for different types of heat network, or a transitional approach where we aim to align with the 12-month limits, as in the Gas and Electricity market, in the medium term. As this policy thinking develops, we will seek to engage further with stakeholders and explore the interactions with existing obligations. We are developing our policy position on back-billing limits with the aim to consult with stakeholders in Summer 2024.

We are further exploring the implications of Price Change Notifications and Heat Supply Contracts applying to properties that do not currently have them. As policy thinking develops on this area, we will seek to engage further with stakeholders. We recognise that many respondents questioned how Heat Supply Agreements would work for unmetered properties. In the scenario where heat is already provided for through terms of a lease, then as proposed in the consultation this would be considered the equivalent of a heat supply contract (e.g. terms in a lease or tenancy agreement). We are aware that there are concerns about the impact on consumer outcomes (for example, support to those facing payment difficulty and risk of eviction) when heat is bundled with other charges, for example like rent, and this is something we will be looking into further as we develop our policy on billing and wider consumer protections. We would like stakeholders to consider the information outlined in Appendix 2 (in the consultation document) and explore other ways in which Heat Supply Contracts/Heat Supply Agreements can be provided to the end consumer. In scenarios where the supplier and operator are different, we would see the supplier as responsible for complying with Heat Supply Agreement requirements. We are exploring how we ensure consistent consumer outcomes, while considering the implications for how regulation is approached when heat charges are included in the rent or service charge of a property. We will develop our policy position with the aim of consulting with stakeholders in Summer 2024. We will engage with stakeholders throughout the policy development process.

We recognise respondents' requests for clear templates and guidance to support implementation. We will seek to engage with stakeholders as we develop this. We are

planning to reach out to stakeholders but also welcome their views. If you would like to feedback to us on this area, please get in contact through our inbox HeatNetworksRegulation@ofgem.gov.uk.

Pre-contractual transparency

Responses were largely supportive that a package of measures on pre-contractual transparency will provide prospective consumers with sufficient information prior to and during a property transaction. This is because it will provide heat network customers with information that helps them to understand the characteristics of their network and what they can expect from their supplier.

We agree with the feedback that new tenants or homeowners could be provided a welcome pack from the heat network operator. We will continue to work with the Department for Levelling Up, Housing and Communities (DLUHC) and equivalent bodies in Wales and Scotland to include heat network related information and signposting to further information into their ‘How to...’ series. These are aimed at residential customers and include guides for buying, renting, and leasing, as well as a letting guide for landlords.

As proposed in the consultation we will continue to standardise the term “community scheme” to “heat network”, which will allow relevant heat network information from online searches (such as gov.uk, Heat Trust, and Citizens Advice) to be sourced more easily.

We recognise the responses that had some reservations about using Energy Performance Certificates (EPCs). As noted in the consultation the government is currently working on proposals for improving EPC metrics, and intends to consult on these.

Ensuring pre-contractual transparency is effective for prospective consumers in new developments is a key area to increasing the wider transparency within the heat network industry. We agree with respondents that there should be obligations for reporting whether a property is connected to a heat network to potential buyers. The department is working closely, and will continue to do so, with the Department for Levelling Up, Housing and Communities (DLUHC) to investigate where amendments to existing legislation can be made, to obligate estate agents to report whether a property being sold is connected to a heat network, and potentially other useful information.

Small and Medium sized Enterprises

In this consumer protection consultation we asked whether the scope of regulation should be extended to beyond covering heat networks supplying domestic and microbusiness to also include heat networks serving small and medium sized enterprises (SMEs)²².

We acknowledge the contributions of stakeholders on this issue and evidence provided about the issues faced by SMEs. We will continue to explore this area further and will engage with stakeholders again in future. The responses provided will support the development of the policy in this area.

Respondents broadly shared concerns about SMEs' understanding of the nature of heat supply and having insufficient knowledge to fit out their premises for connection to a heat network. Stakeholders advised that these factors, as well as limited resourcing and competition, higher heat cost and a lack of billing transparency may lead SMEs to not connect to a heat network. We acknowledge stakeholder concerns, and we will consider how SMEs can be considered in the development of the regulatory framework.

Some stakeholders proposed that the following consumer protections should also apply to SMEs:

- All consumer protections that apply to domestic consumers.
- Fair contract terms.
- Transparent billing and pricing.
- Price change notifications.
- Accessible dispute resolution mechanisms.
- Assurance of reliable supply.
- Option to change to an alternative supplier if experiencing unreliable supply.

We will evaluate the proposed consumer protections recommended by stakeholders and put forward proposals in a further policy consultation this year.

We have noted the views of stakeholders and understand respondents' request for clear guidance for SME's when dealing with contractual arrangements, understanding obligations and general awareness of heat networks. We also note that the recent heat network zoning consultation proposed that all consumers within heat network zones, including larger non-domestic consumers, should have access to transparent pricing

²² Small- to-Medium Enterprise: Any organisation larger than a microbusiness that has fewer than 250 employees and a turnover of less than €50 million.

information. We will consider responses to that consultation in developing policy relating to SMEs.

Sequencing of consumer protection rules

Of the responses received a large proportion agreed with the proposed rules and activities for introduction in the first year of regulation. We will proceed with our proposed approach to introduce pricing, Quality of Service, pre-contractual information to consumers, information to consumers during residency, consumers in vulnerable circumstances, metering and Step-In as outlined on page 122. We will also consult on the broader package of Step-In measures that may be required including a possible regulatory backstop using the Energy Act 2023 powers.

Reporting on pricing in the first year of regulation is required to inform our approach to some of the pricing proposals. Ofgem will gather pricing data to inform the pricing rules and benchmarking approaches which will be introduced following the first year of regulation.

Quality of Service rules in the first year of regulation will create the complaints handling procedure for consumers which we will aim to have in place by the start of the initial period.

We understand that there were general concerns over metering requirements. We would like to remind stakeholders that in the first year of regulation, metering requirements will only extend to safeguarding consumers in relation to force-fitting PPMs and that any further changes to the requirement to have appropriate metering installed will be integrated over time.

We will introduce the following rules and activities shortly after the first year of regulation:

- Price investigations, price benchmarks and cost allocation rules.
- Guaranteed Standards of Performance.

We understand the concerns raised by stakeholders over pricing, metering, Step-In and vulnerable customers in the first year of regulation, particularly for small heat networks. We will seek to explore the feedback regarding small heat networks and heat networks with not-for-profit or cost pass-through cost models and will consider our approach to different segments of the market.

We have noted the views of stakeholders and understand respondents' need for clear guidance, templates and active support for the rules and activities to be introduced in the first year of regulation. We will seek to engage with stakeholders in the development of these products.

Monitoring, audit, compliance, and enforcement

Question analysis

Q65. Should we take into account different market segments in our approach to general monitoring and compliance and financial monitoring? If so, what factors should we consider?

Question 65	Response	Percentage
Yes	46	41%
No	9	8%
Not answered	56	50%
Comments	58	N/A

Table 77

Most respondents stated we should consider different segments in our approach to general monitoring, compliance and financial monitoring. Many stakeholders identified their type of organisation and how this would fit into a segmented approach. The most frequently mentioned group were not-for-profit heat networks, followed by segmenting smaller heat networks based on size using the number of customers. A common theme from respondents in favour of segmentation included financial limitations to implementing improvements, low resource due to nature of organisation type and difficulty in acquiring data due to it being dispersed.

Those who disagreed with considering different market segments generally stated that it wouldn't ensure all customers were receiving fair and consistent outcomes across the market or that the approach may unintentionally lead to a 'two-tier' system.

Some stakeholders addressed difficulties in gathering financial monitoring data as a key metric. Heat networks forming a part of a larger organisation such as local authorities stated that data is currently difficult to collate due to it being dispersed. There were also concerns around providing commercially sensitive information. Stakeholders also recommended networks could be segmented by the type of business model used with regard to assessing financial health.

Regarding the impact on compliance, local authorities and operators noted the potential costs from compliance action being passed onto consumers due to their available resource to fund improvements. Smaller network operators commented on the use of the initial period and the phasing in of regulation, with a few networks noting they might not be fully compliant after the first year of monitoring.

Our proposed approach is outlined on page 111.

Q66. (a) Are these the right metrics to ensure we have a picture of heat networks' performance and consumer service? (b) Are there any which should not be included or others which should be included? If so, why? (c) Is there a frequency of reporting for particular metrics which would provide a clear picture of performance?

Question 66 (a)	Response	Percentage
Yes	39	34%
No	7	6%
Not answered	65	59%

Table 78

Question 66 (b and c)	Response
Comments (b)	52
Comments (c)	15

Table 79

Respondents were generally supportive of the proposed key monitoring areas. The most frequently raised theme by stakeholders was an emphasis on ensuring monitoring is proportional for networks to address the potential increased administrative and resource burden on smaller networks. Some local authorities and charities wanted Ofgem to consider that some metrics and data may be unavailable or difficult to access for small, not-for-profit, and single landlord run networks.

Stakeholders also wanted a clear rationale from Ofgem as to why certain financial monitoring metrics were chosen and how financial data would operate for certain types of networks such as not-for-profit networks.

For reporting frequencies, larger operators or energy companies were generally supportive of quarterly or six-monthly reporting, whilst small operators, local authorities and housing associations highlighted a preference for an annual reporting frequency.

Stakeholders also made recommendations for other metrics that could be captured as part of the monitoring requirements. Most respondents recognised that including metrics on carbon factors will be crucial for supporting heat network decarbonisation and delivering on low carbon options for consumers.

Our proposed approach is outlined on page 111.

Q67. Do you agree with the overall scope of and approach to auditing to support compliance with regulation, including the initial areas of focus?

Question 67	Response	Percentage
Yes	44	40%
No	6	5%
Not answered	61	55%
Comments	42	N/A

Table 80

Respondents tended to agree with the proposed overall scope and approach to auditing. Overall, the responses indicated general support for the audit proposals from respondents, although further clarity and detail will be welcomed across the whole approach.

A notable theme from respondents who agreed with our proposal was that there needed to be a risk-based approach to auditing with this being cited by six respondents. A further two respondents also specified a potential burden to smaller heat networks. These eight responses clearly indicated a favour of having risk-based audits and were representative of an important theme in relation to the consultation question.

Budget and resource limitations were highlighted by a local authority when considering improvements required following audits and how quickly these could be implemented. This links with the approach taken to introducing obligations and heat networks implementing any new requirements and whether this is done over a time period.

Another theme highlighted by respondents was a need for an opportunity to leave constructive feedback, either during or after the audit process. There were some reservations from some stakeholders regarding the appointing of an auditor citing that consideration should be given to potential conflict of interests if the auditor appointed is already the consultant for the heat supplier/operator.

Our proposed approach is outlined on page 111.

Q68. Do you consider that the proposed compliance and enforcement framework is appropriate for ensuring that non-compliance is addressed?

Question 68	Response	Percentage
Yes	44	40%
No	10	9%
Not answered	57	51%
Comments	52	N/A

Table 81

Overall, most respondents agreed with the proposals for compliance and enforcement and supported the proposed proportional approach to this. Local authorities, housing associations and consumer groups were concerned that small and not-for-profit networks do not suffer unintended consequences of financial penalties, and that these do not get passed on to consumers.

Responses agreed with a phased implementation of compliance and enforcement activities to give the sector time to get compliant with regulations. Local authorities particularly supported having warnings and opportunity to resolve compliance issues before being issued fines, and respondents across organisations wanted confirmation on the actions/activities that would trigger an enforcement case being opened. Equally, respondents supported having sufficient warnings and open dialogue with the regulator before investigations began. Respondents wanted to learn more about the steps and processes involved in the investigation-enforcement action timeline.

Local authorities particularly highlighted the need for proportionality when applying financial penalties. Two operators expressed concerns over the possibility of non-heat network experts conducting investigations, and raised concerns that assessors with only gas and electricity market knowledge may not fully understand the complexities around heat networks and how they differ from the gas and electricity market.

The minority of responses disagreeing with the proposals raised concerns over costs being passed onto consumers and the potential financial and fixed penalties having a knock-on effect on consumers and increasing burden on small networks. One housing association suggested that penalties for low quality data submissions should be used sparingly as small networks lack the resources to deliver these.

Across responses, respondents welcomed more dialogue from Ofgem to learn more about proposed compliance and enforcement activities and timelines. Respondents wanted to understand more about the steps and processes involved in compliance and enforcement cases.

Our proposed approach is outlined on page 111.

Q69. Do you consider that our penalties policy should include Fixed Penalties as an efficient way of addressing certain non-compliance? If so, what are the main benefits and risks that need to be considered when implementing this approach, including how they would apply to different segments of the market?

Question 69	Response	Percentage
Yes	29	26%
No	27	24%
Not answered	55	50%
Comments	62	N/A

Table 82

The respondents that agreed with the proposals stressed that fixed penalties need to be proportionate and considered in use. Some local authorities, housing groups and operators had concerns that these costs would or could be passed to the consumers.

One operator and one local authority considered that monies collected from penalties could be re-invested into the industry, rather than directed to HM Treasury. Some proposed alternatives to fixed penalties including a reward scheme where sufficient information provided ahead of time, regulatory fees could be reduced an approach based on penalty points analogous to a driving licence and with a range of consequences which could ultimately include appointing a new operator.

The majority of respondents disagreeing with the proposals expressed concerns about the potential for costs to be passed on to consumers and the burden of penalties on not-for-profit or smaller networks. Two respondents suggested that a penalty is charged alongside offers of support to help overcome the organisational problems that is causing the non-compliance and address root causes of non-compliance.

Some respondents raised a number of emerging risks, including:

- Proportionality – penalties that increase difficulties for smaller, not-for-profit networks finance is tight and could be used for improvements.
- Costs passed on to the consumer - implementing a penalties regime without networks passing costs to customers.
- Avoid networks viewing fixed penalties as a cost of doing business – finding balance between deterrence and the cost of compliance outweighing the costs of penalty.

Our proposed approach is outlined on page 111.

Government response

Monitoring, audit, compliance, and enforcement:

Monitoring

Information gathering powers will allow for the detailed development of a monitoring regime to assess compliance with consumer protection obligations. Following the broad support from respondents to varying regulatory requirements by market segments, we will further consider how we develop our monitoring proposals, including financial monitoring, and compliance frameworks for the different types of networks within the sector. We will continue to engage with stakeholders to understand the various types of heat networks within the sector, their operational capabilities and how they are currently gathering and reporting data. This will help to inform how the approach to monitoring and compliance will be structured and the associated regular monitoring requirements.

We are confirming the list of regular reporting metrics outlined in the consultation which principally relate to customer protection rules, with the technical code manager consulting separately on technical monitoring requirements.

We note that respondents wanted further clarity on how financial monitoring metrics would apply to business models or how these metrics would be measured or assessed. Further development of financial monitoring will consider existing financial obligations for areas of the heat network sector and how financial resilience standards may already be monitored by these organisations.

We have noted the concerns from heat networks whether they will be ready for regulation and will incorporate this into our approach during the initial period, as well as seeking further engagement from these stakeholders.

We plan to bring forward proposals on the general and financial reporting metrics, the proposed reporting frequencies and compliance in the monitoring consultation later in 2024. This will also include further detail on potential segmentation, to ensure the approach the development frameworks are proportionate.

Audits

We propose that audits are part of our approach for the regulatory oversight of heat networks using the outputs to assist with ensuring compliance with the consumer protection obligations. We will consider further the number and scope of audits and how they will be targeted. We envisage that a proportion of the audits will be carried out on a random selection of regulated entities with others being selected for auditing in a more targeted fashion. For example, in future audits covering customer protection might be coordinated with technical audits undertaken by the technical code manager.

We will also consider how audits are undertaken in a proportionate way depending on the type of heat network, including how they will be introduced during the implementation

period. We expect to further consult on the detail of our approach in Summer 2024, and will subsequently publish guidance and procedures in advance of implementing the audit programme. We expect to include requirements in authorisation conditions for heat networks to agree to an audit, including being open and cooperative with the regulator, and also to undertake audits themselves where required.

Compliance and enforcement

Most respondents agreed with the proposed framework for compliance and enforcement. Based on these responses we are confirming that we will go ahead with proposals subject to more detailed consideration of the potential impacts on segments of the market such as networks that operate on a ‘cost pass through/not-for-profit’ basis. We will further consider how we will engage with industry, including through the further consultation in Summer 2024 and as we approach “go live”.

Respondents across organisations wanted confirmation on the actions and behaviours that would trigger an enforcement case being opened and the processes and timings involved in the enforcement action. We will engage with stakeholders on how compliance action and enforcement investigations will be conducted (and including which regulatory body which will undertake them - Ofgem, Technical Code Manager, Zoning Coordinator).

This will include the approach to undertaking compliance action to improve consumer outcomes across the market, including for customers of smaller heat networks.

We have taken into account the responses we received in our drafting of the (forthcoming) Market Framework Statutory Instrument which is to be laid before Parliament. This legislation will provide the framework for us to develop our approach to enforcement and penalties.

As some stakeholders expressed concerns over how compliance and enforcement investigations might be conducted and by which body, we will seek further engagement with stakeholders to understand their concerns on this, and engage industry on our approaches to undertaking compliance and enforcement such as potential prioritisation criteria for action and self-reporting by heat networks.

We have noted views on the need to be proportionate in the way we undertake compliance action and will consider how we reflect this in our approach both during the implementation period and once regulation is established.

We will be considering how we might engage industry on our approaches to undertaking compliance and enforcement such as self-reporting by heat networks and potential criteria for action.

Penalties policy

We have taken account of the responses received to help develop the content of the Market Framework Statutory Instrument which provides an overall framework for a

penalties approach across the market. Reinvestment of penalties, as suggested by some respondents, is not feasible under current rules as they are required to go to the Consolidated Fund. Financial penalties remain a part of our wider enforcement approach.

Overall, we consider that fixed penalties should be part of the toolkit for regulating the heat network market. However, we need to consider further when and how they might be introduced and applied, including timing in relation to the implementation period, areas of non-compliance covered and the size of penalty. We will seek to develop an approach which is proportionate across the market, finding a balance between penalties as an efficient deterrent compared to the cost of compliance.

We plan to consult on our Enforcement Guidelines and penalties policy in due course.

Ofgem’s administering of the cost recovery regime

Question analysis

Q70. Do you agree with our proposal not to implement a payback period if the transition period is funded by the gas and electricity licensees?

Question 70	Response	Percentage
Yes	56	50%
No	2	2%
Not answered	53	48%
Comments	24	N/A

Table 83

For this question, we will refer to the “transition period” in the question above as “initial period²³”. Respondents who agreed with the policy re-iterated that having an initial period and not implementing a payback period would avoid putting financial burden and deterring heat network operators, and this would also avoid disproportionate costs being passed on heat network customers. It was also reiterated by numerous respondents that the impact on gas and electricity bills would be negligible.

Responses who disagreed with the policy mentioned the issue of fairness, that gas and electricity customers are paying for a service that are not provided to them.

²³ Also referred to as the ‘initial year of regulation’ in Ofgem’s recent consultation, found here:

www.ofgem.gov.uk/sites/default/files/2024-01/Consultation%20on%20licence%20fee%20cost%20recovery%20principles%20%E2%80%93%20Recovery%20of%20Heat%20Network%20regulation%20set%20up%20and%20ongoing%20costs.pdf

Our proposed approach is outlined on page 116.

Q71. Do you agree with the proposed method of fee apportionment based on consumer numbers, with non-domestic being classed as one customer? Are there any implementation challenges with this approach?

Question 71	Response	Percentage
Yes	43	39%
No	7	6%
Not answered	61	55%
Comments	39	N/A

Table 84

Respondents who agreed with the proposed method to fee apportionment recognised its alignment to the methodology in gas and electricity. Additionally, the rationale to consider one user as one customer regardless of customer type would provide a suitable degree of simplicity to licence fee calculations.

Most respondents that disagreed with the policy brought up the issue of fairness when regarding non-domestic customer being classed as one consumer, arguing that non-domestic are large consumers of heat. Consequently, this policy may put disproportionate burden on some heat networks based on the type of consumers they have which may be unfair. Alternatives presented in the response include fees based upon boiler size to ensure that regulatory costs are tied to heat generation.

Our proposed approach is outlined on page 116.

Q72. Do you agree with our proposal not to impose a minimum fee?

Question 72	Response	Percentage
Yes	47	42%
No	4	4%
Not answered	60	54%
Comments	28	N/A

Table 85

Among the responses that disagreed with the proposed policies, one response from an operator noted that there should be a maximum fee instead of a minimum for companies to

budget taking into account that excessive costs will be passed onto the end customers, making heat networks an unattractive option.

Two respondents (one trade association and one operator) that disagreed with the policy proposed commented that customers should face the same regulatory cost. This is in line with the policy proposed where we would not impose a minimum fee (a minimum fee would result in customers paying different costs for regulation). This could be attributed to misunderstanding a question that is presented with a negative.

Responses that agreed with the policy noted that the limited administrative benefits of such policies outweigh the drawbacks faced by smaller heat networks on whom the minimum fee might be imposed. There are also comments that heat networks consumers should face the same costs of regulation regardless of the provider/operator.

Finally, there are comments about consideration of zero/low costs for charitable organisation and housing associations, and provision of additional support for smaller heat networks.

Our proposed approach is outlined on page 116.

Q73. Should a de minimis threshold be imposed to streamline the cost recovery process? If yes, what are the factors to be considered when calculating the optimal de minimis threshold?

Question 73	Response	Percentage
Yes	26	24%
No	13	12%
Not answered	72	65%
Comments	43	N/A

Table 86

The summary to this question has been combined with question 74.

Q74. What are the benefits, drawbacks, and possible unintended consequences of imposing a de minimis threshold that we have not considered above?

Question 74	Response
Comments	40

Table 87

The respondents who do not think a de minimis should be imposed discussed that heat network customers should all face the same regulatory cost. They considered that, since small

heat networks form a large part of the market, a de minimis essentially penalises smaller proportion of large operators by not collecting from a large proportion of smaller heat networks. There are also concerns that smaller networks that could potentially present a larger part of the regulatory challenges would be exempt from regulatory charges which present issues of fairness. These respondents considered that not a paying regulatory fee can also act as a disincentive to engage with the regulatory framework in general.

Some commented that bigger providers may have to pay more and will eventually pass on the higher costs to consumers, leading to some consumers not paying at all and other consumers paying more than average for regulation.

Respondents who agree with the de minimis policy argue using number of domestic customers or annual heat supply. Most respondents who agree are smaller operators and local authority that mention the benefits of streamlining process and reducing administrative burden.

Our proposed approach is outlined on page 116.

Q75. Do you have a view on how frequently heat networks should pay Ofgem fees, and how heat networks may wish to pay us (ie the payment method)?

Question 75	Response	Percentage
Yes	29	26%
No	12	11%
Not answered	70	63%
Comments	43	N/A

Table 88

Most respondents proposed annual payment options by default, with two respondents mentioning quarterly/monthly presented as options to lower burden on smaller heat networks. The rationale provided for annual payments would be to align with other regulated utilities.

In terms of payment methods, two respondents proposed BACS and direct debit options. Respondents generally emphasised the desire for any method to minimise the administrative burden for heat network operators, suppliers, and Ofgem.

Our proposed approach is outlined on page 116.

Government response

Ofgem’s administering of the cost recovery regime:

Cost Recovery

The majority of those responding agreed that the transition period should be funded by gas and electricity licensees. Further they reiterated that having an initial period and not implementing a payback period would avoid putting a financial burden on heat network operators, and this would also avoid costs being passed on to heat network customers. Responses that disagreed with the policy mentioned the issue of fairness, that gas and electricity customers are paying for a service that is not provided to them. However, as stated in the consultation, recovering the additional two pence from gas and electricity customers who fund the initial period provides negligible impacts to gas and electricity customers while collecting from the heat network sector would put a disproportionate burden on heat network customers. The majority of those responding to the question agreed with the policy proposed. While we recognise the points raised by those who do not agree, we continue to consider it is appropriate to recover the initial period costs from gas and electricity licence fee payers and not to implement a payback period for the funding recovered in this period. Our position on this is also reflected in the recent Ofgem consultation on licence fee cost recovery principles²⁴.

The Impact Assessment that accompanied this consultation stated that Ofgem's set up costs would be funded by the government. However, it is now proposed that the set-up costs be recovered from gas and electricity licensees in a similar manner as the initial period discussed above. Ofgem has consulted on this through the Ofgem consultation on licence fee cost recovery principles mentioned above, where the majority of respondents were supportive of the proposed mechanism. Therefore, Ofgem has decided that the set-up costs would be recovered through the licence fee cost recovery mechanism.

Fee Apportionment

The majority of respondents who answered the question agreed with our proposed method of fee apportionment, recognising its alignment to the methodology in gas and electricity and its simplicity to licence fee calculations. Respondents who disagreed with the proposed methodology cited unfairness when regarding non-domestic customers as one customer. Alternatives presented included using boiler size. However, given the lack of robust data in the sector regarding generation and consumption makes it challenging to employ such methodologies. As such, we will be considering non-domestic consumers as one customer in the near short and medium-term future.

Minimum Fee

Based on the consultation responses, we will be going ahead with our proposed policy of not implementing a minimum fee due to the limited administrative benefits of such policy relative to the excessive burden that would be placed on consumers on smaller heat networks on whom the minimum fee might be imposed.

De Minimis

²⁴ www.ofgem.gov.uk/publications/consultation-licence-fee-cost-recovery-principles-january-2024

On the policy of de minimis, most respondents noted the benefit of streamlining policy and reducing administrative burden while noting the drawback of putting limited additional cost burden on consumers of larger heat networks. Respondents who disagreed cited issues of fairness. However, our cost recovery analysis (based on 2021 numbers) showed an increase of 0.06 pence per customer at a de minimis threshold of 100 customers, with this value decreasing as the de minimis threshold increases. This indicates that a certain level of de minimis may have negligible impact on individual customers, while allowing for lower administrative costs and reducing the administrative burden on smaller operators, who will face an inevitable increase in regulatory compliance costs.

Regulatory fee payment frequency and method

Finally, a majority of respondents proposed annual payment options by default, with some respondents noting that more frequent payment option may help lower the burden on smaller heat networks. Therefore, we will look further into implementing annual payments as the default option, with smaller heat networks having the option of requesting more frequent payment option. Regarding payment methods, most respondents proposed direct debit and BACS options. We will further look into developing the proposed payment methods.

Next steps

We will continue our ongoing engagement with stakeholders as we advance our proposals and where issues emerge. We anticipate that legislation will begin to be enacted in this year, based on the proposals outlined in the 2023 joint DESNZ-Ofgem consumer protection consultation. All policy consultations are planned to be completed this year with all necessary legislation and publications to be in place by for regulations starting in 2025.

We have also held a consultation on heat network zoning in England²⁵. This closed on Monday 26 February. We will publish a government response to this consultation in due course. The proposals for zoning will dovetail with those proposed for consumer protections. We have committed to zoning going live in England in 2025, and following the government response, we will bring forward secondary legislation to support this.

We have listed below timings for upcoming relevant consultations:

Policy area	Where and when are we consulting on this?
Technical standards and metering.	Summer 2024
Step-In arrangements.	Summer 2024.
Ofgem’s administering of the Scottish licensing regime.	The intention is to publish a 12-week public consultation on two Scottish regulatory instruments – licencing and consenting in summer 2024.
Further consultation on the consumer protection measures that need further policy development for example vulnerability, complaints, GSOPs, billing and price protection.	Summer 2024.
Price Protection	Autumn 2024

Table 89 - Approach to consulting on the heat networks regulatory framework

²⁵ See: www.gov.uk/government/consultations/proposals-for-heat-network-zoning-2023.

Appendix

Appendix 1: Fair pricing – rules and guidance

This appendix provides further detail on the feedback received to Question 17, shown in table 90 below.

Q17. We are interested in stakeholder views on the balance between prescriptive rules (setting minimum standards) and general guidance, that could be introduced across all heat networks. Which areas²⁶, should be covered in rules, which should be covered in guidance, and which should be left to the market?

Question 17	Response analysis		
Area	Number of responses in favour of:		
	More Prescriptive Rules	Use of General Guidance	Left to Market
Network Efficiency	5	8	1
Site and business comparisons	4	4	1
Maintenance and service cost	4	6	-
Customer service charges	6	5	-
Cost reflective pricing	5	5	2
Rates of return	5	5	-
Hedging expectations	1	6	4
Restrictions on passing on fines	12	1	-
Debt Management	9	6	-

²⁶ See consultation document, Table 4 (page 42) and Appendix 1: Fair Pricing – rules and guidance.

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Capital Cost Recovery	4	6	2
Cost subsidisation	5	5	2

Table 90 – Breakdown of responses for question 17

Appendix 2: Domestic, non-domestic and industrial customers

This appendix provides further detail on which requirements apply to which sort of network, which was presented in the consultation document.

Network Type/ Example	Consumer Protection									Comments
	Fair pricing	Quality of service/ Complaints	Market Led Step in (CSCPs & contractual step in)	Protections for Vulnerable consumers	Transparency of information to consumers	Metering	Technical Standards	Decarbonisation	Authorisation, monitoring, audit, compliance	
District Network (domestic and/or microbusiness connections/ end consumers	X	X	X	X	X	X	X	X	X	See all sections of this consultation and also future consultation on Technical Standards.
Communal Network (domestic and/or microbusiness end users)	X	X	X	X	X	X	X	X	X	See all sections of this consultation and also future consultation on Technical Standards.

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District Network (no domestic or microbusiness connections/ end users)							X	X	X	X	Note relevant sections and also future consultation on Technical Standards
Communal Network (no domestic or microbusiness end users)							X	X	X	X	Note relevant sections and also future consultation on Technical Standards
Communal or District Network where use is purely industrial										X	Note relevant sections and also future consultation on Technical Standards
'Self-supply' heat networks								X	X	X	Note relevant sections and also future consultation on Technical Standards

Table 91 – Requirements on networks by type for different protections

Glossary

Term/Acronym	Explanation
AMI	Advanced meter infrastructure.
AMR	Automatic meter reading.
BCP	Business Continuity Plans.
CET	Cost effectiveness tool.
CMA	Competition and Markets Authority.
Communal Heat Network	A type of heat network in which heating, cooling or hot water is supplied only to a single building divided into separate premises or persons in those premises.
CSCP	Customer Supply Continuity Plan.
DBT	Department for Business and Trade. https://www.gov.uk/government/organisations/department-for-business-and-trade
DESNZ	Department for Energy Security and Net Zero. https://www.gov.uk/government/organisations/department-for-energy-security-and-net-zero
De minimis	A legal term meaning too small to be taken into consideration; in the context of a de minimis threshold, a size of an operation below which certain requirements or fees may not apply.
DLUHC	Department for Levelling Up, Housing and Communities. https://www.gov.uk/government/organisations/department-for-levelling-up-housing-and-communities

Term/Acronym	Explanation
District Heat Network (DHN)	A type of heat network in which heating, cooling or hot water is supplied to two or more buildings or persons in those buildings.
DRP	Disaster Recovery Plans.
EPC	Energy Performance Certificate.
ESCo	Energy Service Company.
Energy Bill Discount Scheme (EBDS)	The Energy Bills Discount Scheme runs from 1 April 2023 to 31 March 2024. This scheme replaces the Energy Bill Relief Scheme (see below).
Energy Bill Relief Scheme (EBRS)	A government scheme to support businesses and public sector organisations by providing a discount on wholesale gas and electricity prices for usage between 1 October 2022 and 31 March 2023.
EU	European Union.
Existing Entities	Heat network operators and Heat suppliers that already exist.
FAQs	Frequently asked questions.
FRP	Financial Responsibility Principle.
G&E	Gas and electricity.
General Data Protection Regulation (GDPR)	The General Data Protection Regulation (GDPR) is a Europe-wide law that replaces the Data Protection Act 1998 in the UK. The GDPR sets out requirements for how organisations handle personal data and was introduced on the 25th of May 2018.
GHNF	Green Heat Network Fund.

Term/Acronym	Explanation
Guaranteed Standards of Performance (GSOP)	Guaranteed Standards of Performance are minimum standards consumers can expect from their provider of essential services.
HCA	Heat Cost Allocators.
HIU	Heat interface Unit.
Heat Network	A network that, by distributing a liquid or a gas, enables the transfer of thermal energy for the purpose of supplying heating, cooling or hot water to a building or persons in that building (and includes any appliance the main purpose of which is to heat or cool the liquid or gas).
HNCOS	Heat Network Consumer and Operator Survey.
Heat Network Efficiency Scheme (HNES)	A government scheme to provide grants for existing heat networks and communal heating systems to improve their efficiency.
Heat Network Metering & Billing Regulations (HNMBR)	Heat Network (Metering and Billing) Regulations ('the Regulations'), which came into force initially in 2014, is to drive energy efficiency and reduce carbon emissions from heating. The energy efficiency is achieved through the installation of metering devices and billing based on consumption.
Heat Network Metering & Billing Regulations (HNMBR) Notification	Heat suppliers with a new heat network must submit an initial notification to the Office for Product Safety and Standards (OPSS) on or before the day it becomes operational.
Heat Network Operator	An organisation that is responsible for the day-to-day operation and maintenance of a heat network and its infrastructure.
Heat Network Supplier	An organisation that is responsible for the supply of heating, cooling or hot water through a heat network often via contractual terms to end consumers.

Term/Acronym	Explanation
Heat network Technical Assurance Scheme (HNTAS)	Technical requirements for existing heat networks, which will be a legal obligation for the heat network operator.
Heat Trust	An independent, not-for-profit consumer advocacy organisation for heat networks in Great Britain.
HMO	House in Multiple Occupation.
HSC/HSA	Heat Supply Agreements/Heat Supply Contracts.
Industrial Heat networks	The supply of heat is solely for industrial purposes.
Microbusiness	<p>A microbusiness will be defined as a business that meets either of the following two criteria:</p> <p>(1) it consumes less than 247,000 kWh of heat per year; or</p> <p>(2) it has fewer than 10 full-time employees or an annual turnover of less than €2 million.</p>
NGO	Non-governmental organisation.
O&M	Operation & Maintenance.
Ofgem	Office of Gas and Electricity Markets. Independent regulator governed by the Gas and Electricity Markets Authority (GEMA).
Office for Product Safety & Standards (OPSS)	The UK's national product regulator, within the Department for Business and Trade. OPSS has been appointed by the Department for Energy Security and Net Zero to enforce the Heat Network (Metering & Billing) Regulations in the UK.
PPA	Power purchasing agreement.
PPM	Pre-Payment Meter.

Term/Acronym	Explanation
Priority Service Register (PSR)	The Priority Services Register is a free support service that makes sure extra help is available to energy customer in vulnerable situations.
RHI	Renewable Heat Incentive.
Shared Ground Loop (SGL)	Where 2 or more properties are heated by individual ground source heat pumps connected to it.
SLC	Supply Licensing Condition.
SME	Small-to-Medium Enterprise: Any organisation larger than a microbusiness that has fewer than 250 employees and a turnover of less than €50 million.
Step-In	Arrangements for the eventuality of heat network failure, with a focus on ensuring continued supply to consumers.
Transitional Arrangements	Transitional arrangements will apply for existing heat network operators.
VAT	Value-added tax.
VRF	Variable Refrigerant Flow.
VRV	Variable Refrigerant Volume.

Table 92 - Glossary table

This publication is available from:

www.gov.uk/government/consultations/heat-networks-regulation-consumer-protection

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