# Heat networks regulation: fair pricing protection guidance

Consultation response

Citizens Advice
October 2025

We can all face problems that seem complicated or intimidating. At Citizens Advice we believe no one should have to face these problems without good quality, independent advice. We give people the knowledge and the confidence they need to find their way forward - whoever they are, and whatever their problem.

We provide support in approximately 2,500 locations across England and Wales with over 18,000 volunteers and 8,650 staff.

Through our advocacy work we aim to improve the policies and practices that affect people's lives. No one else sees so many people with so many different kinds of problems, and that gives us a unique insight into the challenges people are facing today.

As the statutory consumer watchdog for the energy and post industries we have an important role to play in shining a spotlight on the problems consumers encounter, providing solutions to these problems and ensuring their voices are heard when important decisions are made about the future of these essential markets.

# Introduction

Citizens Advice welcomes the opportunity to reply to Ofgem's consultation on fair pricing guidance for heat networks. The Fair Pricing Framework is a major pillar of the new regulatory system starting in January 2026, and because heat networks are natural monopolies, standards of fairness and transparency in pricing need to be even stronger than in the gas and electricity market. Heat network consumers can't switch suppliers or shop around to get a better tariff - so regulation, not market competition, must drive better outcomes for consumers.

Guidance should be designed to ensure heat network providers aim for good outcomes, rather than meeting the minimum standard of compliance. Guidance should also support heat network providers with less experience of energy regulation, limited resources or overlapping regulatory frameworks to navigate their new responsibilities effectively.

We're broadly supportive of the proposed fair pricing guidance, particularly where it provides illustrative examples and clear distinctions between rules and best practice guidelines. However, there are several weaknesses and areas of confusion we think Ofgem should address:

**Interactions with other regulatory frameworks**

Guidance should be more proactive in helping heat network providers navigate overlapping regulatory frameworks, in relation to housing law, the Heat Networks Technical Assurance Scheme (HNTAS) and the government's zoning policy. Simply highlighting that these interactions exist isn't sufficient. Without further guidance, heat network providers and consumers alike are left to piece together their obligations and rights across multiple rulebooks.

**Fair and reasonable returns guidance**

Despite receiving a substantial amount of feedback that failing to define 'fair and reasonable' returns would create uncertainty for the heat networks market,[1] Ofgem's guidance on this principle remains unchanged. We recommend Ofgem develop initial estimates or model case studies to provide greater clarity.

**Price transparency guidance**

Pre-contractual transparency isn't addressed in the billing and transparency proposals cross-referenced in the price transparency principle guidance. We recommend Ofgem

[1] Ofgem, [Response to consultation on heat networks regulation: fair pricing protections, September 2025](), paragraph 1.21.

develop further guidance to support the outcome 'the framework enhances transparency and consumer confidence in the sector'. Ensuring consumers are able to make informed choices before buying or renting a heat network property is crucial to improved consumer confidence.

### Unmetered properties

Nearly 6 in 10 (57%) heat network consumers don't have their own meter[2], yet the pricing guidance sometimes treats unmetered networks as an afterthought. Several parts of the cost allocation guidance are based on an assumption that unmetered networks don't have standing charges. Ofgem must update the sections of cost allocation guidance that draw on this assumption to clarify that unmetered networks can use standing charges where appropriate. We also recommend Ofgem consider how the technologies installed as alternatives to individual meters under the Heat Network Metering and Billing Regulations could be used to apply the cost reflectivity principle in unmetered networks.[3]

### Legacy arrangements

Ofgem's approach to legacy arrangements gives heat networks too much scope to avoid implementing the guidance on cost allocation. We recommend Ofgem differentiates more carefully between the 3 types of legacy arrangement and sets out more stringent requirements for heat networks to follow if such arrangements mean they have to deviate from the guidance.

### General accessibility

The guidance frequently includes cross-references to other sections of the document. To make the final version more practically useful, these cross-references should be hyperlinked to make the document more accessible, accurate and easily navigable.[4]

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[2] Social Market Foundation, We can't keep heating like this: A fairer deal for heat networks, 2023 page 4.
[3] Office for Produce Safety & Standards, Guidance: Heat Network (Metering and Billing) Regulations 2014 (as amended in 2015 and 2020), November 2020, pages 19-21.
[4] For example, paragraph 1.25 cross-refers to cost allocation guidance on tariff design on page 25, but the relevant section actually starts on page 29. Creating intra-document links using headings and bookmarks would help to improve usability and accuracy.

# Consultation response

**Q1. Do you agree, partially agree, or disagree with the proposed guidance in relation to the cost-reflective principle?**

We partially agree. The guidance sets out minimum expectations quite clearly, but there is little, if any, best practice included.

**Q2. How can we improve guidance in relation to the cost-reflective principle?**

Where the guidance reiterates requirements set out in the Authorisation Conditions, these should be cross-referenced. For example: 1.22 says 'Authorised persons must use the most accurate data available to them when calculating charges. This includes the use of accurate meter readings (when these exist) to calculate charges'. The guidance could add that: 'this is required by AC13'.[5] This would help to differentiate minimum requirements and best practice.

Paragraph 1.24 could support best practice by encouraging authorised persons to accelerate the adoption of metering under the Heat Network Technical Assurance Scheme (HNTAS) wherever possible. We acknowledge HNTAS specifications have yet to be published, but it's likely heat networks will have a minimum of 3-5 years to introduce individual meters. To encourage timely adoption, guidance could include information on the benefits of metering for implementing the principles of cost-reflective pricing, cost efficiency, affordability and price transparency. Evidence suggests that installing meters in individual homes reduces energy consumption by at least a fifth (20%).[6] This can help to drive efficiencies at an individual and network level, contributing to fair pricing.

**Q3. Do you agree, partially agree, or disagree with the proposed guidance in relation to the cost efficiency principle?**

We agree. Guidance on ensuring value for money in outsourcing maintenance and customer service costs is clear (1.32). The examples of best practice in balancing risk and price in fuel procurement account for differences in networks' buying power and in consumer needs (1.34). We welcome the clear expectation for authorised persons to document and justify their fuel procurement strategy, especially in evaluating how any third party intermediaries affect cost efficiency (1.36).

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[5] Ofgem, Heat Network Authorisation Conditions, consultation appendix draft, August 2025, AC13.

[6] Social Market Foundation, We can't keep heating like this: A fairer deal for heat networks, 2023, p. 4.

We comment on the guidance on restricted cost passthrough, capital cost recovery and corporate risk in our responses to questions 19-28.

### Q4. How can we improve guidance in relation to the cost efficiency principle?

For future iterations of the guidance, Ofgem should engage directly with suppliers, operators and third parties to identify where additional detail would be most valuable in supporting best practice. Ofgem should continue its dissemination programme to enable upskilling and knowledge sharing for heat networks. This may be particularly important for smaller networks with limited staff and resources.

It's also important for future guidance to help heat network providers navigate intersections between the Fair Pricing Framework, the HNTAS and housing law in relation to cost efficiency. HNTAS will change the landscape of how heat network maintenance and upgrades are assessed, managed and financed over the next 10 years.[7] Once HNTAS defines technical standards, Ofgem should update the guidance to explain the interactions between HNTAS, funding options and the Fair Pricing Framework. The 2 frameworks should work together to ensure consistent pricing outcomes for consumers.

Regarding housing law, the Ministry for Housing, Communities and Local Government (MHCLG) has recently consulted on whether to remove energy contracts and single utility providers, including heat networks, from the Section 20 'major works' consultation process.[8] This is relevant for how authorised persons who are also landlords can meet the cost efficiency principle, especially in relation to fuel procurement and maintenance costs. Ofgem should work closely with MHCLG to make sure the Fair Pricing Framework works in tandem with these reforms for leaseholders and social tenants to ensure good outcomes for heat network consumers. Ofgem should update the guidance to explain interactions with changing housing regulations.[9]

### Q5. Do you agree, partially agree, or disagree with the proposed guidance in relation to the fair and reasonable returns principle?

We disagree. The response to Ofgem's initial fair pricing consultation showed significant stakeholder concern with the inadequacy of guidance paragraph 1.40. Fifteen

[7] DESNZ, Heat Network Technical Assurance Scheme (HNTAS) Guidance, August 2025.
[8] MHCLG, Strengthening leaseholder protections over charges and services: consultation, July 2025, Section 3.
[9] For further detail on how MHCLG's reforms affect heat network consumers, see Citizens Advice, Response to MHCLG's Strengthening leaseholder protections over charges and services consultation, September 2025, pages 2, 8-10.

respondents - 1 out of 6 - indicated the lack of detail created 'uncertainty for consumers, suppliers and investors'.[10]

Stakeholders put forward 4 different options that could be used to provide an initial estimate of what constitutes a reasonable return in the heat networks sector.[11] Guidance could make reference to 1 or more of these to provide consumers and industry stakeholders alike with more clarity on whether a return is reasonable. Alternatively, Ofgem could provide model case studies to illustrate how factors like performance, risk profile and ownership model shape returns and how these vary over time.

**Q6. How can we improve guidance in relation to the 'fair and reasonable returns' principle?**

In addition to developing initial estimates or model case studies of fair and reasonable returns, future guidance should take into account changes to the wider regulatory framework. Interactions with the Government's zoning policy - another area where many respondents (12) asked for further clarity - may be especially important to consider. For example, the government's consultation on sharing windfall profits within heat network zones included proposals about the sale of district heat networks where 'target returns' have been met. This suggests 'target returns' can be defined, which may not be aligned with Ofgem's decision not to define fair and reasonable returns.[12]

**Q7. Do you agree, partially agree, or disagree with the proposed guidance in relation to the affordability principle?**

We mostly disagree. The proposed guidance on cross subsidisation is limited, with no steer on best practice.

Proposed guidance on shock bills is also limited. We welcome the best practice guidance on clear and timely communication with consumers in the event of shock bills and the steps suppliers should take to help consumers manage these (1.47 and 1.49). However, the guidance could also include more information about steps authorised persons should take to avoid shock bills arising in the first place. Ofgem states that 'in some exceptional circumstances, unusual or unexpected high bills might be unavoidable' (1.46). Without indicating what might constitute truly exceptional circumstances, there's

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[10] Ofgem, Response to consultation on heat networks regulation: fair pricing protections, September 2025, paragraph 1.21.
[11] Ofgem, Response to consultation on heat networks regulation: fair pricing protections, September 2025, paragraph 1.22.
[12] DESNZ, Heat Network Zoning: Heat Networks Community Benefits and Managing Windfall Profits Webinar, April 2025.

a risk this gives heat network providers a get-out clause to continue poor practice. Shock bills are a major cause of consumer harm (particularly debt) and have been caused by underestimating maintenance costs, long periods of back-billing and the application of retrospective price increases.[13]

Paragraph 1.48 acknowledges but doesn't explain interactions with housing law. Simply referencing these interactions isn't sufficient. Without further guidance, heat network providers and consumers alike are left to piece together their obligations and rights, undermining the consumer protection framework.

### Q8. How can we improve guidance in relation to the affordability principle?

Cross-subsidisation: Guidance should clarify what forms and level of cross-subsidisation Ofgem is comfortable with heat networks implementing. Guidance should demonstrate how the affordability principle interacts with the cost-reflective and cost efficiency principles. For example, larger organisations with non-heat network consumers could choose to spread some heat network costs across their wider property portfolios as a means of addressing affordability.

Some networks may wish to introduce social tariffs to help low-income households, requiring slightly higher prices from ineligible customers to fund such schemes. Others could reduce standing charges for people using prepayment meters with a cross-subsidy from credit customers. Both measures would align with the affordability principle but have tensions with cost-reflective pricing. Models for implementing such measures fairly could be adapted from the gas and electricity sector. For example, Ofgem's decision to levelise standing charges for prepayment customers in this sector acknowledged the principle of cost-reflectivity led to negative outcomes for some consumers without appropriate cross-subsidisation.[14]

Shock bills: Guidance should include clear explanations and worked examples of how the affordability principle interacts with housing law. For example, major works costs are currently subject to consultation under Section 20 of the Landlord and Tenant Act. Ofgem should clarify if the expectation for heat networks to plan ahead to minimise the impact of shock bills goes beyond these existing consultation requirements and in what ways. As noted in our response to Q4, MHCLG is considering significant changes to the Section 20 consultation process, including some specifically for heat networks.[15] Ofgem should work closely with MHCLG to make sure the Fair Pricing Framework works in tandem with these reforms and update future iterations of the guidance as necessary.

[13] Citizens Advice, System Critical: No margin for error in new heat network rules, 2025, pp. 16-23.
[14] Ofgem, Decision on adjusting standing charges for prepayment customers, 2024.
[15] MHCLG, Strengthening leaseholder protections over charges and services: consultation, July 2025, Section 3.

**Q9. Do you agree, partially agree, or disagree with the proposed guidance in relation to the regulatory control principle?**

Citizens Advice agrees. We welcome the expectation for authorised persons to have a clear strategy for ensuring regulatory control in cases where subcontracted parties undertake regulated activities. We support the recommendations to establish clear contractual obligations, supply chain visibility and shared objectives with outsourced parties to ensure regulatory requirements are met (1.50).

**Q10. How can we improve guidance in relation to the regulatory control principle?**

Guidance could be improved by including more detailed examples of tendering criteria to assess contractors' ability to understand and comply with regulatory obligations. We would also welcome more detailed examples of robust processes operators and suppliers can implement to monitor and address non-compliance by outsourced parties. Ofgem should engage directly with suppliers, operators and third parties to identify where additional detail would be most valuable in supporting compliance and best practice.

**Q11. Do you agree, partially agree, or disagree with the proposed guidance in relation to the price transparency principle?**

Citizens Advice partially agrees. Cross-referencing the more detailed guidance on billing and transparency within the consumer protection guidance is appropriate in relation to communicating prices to customers (1.51). However, pre-contractual transparency should be covered by the fair pricing guidance. We recommend including an additional consumer outcome: consumers are able to make informed choices before buying or renting a heat network property.

As heat networks are natural monopolies, consumers can't change their supplier. They have no choice over who their supplier is and often have no choice over their tariff or even their payment method. Leaseholders can also face large costs for ongoing maintenance and repairs. Our research shows this is a huge concern to leaseholders, and many are worried about their ability to sell up in the future.[16] The fair pricing guidance should address these distinct features of the heat network market for consumers with an additional consumer outcome on pre-contractual transparency.

[16] Citizens Advice, System Critical: No margin for error in new heat network rules, 2025, pp. 26, 34-37.

**Q12. How can we improve guidance in relation to the price transparency principle?**

Ofgem should include detailed guidance on pre-contractual transparency to make sure consumers are able to make informed choices before buying or renting a heat network property.

We welcome Ofgem's decision to test and develop the options for central price transparency through consumer research.[17] We recommend Ofgem undertake additional consumer research on its broader billing and transparency proposals to make sure these meet consumer needs.

**Q13. Do you agree, partially agree, or disagree with the proposed 'fairness test'?**

Citizens Advice agrees the fairness test is a reasonable starting point as the regulations are developed and Ofgem gathers more detailed data on the costs involved in different heat networks. As data capacity develops over time, we recommend Ofgem moves to an outcomes-based approach. This is because the principles-based approach doesn't address underlying issues giving rise to high prices. As a result, what are deemed to be fair prices within the sector may not be reasonable and fair prices for consumers.

As a comparison, the retail price cap was brought in after the 2014-16 CMA investigation found the sector was over-charging customers by £1.4 billion between 2012-2015.[18] This was a theoretically competitive market, so a monopoly market requires greater protections to ensure that the outcome of fair prices for consumers is achieved. There may be systemic cost-inefficiencies or systemic over-charging which a relative, principles-based approach may not uncover.

**Q14. How can we improve guidance in relation to the 'fairness test'?**

The guidance could set out in more detail what it means by 'best practice in economic regulation' (1.53). This would provide greater clarity on the steps taken to ensure the objectivity of assessments. This is important given that nearly 1 in 5 respondents to the original consultation wanted more clarity on how the fairness test would be applied in practice.[19]

[17] Ofgem, Response to consultation on heat networks regulation: fair pricing protections, September 2025, page 86.
[18] Competition & Markets Authority, Energy market investigation Final report, 2016.
[19] Ofgem, Response to consultation on heat networks regulation: fair pricing protections, September 2025, paragraph 1.26.

**Q15. Do you agree, partially agree, or disagree with the proposed market segmentation approach?**

Citizens Advice disagrees with parts of the market segmentation approach. We welcome the replacement of the simplistic binary between for-profit and not-for-profit categories with more specific approaches to pricing methodology. However, we are concerned that the approach outlined for networks where charges are bundled into rent or service charges is not sufficiently segmented, given different legislation may apply in different circumstances. Guidance on unmetered networks would also benefit from greater differentiation in approach and detail on implementation in some areas. Nearly 6 in 10 (57%) heat network consumers don't have their own meter[20] and it's likely that HNTAS will allow a minimum of 3-5 years to introduce individual meters. More detailed guidance is therefore needed to support better consumer outcomes for unmetered networks in the meantime.

**Q16. How can we improve the proposed segmentation approach?**

Metered vs non-metered: Ofgem should develop a more differentiated approach. Different guidance on cost reflectivity and affordability (cross-subsidisation) may be appropriate for prepayment meters versus credit meters. Different guidance on cost reflectivity may also be appropriate for heat networks where heat cost allocators, thermostatic radiator valves or hot water meters have been installed under Regulation 6 of the Heat Network Billing and Metering Regulations.[21]

Charges are bundled into rent or service charges: Ofgem should develop a more detailed and differentiated approach. The legal rights and obligations of heat operators and suppliers who are also landlords vary according to whether the heat charge is bundled into rent or bundled into service charges. The guidance mistakenly treats these as interchangeable. For example, section 19 of the Landlord and Tenant's Act doesn't apply to situations where charges are bundled into rent - only where they are bundled into variable service charges.[22]

We've repeatedly called on the government to 'unbundle' heating and housing costs to address these problems.[23] Until this is achieved, Ofgem's guidance must do more to

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[20] Social Market Foundation, We can't keep heating like this: A fairer deal for heat networks, 2023 page 4.

[21] Office for Produce Safety & Standards, Guidance: Heat Network (Metering and Billing) Regulations 2014 (as amended in 2015 and 2020), November 2020, pages 19-21.

[22] Trowers & Hamlins, Heat Network Regulation: Heat contracts, billing, and landlord and tenant legislation, January 2025.

[23] Citizens Advice, Citizens Advice response to Ofgem and DESNZ's joint consultation on implementing consumer protections for heat networks, January 2025, pages 34-38; Citizens Advice, Priorities for heat networks consumer protections: Debt and affordability discussion paper, May 2025, pages 21-27, 33-35; Citizens Advice, System Critical: No margin for error in new

help heat network providers navigate their responsibilities and provide greater clarity for consumers.

### Q17. Do you agree, partially agree, or disagree with the proposal that the fair pricing framework would cover all non-domestic consumers, including larger nondomestic consumers?

Citizens Advice partially agrees. Our experience of the energy retail market suggests small businesses and microbusinesses often lack any specific energy expertise and behave similarly to domestic consumers. They're therefore as likely to benefit from fair, transparent and proportionate prices as domestic consumers.[24] Small businesses in energy retail have also been pushed into debt as a result of high energy costs.[25] So it's important for Ofgem to consider how it can protect non-domestic consumers from heat networks obtaining excessive economic benefits.

However, there's little data available about the specific needs of non-domestic consumers on heat networks. Consequently, Ofgem should keep their decision under review to monitor any unintended consequences. For example, some heat networks serving both domestic and non-domestic consumers might differentiate pricing structures to enable more affordable pricing for domestic consumers. Where such cross-subsidies are beneficial to consumers in vulnerable circumstances, the fair pricing framework shouldn't inadvertently discourage them but should provide guidance around how this can be designed fairly.

### Q18. If you disagree with the proposal to include all non-domestic consumers within the scope of the fair pricing protections, please specify what changes you would like to see and provide a justification.

Large businesses are beyond our remit, but they're more likely than small and microbusinesses to have expert employees and other resources dedicated to negotiating energy contracts. Pricing outcomes for these consumers may therefore be better achieved by direct negotiation with the heat network. Ofgem should engage directly with large businesses supplied by heat networks to inform the decision.

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heat network rules - Citizens Advice, July 2025, pages 7, 42-43; Citizens Advice, Citizens Advice response to Ofgem's heat networks regulation: Fair pricing protections consultation, July 2025, page 4; Thomas Brooke Bullard, Heat network regulation is coming, but that's just the start, September 2025.

[24] Ofgem, Micro and Small Business Engagement Survey, 2018; BMG Research, Micro and small business engagement in the energy market, 2015; Citizens Advice, Response to Ofgem's non-domestic market review: statutory consultation on licence changes, 2024.

[25] Citizens Advice, Risky Business? How the energy debt protection gap is putting the pressure on small businesses, 2024.

## Cost allocation

**Q19. Do you agree, partially agree, or disagree with our approach to cost allocation related to general cost pass-throughs?**

Citizens Advice largely agrees. We welcome the guidance on how to approach the allocation of costs incurred at portfolio level across different heat networks and business units (2.14-2.16). Paragraph 2.17 makes some reference to how cost-reflectivity interacts with the affordability principle but this could go further to address possibilities for appropriate cross-subsidisation. See our response to Q8 for examples of how the cross-subsidisation guidance could be developed.

**Q20. How can we improve guidance for cost allocation related to general cost passthroughs?**

We understand Ofgem doesn't have sufficient data on pricing to introduce component caps restricting how much costs heat networks can pass through for specific input costs. Paragraph 2.19 recognises that poor management practices can inflate costs associated with running heat networks and states consumers 'must not be disadvantaged by having to pay charges' for such inefficiencies.

Guidance alone may not be enough to ensure this outcome for consumers. We recommend Ofgem develops a mechanism to benchmark specific input costs so future iterations of the Fair Pricing Framework can implement component caps for restricted cost passthrough. Input costs suitable for such benchmarking include costs associated with customer service, metering and billing, and protecting financially vulnerable consumers.

**Q21. Do you agree, partially agree, or disagree with our approach to cost allocation related to tariff structure?**

Citizens Advice partially agrees. We agree with the recommendation for metered networks to include variable costs within unit rates and non-variable costs within standing charges (2.24). The guidance could cite research showing why this is usually the fairest approach to encourage widespread adoption of this recommendation.

Guidance on how to proxy for consumption on unmetered heat networks (2.25) could incorporate reference to heat cost allocators, which some networks were required to install in lieu of individual meters under the HNMBR.[26]

[26] Office for Produce Safety & Standards, Guidance: Heat Network (Metering and Billing) Regulations 2014 (as amended in 2015 and 2020), November 2020, pages 19-21.

Paragraph 2.25 recommends allocating standing charges at the same cost per dwelling for unmetered networks. This might not constitute best practice for networks with mixed housing tenures. This is because it could encourage suppliers to incorporate infrastructure maintenance costs more appropriate to a building service charge (paid only by leaseholders/owners) into standing charges also paid by shorthold tenants.

**Q22. How can we improve guidance for cost allocation related to tariff structure?**

The guidance could include a more detailed breakdown of what costs should be considered fixed and variable to support fair tariff design. Evidence and learnings from consumer research could be incorporated to promote adoption of the recommendations. For example, the original consultation document highlighted that allowing fixed costs to be recovered through variable per-unit charges can result in high-use consumers covering a disproportionately high share of fixed costs. This could include consumers in vulnerable circumstances - older people, people with very young children, and people with medical needs.[27]

In future iterations of the guidance, it would be useful to include templates of different tariff structures for metered and unmetered networks.

**Q23. Do you agree, partially agree, or disagree with our approach to cost allocation related to depreciation/capital cost recovery?**

Citizens Advice partially agrees. We agree with the clear steer to use the straight line method for asset depreciation (2.42). This should ensure consumers don't face excess upfront charges and prevent economically unviable entities from developing heat networks.

However, we disagree with the segmentation approach for depreciation. Paragraph 2.37 introduces the incorrect assumption that unmetered networks don't have standing charges and 2.40 uses this assumption to differentiate how metered and unmetered networks should approach asset depreciation. Earlier guidance sections recognise that unmetered networks do - and should - use standing charges to recover fixed costs, alongside a unit rate based on proxies for consumption. For example, 2.25 says 'For heat networks that are unmetered, under the cost reflectivity principles authorised persons should consider using a proxy for consumption such as the area of the dwelling or the number of bedrooms in the dwelling to allocate their unit rate. Authorised persons should consider allocating standing charges at the same cost per dwelling.'

[27] Citizens Advice, Why standing charges are fairer than you might think, 2023.

We recommend developing further guidance on best practice for the allocation of fixed and variable costs in unmetered networks. Responses to our statutory Request for Information (RFI) revealed widely varying practices. For example, in some unmetered networks, consumers paid a daily standing charge for infrastructure costs or for infrastructure costs and profit margins. In other unmetered networks, standing charges were used to recover costs for the heating of communal areas or were set to mirror the Ofgem price cap. In other cases, there were no standing charges. Ofgem should revise 2.25, 2.37 and 2.40 to outline more carefully and consistently how unmetered networks should approach cost allocation.

**Q24. How can we improve guidance for cost allocation related to depreciation/capital cost recovery?**

The guidance should address the inconsistencies highlighted in our response to Q23.

**Q25. Do you agree, partially agree, or disagree with our approach to cost allocation related to bad debt?**

We agree with the general approach for networks to allocate costs related to bad debt with regard for the principles of affordability, cost efficiency and cost reflectivity (2.49). However, the only practical measures outlined for cost allocation seem to relate to the cost reflectivity principle. These recommend that metered networks allocate debt-related administrative costs and working capital requirements to standing charges and unmetered networks apportion these costs equally across dwellings (2.56-2.57). In effect, this gives the principles of affordability and cost efficiency less weight.

**Q26. How can we improve guidance for cost allocation related to bad debt?**

Future iterations of the Fair Pricing Framework should give greater weight to the principles of affordability and cost efficiency in relation to bad debt. To enable this, we recommend Ofgem develops a mechanism to monitor and benchmark specific input costs, including those relating to bad debt. Future cost allocation rules could thereby implement component caps for restricted cost passthrough of such costs to incentivise improved practice.

However, we recognise the small number of customers across many heat networks, limits suppliers' ability to manage debt costs. Ofgem and the government must develop a socialisation mechanism to deal with unrecoverable debt, as this is central to achieving sustainable affordability. Ofgem has proposed a debt relief scheme for gas and electricity consumers who built up debt during the energy price crisis.

In the near term, it's unlikely Ofgem can create a similar scheme for people on heat networks. However, the affordability crisis means heat network consumers also have high debt levels.[28] Ofgem and the government should outline an action plan and timeline for developing a mechanism to fairly share the burden of consumer debt in heat networks and to develop a similar debt relief scheme for heat network consumers.

**Q27. Do you agree, partially agree, or disagree with our approach to cost allocation related to corporate risk?**

Citizens Advice agrees. There's a clear recommendation for district heat networks to account for changes in customer numbers over time to avoid early users bearing disproportionate costs (2.66).

**Q28. How can we improve guidance for cost allocation related to corporate risk?**

For future iterations of the guidance, Ofgem should engage directly with developers, operators and suppliers to identify where additional detail would be most valuable in supporting best practice. Ofgem should define what it means by 'improper' recovery of initial capital costs and 'improper' recovery of capital expenditures and prohibit such practices.

**Q29. Do you agree, partially agree, or disagree with our approach to cost allocation related to fuel procurement?**

Citizens Advice neither agrees nor disagrees. Paragraphs 2.70-2.86 are largely repetitive of the general guidance relating to fuel procurement and hedging under the cost efficiency principle (1.33-1.36). There's no clear guidance on how strategies for effective fuel procurement should be accounted for within cost allocation.

**Q30. How can we improve guidance for cost allocation related to fuel procurement?**

The guidance in this section could be rationalised with the earlier section on fuel procurement strategy. Alternatively, Ofgem should outline more clearly how this pertains to cost allocation.

**Q31. Do you agree, partially agree, or disagree with our approach to cost allocation related to fair and reasonable returns?**

Citizens Advice partially agrees with the guidance. We welcome the confirmation that heat networks operating on a strict cost recovery model will be required to submit

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[28] Citizens Advice, System Critical: No margin for error in new heat network rules, 2025.

financial data (2.93) even though they're beyond the scope of fair and reasonable returns (2.89). This is important to allow Ofgem to monitor how the costs of any profit-making entities employed within those heat networks are passed onto consumers. For example, private landlords, who are not allowed to profit from bills, may use a for-profit managing agent whose costs are passed on to consumers.

However, there's no clear guidance on how in-scope heat networks should account for returns within cost allocation practices.

**Q32. How can we improve guidance for cost allocation related to fair and reasonable returns?**

Ofgem should provide guidance on how to account for returns within cost allocation practices. This should stipulate that consumers aren't charged twice for the same cost - for example, within both connection charges and standing charges.

**Q33. How can we improve guidance for cost allocation related to penalties and redress?**

We agree consumers shouldn't have to pay for supplier failures, and that fines should be focused on driving service improvements. The clear statement this rule applies to all heat networks (2.96) is also welcome.

Guidance could be improved by addressing the risk of suppliers using backdoor mechanisms to recover these costs. For example, heat network suppliers might take out expensive insurance policies to cover fines or require subcontracted parties to take on the added risk, leading to increased bills for consumers. Guidance could outline Ofgem's awareness of such risks and its intention to monitor and prevent such practices. We've called on Ofgem to outline more specific measures for achieving this outcome in its enforcement guidelines, which could be cross-referenced in relation to pricing.[29]

**Q34. Do you agree, partially agree, or disagree with our approach to cost allocation related to legacy arrangements?**

We disagree. Legacy arrangements are defined in paragraph 2.2 as: 'contractual agreements made prior to regulation which cannot be broken or renegotiated by authorised persons, other requirements in legislation, or when they can establish that deviating from proposed examples can provide better consumer outcomes.' Heat networks in these 3 situations can deviate from Ofgem's approach to cost allocation, so long as they 'give regard to the impact on consumers and the fair pricing principles' and

[29] Citizens Advice, Response to Ofgem's consultation: Heat networks regulation: enforcement guidelines and penalty policy, October 2025, Q12.

have the ‘goal of moving towards the proposed cost allocation guidance approach over time’ (2.103-2.104).

This is unacceptably broad, conflating 3 very different situations and giving heat networks too much scope to avoid changing their approach to cost allocation. The guidance should be more carefully tailored to the 3 distinct sets of circumstances. Ofgem should require heat networks to document reasons for any deviation from their cost allocation guidance and the steps they will take to move towards compliance. Ofgem should also require networks to provide this information to customers on request.

**Q35. How can we improve guidance for cost allocation related to legacy arrangements?**

The guidance should be more carefully tailored to the 3 distinct sets of legacy arrangements. Ofgem should require heat network suppliers to document reasons for any deviation from the cost allocation guidance. In cases of prior contractual arrangements and other requirements in legislation, heat network suppliers should be required to document the steps they will take to move towards compliance. In cases where consumer outcomes can be improved by not following Ofgem’s guidance, a clear set of evidence must be required.

**Q36. Do you agree, partially agree, or disagree with our approach to cost allocation related to connection charges?**

Citizens Advice partially agrees. We agree connection charges should be considered a fixed cost and charged to standing charges - but only where these costs have not already been charged to consumers in other ways.

New housing developments can include development of communal heat networks or connection to a district heat network. In these scenarios, capital costs, including connection charges, may be recovered in the house price. Ofgem should create a prescriptive rule to prevent double charging of connection costs in future heat prices where these have already been recovered in house prices.

**Q37. How can we improve guidance for cost allocation related to connection charges?**

In the absence of a prescriptive rule preventing the double charging of connection costs, guidance should make clear that where connection charges have already been recovered in house prices, they should not be factored into the standing charges for heating.

## Citizens Advice helps people find a way forward.

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Published October 2025.

Citizens Advice is an operating name of The National Association of Citizens Advice Bureaux.

Registered charity number 279057.