

Citizens Advice response to Ofgem's consultation - 'Heat networks regulation: fair pricing protections'

Introduction

Citizens Advice welcomes the opportunity to reply to Ofgem's consultation on fair price protections for heat networks. Heat networks are natural monopolies, which means that consumers can't switch suppliers or shop around to get a better tariff. This means price protections are even more valuable to heat network consumers than gas and electricity consumers, who usually have a choice of suppliers and tariffs.

Like water and other forms of energy, heating is an essential-to-life utility. But unlike these other utilities, heat networks have been largely unregulated until now. The fair pricing framework must set clear expectations and Ofgem must dedicate sufficient resources to monitoring and enforcing the framework. This is crucial for fair pricing protections to be effective and to avoid repeating past mistakes, which saw the limited Heat Network (Metering and Billing) Regulations of 2014 weakly enforced.¹

Ofgem is developing the fair pricing framework at a time when many heat network consumers face an affordability crisis. Our consumer research shows it's been common for heat network bills to double or triple in the last 2 to 3 years.² These increases were worsened by unfair and opaque billing practices, leading to severe financial hardship in some cases.³ A well-designed fair pricing framework will help to improve transparency for consumers and start to tackle unpredictability and any unfairness in prices. But government action is also needed to support consumers with targeted bill support and to fix the root causes of high pricing, including high input energy costs and, in some cases, poor heat network efficiency.

Regulation and government policy together should deliver outcomes for heat network consumers the same as or better than water, gas and electricity, through infrastructure, supply and pricing.

Transparency for consumers is a good step forward

We largely support Ofgem's proposals for benchmarking and central price transparency, though it will take time to implement the most effective measures. Greater price transparency is an important way of empowering consumers to understand what they're paying for. Transparent data is also vital for consumer advocacy, supporting us to analyse how the market is functioning and protect consumer interests.

¹ Office for Product of Safety and Standards, [Heat Network \(Metering and Billing\) Regulations 2014 \(as amended in 2015 and 2020\)](#).

² Citizens Advice, [System Critical: No margin for error in new heat network rules](#), 2025, pp. 12-13.

³ Citizens Advice, [System Critical: No margin for error in new heat network rules](#), 2025, pp. 15-27.

Simplify the objective

We recommend Ofgem simplifies the objective of the framework to ‘Consumers pay fair prices’, instead of ‘fair and not disproportionate’ prices. Inherently, fair prices should be ‘not disproportionate’. While preventing disproportionate pricing is one appropriate *outcome* of the framework, achieving fair pricing is a clearer and simpler overarching objective. Fair pricing aligns with Ofgem’s approach in the wider energy sector⁴ and provides more flexibility for the iterative development of the heat networks fair pricing framework.

Assess input costs to start addressing the root causes of high prices

We recommend Ofgem introduces more systematic monitoring and benchmarking of certain input costs. In its principle of affordability, the framework acknowledges but doesn’t address underlying causes of high pricing deemed beyond the control of heat network providers. In particular, high wholesale gas prices and technical inefficiencies can drive high prices and will require government action and network investment to overcome.

Requiring heat networks to report steps taken to procure fuel efficiently and monitoring input fuel costs would provide the government with an evidence-base to assess the need for a cap on the commercial sale of energy to heat network providers. This would allow Ofgem to fulfill its commitment to ‘influence the decisions and actions that others take, particularly Government’, especially in ‘tackling the challenges of debt and affordability’.⁵

In addition, Ofgem should develop a mechanism to benchmark input costs relating to maintenance, customer service, metering and billing. This would allow Ofgem to set component caps on appropriate levels of cost passthrough in future iterations of the fair pricing framework, as a means of driving efficiencies and improved performance. In the meantime, Ofgem should revise definitions of the cost-reflective pricing and cost efficiency principles to make clear such costs are not solely imposed by consumers. They can also be inflated by poor performance and management of heat networks.

Introduce more prescriptive rules to improve practices

The consultation proposes only one prescriptive rule - prohibiting the passing on of fines and penalties incurred by heat networks to consumers. We support this rule, but

⁴ Ofgem, [Protect, build, change, deliver: Ofgem’s multiyear strategy](#), 2024, pp. 7-9, 16, 19, 21-22, 30, 38; Ofgem, [Forward Work Programme, 2025/26](#), 2025, pp. 10-11.

⁵ Ofgem, [Protect, build, change, deliver: Ofgem’s multiyear strategy](#), 2024, p. 9.

relying on guidance only for all other aspects of the framework may not be enough to incentivise efficiencies and achieve fair pricing. Our statutory Request for Information (RFI, 2025) identified vast diversity in cost allocation practices across the sector. Data collected from 23 heat network providers, who cover an estimated 10% of the heat networks market, revealed standing charges ranging from 30p to 153p per day and unit rates ranging from 5.7p to 23p per kWh.⁶

We therefore recommend Ofgem introduces more prescriptive rules to standardise how costs are allocated on metered networks. Standardising cost allocation practices will help to make price comparison and benchmarking more meaningful and lead to more consistent consumer outcomes, particularly as more heat network providers enter the market. We recommend additional rules to protect consumers from improper levels of capital cost recovery and corporate risk.

Address the interactions with housing law

The consultation indicates the bundling of heating and housing charges, currently permitted under housing law, 'may impact our ability to implement cost allocation rules and carry out price benchmarking'.⁷ Current proposals have a concerning lack of detail about what this could mean in practice. It's unacceptable for such fundamental parts of the fair pricing framework to not apply - or be uncertain - for a substantial group of consumers. A third of heat network consumers pay for heating within rent or service charges. This affects private renters, social renters and leaseholders to different degrees.⁸

We understand government progress on unbundling heating and housing charges is needed before Ofgem can outline their approach to segmentation based on housing tenure more specifically. Government departments urgently need to work together, and develop an action plan - with clear timelines - for unbundling heat and housing charges. Once this is available, Ofgem should specify much more narrowly and precisely how guidance or rules may differ by housing type and make sure providers aren't using confusion as an excuse to avoid compliance.

Price investigations

⁶ The 23 providers operated a total of 1,409 heat networks, approximately 10% of the estimated 14,000 existing heat networks in the UK. They supplied 158,000 domestic customers, approximately 30% of the estimated 505,000 heat network consumers.

⁷ Ofgem, [Heat networks regulation: Fair price protections consultation](#), 2025, p. 33.

⁸ Department for Business, Energy and Industrial Strategy, [Heat Network Consumer and Operator Survey](#), 2022, p. 30.

We understand price investigations are reliant on monitoring data and systems of benchmarking and profitability analysis that will be developed during 2026. But saying no price investigations can take place until January 2027 at the earliest sends a poor signal to consumers facing high prices and serious financial detriment now. This risks decreasing consumer confidence in the regulatory system and its ability to respond to pressing concerns.

We therefore recommend Ofgem provides for exceptional price investigations to take place before January 2027, where evidence emerges of extremely egregious practices, including where identified by consumer bodies. To maximise enforcement capacity in the longer term, we recommend Ofgem adopts parts of the Financial Conduct Authority (FCA)'s approach, given they also regulate a diverse, complex market.

Please see our detailed consultation response below. Please note where we include case studies from Citizens Advice services and research, all names and some details have been changed to preserve anonymity.

Consultation Response

Fair pricing framework

Q1. Have we identified the right set of fair pricing consumer objective, principles and outcomes and are these properly defined? If you disagree with this proposal, please specify what changes you would like to see and provide a justification.

Objective

‘Consumers pay fair prices’ is a clearer, simpler and more flexible foundational objective. The proposal - ‘Consumers pay fair and not disproportionate prices’ - introduces unnecessary complexity. Fair prices should be ‘not disproportionate’ by their nature, so it’s superfluous to include this. At the same time, it gives undue emphasis to 1 aspect of the fairness definition over others embedded in the framework.

The simplified objective ‘Consumers pay fair prices’ aligns with Ofgem’s approach in the wider energy sector. Fair pricing is a key objective in Ofgem’s multiyear strategy, 1 of the 4 fundamental outcomes of its Consumer Interest Framework and a central aspect of its strategic priorities for the gas and electricity market.⁹ The pricing framework for heat networks should align with Ofgem’s overall energy strategy.

We welcome Ofgem’s explicit commitment to developing the fair pricing framework iteratively. Through benchmarking, the framework establishes ‘not disproportionate’ as a relative measure, determined by current pricing practices in the sector. Embedding this in the framework’s foundational objective could hamper Ofgem’s ability to change current pricing practices, undermining the ambition to iteratively develop the framework. It might also inhibit innovation by encouraging new providers to follow existing practice.

Principles

We agree the principles of affordability, regulatory control and price transparency are properly defined. However, the principles of cost-reflective pricing, cost efficiency and fair and reasonable returns aren’t properly defined.

⁹ Ofgem, [Protect, build, change, deliver: Ofgem’s multiyear strategy](#), 2024, pp. 7-9, 16, 19, 21-22, 30, 38; Ofgem, [Forward Work Programme, 2025/26](#), 2025, pp. 10-11.

In cost-reflective pricing, we disagree with the definition of fuel costs, billing and metering costs, and customer service costs as being ‘imposed on the system’ by consumers. As the guidance relating to cost efficiency makes clear, heat network operators, suppliers and subcontracted parties can inflate these costs through poor management practices. For example, a heat network provider told us they halved the cost of billing per customer by taking the processes back in-house from a third-party provider as a result of customer service problems.¹⁰ We recommend addressing these costs through a stronger cost efficiency principle and amending the definition of cost-reflective pricing to reflect this interaction..

We recommend strengthening the cost efficiency principle from ‘we expect networks to take steps to create cost efficiencies’ to ‘we will monitor steps taken by networks to create cost efficiencies’. Monitoring and benchmarking input costs - especially fuel costs, maintenance, service and customer service costs - would provide Ofgem with the tools to improve future iterations of the framework and to shape broader sector debates about affordability and profitability.

Monitoring maintenance, service and customer service costs would enable proper scrutiny of outsourcing’s impact on cost efficiency. This is vital for informing future iterations of the framework regarding appropriate restrictions on cost passthrough and/or future direct regulation of third party organisations.

Monitoring input fuel costs would allow Ofgem to evaluate whether competitive and efficient fuel procurement strategies of heat network providers are sufficient to address high prices. This would establish an evidence base to assess whether the government should introduce a cap on the commercial sale of energy to heat network providers. In turn, this would support the principle of affordability, which acknowledges wholesale gas price increases have been a factor impeding affordability beyond the control of heat network providers.¹¹ And it would support Ofgem’s commitment to ‘influence the decisions and actions that others take, particularly Government’, especially in ‘tackling the challenges of debt and affordability’.¹²

This is critical because our research shows extreme price increases have been common in the last 2 to 3 years, largely driven by high wholesale energy prices during the 2021-2022 energy price crisis.¹³ Although the peak of the price crisis is over, energy prices aren’t due to return to pre-crisis levels and consumers continue to face very high bills.

¹⁰ Citizens Advice heat networks policy team, Conversation with a heat network provider, 2025.

¹¹ Ofgem, Heat networks regulation: Fair price protections consultation, 2025, p. 27.

¹² Ofgem, Protect, build, change, deliver: Ofgem’s multiyear strategy, 2024, p. 9.

¹³ Citizens Advice, System Critical: No margin for error in new heat network rules, 2025, pp. 12-15.

Adam's* heating and hot water bill increased by over 350% in 1 year. In 2022/2023, he paid just over £800 for his heat network. The next year his bill went up to over £3600. As a social tenant living in London, such a steep increase was simply unaffordable. Other heat network consumers we interviewed experienced sharply rising bills too:

- Precious, a leaseholder in Manchester, faced a unit rate increase of over 350% for her heating and hot water, and a standing charge increase of 90%.
- Davey's annual heat network bill went up from £1100 to £2000 between 2022 and 2024. He's a social tenant in Glasgow.
- Shreya, a social tenant in Cambridge, now pays over £2300 a year for her heating and hot water. In 2022/23 her bill was less than £1400.

We disagree with the fair and reasonable returns principle. There's no definition of fair, reasonable or what might constitute 'in excess of what could be expected'. The consultation notes heat networks' profit levels will be compared to the cost of debt and equity or Weighted Average Cost of Capital (WACC) 'in the market'. Ofgem should clarify what 'market' to which the comparison is being made. An initial estimate of a 'reasonable return' in the heat networks sector should be produced by: taking the WACC figures for electricity and gas network companies, making a qualitative assessment of the comparative level of risk in heat networks, and adjusting to arrive at a range for a reasonable return estimate for the heat networks sector. The estimate should also factor in that there is evidence to suggest the WACC of network companies is too high.¹⁴ Ofgem should also clarify what profit levels metric they plan to use for the comparison with market WACCs. As discussed in our responses to Q23 and Q25, we recommend measuring Return on Capital Employed (ROCE) from the outset and for this to be compared with the WACC.

Outcomes

We partially agree. Most of the consumer outcomes are appropriate. However, we recommend changing 'the framework helps prevent disproportionate pricing: consumers pay prices for their heat that are not disproportionate'. There should be 2 separate outcomes: 'The framework helps prevent disproportionate pricing' and 'Consumers pay fair prices for their heat that allow them to meet their essential needs'. This aligns with the first fundamental outcome of Ofgem's Consumer Interest Framework: 'Fair prices - that allow people and businesses to meet their essential

¹⁴ Citizens Advice, [response to RII0-3 Sector Specific Methodology for the Gas Distribution, Gas Transmission and Electricity Transmission Sectors](#), 2024. pp.68-69.

needs'.¹⁵ Our consumer research shows high heating and hot water bills stopped people from taking regular showers, buying enough food and managing health conditions like asthma and arthritis.¹⁶ The framework's outcomes should reflect Ofgem's ambition to make sure energy costs don't prevent people from meeting such essential needs.

Consumers' lack of choice over their heat supply arrangements, and additional operational costs incurred by many consumers, means the fair pricing framework needs an additional 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, as Lucy's story shows.

Lucy* has to top up her prepayment meter in a shop 20 minutes away from where she lives. This is the only payment method her council-run heat network in the East Midlands offers. Fewer shops sell top up now, so Lucy has to plan carefully when and how to get to the one that does.

She has 3 young children, doesn't drive and can't afford public transport. She's on a tight budget and can't top up large sums at a time. Paying by direct debit would make her life much easier. Instead, Lucy and her young children have to walk 20 minutes to the shop at least once a week. Whatever the weather, rain, ice or snow.

The only way for heat network consumers to change their supplier is to move home. For people like Lucy, who might have waited years to get a council home, this isn't a realistic option.¹⁷ Leaseholders can also face large costs for ongoing maintenance and repairs of heat networks, as well as costs for major works. Our research shows this is a huge concern to leaseholders, and many are worried about their ability to sell up in the future.¹⁸ The fair pricing framework's outcomes should directly address these distinct features of the heat network market for consumers.

¹⁵ Ofgem, [Protect, build, change, deliver: Ofgem's multiyear strategy](#), 2024, p. 16.

¹⁶ Citizens Advice, [System Critical: No margin for error in new heat network rules, 2025](#), pp. 25-27.

¹⁷ Shelter, [How to get a council home](#), 2025.

¹⁸ Citizens Advice, [System Critical: No margin for error in new heat network rules, 2025](#), pp. 26, 34-37.

Q2. Do you agree with our proposals to develop the fair pricing guidance in relation to the principles (please note that questions on cost allocation proposals, including guidance, are asked separately under Chapter 3: Cost allocation).

In particular: a) have we identified the right areas to be covered by the guidance implementing the fair pricing principles (see paragraph 2.53 for a summary of the areas we are proposing to develop in guidance under each principle)? If you disagree with this proposal or think other areas should also be included, please specify what changes you would like to see and provide a justification.

Citizens Advice partially agrees. The proposals for guidance on implementing the fair pricing principles are a good starting point. However, they don't address the underlying cost drivers of high prices, instead allowing these costs to be passed on if they're considered proportionate. To make sure Ofgem can address underlying causes of high pricing in future iterations of the fair pricing framework, we recommend introducing monitoring and benchmarking of input costs.

Cost-reflective pricing guidance areas: We agree cost-reflective tariff structure is an appropriate area for guidance. We also agree unmetered networks need guidance on apportioning costs to proxy for consumer usage. See our responses to Q2b and Q11 for how these should be developed. The requirement for heat suppliers to use the most accurate data available to them when calculating charges, including meter readings where these exist, is a proposed rule under Authorisation Condition 13.2.¹⁹ Ofgem should clearly distinguish between rules and requirements that heat networks must follow and guidance or recommendations.

Cost efficiency guidance areas: Cost efficiency is essential to making bills affordable. Ofgem's fair pricing framework must be supported by the government setting ambitious standards in the Heat Networks Technical Assurance Scheme (HNTAS) and giving heat networks the right access to finance to meet these standards. Once these are defined, Ofgem should update the guidance to explain the interactions between HNTAS, funding options and the fair pricing framework.

Guidance on the areas of network efficiency, maintenance, service and customer service costs, and fuel procurement and hedging should set out best practice, with worked examples where possible. Ofgem should design these to support different types of heat networks to update their systems and processes, providing clear timelines and templates. Ofgem could also lead a dissemination programme to enable

¹⁹ Ofgem, [Heat Network Authorisation Conditions, Consultation Draft](#), 2024, p. 44.

upskilling and knowledge sharing for heat networks. This is particularly important for smaller networks with limited staff and resources.

Covering cost efficiency for heat networks in guidance only may not be a large enough incentive to ensure, monitor and enforce cost efficient practices. In the electricity and gas retail and network sectors, and in the water sector, the price cap and price controls implicitly impose cost efficiencies. We recommend strengthening aspects of guidance into prescriptive rules, especially in relation to capital cost recovery and corporate risk. We also expect Ofgem to introduce more prescriptive rules for restrictions on cost passthrough once it has sufficient data to develop these. See our responses to Q2b and Q11 for how these should be developed.

Fair and reasonable returns: Currently no guidance is proposed. As we've outlined in our response to Q1, Ofgem should provide an estimate of what constitutes a fair and reasonable return for the heat network sector.

Affordability guidance areas: We welcome proposed guidance on how heat networks can minimise the risk of shock bills, as this is a major cause of consumer harm.²⁰ As outlined in more detail in Q2b, this should include clear explanations of interactions with housing law, regarding major works costs, ongoing maintenance costs and back-billing for individual heat charges. Proposed guidance on cross subsidisation is currently limited to stating Ofgem won't directly restrict cross-subsidisation or impose obligations on suppliers to charge consumers differently based on their personal circumstances. Ofgem should provide examples and best practice guidance to show what level of cross-subsidisation suppliers can implement without violating the framework, as we outline in more detail in Q2b.

We welcome proposed guidance on regulatory control, which clarifies the responsibility of regulated entities for the actions and omissions of outsourced parties. This is vital, as a third of heat networks subcontract their operation either entirely or in part.²¹ We look forward to seeing more detailed proposals on billing and transparency guidance in a future consultation.

We recommend Ofgem develops an additional guidance area outlining its intentions for the iterative development of the fair pricing framework. This should include a timeline for reviewing and adjusting the framework.

²⁰ Citizens Advice, [System Critical: No margin for error in new heat network rules, 2025](#), pp. 16-23.

²¹ Department for Business, Energy and Industrial Strategy, [Heat Network Consumer and Operator Survey](#), 2022, page 16.

b) Do you agree with the specific proposals to develop each of these areas in guidance? If you disagree, please specify what changes you would like to see and provide a justification.

Cost-reflective pricing guidance

We recommend strengthening 2.12 to 'heat networks must document how their pricing strategies adhere to this principle'. This sets a clearer expectation for heat networks to document their decision-making. This would help to ensure there's a robust evidence base for Ofgem to scrutinise as and when benchmarking triggers concerns about particularly high pricing.

While the fair pricing framework doesn't impose any obligation to install meters, Ofgem's guidance should support the HNTAS framework by encouraging suppliers to accelerate adoption of metering wherever possible. Despite the introduction of HNMBR in 2014, nearly 6 in 10 (57%) heat network consumers don't have their own meter measuring how much energy they use.²² Guidance should include information on the benefits of metering for implementing the principles of cost-reflective pricing, cost efficiency, affordability and price transparency. Installing meters to measure use in individual homes reduces energy consumption by at least a fifth (20%).²³ This can help to drive efficiencies at an individual and network level, contributing to fair pricing.

Please see our response to Q11 for further detail on how the cost allocation elements of cost-reflective pricing guidance could be developed.

Cost efficiency guidance:

Network efficiency: We acknowledge different heat networks are currently operating at different levels of technical efficiency which drive differences in prices, but we don't support a lottery system for consumers. 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.

Maintenance, service and customer service costs: We recommend strengthening 2.24 to 'Heat networks must document their decision to outsource and choice of service provider' to demonstrate value for money. This would help to ensure there's a robust evidence base for Ofgem to scrutinise as and when benchmarking triggers concerns about particularly high pricing.

²² Social Market Foundation, [We can't keep heating like this: A fairer deal for heat networks](#), 2023, p. 4.

²³ Social Market Foundation, [We can't keep heating like this: A fairer deal for heat networks](#), 2023, p. 4.

Fuel procurement and hedging: We understand there will be a diverse range of fuel procurement and hedging strategies and don't propose being prescriptive on the strategy employed. Heat networks should however be *required* to have a strategy in place that explains how any best practice guidance is being treated. Heat networks should provide information on their strategy so it can be scrutinised and Ofgem should be able to take action if it views strategies as insufficient. For example, whether gas is being procured through commercial suppliers or on wholesale markets and what hedging strategy (if one at all) is being adopted. If any heat networks are purchasing solely on the spot market, this could give rise to suppliers passing on rising costs to consumers, but not passing on savings if the spot price lowers. Strategies should be monitored to ensure heat networks are taking steps to procure fuel efficiently and passing on costs fairly. This will also provide the Government with evidence as to whether a cap on the commercial sale of energy to heat networks is needed.

Restricted cost passthrough: 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. Poor performance and poor management practices can inflate costs associated with customer service, metering and billing and protecting financially vulnerable consumers. Guidance alone may not be enough to drive efficiencies in these areas. We recommend Ofgem develops a mechanism to benchmark these input costs to enable future iterations of the framework to introduce component caps and assess the appropriate levels at which these are set.

Capital cost recovery: We recommend having prescriptive rules on how to equitably distribute upfront capital costs across district heat network users, and to ensure capital costs aren't recovered twice when included in house prices. Further guidance should be considered in other areas relating to capital costs. See our response to Q11.

Corporate risk: We agree consumers should be protected from taking on a disproportionate level of corporate risk. Ofgem should define what it means by 'improper' recovery of initial capital costs and 'improper' recovery of capital expenditures and prohibit such practices.

Fair and reasonable returns guidance:

We disagree with the proposal to provide no specific guidance for this principle. As we've outlined in our response to Q1, Ofgem should provide an estimate of what constitutes a fair and reasonable return for the heat network sector. Guidance should clarify to which segments of the market this applies and explain interactions with government policy on profitability and pricing in heat network zoning.

Affordability guidance:

The consultation recognises ‘some cost drivers that might create affordability issues for consumers will be partially outside of the heat network’s control... and therefore, we do not expect heat networks to be able to tackle all affordability issues’. We recognise government action is needed to tackle some of the cost-drivers leading to unaffordable prices for consumers. Ofgem should use the fair pricing framework to gather evidence on input costs to support and influence government decisions, as outlined in our comments about cost efficiency guidance.

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 principles of cost-reflective pricing and cost efficiency. For example, larger organisations with non-heat network consumers could spread heat network costs across their wider property portfolios as a means of addressing cost efficiency. Some networks could 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.²⁴

Ofgem and the government must also 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 fell into 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. The small number of customers on many networks, limits suppliers’ ability to manage debt costs. Ofgem and the government should outline an action plan and timeline for developing a mechanism to fairly share the burden of consumer debt.

Shock bills: Ofgem states ‘in some exceptional circumstances, unusual or unexpected high bills might be unavoidable’.²⁵ Ofgem needs to specify narrowly what constitutes ‘exceptional circumstances’ in this context. Shock bills are a major cause of consumer

²⁴ Ofgem, [Decision on adjusting standing charges for prepayment customers](#), 2024.

²⁵ Ofgem, [Heat networks regulation: Fair price protections consultation](#), 2025, p. 27.

harm and have been caused by underestimating maintenance costs, long periods of back-billing and the application of retrospective price increases.²⁶

Guidance should include clear explanations and worked examples of how the affordability principle interacts with housing law. For example, major works costs are subject to consultation. 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. .

We acknowledge Ofgem's wider consumer protection proposals - to limit back-billing to 12 months and requiring suppliers to give advance notice of price increases - will help to mitigate shock bills. We recommend using guidance to provide clear definitions of back-billing and worked examples of acceptable and unacceptable practices. This should also clarify interactions with housing law, under which landlords have 18 months to demand payment for service charges, which can include individual heating costs and routine maintenance costs. We've seen cases of consumers receiving back-bills covering 2 or 3 years, even where housing law should already prevent back-bills of more than 18 months, as in Chloe's case.

Chloe* received a £1,000 bill from her building's managing agent in late 2024. She's a leaseholder, living in a flat in London. The catch-up bill covered a 3 year period from February 2021 to February 2024. There was no breakdown of what heat network costs the bill covered, so she wasn't sure how to challenge it or complain.

This shows the need for clear guidance to ensure suppliers don't exploit confusion over whether housing law or heat networks regulation applies. We've called for government departments to work together urgently to develop an action plan for unbundling heat and housing bills. This is the only way to guarantee 1 clear standard on back-billing across the sector.²⁷ In the meantime, Ofgem's guidance should include a recommendation for suppliers who recover heating costs via housing charges to update their processes to align with the expectation back-bills are limited to 12 months.

Regulatory control guidance:

Complex relationships between landlords, managing agents, heat suppliers and billing agents make it hard for consumers to challenge or resolve problems. Nearly three

²⁶ Citizens Advice, [System Critical: No margin for error in new heat network rules, 2025](#), pp. 16-23.

²⁷ Citizens Advice, [System Critical: No margin for error in new heat network rules, 2025](#), p. 19; Citizens Advice, [Priorities for heat networks consumer protections: Debt and affordability discussion paper, 2025](#).

quarters of consumers who use our specialist heat networks advice service have already tried to contact their provider before coming to us.²⁸ Aryana's case demonstrates how difficult it can be for consumers to find a resolution.

Aryana* received a catch-up bill for £600 covering nearly 2 years. The heat network company initially sent the bill to Aryana's landlord, who owns the flat she rents in London. The landlord told her they'd instructed the letting agent to spread the cost so repayments would be manageable for her.

But when Aryana contacted the letting agent, they were unaware of the situation. The heat network company hadn't provided any previous bills to either Aryana, her landlord or her letting agent. When Aryana contacted the heat network company directly, they asked her to pay the bill within 1 month. She's recovering from medical treatment, so the added stress is taking a toll.

Guidance on regulatory control should make lines of responsibility clear to help avoid cases like Aryana's. Ofgem should outline how regulated bodies can set up appropriate monitoring and data sharing agreements with subcontracted parties to fulfil the obligations of the fair pricing framework. Guidance should also include examples of robust processes heat network operators and suppliers can implement to monitor and address non-compliance by outsourced parties.

Price transparency guidance:

Billing and transparency are critical areas to get right for consumers. Two-thirds of consumers who've contacted our specialist heat networks advice service since 1 April 2025 have needed help with billing issues. The most common problems are catch-up bills, inaccurate bills or inaccurate estimated bills, and queries about price or tariff information.²⁹ We look forward to seeing the separate consultation on billing guidance later this year.

Q3. Do you agree with the proposed 'fairness test'? In particular:

a) Do you agree with the high-level features of the fairness test (principle based, reasonableness, case-by-case basis, and objectivity)?

The fairness test is a reasonable starting point as the regulations are developed and data emerges. The proposed fairness test uses a principles-based approach to determine whether prices are 'fair' or 'disproportionate' but does not define what fair

²⁸ Based on approximately 150 consumer cases, from 1 April to 24 June 2025.

²⁹ Based on approximately 150 consumer cases, 1 April to 24 June 2025.

and disproportionate prices are. Additionally, the principles-based approach doesn't address underlying issues which give rise to high prices. An outcomes-based approach, with the revised outcome that consumers pay fair prices for their heat, is more suitable than a principles-based approach. This is because 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 2012-2015.³⁰ 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.

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

We mostly support the proposals to implement the fairness test discussed in Appendix 1: Fairness test with 2 adjustments. Firstly, section A1.2 asks 'how do profits (in percentage or GBP) or rate of return compare to similar networks?' We support consistent outcomes for all consumers. Profit margins and rates of returns should be compared across the whole sector and with electricity and gas. If Ofgem additionally compares these measures to 'similar networks' as part of the fairness test, they should clarify what 'similar networks' means. Secondly, we propose an additional question in section A1.4 to prioritise actions: "What steps have been taken to ensure costs are efficient?".

Q4. Does the revised authorisation condition, 'fair pricing', reflect the policy intent?

Citizens Advice mostly agrees, although implementing our recommendations in Q1-3 would require further revisions to the authorisation condition.

The consultation explicitly states that Ofgem plans to develop the fair pricing framework iteratively. Revisions to the guidance should therefore be expected, whereas the current wording suggests revisions to guidance are unlikely or rare. To make this clear, we recommend changing 4.6 from 'The Authority may from time to time revise the guidance' to 'The Authority will from time to time revise the guidance'. We further recommend Ofgem sets out a timeline for reviewing and adjusting the framework in guidance.

³⁰ Competition & Markets Authority, [Energy market investigation Final report](#), 2016.

Q5. In relation to market segmentation (please note that we are asking in relation to the considerations discussed in paragraphs 2.58-2.61, segmentation considerations in relation to price benchmarking are considered under Chapter 4: Price comparison and benchmarking methods):

a) Have we identified the right characteristics for market segmentation, and are these correctly defined?

Citizens Advice mostly agrees that Ofgem have identified the right characteristics for market segmentation. However, some definitions are unclear or incomplete, making it difficult to assess whether the approach outlined is appropriate.

On size: we need a clear definition of what constitutes a 'small' network to assess whether it's proportionate to reduce data requirements. Depending on how this is defined, reduced requirements should only apply to individual 'small' networks and not to larger providers who control a number of 'small' networks.

On metered versus non-metered: we agree metered and unmetered networks need different guidance for cost allocation. However, the binary distinction may be too simplistic. Different guidance on cost allocation and affordability (cross-subsidisation) may be appropriate for prepayment or pay-as-you-go meters versus credit meters. Until the HNTAS is fully implemented to standardise technology across the sector, further differentiation may be needed for different generations of metering technologies.

On for-profits vs non-profits: further distinctions within the 'non-profit' category may be needed. Non-profits may have ownership structures which obscure profit-making entities. These are very different from not-for-profit arrangements such as Right-to-Manage in which leaseholders manage their own heat networks. For instance, wholly-owned subsidiaries of councils may be profit-making. Private landlords, who are not allowed to profit from bills, may use a for-profit managing agent whose costs are passed on to consumers. Special purpose vehicles can also be used to channel returns under non-profit umbrellas. For this reason, non-profits shouldn't be carved out of reporting requirements without further refinement of this category. Ofgem should consider how to capture relevant profit-making entities.

b) Do you agree with the segmentation approach discussed for each of these characteristics?

Citizens Advice disagrees with the approach outlined regarding housing tenure, which says bundling of heating and housing charges 'may impact our ability to implement cost allocation rules and carry out price benchmarking'. There's an absence of further

detail on what this means for cost allocation - it's not mentioned at all in the cost allocation chapter. We reject the suggestion made in the price comparison and benchmarking chapter that bundling of charges may make prices unobservable. See our responses to Q10 and Q15.

It's unacceptable for fundamental parts of the fair pricing framework to not apply to a substantial group of consumers. A third of heat network consumers pay for heating and hot water through their rent or service charges.³¹ We understand government progress on unbundling heating and housing charges is needed before Ofgem can outline more specifically what this means in practice for their approach to segmentation based on housing tenure. Once this is possible, if some minor differences in practice are necessary, Ofgem must specify these very precisely to make sure providers aren't using this confusion as an excuse to avoid compliance.

We don't support allowing all existing heat networks a transition period to develop data collection and reporting processes. The registration period from January 2026 to January 2027 should provide a sufficient transition. Indicative details of the kinds of data heat networks will need to report have been available since April 2024.³² Heat network providers should already be preparing to meet new regulatory standards. Allowing further time to transition into new data reporting requirements could limit Ofgem's ability to implement benchmarking, price transparency and price investigation proposals even longer.

We largely agree with the other approaches outlined. Given the diversity and complexity of the sector, it's appropriate to produce different guidance for different segments. The goal of this differentiation should always be to help heat networks to deliver the same level of protection across the sector and ensure good outcomes to all consumers.

Q6. Of the information listed in Table 3 below, what do heat networks already regularly collect and can be easily reported?

N/a

Q7. Of the information listed in Table 3 below, which items would be more challenging for heat networks to report?

N/a

³¹ Department for Business, Energy and Industrial Strategy, [Heat Network Consumer and Operator Survey](#), 2022, p. 30.

³² DESNZ/Ofgem, [Heat networks regulation: consumer protection - government response](#), 2024.

Q8. Of the cost drivers listed in Table 7 (in Appendix 3), which items would be more challenging for heat networks to report?

N/a

Q9. Should certain types of heat networks have more limited data reporting requirements? If so, which heat networks should these reduced requirements apply to, and what data should they be exempt from reporting?

All the proposals set out in this consultation are dependent on successful data collection. What constitutes a 'small' or 'not-for-profit' HN still hasn't been clearly defined. As such, these 'segments' could constitute the majority of the sector. Reducing data reporting requirements from them could render the fair pricing framework unworkable.

We understand the framework will introduce new responsibilities for the sector. However, these are vital to ensure consumers are protected within a monopoly sector. Heat network regulations should have at the minimum equivalent and ideally more stringent requirements than electricity and gas.

We generally don't support certain types of heat networks having more limited data reporting requirements as this is likely to lead to unequal consumer outcomes.

Small and not-for-profit HNs may have less resources but full reporting is essential to ensure prices are fair across the sector. Issues such as cost inefficiencies or distributing capital costs equitably over time can impact prices for consumers on not-for-profit heat networks, and therefore full data reporting is necessary.

Cost Allocation

Q10. Do you agree with our proposed prescriptive rule that GSOP payments, compensations, fines, penalties and other redress provided to consumers should not be passed through to customers?

Citizens Advice agrees with the prescriptive rule. It's right consumers shouldn't have to pay for supplier failures and fines should be focused on driving service improvements. More detail is needed on how Ofgem will enforce this rule to make sure customers don't end up paying for redress costs through backdoor mechanisms. 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.

We're concerned about Ofgem's approach to segmentation based on housing tenure, where housing legislation and bundled charges 'may impact our ability to implement cost allocation rules'.³³ The absence of further information in the cost allocation chapter makes it difficult to tell if the phrase in the revised authorised condition 'unless specified otherwise in guidance' means heat networks who charge in this way may be exempt from this rule. If this is the case, it means the third of heat network consumers who pay in this way might not benefit from this protection. And this would affect consumers across all housing tenures.

Heating and hot water bill types by housing tenure³⁴

Housing sector	Heating & hot water bill included in rent	Heating & hot water bill included in central service charge	Separate heating & hot water charge
Private rent	14%	6%	72%
Social rent - local authority, council	20%	6%	62%
Social rent - housing association	20%	11%	58%
Owner	1%	14%	80%

It

may be appropriate for more limited exemptions from this rule to apply. For example, under the Right-to-Manage arrangement, where leaseholders manage their own heat network, compensation payments may be counter-productive. However, if Ofgem can't apply this cost allocation rule due to interactions with housing law, this would create a 2-tier system, in which consumers who have no control over how they pay for their heating would lose out.

Q11. Do you agree with the draft best practice guidance provided? Is there anything that should be added? Should any of the best practice guidance be strengthened to prescriptive rules?

Citizens Advice supports parts of the best practice guidance on cost allocation. However, some of the costs defined as 'imposed on the system' by consumers - fuel

³³ Ofgem, [Heat networks regulation: Fair price protections consultation](#), 2025, p. 33.

³⁴ Department for Business, Energy and Industrial Strategy, [Heat Network Consumer and Operator Survey](#), 2022, data table 131.

costs, billing costs, metering costs and customer service costs - are equally dependent on measures heat networks take in relation to cost efficiency. Guidance must account for this to achieve the principles of cost reflective pricing and cost efficiency.

We recommend strengthening the guidance on cost allocation for metered networks into prescriptive rules. Rules will begin to standardise cost allocation, making price comparison and benchmarking more meaningful, particularly as more heat network providers enter the market. It will also help to eliminate examples of unfair pricing the consultation identifies. For example, 3.10 acknowledges 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.³⁵

Fixed costs - routine maintenance, repairs, asset depreciation, administrative overheads, billing costs, leasing - should be charged within standing charges. More variable costs - primarily heat consumption and fuel costs - should be included in unit prices. It's less clear whether efficiency losses should be considered fixed or variable costs. While system heat losses may be slightly higher during cold weather, they don't directly depend on the amount of heat consumers are using. It may therefore be fairer to consider efficiency losses a fixed cost to be recovered through standing charges.³⁶

The proposed guidance on how to proxy for heat consumption in unmetered networks is a good starting point. We recommend developing further guidance on best practice for approaching allocation of fixed and variable costs in different scenarios. Responses to our statutory Request for Information (RFI) revealed widely varying practices. For example, in 1 heat network unmetered consumers paid a daily standing charge for infrastructure costs and profit margins, alongside a usage proxy. In other cases, unmetered consumers paid a flat rate for the heating of communal areas alongside a usage proxy. Billing guidance, on how to explain to consumers how charges are set, could provide templates for different scenarios.

We agree that the upfront capital costs of developing district heat networks should be recovered in an equitable way over time. We support the goal of preventing early users bearing a disproportionate share of upfront capital costs. Once a decision has been made on how to do so, whether through projected consumer demand or setting a limit on the capital costs recoverable in a given year, this should be a prescriptive rule to ensure consistency across the sector.

³⁵ Alexander Belsham-Harris, [Why standing charges are fairer than you might think](#), 2023.

³⁶ L. Canale et al, [A comprehensive review on heat accounting and cost allocation in residential buildings in EU](#), *Energy and Buildings*, 2019.

The guidance only refers to the recouping of initial investment made when developing district heat networks. Other areas relating to capital cost recovery should be considered in the fair pricing framework. 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 capital costs in future heat prices. Ofgem should also consider whether it's fair to recover capital costs for upgrades to existing networks where poor design by developers is at fault. Poor design of some existing heat networks has led to health and safety concerns, supply issues and inefficiencies. Government intervention will likely be needed to ensure fair outcomes in these cases.

When capital costs from development or upgrades are passed on, guidance should be provided on how these costs should be depreciated. Where possible, straight-line depreciation should be applied across the life-time of the asset, to ensure consumers do not face excess upfront charges. This should also prevent economically unviable entities from developing heat networks. Ofgem should consider whether deviating from straight-line depreciation is justified and provide guidance on this.

Q12. Do you think that the best practice approach to cost allocation should differ for different types of heat networks, or different types of suppliers? If so, for which types and how?

We agree distinct best practice guidelines on cost allocation are needed for metered vs unmetered networks. These should be developed with the objective of achieving the same outcomes for consumers on both types of network - fair prices and price transparency. These shouldn't be developed with the objective of accommodating the varied practices of a diverse sector, where they lack transparency or lead to unfair prices.

We agree there may need to be specific best practice guidelines on cost allocation for district heat networks to ensure that capital costs are distributed equitably across current and future users of the network. There may be a need to draw further distinctions in the best practice approach to cost allocation. For example, in relation to new housing developments built with heat networks, connecting existing housing stock to new heat networks, and upgrading existing heat networks.

Q13. Does the authorisation condition, 'cost allocation', reflect the policy intent?

It will be hard for Ofgem to assess whether the authorisation condition has been met without supporting evidence being provided. Therefore, we recommend the following revision to the Authorisation condition: "An authorised person must ensure and

provide evidence that cost allocation practices are consistent with the cost allocation guidance to ensure consistency with Fair pricing principles...”.

Q14. What other feedback do you have on the proposed approach to cost allocation?

We understand there’s a need to allow suppliers sufficient flexibility in their pricing structures. However, this can give rise to unequal outcomes for consumers if not regulated well. Revising the framework objective to focus on ‘fair prices’ - instead of ‘not disproportionate’ prices - should help mitigate the risk of unequal outcomes for consumers.

In addition, companies should be required to provide evidence on how they have taken steps to minimise their costs. For cost allocation rules to be effective, and for the fair pricing framework as a whole to work, Ofgem needs to dedicate sufficient resources to monitoring and enforcement.

Price comparison and benchmarking methods

Q15. Do you agree with our proposed approach for defining heat network prices in a comparable way? Are there any other ways to define price that we should consider?

We support applying price benchmarking to both operators and suppliers, and to primary and secondary networks, and for Ofgem to investigate any differences that arise between the two. Consumers shouldn’t face vastly different prices due to the ownership structure of the heat network. We mostly support the approach to defining prices for the different types of authorised networks. We note a further type of network, namely “district network - standalone”, was previously included as a network type in the authorisation and regulatory oversight consultation.³⁷ In cases where a district network supplies end-consumers directly, prices charged to end-consumers should be captured.

We agree prices should be defined so they can be compared across the whole heat networks sector, and with external comparators, to identify unfair pricing. We support total effective price being used as the primary metric for benchmarking to achieve this. This will allow Ofgem to identify whether there are significant price differences between and within metered and unmetered networks. To ensure bills are accurate

³⁷ Ofgem, [Heat networks regulation: authorisation and regulatory oversight consultation](#), 2024, pp. 21-22, fig. 2.39.

and fair, we support metering across the sector. At the same time, pricing practices within metered networks need careful monitoring, particularly since consumers on metered networks face the potential detriment of both unaffordable prices and self-disconnection.

Citizens Advice have identified vast diversity in standing charges and unit prices across metered networks. We collected RFI data from 23 providers, who cover an estimated 10% of the heat networks market, which found that standing charges ranged from 30p to 153p per day and unit rates from 5.7p to 23p per kWh. Given that there is such diversity across the sector, there should be additional benchmarking of standing charges and unit rates individually for metered networks. This is particularly important to monitor since having a higher proportion of costs recovered through unit rates disproportionately impacts high-use customers. This affects consumers who require more heat due to vulnerable circumstances, such as older people, people with very young children, and people with medical needs. Disproportionately high standing charges, on the other hand, could cause harm for low-income households with low usage, by making it difficult for people to reduce their bills by using less energy. As cost allocation rules for standing charges and unit rates in metered networks are standardised, it's important to benchmark these costs individually to identify through which mechanism unfair pricing is taking place.

Prices should be measured relative to consumption, to ensure high prices for low-use customers aren't obscured. We support total effective prices being defined in pence per kWh for metered networks as an additional pricing measure from the outset, with this becoming the primary price metric once metering covers the whole sector. In the meantime, we support the primary price measure being the average amount paid per consumer. To account for differences in household consumption, we support the proposal to define prices with reference to 'low', 'medium' and 'high' usage consumer groups. This aligns with Ofgem's Typical Domestic Consumption Values in the gas and electricity sector. It's important household consumption is considered this way, so Ofgem can identify pricing that's unfair relative to usage.

We strongly reject the suggestion price comparison may not be possible in cases where heat prices are bundled into rent or service charges due to prices being unobservable. Where heat and housing charges are bundled from a billing perspective, the supplier must still have estimated the heat charge component of the bill prior to it being bundled with other charges and must have the data available. Ofgem needs to be able to scrutinise these costs for efficiency, since consumers have little transparency over what they're paying for when charges are bundled. Suppliers shouldn't be exempt from any data reporting if they choose to bundle prices together in billing. We strongly support the unbundling of heat and housing charges.

Q16. Do you agree with our proposal to use gas boilers and heat pumps as external reference benchmarks?

Citizens Advice agrees with the proposal to use gas boilers and heat pumps as external references. Consumers should have consistent and affordable heat costs, regardless of the energy source. The external benchmark is an important indicator to determine whether consumers on heat networks are paying disproportionately more than consumers using a different heat source. We agree gas boilers and heat pumps are the closest comparison to heat networks.

However, greater clarity is needed on how Ofgem will use the external benchmark. For instance, what level of divergence with gas boiler and heat pump prices will be considered reasonable and what action will be taken if prices are found to far exceed them. External benchmarking data should inform wider conversations around the affordability of heat supplied by heat networks compared to other heat sources. Where heat network consumers face significantly higher heat costs compared to non-heat network consumers, further intervention will be required.

Q17. Do you agree with the proposed method for calculating a heat pump benchmark, including the key input parameters outlined? Are there any additional factors that should be considered to ensure a robust heat pump benchmark?

N/a

Q18. Do you agree with the proposed approach to comparator benchmarking, and our list of potential cost drivers set out below and in Appendix 3: Cost driver? Are there any relevant cost drivers that we haven't considered?

We mostly agree with the proposed approach to comparator benchmarking as a starting point to monitoring pricing within the sector. Comparator benchmarking is necessary to identify potential relative unfair pricing within the sector, but it won't capture systemic issues. Since regression models are used for benchmarking costs in energy network price controls, there's a precedent for using the price prediction approach. However, if current prices and costs are used to calibrate the model, systemic unfair pricing will be built into the model. If the model suffers from omitted variable bias then unfair pricing might be identified as fair. These issues need to be considered so the approach can identify unfair pricing.

We disagree with including heat networks' individual fuel-input prices as a cost-driver in the price prediction regression model. It's important to identify where networks are procuring fuel inefficiently, and inefficient fuel-input prices shouldn't be taken as a

given. Instead, an average market price should be used as the fuel-input price, as utilised for the electricity and gas price cap. We see value in analysing heat networks' individual fuel-input price data outside the price prediction model to identify inefficiencies in fuel procurement and hedging. Heat networks should be required to have strategies in place to minimise fuel input costs and to hedge risk (see Q2b). We also disagree with including whether a heat network is metered or unmetered as a cost driver. Whilst there may be some additional costs associated with installing and maintaining meters these are likely to be minimal over time, and the greater risk is that consumers face vastly different prices from being on an unmetered network.

Our main consideration is how comparator benchmarking will be applied once residuals between the actual and predicted prices are calculated for each heat network. Clarity is needed on where the benchmark of unfair pricing will be set and whether this will be a percentile threshold or absolute threshold. Further clarity will be needed on the actions to be taken following the identification of unfair pricing.

We understand the approach in the fair pricing framework is, in the first instance, to assess fair pricing in relation to the individual cost drivers a network faces. However, given the diversity of the sector, this approach permits diverse consumer prices depending on the characteristics of the heat network a consumer is on. Comparator benchmarking should inform wider conversations around whether certain types of heat networks are economically unviable in terms of providing heat at a genuinely fair and affordable price to consumers. Further intervention will be needed in the interim to ensure that prices are affordable for all consumers.

Q19. What is your view on the ease with which data could be reported on the four 'High Importance' cost drivers set out in paragraph 4.33? What information do heat network operators and suppliers already collect, and what would be challenging to provide?

We understand data reporting may initially be challenging for heat networks. However, data reporting is essential to ensure the monopoly heat networks market is sufficiently monitored and regulated to protect consumers and so there is a high bar for assessing reporting as disproportionate. Reporting shouldn't be weakened simply because of resource requirements to submit the data.

Q20. What is your view on the ease with which data could be reported on the remaining 'Medium Importance' cost drivers set out in paragraph 4.33? What information do heat network operators and suppliers already collect, and what would be challenging to provide?

N/a

Q21. What is your view on our proposal to publish a high-level methodology for each benchmark (once data is collected and methods have been tested), to provide an accessible overview of the approach?

We support a high-level methodology for each benchmark being published to ensure transparency. In particular, if the price prediction approach is adopted for the comparator benchmark, the model specification should be made available.

Q22. Do you have any other feedback on the proposed approach to price comparison and benchmarking?

N/a

Profitability analysis

Q23. Do you agree with the proposal for ongoing monitoring of profitability through data collection on EBIT margins for all heat networks?

We agree with the proposal for ongoing monitoring of profitability through data collection on EBIT margins as a reasonable starting point. Monitoring profit margins is an important tool, as price benchmarking will take time to build up and cannot fully mitigate against systemic over-charging whether through cost-inefficiencies or excess profits. However, only monitoring EBIT margins has limitations (see Q25). We therefore support analysis of Return on Capital Employed (ROCE) and Weighted Average Cost of Capital (WACC) for all heat networks concurrently.

We support the monitoring of EBIT margins for all heat networks. Non-profits may have ownership structures which obscure profit-making entities. For instance, wholly-owned subsidiaries of councils may be profit-making, private landlords (who are not allowed to profit from bills) may use a managing agent that is for-profit and these costs are passed on, and special purpose vehicles can be used to channel returns under non-profit umbrellas. It's important the non-profit umbrella doesn't create opportunities for circumventing profit reporting and Ofgem should consider how to capture relevant profit-making entities.

Monitoring EBIT margins doesn't guarantee excess profits will be picked up. In cases where a heat network operator or supplier is part of a multi-sector organisation, or a subsidiary within a group, EBIT margins attributable to the heat network will be sensitive to how costs, particularly shared costs, are allocated across a group. For example, if a heat network operator contracts operation and maintenance to a sister company at a higher than market rate, the operator may show a low EBIT margin

whilst the group overall has excess profits. It may therefore be reasonable to collect EBIT margin data from sister companies or the group to assist with monitoring.

Q24. How challenging would it be for heat network operators and suppliers to provide the data outlined for calculating EBIT margins? What barriers, if any, might affect the accuracy and completeness of the data?

We understand the fair pricing framework creates new reporting requirements for heat networks, but it's reasonable to expect companies to be monitoring the data required to calculate EBIT margins. EBIT margin reporting is necessary for all heat networks as a minimum requirement in a monopoly market.

Q25. As data collection improves, do you agree that more in-depth profitability assessments, for example using Return on Capital Employed (ROCE), should be conducted for networks identified as outliers through benchmarking?

Heat networks are monopolies in a sector which has been largely unregulated up until now. Since there are limits to price benchmarking and EBIT margin monitoring alone, we support data being collected to compare Return on Capital Employed (ROCE) with the Weighted Average Capital Cost (WACC) from the outset of the fair pricing framework for all heat networks. We don't anticipate this putting a significant burden on heat networks since it only requires 1 additional metric of capital employed being collected. This is a standard financial metric and should be available. A range for the WACC in heat networks can be established by making a qualitative assessment of the comparative level of risk vis a vis electricity and gas networks and adjusting accordingly.

ROCE should be assessed from the outset because low EBIT margins don't necessarily imply low returns. Heat networks are a capital-intensive sector where upfront investment costs are gradually expensed over time through depreciation. This lowers EBIT in any given year whilst the network is making stable, long-run returns. A further risk is that in the absence of regulation on capital costs, heat network operators may "over-invest" in infrastructure and maintenance beyond what is required. This would further lower EBIT in any given year through inflated depreciation and operating costs, even though the underlying return on capital may remain high. By linking profits to the capital employed, ROCE provides a more complete picture of financial performance, helping to reveal cases where operators may be earning high returns despite low reported EBIT margins.

Equally, 2 heat networks may charge similar prices and report similar EBIT margins, yet have vastly different levels of capital investment. A heat network that has under-invested would be earning EBIT margins from a smaller asset base, leading to a

higher Return on Capital Employed. Only by comparing ROCE to WACC would potential excess returns be picked up.

Q26. Do you have any other feedback on the proposed approach to profitability assessment?

We support most of the proposed approach to profitability assessment as a reasonable first step to regulating pricing in the heat networks sector. However, in other regulated sectors, costs and return on equity are explicitly regulated. Ofgem should monitor whether price benchmarking and monitoring EBIT margins and ROCE provide sufficient oversight to ensure fair pricing for consumers. As data becomes available, the pricing framework should be iterated where needed.

Central price transparency

Q27. What are your views on the three options? Please comment on each option in terms of the price information to be centrally published, how the price information is presented and what prices are compared to.

Citizens Advice supports option 1 and recommends publishing all 3 forms of price information proposed. Of the available options, this offers the greatest price transparency for consumers. Price transparency is essential, as it allows consumers to understand their costs, and provides consumer advocates with data needed to analyse how the market is performing. An anonymised list of prices by market segment provides the greatest level of transparency and allows consumers to compare prices of their heat networks with similar networks. Publishing both the average price and the range of prices will help consumers understand and interpret prices in the broader market. Publishing all 3 proposed forms of price information should also reduce the risk of price convergence, compared to publishing only 1 form of information.

Option 2 doesn't provide the same level of transparency as Option 1, but would be acceptable as an interim option. The proposal to publish a market-wide average and to compare it with typical costs from gas and low-carbon indicators will allow consumers to have a basic picture of heat network pricing. Given the data needed for Option 1 isn't available until the Heat Network Technical Assurance Scheme (HNTAS) is operational, we recommend implementing Option 2 from January 2027. This will provide consumers with some level of price transparency as soon as possible.

We don't support option 3. This option offers little transparency and has a high potential for misunderstanding. A RAG system rating compares individual suppliers'

performance against benchmarks or market average, but it doesn't show actual prices. In this option, consumers won't be able to tell if they are paying more or less than others. The RAG system can also lead consumers to believe a red rating means the network charges unfair prices, while this could only be concluded with further analysis.

Once better data is available and the understanding of the heat networks sector improves, Ofgem should develop a full price register alongside Option 1. This combined approach would improve transparency for consumers, allowing a detailed comparison across heat network providers. This level of transparency is also vital for successful consumer advocacy, informing policy and regulatory decisions to make sure consumers are protected.

Q28. Do you think the options have the right balance between providing a good level of transparency, burden on consumers to interpret the information, risks of misinterpretation by consumers, disclosure of commercially sensitive information, and risk of price convergence?

Transparency should always have the greatest weight in the balance. Only Option 1 provides the level of transparency consumers need. Consumers need price transparency to understand what they're paying for and challenge unfair pricing practices. Consumer advocates also need transparent data to analyse how the market is functioning and to protect consumer interests. We therefore support prioritising price transparency offered in Option 1 over other factors.

We recommend Ofgem provides clear and accessible information to help consumers identify which group they belong to. This understanding is essential for consumers to interpret pricing data relevant to them. This will decrease the risk of consumers misinterpreting data. Citizens Advice can support this process by analysing the data and helping consumers to navigate the market.

The risk of price convergence shouldn't be used to justify limiting price transparency. Ofgem should monitor changes in pricing behaviour to limit the risk of price convergence at higher levels. Price convergence decreases competition. Increasing prices to match what other companies charge would violate several principles of the fair pricing framework, such as cost-reflective pricing, cost efficiency, and affordability. Regular and efficient monitoring helps to minimize this risk.

Q29. Do you support focusing on one option or a combination of options in paragraph 6.69?

Citizens Advice believes a combination of Options 1 and 2 could be beneficial to consumers. Option 1 offers a higher level of detail and context, allowing consumers to assess whether they are paying a fair price to their heat networks compared to similar networks. Option 2 provides a broader market overview, including comparisons with typical costs from the gas and low-carbon market. This helps consumers understand how the price they pay relates to the wider energy landscape. Combining these 2 options would increase the amount of information available to consumers. Over time, we support the development of a full price register to make sure consumers have full transparency and sufficient information to identify and challenge unfair price practices.

Q30. Do you support the phasing in of the options described in paragraph 6.70?

Citizens Advice believes Option 1 should be introduced as soon as possible and recommends the consideration of a full price register for full transparency. As regulation and efficiency upgrades are implemented across the heat networks sector, we expect the need for market segmentation to reduce.

We acknowledge the implementation of Option 1 is dependent on the operationalisation of the Heat Network Technical Assurance Scheme (HNTAS), which will take time. Therefore, we recommend introducing Option 2 as an interim measure from January 2027.

Q31. Do you support the adoption of different options for different heat network groups described in paragraph 6.71?

No, Citizens Advice doesn't support different options for different heat networks groups. We recognise the heat networks sector is diverse and consider Option 1 a good starting point to help consumers understand how and why prices vary by market segment.

However, market segmentation should be reduced or removed, when possible, over time. This supports the overall goal for all consumers to receive the same level of protections, experience good outcomes and pay fair and transparent prices. Allowing entirely different approaches to central price transparency for different groups of heat networks risks making the sector even more confusing to consumers. It also risks embedding, instead of reducing, market segmentation.

Q32. Do you agree that central price transparency measures are unlikely to put additional administrative burden on heat networks in addition to data reporting for benchmarking? Do you have concerns on the administrative burden from any options?

Citizens Advice agrees. If heat networks are compliant with data requirements for registration, monitoring and benchmarking, then introducing these transparency measures won't create an additional administrative burden. Much of the relevant data would already be collected and reported under specified requirements, so any transparency measures could draw on the information available. Heat networks should be able to meet transparency expectations without duplicating effort or incurring new costs, making central price transparency measures an efficient way of using existing data.

Q33. Do you think it is appropriate to link central price transparency with benchmarking?

Yes, Citizens Advice agrees it's appropriate to link central price transparency with benchmarking. As a starting point for data collection, requiring heat networks to submit pricing information annually would be a reasonable approach. This would satisfy both benchmarking requirements and price transparency goals using the same data. This approach should however be kept under review and be adjusted once heat network providers develop a better data reporting system and are able to provide more detailed reporting.

We also agree it's appropriate to publish some benchmarking information. Making this information publicly available will increase transparency levels and help consumers to interpret price data correctly.

Price investigations

Q34. Do you agree with the approach to price investigations set out so far? Please provide reasons and views to support your response.

Citizens Advice partially agrees with the proposed approach. Once implemented in January 2027, the use of benchmarking and profitability assessments to inform price investigations should successfully identify disproportionate pricing. However, if pricing is systemically high in a given market segment, entire groups of consumers could still experience serious detriment without pricing investigations being triggered.

As outlined in our response to Q1, our research with heat network consumers shows extreme price increases have been common in the last 2 to 3 years.³⁸

To maximise Ofgem's enforcement capabilities in a proportionate way, we suggest adapting elements of the Financial Conduct Authority (FCA)'s approach to enforcement, given they also regulate a diverse, complex market. These measures include publishing anonymised announcements about investigations underway and summaries of investigations after they've concluded. Making public a particular matter of an investigation without naming or identifying the subject of the investigation can educate consumers, support informed decisions and encourage businesses compliance.³⁹ Anonymous announcements could be particularly beneficial to small heat networks suppliers, which might lack the resources to access professional compliance advice available to larger suppliers.⁴⁰ Ofgem should also consider conducting reviews into the causes of high pricing and poor performance in market segments where monitoring and benchmarking identifies broad issues.

We recognise pricing investigations rely on the availability of monitoring and benchmarking data, which will be developed during 2026. However, saying that no price investigations can take place until January 2027 at the earliest sends a poor message to consumers who face high prices and financial harm now. This risks decreasing consumer confidence in the regulatory system and its ability to respond to pressing concerns. We therefore recommend Ofgem provides for exceptional price investigations to take place before January 2027 where evidence emerges of extremely egregious practices. This could include evidence provided by consumer bodies of very serious unfair pricing by heat network providers.

³⁸ Citizens Advice, [System Critical: No margin for error in new heat network rules, 2025](#), pp. 12-15.

³⁹ Financial Conduct Authority, [Our Enforcement Guide and greater transparency of our enforcement investigations](#), 2025, pp. 17-18. <https://www.fca.org.uk/publication/policy/ps25-5.pdf>

⁴⁰ Financial Conduct Authority, [Consultation paper: Greater transparency of our enforcement investigations](#), 2024, p. 29.