Heat Networks Regulation: Fair pricing guidance consultation
Response from The Heat Network
October 2025

The Heat Network is a peer group of social housing providers who meet to discuss and share good practice about district and communal heating. We bring together our own communal heat experiences and share the lessons we've learnt with colleagues across the sector. We have 41 housing association and local authority members who directly manage around over 125,000 homes on over 3,000 networks – around 25% of the UK total – and are responsible for many others on third party heat networks (eg ESCOs and s106 schemes). We are supported by a number of social housing groups: the National Housing Federation (NHF), the Chartered Institute of Housing (CIH), the Local Government Association, the National Housing Maintenance Forum and Community Housing Cymru.

The Heat Network has been working with NHF and CIH over the last ten months to bring together a unified voice for the social housing sector in heat network regulation development. As part of this, we together co-founded the Social Housing Heat Network Regulation Task Group, a forum for solution-driven policy discussions which both Ofgem and DESNZ are invited to attend.

Our consultation response draws on our responses to earlier consultations submitted jointly with the NHF and CIH, particularly the Fair Pricing Consultation published in April 2025. To discuss our consultation response further please contact Rachael Mills, The Heat Network Secretariat: rachael.mills@se-2.co.uk

Our Response

Interactions with existing housing legislation

We welcome Ofgem's recognition, both through the consultation document and the draft guidance, of the broader regulatory framework in which registered social housing providers (housing associations and local authorities) operate. While there is still much to be done to fully understand the interplay between heat network and housing legislation, we appreciate Ofgem's ongoing engagement with the sector and look forward to continuing our dialogue with you over the coming months.

There are a range of regulatory and legal protections that relate to contractual agreements between landlords, tenants and leaseholders including those covering service charges. The regulatory framework for heat networks should not seek to duplicate these. For social housing residents, the social housing Rent Standard sets out that service charges should be 'reasonable and transparent' and providers should 'endeavour to keep increases … within the limit on rent changes'. For variable service charges there are a number of legal protections, as set out in the 1985 Landlord and Tenant Act. Charges must be 'reasonable' and the landlord must provide a written summary of verified costs on request. The resident can go to the First Tier Tribunal for a determination that services, works and/or costs are reasonable. The 2024 Leasehold

Reform Act strengthens the rights of tenants and leaseholders, including new requirements for transparency around costs, as set out in the current consultation.

Questions 1-14 and 19-37
We welcome Ofgem's approach of consulting on draft guidance which will become the rulebook for heat network suppliers. The style is straightforward and easy to follow and understand, with appropriate examples of the regulatory intention.

We broadly agree with the proposed guidance in relation to the fair pricing elements included in the consultation, namely:

- The cost-reflective principle
- Cost efficiency guidance
- Fair and reasonable returns
- Affordability
- Regulatory control
- Price transparency
- The 'fairness test'
- Cost pass throughs
- Tariff structure
- Depreciation / capital cost recovery
- Bad debt
- Corporate risk
- Fuel procurement
- Penalties and redress
- Legacy arrangements
- Connection charges

We know that the guidance will continue to evolve as we travel through the transition period and use the guidance in real life. More questions will emerge, scenarios will arise and case history will develop, but this is a really good starting point.

We have added some specific areas where we think further work is still required, as already raised in our response with the NHF and CIH to the Fair Pricing Consultation earlier this year:

> Q1-2: Cost reflectivity: With the introduction of individual metering, new requirements for consumer protection, cost reflectivity and debt management, and the substantial costs for HNTAS combined with the not-for- profit (and in many cases loss-making) nature of heat networks in social housing, consumers are likely to see significant price increases.
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> There also needs to be absolute clarity on 'fair to who'. For example, any fines/penalties for the social housing sector will be paid for by others (eg other residents' rent) or have unintended consequences for other areas of activity in the sector, including the construction of new homes and building remediation.

Heat networks in the social housing sector do not operate in a vacuum: they are part of a bigger, interdependent system.

Q3-4: Cost efficiency: More work needs to be done on energy procurement in the social housing sector to ensure best prices are being secured whilst working alongside leaseholder consultation requirements (Section 20 of the Landlord & Tenant Act). Housing providers often only procure their energy for 12 months to avoid the need for consultation (given that energy purchasing decisions often have to be made quickly to get the best price), which means they can pay more for energy than if they secured a longer-term contract. Conversely, some social housing providers were locked into high long-term contracts during the gas price crisis. This should be taken into account when price comparisons take place.

Q5-6: Fair and reasonable returns: The principle that prices can include some level of profit needs to be weighed with obligations under the Landlord & Tenant Act 1985, and clear guidance given to the social housing sector.

Q7-8: Affordability: Affordability should absolutely be a central plank to fair pricing, but what happens when a 'fair and proportionate' price is not affordable for households in or at-risk of fuel poverty, or who have additional health-related needs for heat, such someone living with a terminal illness or young children in the home? Alongside regulation on price, DESNZ and Ofgem should give consideration to how existing fuel poverty support schemes can better support heat network customers. There is also a real risk that prices will increase in the short term as social housing providers address the under-recovery of costs to date and begin to think more strategically about what can be included in their tariffs. Given how vital heat networks are for our net zero targets, it is crucial that coordinated policy is developed to support customers to access heat and hot water affordably.

Q19-20: General cost pass-throughs: We are still waiting to hear the position on GSOP payments for not-for-profit heat networks (expected in the Government response to the Consumer Protection Consultation). While we agree with the intention of not passing these costs through to customers (they shouldn't have to pay for heat network operator/supplier breaches of compliance), we are struggling to understand where these costs would come from in a not-for-profit set up. If they come from other income streams (for example rent) it in effect means the fines are being socialised across an entire customer base, but it is still customers that will be paying. There will also be unintended consequences on budgets for development programmes, building safety, tackling damp, mould, and condensation, and wider decarbonisation.

Market Segmentation (Q15-16)

'Segmentation' does not best describe the complex matrix of characteristics that any one heat network will identify with, as outlined in the consultation. Heat networks will be multi-segmented: two 50-dwelling communal heat networks both built in 1995 will

be segmented the same for size and age, but perhaps differently for metering or tenure. More needs to be done to explain / illustrate these interconnections, perhaps with interactive flow charts or similar user-friendly tools.

Critically, there is no definition of 'not for profit' yet and much of the compliance pathway depends on this, especially give the not-for-profit nature of the social housing sector. For example, does it apply to the heat network operator/supplier or to the heat network? What happens if a for-profit organisation operates a not-for-profit heat network – or vice versa?

It is also important to develop and consult on an appropriate definition of 'small' heat network operator/supplier and what that might mean. For example, does it mean a small organisation or a small heat network portfolio? A housing association with 20,000 homes might only have 2 communal heating schemes, or a housing association with 800 homes could have 20. A small housing association providing retirement housing could have a relatively large number of small networks. Clarity is also required so that organisations can prepare.

In the housing sector, housing associations with fewer than 1000 homes have reporting requirements to the Regulator of Social Housing that are more proportionate to their size. Ofgem should consider this when finalising their definition of 'small'

The sector needs clarity now in order to prepare for January 2026.