

Energy UK response to Ofgem Heat networks regulation: authorisation and regulatory oversight consultation

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About Energy UK

Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies right through to new, growing suppliers, generators and service providers across energy, transport, heat and technology.

Energy UK's members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28 million UK homes and businesses. The sector invests £13bn annually and delivers nearly £30bn in gross value - on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors. The energy industry is key to delivering growth and plans to invest £100bn over the course of this decade in new energy sources. The energy sector supports 700,000 jobs in every corner of the country.

Energy UK plays a key role in ensuring we attract and retain a diverse workforce. In addition to the Young Energy Professionals Forum, which has over 2,000 members representing over 350 organisations, Energy UK is a founding member of TIDE, an industry-wide taskforce to tackle Inclusion and Diversity across energy.

Consultation response

Q1. Do you agree, partially agree, or disagree with our proposed operator-led approach to heat network authorisation? Please explain your answer.

Partially agree.

As Ofgem's objectives centre around protecting customers, it should consider the benefit of adopting a supplier-led approach as the supplier will be working directly with the customer, unlike the operator. This would enable the regulatory focus to be consumer-led. It is also likely that the forthcoming Heat Network Technical Assurance Scheme (HNTAS) will provide additional scrutiny and oversight of heat network operators.

Q2. Do you agree, partially agree, or disagree with the need to be able to identify a single party on a relevant heat network to fulfil the role of operator?

Partially agree. Energy UK recognises the rationale for the requirement to identify a single party. This will ensure that there is clear accountability, and will also support the regulatory activities.

When it comes to the approach to bulk supply networks, greater clarification is needed as to how the actions of the secondary network interact with the authorisation requirements of the primary network. For example, where the responsibility lies for GSOPs, and how the quality of heat being passed through the network may impact on the price being charged on the supply side. Further clarity on the rules of interaction would be helpful.

Q3. Do you agree, partially agree, or disagree with each of the proposed options for our single operator approach? Please provide detail for your response to each option.

Disagree. In the electricity sector, each entity is regulated, and this sets a precedent for the heat networks sector. It would be preferable to regulate each entity and its associated activities, rather than require a single operator.

The single operator approach raises significant corporate risk for the additional operators within the network. This would require operators to be dependent on another entity for providing the relevant monitoring data to Ofgem, and achieving compliance. It is not suitable for the single operator to take on the legal responsibility on behalf of the other entities to provide this data.

Q4. Do you or your organisation operate any networks that may be impacted by our proposals to identify a single operator? If so, how many networks?

Energy UK members will respond individually to this question.

Q5. Do you agree, partially agree, or disagree with our proposals for regulatory obligations to be assigned to the role or operator or supplier? Please explain your answer.

Agree.

The industry would benefit from greater clarity relating to the operational responsibilities, roles and rights of legal entities within each type of heat network system, and how these interact. For example, the responsibilities that will sit within the operator of a large district network supplying bulk heat versus the responsibilities of a connected building system operator.

Q6. This question is for heat network organisations. Do you already have processes in place similar to the proposed suitability requirements? Please provide detail of processes or policies where possible.

Energy UK members will respond individually to this question.

Q7. Do you agree, partially agree, or disagree with proposals for the process of Registration? Please explain your answer.

Agree.

Energy UK generally supports the proposals on the registration and authorisation for heat networks, particularly the automatic authorisation for existing networks with registration and the approach to authorisation on an entity level rather than scheme level. Authorisation and registration for operators should be aligned with the information that they will be providing relating to compliance with the forthcoming HNTAS.

Q8. Do you agree, partially agree, or disagree with proposals for the process of Authorisation Application? Please explain your answer

Agree.

Greater clarity is needed around the statutory timeframe for Ofgem to process the authorisation application.

Growth in the industry can be supported by operators being able to apply for authorisation with sufficient time in advance of assets and infrastructure being completed. Importantly, this provides reassurance to investors that the operator is authorised to run the network once it's commissioned and is immediately ready to supply customers.

Q9. Do you agree, partially agree, or disagree with proposals for management and recording of changes to a heat network? Please explain your answer.

No response.

Q10. Do you agree, partially agree, or disagree with proposals for the transfer of heat network authorisation? Please explain your answer.

No response.

Q11. Do you agree, partially agree, or disagree with proposals for the revocation of heat network authorisation? Please explain your answer.

No response.

Q12. Do you agree, partially agree or disagree with the proposed monitoring metrics and the level at which they will be reported?

Partially agree. Energy UK recognises the need for Ofgem to collect reliable and accurate data on the heat networks sector, given the lack of data that is currently available on its operations and customers. This data is necessary to support the

implementation of the consumer protections framework. Energy UK has consistently advocated that monitoring, audit and enforcement activities, and any steps to tighten regulations, should be based on evidence of consumer detriment. This evidence will be gathered in part through the provision of data by industry as part of the authorisation conditions.

However, there are some concerns that the reporting requirements as proposed will require significant resources of heat networks. Energy UK has concerns about the assumptions made in the Impact Assessment of the DESNZ/Ofgem Heat networks regulation: implementing consumer protections consultation which sets out estimated regulatory costs to a heat network. The figures provided in Table 5 have been challenged by members of Energy UK, and it would be helpful for further modelling to be done to understand the regulatory burden, including Ofgem spending time with heat network companies to understand how these functions, such as audits and annual reporting, are set up and maintained.

In order to ease this regulatory burden, the monitoring process can be simplified through Ofgem providing templates and concise guidance around performance measures so that the data provided by heat networks can be uniform and consistent. This will also facilitate the use of an API database to manage the monitoring, as proposed in the consultation. The ability to consolidate data submissions to the API would enable efficiencies within this activity, and cost savings, which ultimately benefits the customer.

Once the regulation has been in place, the frequency with which each metric is reported to Ofgem should be kept under review. It is of benefit to the regulator to ensure that all monitoring is proportionate to the risk of consumer detriment. Any additional reporting requirements should be subject to consultation, and allow sufficient lead-in time for industry to prepare.

Q13. Do you agree, partially agree or disagree with the proposed reporting frequencies outlined? If not, how should they differ for segments of the market?

Partially agree. Energy UK agrees with the proposal to phase-in reporting frequency during the Initial Period.

The reporting frequencies should be determined according to the benefit of the customer. The frequencies proposed in the consultation, in particular quarterly submissions, risk being onerous and costly to the sector. This is counterproductive to the ambition for heat network infrastructure to grow at pace and scale in the years ahead. Furthermore, for some metrics, reporting every six months would align with the Heat Trust reporting regime and existing practices within the sector.

Updating the authorisation conditions associated with reporting frequencies will be challenging, as this will be subject to consultation. It is therefore favourable for the reporting metrics to align with the Heat Trust initially, and then be revised according to risk of consumer detriment as this arises.

Q14. Do you agree, partially agree or disagree with the overall approach for implementing the monitoring framework? Please explain your answer

Energy UK agrees with the overall approach.

Q15. Do you agree, partially agree or disagree that this is the right approach to the implementation of an audit programme within heat networks? Please explain your answer.

Agree. Ofgem should adopt a risk-based approach to auditing, based on consumer detriment evidenced by data such as high levels of complaints or pricing anomalies. Auditing represents significant resource requirements for both Ofgem and suppliers, and this approach will therefore ensure that the audit programme is as effective as possible.

Energy UK also supports a phased approach to the audit programme from the Initial Period. Focussing on auditing heat networks that have not previously been compliant with the Heat Trust standards may support a risk-based approach.

It is welcome that third party auditors will be enlisted, as this will address the challenge of raising heat network expertise and knowledge within Ofgem over a short period of time.

Q16. Do you agree, partially agree or disagree with both a risk-based as well as a randomised sampling approach? What are the main risks and benefits to implementing this approach? Please explain your answer.

As discussed in its response to question 15, Energy UK supports a risk-based approach to the audit programme. Incorporating data collected by Citizens Advice to inform this is a welcome approach.

Energy UK disagrees with the proposals for randomised sampling, as this does not represent a targeted approach. Audits represent a significant resource requirement for Ofgem and heat networks, and should therefore be targeted as needed. The monitoring requirements proposed in the consultation should provide sufficient data to enable this. Furthermore, there may be more efficient regulatory mechanisms available to Ofgem, such as self-assessment reports with disclosure requirements.

Energy UK has concerns about the assumptions made in the Impact Assessment of the DESNZ/Ofgem Heat networks regulation: implementing consumer protections

consultation which sets out estimated regulatory costs to a heat network, including of audits. Anecdotal feedback from industry suggests that the figures provided in Table 5 that estimate four hours per annum for audits, when compared to the time and resource requirements for Heat Trust audits, are not realistic.

Q17. Is the approach to audit proportional? Do you agree, partially agree or disagree with the approach to segmentation to help address this? Please explain your answer.

Energy UK disagrees with the approach set out. As set out in its response to question 16, randomised sampling does not represent a proportionate approach to auditing, as Ofgem should be able to use the significant data provided according to the monitoring requirements to target auditing.

Greater clarity from Ofgem on the interactions between the authorisation and oversight regime, and the Heat Network Technical Assurance Scheme audit programme would help heat networks to build capacity in these areas.

Q18. Do you agree, partially agree or disagree with the approach outlined for compliance and enforcement will help ensure heat networks meet their obligations, including the proposed authorisation condition placing a duty on heat networks to take action to come into compliance?

Energy UK agrees with the account management approach, as this will facilitate communication between heat networks and Ofgem. Engagement and support in this way should provide an effective means of addressing minor non-compliance issues within the sector. Rapid response rates and bespoke information from Ofgem provided to heat networks will facilitate compliance. Trade associations can also play a supportive role in delivering information from industry to Ofgem and vice versa to support compliance and raise standards.

It is also right that industry should be open and cooperative, and Energy UK agrees with an authorisation condition to this effect.

Heat network customers should receive the same level of protection and rights irrespective of their supplier. Additional support, such as guidance, may be required for smaller heat network suppliers with no experience of a regulated market in order to ensure that they achieve compliance.

Q19. Do you agree, partially agree or disagree with the proposed areas of initial focus for compliance activity?

Energy UK agrees. It is right that initial focus should be evidence-led, and informed by evidence of consumer detriment.

Q20. Are there other areas related to the topics covered by this consultation that you think we should provide guidance for? Please provide detail.

Energy UK agrees with Ofgem producing guidance, particularly where there are prescriptive minimum standards that heat networks must meet. Guidance is beneficial where it provides examples of how to achieve compliance.

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