

Heat Networks Regulation Team
Ofgem
10 South Colonnade,
Canary Wharf,
London

27 October 2025

Dear Heat Networks Regulation Team,

Thank you for the opportunity to respond to the [Heat networks regulation: fair pricing and cost allocation guidance consultation](#).

The implementation of a fair pricing framework is essential to consumer protection. Unfair billing practices can have an adverse impact on the reputation of heat networks and damage investor confidence within the sector, threatening the growth of the industry. Energy UK supports and welcomes the efforts of Ofgem in the development of these guidelines to ensure both customers and investors are supported.

Key principles for developing effective fair pricing and cost allocation guidance:

- Energy UK supports the adoption of an outcome based and iterative approach where guidelines are regularly reviewed, supported by evidenced consumer detriment and robust policy development.
- Ensure continued alignment with the Heat Network Technical Assurance Scheme (HNTAS) and other regulatory measures.
- Guidance should provide certainty and transparency for industry. This will aid commercial viability and investment decisions, particularly as pricing depends on long-term contractual arrangements.

Fair pricing

- Energy UK supports the proposed approach to high-level, cost reflective pricing within the guidance.
- Energy UK also supports an iterative approach. Guidance should be altered accordingly as more data is collected on pricing practices. Market segments where consumer detriment is found can then be provided with more prescriptive guidance on 'cost-reflective pricing' in later iterations.

- Energy UK welcomes a market segmentation approach and would appreciate this being extended to include district versus communal heat networks more explicitly to account for any differences in pricing due to scale, efficiency and use of flex, for example.
- With regards to the cost efficiency principle, there is concern of a definitive lack of incentive mechanisms outlined within the guidance beyond penalties. Reassurance within the guidance is needed as operators should be entitled to retain a share of the benefits of efficiency gains so that market growth and innovation is not discouraged. This will also ensure additional perceived risk is not reflected in prices.
- Additional guidance is needed on how government funding should be reflected in pricing and margin calculations in line with the fair and reasonable returns principle. This will help to set expectations and increase consistency across the industry as well as support operators in showcasing cost effectiveness.
- More clarity over the use of profit levels as an indicator for unfair pricing is needed. While the guidance explains the expectation that profits above a certain level will be deemed unfair, it does not provide clarity on what this means in the context of achieving a sufficient return on capital. An iterative approach should be taken here to gain understanding of investment risk and investment performance so judgement can be sufficiently informed when deciding a fair and reasonable rate of return. Greater clarity and reassurance that metrics will be understood in the context of achieving a sufficient return on capital would be helpful here to ensure that heat networks can continue to attract investment, and new networks can be built to provide customers with low-cost, low-carbon heating.
- Larger non-domestic customers have the capacity and capability to negotiate terms. Therefore, Ofgem should review whether they need to be included in the framework through consultation with industry customers. Ofgem should ensure SMEs are adequately supported within the guidance in addition to domestic consumers.

Cost allocation

- Energy UK supports an iterative approach to cost allocation to accommodate for the ongoing reforms in the gas and electricity retail market to inform heat network regulation development.

- Greater clarity is needed regarding the Cost Efficiency Principle, specifying how Ofgem plans to determine when a heat network is inefficient, how efficiency will be measured, and expectations on what is considered best practice in finding efficiency savings. Guidance should ensure alignment with HNTAS when defining these points.
- Contrary to other utilities, there is a nuanced picture around supply and whether customers have a meaningful choice of adopting other heating solutions. In some instances, heat networks function as a monopoly, but in others they do not and disconnection from the heat network (or not connecting in the first place) can be an option. This should be adequately reflected within the guidance surrounding corporate risk.
- Heat networks need access to development finance that recognises that they need a certain volume of customers to connect to the network before they start generating a return. There could be a role for the National Wealth Fund in supporting access to patient capital.
- Ofgem should ensure that adequate guidance is provided in a way that recognises the diversity of fuel procurement approaches across the heat network industry, for example waste heat or purchasing fuel on a portfolio basis. The cost allocation guidance needs to be sufficiently nuanced to recognise a range of practices.

Thank you again for the opportunity to respond to this consultation.

Yours sincerely,

Anna Simms
Policy Executive