Heat Network Regulation: Fair Pricing Consultation

Chirpy Heat Insight Group Briefing, September 2025

> Full regulation of heat networks – which include both district and communal heating – began from 1st April 2025, bringing a set of challenges for housing providers as they move to fully regulated utility providers. This briefing summarises the key themes in Ofgem's consultation on fair pricing.

Insight

The Ofgem fair pricing consultation has significant implications for housing providers and the sector as a whole. It has proposed a principle based approached that includes a wide range of issues that housing providers will have to take into account including fairness, cost recovery, benchmarking and affordability. This is a complex matrix of considerations that has immediate impacts with Citizens Advice and the Energy Ombudsman, both of whom began their heat network statutory roles in April 2025. In order to manage this risk, housing providers should ensure they are working to their best endeavours, including reviewing existing charges and tariffs, customer communications and Heat Supply Agreements.

Summary

New regulations are being rolled out that will impact housing providers that have any of their homes heated by a communal system. These are often called heat networks, communal heating or district heating systems. The regulations are being brought in to protect consumers in a natural monopoly and to bring them in line with gas and electricity markets. The regulations will require housing providers to meet a range of new requirements around consumer protection, service and technical standards and will require data and reporting to the new regulator, Ofgem.

The latest consultation lays out how Ofgem will regulate fair pricing and includes:

- A fair pricing framework structure, principles and 'fairness test'
- Cost allocation
- How prices will be benchmarked and shared with consumers
- Profitability analysis on for-profit heat networks and price investigations

This briefing summarises the key consultation themes. It can be found in full at https://www.ofgem.gov.uk/consultation/heat-networks-regulation-fair-pricing-protections. The consultation closed on 9th July 2025.

The Fair Pricing Framework

Under the new regulations, heat network suppliers will have to ensure that the charges they impose are **fair and not disproportionate.** This will be implemented through six principles, further draft guidance for which will be issued over the summer:

1. **Cost-reflective pricing:** prices should be reflective of the underlying cost of providing heat and of the consumption levels of consumers. Reasonable proxies for consumption should be used for non-metered schemes.
2. **Cost efficiency:** the underlying costs should be efficient while at the same time providing an appropriate quality of service. This includes implementing technical efficiencies, competitive fuel procurement and outsourcing contracts where beneficial.
3. **Fair and reasonable returns:** the principle that prices can include some level of profit, but that heat network suppliers shouldn't use their monopoly status to earn excess returns.
4. **Affordability:** heat network suppliers should strive to maximise consumer benefit in their pricing decisions. It's recognised that cross-subsidisation might happen but that no customer should face disproportionate prices. Shock bills might be unavoidable in exceptional circumstances but planning ahead should minimise their likelihood and impact.
5. **Regulatory control:** heat network suppliers will be held directly accountable for the actions or omissions of any outsourced contracts.
6. **Price transparency:** prices must be communicated to consumers in a way that is accessible and easy to understand.

Ofgem will not pre-define 'fair' and 'not disproportionate'. Instead, a **fairness test** will be applied on a case-by-case basis. Developed using statistical and economic models, the fairness test will consider a range of questions including how prices compare to benchmarks, whether prices have been consistently high, who is affected by the disproportionate pricing and the transparency of the prices and billing.

Ofgem also provides more details on their proposed **market segmentation approach** to help them regulate the heat network market. A heat network might fall into multiple segments – eg metered vs non-metered, profit vs non-profit, size, age, tenure. The Regulations could apply slightly differently in each case, eg how costs are allocated in metered vs non-metered networks, or how benchmarking is applied where heat and other service charges are bundled together.

Data and reporting is also discussed. Ofgem will require some data to be reported quarterly (eg standing and unit rates, number of consumers, total annual charges), some annually (eg overview of costs recovered, annual demand, operating temperature) and some upon registration or when something changes (eg technology type, age of network, ownership arrangements, metering). Data from the Heat Network Technical Assurance Scheme (HTNAS) will also be used. Ofgem is likely to start collecting regular reporting data in late 2026 subject to their digital service functionality being available, back dated to a common start date.

Cost Allocation

Ofgem explain that the heat network market is too complex for them to set out prescriptive rules on pricing structures although they will offer guidance.

This means initially there will be only one prescriptive rule, that **Guaranteed Standards of Performance (GSOP) payments, compensation, fines, penalties and other redress provided to consumers should not be passed through to consumers.** The Government's response to the Consumer Protection consultation is yet to be published: this proposed that social housing providers would be outside of GSOP payments but our view is that this might be reversed.

Price Comparison and Benchmarking Methods

Because of the diversity of the market, Ofgem are proposing to continue to develop three benchmarking approaches: these will be tested and refined on an ongoing basis once consistent, real-world data is available to them.

1. **External benchmarking**: compares heat network prices to gas boiler and heat pump prices.
2. **Comparator benchmarking:** compares heat network prices to prices of other heat networks with similar characteristics.
3. **Own past price benchmarking:** tracks each heat network's prices over time

In all cases, it will be the 'total effective price faced by consumers' that will be benchmarked (rather than a tariff's component parts). It is recognised that benchmarking bundled costs will be difficult and that unbundling heat from wider service charges "may require changes to existing legislation and would take time to implement changes to existing contractual arrangements." Bulk supply prices will also be benchmarked.

Profitability Analysis

This test would be applied to for-profit heat networks only. It would measure levels of profits or returns to help determine whether high prices are also earning excess profits.

Central Price Transparency

Ofgem want customers to better understand their charges and how they compare to equivalent heat networks so they are more empowered to challenge their bills. The consultation looks at different ways information can be clearly presented and easily accessible from a central source. Three options are put forward: a segmented average (where your heat network is compared to heat networks with similar characteristics), a pooled market average (where your heat network is compared to the heat network market more broadly) or a RAG rating system. It is likely a combination will be taken forward, and that consumer factsheets or infographics will be developed to explain how to interpret the information provided.

Price Investigations

Ofgem will have powers to take action where prices for consumers appear to be disproportionate. It is likely that "interventions will usually be focussed on the cases where there is the greatest consumer detriment". If an investigation is triggered, further data gathering will take place before any actions are taken: heat network suppliers will be expected to have a justifiable and evidenced pricing strategy. Price investigations won't start until January 2027 at the earliest.

How can you prepare?

Although the fair pricing proposals are still in the consultation stage, there are some 'no regrets' actions you can be taking right now:

- Set clear principles for your heat pricing that align with your organisational drivers
- Review your heat charges and tariffs for both metered and unmetered schemes
- Set regular review dates for charges and tariffs going forwards
- Review your Metering and Billing arrangements
- Review customer information and communications around charges and tariffs

To discuss how you can get your heat network pricing regulation ready, please contact us at simplybetterheatnetworks@chirpyheat.com.