

Heat Networks Regulation: Fair Pricing Protection consultation (Ofgem)

England, Scotland, and Wales (Great Britain)

Response from Propertymark

October 2025

Background

1. Propertymark is the UK's leading professional body of property agents, with over 19,000 members representing over 12,500 branches. We are member-led with a Board which is made up of practicing agents and we work closely with our members to set professional standards through regulation, accredited and recognised qualifications, an industry-leading training programme and mandatory Continuing Professional Development.¹

Consultation – overview

2. Ofgem's *Heat Networks Regulation: fair pricing protection guidance* consultation asks for views on Ofgem's a fair pricing and cost allocation guidance framework for heat networks in Great Britain (England, Scotland and Wales). The consultation seeks views on how to maintain fair pricing and reasonable cost allocation for consumers on heat networks. This arises from Ofgem's duties under the Energy Act 2023 and Heat Networks (Scotland) Act 2021 to regulate heat networks in England, Scotland and Wales from 2026.

Questions – Propertymark response

Q1. Do you agree, partially agree, or disagree with the proposed guidance in relation to the cost-reflective principle?

3. Propertymark agrees with the proposed guidance on the cost-reflective principle but think it would benefit from additional clarity which is set out in response to Question 2.

¹ <https://www.propertymark.co.uk/>

Q2. How can we improve guidance in relation to the cost-reflective principle?

4. The expectation on cost-reflective pricing is currently phrased as follows: “prices should be reflective of the underlying cost of providing heat and consumption levels of consumers. Additionally, consumers should pay for the additional costs they impose on the system, as well as a contribution to the fixed costs of the system, ensuring long-term efficient use and sustainability of the system.” Propertymark suggests this is amended to read: “prices should be reflective of the underlying cost of providing heat and consumption levels of consumers. This should include the additional costs consumers may impose on the system, as well as a contribution to the fixed costs of the system, ensuring long-term efficient use and sustainability of the system”. Propertymark suggests this rephrasing because additional costs and fixed costs are best understood as subsets of underlying costs. Although Propertymark appreciates that the components that form these costs are discussed further under cost allocation, it may be helpful to list the costs which should be included more fully in this section- for example, there is no reference to the inclusion of a sum in consumer bills to meet the cost of bad debts as cost-reflective.

Q3. Do you agree, partially agree, or disagree with the proposed guidance in relation to the cost efficiency principle?

5. Propertymark agrees with the proposed guidance in relation to the cost efficiency principle and suggests some small changes in the response to question 4.

Q4. How can we improve guidance in relation to the cost efficiency principle?

6. Although implicit, it may be helpful to explicitly state the benefit of maintaining records of routine inspections, efficiency monitoring and servicing of equipment, and note that Ofgem will require evidence of costs in order to consider them when assessing whether a price is fair and proportionate. This explicit advice is already in the guidance in respect of procurement best practice, noting that authorised persons are expected to ‘clearly document the procurement strategy and justification for the procurement strategy.’

Q5. Do you agree, partially agree, or disagree with the proposed guidance in relation to the fair and reasonable returns principle?

10. Propertymark partially agrees with the proposed guidance and has made some suggestions in response to Q6 setting out where additional clarity or changes may be helpful.

Q6. How can we improve guidance in relation to the ‘fair and reasonable returns’ principle?

11. In respect of fair and reasonable returns, the guidance notes that authorised persons should not leverage their monopoly status to earn returns in excess of what could be expected in compensation for the risks associated with the investment. However, this is then qualified by the bracketed phrase ‘unless this is merited, in the short term, by exceptional performance’. However, no definition of short term is provided; and it may be fairer to assess profitably over a fixed time period rather than shorter and undefined periods of time. Short term excessive profits may be required at a time of cheaper energy if profitability has been reduced during a period of relatively high energy prices, for example.

Q7. Do you agree, partially agree, or disagree with the proposed guidance in relation to the affordability principle?

12. Propertymark partially agrees with the proposed guidance in relation to the affordability principle. However, it is not clear that such a section is necessary given the provisions on fair and reasonable returns, given that affordability is in part relative to an individual’s circumstances which is not in the control of the heat network operator. If a heat network operator is making fair and reasonable returns, and not excessive profits, it should follow that the prices charged are necessarily as affordable as they can reasonably be.

Q8. How can we improve guidance in relation to the affordability principle?

13. A well run heat network should not be issuing any ‘shock bills’, particularly if service charges and rent are unbundled from the individual heat charge. Should that be the case, it may be helpful for a future version of the guidance to set out circumstances where it would be reasonable to issue a ‘shock bill’, and also to clarify what percentage increase in cost could reasonably be considered to be a ‘shock bill’.

14. Please also note that there is a typo in line 2 of 1.45, where it says ‘consume’ but should say ‘consumers’.

Q9. Do you agree, partially agree, or disagree with the proposed guidance in relation to the regulatory control principle?

15. Propertymark agrees with the proposed guidance in relation to the regulatory control principle.

Q10. How can we improve guidance in relation to the regulatory control principle?

16. Propertymark has no suggestions at this time in respect of future improvements for the regulatory control principle guidance.

Q11. Do you agree, partially agree, or disagree with the proposed guidance in relation to the price transparency principle?

17. Propertymark agrees with the proposed consumer outcomes but thinks that the industry outcomes may need review.

Q12. How can we improve guidance in relation to the price transparency principle?

18. Currently, the guidance in 1.52 on Outcomes has a number of aims for consumers, but its only industry outcome is that ‘the framework does not discourage growth of the heat network sector.’ However, given that the expansion of the heat network sector is a policy decision driven by concerns about climate change arising from the Climate Change Committee’s recommendations that heat networks be used to generate more of the UK’s required heat, it may be more appropriate for the framework to explicitly seek to grow the sector. It may also be desirable to put forward further industry outcomes, such as increasing confidence in heat networks or fostering an export industry.

Q13. Do you agree, partially agree, or disagree with the proposed ‘fairness test’?

19. Propertymark agrees with the proposed ‘fairness test’.

Q14. How can we improve guidance in relation to the ‘fairness test’?

20. Propertymark does not have any suggestions for changes to the guidance itself at this time, but it may be desirable to include a hypothetical example to show how the fairness test would work in practice.

Q15. Do you agree, partially agree, or disagree with the proposed market segmentation approach?

21. Propertymark largely agrees with the proposed market segmentation approach and has made some suggestions in response to the following question for its future improvement.

Q16. How can we improve the proposed segmentation approach?

22. Propertymark notes that the guidance on domestic versus non-domestic suggests that affordability considerations are relevant to both but are 'particularly relevant' when dealing with domestic consumers. However, given that high energy prices affect the competitiveness of UK industry, and we have high energy prices, particularly for electricity, it is not clear that heat networks should have any less regard for the affordability of prices for non-domestic customers compared to domestic customers.

Q17. Do you agree, partially agree, or disagree with the proposal that the fair pricing framework would cover all non-domestic consumers, including larger nondomestic consumers?

23. Propertymark does agree that the fair pricing framework should cover all non-domestic consumers, and as set out above, Ofgem should have equal regard for affordability in respect of non-domestic customers when considering the reasonableness of prices charged by a given heat network operator.

Q18. If you disagree with the proposal to include all non-domestic consumers within the scope of the fair pricing protections, please specify what changes you would like to see and provide a justification

24. Propertymark does not disagree with the proposal.

Q19. Do you agree, partially agree, or disagree with our approach to cost allocation related to general cost pass-throughs?

25. In respect of the guidance set out in 2.17 in respect of immediate changes in the method of apportioning costs incurred at portfolio level, it is unclear how a 'balance' is to be achieved between cost reflectivity and affordability; if there are increased costs, they should be reflected in the price.

Q20. How can we improve guidance for cost allocation related to general cost passthroughs?

26. Future guidance could provide greater clarity on whether it is possible in Ofgem's view to balance cost reflectivity and affordability if the costs being passed on are genuinely incurred.

Q21. Do you agree, partially agree, or disagree with our approach to cost allocation related to tariff structure?

27. Propertymark agrees with the approach set out to cost allocation in respect of tariff structure.

Q22. How can we improve guidance for cost allocation related to tariff structure?

28. Propertymark has no suggestions on this section of the guidance at this time.

Q23. Do you agree, partially agree, or disagree with our approach to cost allocation related to depreciation/capital cost recovery?

29. Propertymark agrees with the approach set out to cost allocation in respect of depreciation and capital cost recovery.

Q24. How can we improve guidance for cost allocation related to depreciation/capital cost recovery?

30. Propertymark has no suggestions on this section of the guidance at this time.

Q25. Do you agree, partially agree, or disagree with our approach to cost allocation related to bad debt?

31. In respect of section 2.52, the guidance notes that 'whilst certain elements of bad debt will be dependent on the personal circumstances of the consumer base and therefore outside the control of a heat network entity, to the extent that certain components of bad debt are within the control of a heat network entity we would expect these to be shaped by this principle of Affordability'. However, bad debt occurs if a customer has failed to pay their bill and there is no realistic prospect of them doing so. It is unclear what components of bad debt could be considered to be within the control of a heat network entity, excepting instances where through poor management the 12 month billing period has been exceeded.

Q26. How can we improve guidance for cost allocation related to bad debt? Questions related to corporate risk

31. As noted above, it would be helpful to give examples of circumstances of how bad debt might be within the control of a heat network and when the cost arising from such a debt should not be passed on to customers.

Q27. Do you agree, partially agree, or disagree with our approach to cost allocation related to corporate risk?

32. Propertymark agrees with the approach set out to cost allocation in relation to corporate risk.

Q28. How can we improve guidance for cost allocation related to corporate risk?

33. Propertymark has no suggestions on this section of the guidance at this time

Q29. Do you agree, partially agree, or disagree with our approach to cost allocation related to fuel procurement?

34. Propertymark agrees with the approach set out to cost allocation in relation to fuel procurement.

Q30. How can we improve guidance for cost allocation related to fuel procurement?

35. Currently, the final line of 2.80 says 'to the benefit to their consumers', and it should be amended to say, 'to the benefit of their consumers.'

Q31. Do you agree, partially agree, or disagree with our approach to cost allocation related to fair and reasonable returns?

36. Propertymark agrees with the approach to cost allocation related to fair and reasonable returns.

Q32. How can we improve guidance for cost allocation related to fair and reasonable returns?

37. Propertymark suggests that section 2.88 be amended to remove references to profits at a 'competitive level', as it is unclear that 'competitive profit' is a useful concept in the context of monopolistic heat networks. The phrasing 'level of profit to provide a fair return on investment' in 2.87 is much clearer and more appropriate.

Q33. How can we improve guidance for cost allocation related to penalties and redress? Questions related to legacy arrangements

38. Propertymark notes this guidance remains under review and refers Ofgem to our response on the recent consultation on penalties and redress.

Q34. Do you agree, partially agree, or disagree with our approach to cost allocation related to legacy arrangements?

36. Propertymark agrees with the approach to cost allocation related to legacy arrangements.

Q35. How can we improve guidance for cost allocation related to legacy arrangements?

33. Propertymark has no suggestions on this section of the guidance at this time.

Q36. Do you agree, partially agree, or disagree with our approach to cost allocation related to connection charges?

36. Propertymark agrees with the approach to cost allocation related to connection charges.

Q37. How can we improve guidance for cost allocation related to connection charges?

33. Propertymark has no suggestions on this section of the guidance at this time.