

Heat Networks Regulation: fair pricing protections consultation (Ofgem)

Response from Propertymark

July 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 protections* consultation asks for views on Ofgem's proposal for the structure, objectives and principles of a fair pricing framework for heat networks. The consultation includes cost allocation proposals, analytical methods for price and profit comparisons, options for publishing price data centrally, and Ofgem's proposed approach to price investigations. 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.

Propertymark response – summary

3. Thank you for the opportunity to respond to the consultation on fair pricing protections for heat network customers. Propertymark is supportive of greater transparency, and our response to this consultation is centred around the implications for Managing Agents. In addition to our individual responses to the questions posed in the consultation, Propertymark would emphasise that:
 - Cost-reflective pricing should also take account of billing and metering costs incurred by Managing Agents.
 - Ofgem should give consideration to the range of circumstances that may arise in different housing tenures, and whether the property is freehold or leasehold.

¹ <https://www.propertymark.co.uk/>

- To ensure maximum compliance with reporting requirements, reporting duties should be as simple as reasonably possible, and duplication should be avoided for price benchmarking and central price transparency purposes.
- The final arrangements should be phased in gradually to allow Managing Agents time to adapt to their new duties
- Consideration should be given to allowing Heat Networks to benefit from consumer prices ('B2C'), rather than business to business prices ('B2B'), as this is a significant factor in why heat network consumers can pay more for their energy than a traditional household.

Consultation Questions- Fair Pricing Framework

Question 1: Have we identified the right set of fair pricing consumer objective, principles and outcomes and are these properly defined? If you disagree with this proposal, please specify what changes you would like to see and provide a justification.

4. Propertymark agrees with the objective that consumers should pay fair and not disproportionate prices. In respect of principles, we agree that cost-reflective pricing should reflect the underlying cost of providing heat and consumption level of given consumers, and that prices should also reflect the billing and metering costs incurred by Managing Agents.

Question 2: Do you agree with our proposals to develop the fair pricing guidance in relation to the principles (please note that questions on cost allocation proposals, including guidance, are asked separately under Chapter 3: Cost allocation). In particular:

- a) have we identified the right areas to be covered by the guidance implementing the fair pricing principles (see paragraph 2.53 for a summary of the areas we are proposing to develop in guidance under each principle)? If you disagree with this proposal or think other areas should also be included, please specify what changes you would like to see and provide a justification.
 - b) Do you agree with the specific proposals to develop each of these areas in guidance? If you disagree, please specify what changes you would like to see and provide a justification.
5. Propertymark largely agrees with the proposals for fair pricing guidance but has two areas of concern that need further clarity. Firstly, in respect of restricted cost passthrough, we would welcome clarity from Ofgem on the circumstances in which Managing Agents could pass on legitimate costs arising from fines or penalties. It could be that some fines and penalties arise for

reasons beyond the control of a Managing Agent, perhaps because of a tenant refusing access for essential repairs. Secondly, Propertymark would be grateful for clarity on which fines and penalties heat network operators may be liable for before giving full support to restricted cost passthrough as outlined in section 2.29 of the consultation document.

Question 3. Do you agree with the proposed 'fairness test'? In particular:

- a) Do you agree with the high-level features of the fairness test (principle based, reasonableness, case-by-case basis, and objectivity)?**
- b) Do you agree with our proposals to implement the fairness test discussed in Appendix 1: Fairness test?**

- 6. Propertymark thinks the Fairness test outlined in Appendix 1 has sufficient breadth to adequately assess heat network pricing on a case by case basis.

Question 4. Does the revised authorisation condition, 'fair pricing', reflect the policy intent?

- 7. Propertymark agrees that the authorisation condition reflects the policy intent.

Consultation Questions- Market Segmentation

Question 5. In relation to market segmentation (please note that we are asking in relation to the considerations discussed in paragraphs 2.58-2.61, segmentation considerations in relation to price benchmarking are considered under Chapter 4: Price comparison and benchmarking methods):

- a) Have we identified the right characteristics for market segmentation, and are these correctly defined?**
- b) Do you agree with the segmentation approach discussed for each of these characteristics?**

- 8. Propertymark is pleased that Ofgem are taking an approach that will allow for assessment on a case by case basis. Propertymark would particularly emphasise the range of circumstances that may arise in different housing tenures, whether the property is freehold or leasehold, as well as the variation in heat network types.
- 9. In respect of commercial arrangements, Propertymark thinks there should be consistency of approach towards Managing Agents and properties with Right to Manage arrangements, but would encourage a simple data reporting system, for example, that both a lay person and

professional could use without difficulty. Onerous reporting restrictions are likely to result in extra staff costs that would be passed on to tenants in increased rent.

Consultation Questions: Data Requirements

Question 6. Of the information listed in Table 3 below, what do heat networks already regularly collect and can be easily reported?

10. Propertymark is not directly involved in the management of heat networks and so does not have the expertise to respond.

Question 7. Of the information listed in Table 3 below, which items would be more challenging for heat networks to report?

11. Propertymark is not directly involved in the management of heat networks and so does not have the expertise to respond.

Question 8. Of the cost drivers listed in Table 7 (in Appendix 3), which items would be more challenging for heat networks to report?

12. Propertymark is not directly involved in the management of heat networks and so does not have the expertise to respond.

Question 9. Should certain types of heat networks have more limited data reporting requirements? If so, which heat networks should these reduced requirements apply to, and what data should they be exempt from reporting?

13. Propertymark is not directly involved in the management of heat networks and so does not have the expertise to respond.

Consultation Questions: Cost Allocation

Question 10. Do you agree with our proposed prescriptive rule that GSOP payments, compensations, fines, penalties and other redress provided to consumers should not be passed through to customers?

14. Propertymark does not agree, as there may be circumstances in which it is appropriate to pass these costs on; i.e. where the relevant fine or penalty is incurred through events beyond the control of the authorised person.

Question 11. Do you agree with the draft best practice guidance provided? Is there anything that should be added? Should any of the best practice guidance be strengthened to prescriptive rules?

15. Propertymark is not directly involved in the management of heat networks and so does not have the expertise to respond.

Question 12. Do you think that the best practice approach to cost allocation should differ for different types of heat networks, or different types of suppliers? If so, for which types and how?

16. Propertymark is not directly involved in the management of heat networks and so does not have the expertise to respond.

Question 13. Does the authorisation condition, 'cost allocation', reflect the policy intent?

17. Propertymark is not directly involved in the management of heat networks and so does not have the expertise to respond.

Question 14. What other feedback do you have on the proposed approach to cost allocation?

18. Propertymark is not directly involved in the management of heat networks and so does not have the expertise to respond.

Consultation Questions: Price Comparison and Benchmarking methods

Question 15. Do you agree with our proposed approach for defining heat network prices in a comparable way? Are there any other ways to define price that we should consider?

19. Propertymark agrees that using multiple benchmarks rather than one simple benchmarking method will better reflect the diversity of the heat network market.

Question 16. Do you agree with our proposal to use gas boilers and heat pumps as external reference benchmarks?

20. Propertymark is concerned that benchmarking heat networks which are likely to be on commercial gas supply contracts with gas boilers on domestic contracts will be misleading. For example, commercial gas is liable for 20% VAT, while domestic consumers pay 5% VAT. At the same time, managers of larger networks are likely to be able to secure better prices than managers of smaller networks due to bulk purchasing. Propertymark therefore suggests that these variations are accounted for by Ofgem if it does use gas boilers as an external reference benchmark.

Question 17. Do you agree with the proposed method for calculating a heat pump benchmark, including the key input parameters outlined? Are there any additional factors that should be considered to ensure a robust heat pump benchmark?

21. Propertymark urges caution when using heat pump costs as an external reference benchmark, given the variability of the heat pump market and the fact that electricity costs tend to be substantially higher than gas. We would also encourage this benchmark to be reviewed as the UK energy mix changes (i.e. if substantially less gas is used for electricity generation, so that gas and electricity prices in the UK cease to correlate as closely) or if marginal pricing is discontinued.

Question 18. Do you agree with the proposed approach to comparator benchmarking, and our list of potential cost drivers set out below and in Appendix 3: Cost driver? Are there any relevant cost drivers that we haven't considered?

22. In addition to the potential cost drivers identified, Propertymark suggests that consideration be given to the cost of financing for new heat networks.

Question 19. What is your view on the ease with which data could be reported on the four ‘High Importance’ cost drivers set out in paragraph 4.33? What information do heat network operators and suppliers already collect, and what would be challenging to provide?

23. Propertymark is not directly involved in the management of heat networks and so does not have the expertise to respond.

Question 20. What is your view on the ease with which data could be reported on the remaining ‘Medium Importance’ cost drivers set out in paragraph 4.33? What information do heat network operators and suppliers already collect, and what would be challenging to provide?

24. Propertymark is not directly involved in the management of heat networks and so does not have the expertise to respond.

Question 21. What is your view on our proposal to publish a high-level methodology for each benchmark (once data is collected and methods have been tested), to provide an accessible overview of the approach?

25. Propertymark is in favour of transparency and as much clarity should be provided on the methodology for the finalised benchmark to ensure high levels of compliance and as little friction as is reasonably practicable.

Question 22. Do you have any other feedback on the proposed approach to price comparison and benchmarking?

26. No, we do not have any other feedback on the proposed approach to price comparison and benchmarking.

Question 23. Do you agree with the proposal for ongoing monitoring of profitability through data collection on EBIT margins for all heat networks?

27. Given the range of different financial constraints on heat networks that may have implications for substantial differences in tax and interest payment liabilities, Propertymark would caution that EBIT (earnings before interest and tax) margins may not be instructive or helpful in isolation when assessing fair pricing.

Question 24. How challenging would it be for heat network operators and suppliers to provide the data outlined for calculating EBIT margins? What barriers, if any, might affect the accuracy and completeness of the data?

28. As set out above in paragraph 27, the wide variety of arrangements under which heat networks operate would make it difficult to interpret this data and draw sensible conclusions. It may also be the case that the individual responsible for billing consumers and purchasing energy for those on a heat network do not have wider responsibility for the financing and tax liabilities of the heat network.

Question 25. As data collection improves, do you agree that more in-depth profitability assessments, for example using Return on Capital Employed (ROCE), should be conducted for networks identified as outliers through benchmarking?

29. Propertymark's concerns in respect of EBIT margins are also applicable to the use of Return on Capital Employed (ROCE), because ROCE is calculated using Earnings Before Interest and Taxes (EBIT) / Capital Employed.

Question 26. Do you have any other feedback on the proposed approach to profitability assessment?

30. No, we do not have any other feedback on the proposed approach to profitability assessment.

Consultation Questions- Central Price Transparency

Question 27. What are your views on the three options? Please comment on each option in terms of the price information to be centrally published, how the price information is presented and what prices are compared to.

31. Option 2 (a segmented approach where aggregate prices would be published by segments such as age or technology) has the significant advantage that consumers will see broadly like for like comparisons. Option 3, where prices would be published for the whole market and compared to counterfactual technologies risks confusing consumers. The further suggestion of a RAG system may be worthwhile in the conjunction with one of the two suggested options as an aide for

consumers but would likely not provide enough information on its own to satisfy a curious consumer.

Question 28. Do you think the options have the right balance between providing a good level of transparency, burden on consumers to interpret the information, risks of misinterpretation by consumers, disclosure of commercially sensitive information, and risk of price convergence?

32. Propertymark agrees that transparency is important for consumer confidence and fair pricing in the market, and a composite of option 2 or 3 in conjunction with a RAG system would achieve the best balance of the stated factors.

Question 29. Do you support the phasing in of the options described in paragraph 6.70?

33. Propertymark would emphasise the importance of a phased system to allow Managing Agents and other authorised persons time to comply and become used to collecting the relevant data required before making this reporting an obligation.

Question 30. Do you support the adoption of different options for different heat network groups described in paragraph 6.71?

34. Propertymark thinks reporting duties should apply equally to all managers of heat networks, and that differing data requirements should arise out of the nature of the particular heat network system, rather than the commercial arrangements which govern it (i.e. an identical heat network system run on a not-for-profit basis should not have different reporting requirements to one run on a for profit basis).

Question 31. Do you agree that central price transparency measures are unlikely to put additional administrative burden on heat networks in addition to data reporting for benchmarking? Do you have concerns on the administrative burden from any options?

35. Propertymark agrees that if the information required for price benchmarking is identical to that required for registration and monitoring, there would be no additional administrative burden arising from central price transparency; clearly, the more these two data sets diverge, the more onerous the reporting process would become.

Question 32. Do you think it is appropriate to link central price transparency with benchmarking?

36. Propertymark agrees with the link on the basis that not linking them would be likely to create extra reporting duties for Managing Agents beyond what is necessary for Ofgem to meet its duties as a regulator of heat networks.

Consultation Questions- Price Investigations

Question 34 Do you agree with the approach to price investigations set out so far? Please provide reasons and views to support your response.

37. Propertymark agrees with Ofgem's proposed approach of dealing with each investigation on its own terms given the diversity of the sector.