

# Consultation on heat networks regulation – consumer protection

## Briefing for housing associations

August 2023

### Summary

The Energy Bill, which is currently before Parliament, will introduce new regulations for heat networks. The Department for Energy Security and Net Zero and Ofgem is currently consulting on the new regulatory framework. This briefing summarises proposals set out in the [government's consultation on heat networks regulation - consumer protection](#), published on 4 August 2023. This is the first consultation in a series to help design the regulatory framework.

We are seeking members' views on the proposals in the consultation to inform our sector response. This document sets out summaries of the proposals in differing levels of details, together with the questions the government is posing. We've suggested specific questions (in blue boxes) to help you with your response. However, we welcome any feedback from members on any topic raised or question posed in any part of the consultation, particularly where members have a concern or foresee a challenge, regardless of whether it is covered specifically in this briefing.

### What is being proposed?

- All heat networks (communal and district) will be mandated to provide consumers with a fair price and reliable supply of heat and hot water through the new regulatory framework.
- Ofgem will be responsible for regulating the sector, they will begin market engagement in 2024, with the initial tranche of regulations taking effect in spring 2025.
- The new regulations will apply to housing associations, including sheltered or supported housing where these are provided as separate homes with a networked heat supply.
- Ofgem's regulatory powers will include authorisation, transparency and quality of service, pricing, metering and billing, licensing, and extra rights and powers.

## Share your feedback

The consultation will close on the 27 October 2023. We welcome feedback from our members, please [share your feedback with Natalie Turner](#) by **25 September 2023**.

## Introduction

Heat networks will play a crucial role in decarbonising heat in buildings. They are also an important part of securing the UK's energy independence through local, low carbon heat sources and reducing the cost of living through efficient, affordable heating. At the National Housing Federation (NHF) we aim to support the sector to decarbonise their homes, while ensuring their residents are able to live in warm, comfortable homes that are affordable to heat. That is why we welcome the Energy Bill and the secondary legislation to introduce greater regulation of heat networks and protect consumers.

As a sector, we support further regulation of heat networks to provide consumers with additional protections from unfair prices. Throughout the energy crisis, our members have been doing all they can to help mitigate the impact of energy price rises on their residents, including the estimated 150,000 housing association residents on heat networks.

We are seeking feedback from our members regarding the outlined proposals. Specifically, we are keen to hear views about the information housing associations will have to provide to Ofgem, the proposed timelines for implementation, the regulation of small heat networks, and the overlap with existing social housing regulations and the remit of the Housing Ombudsman.

## Key proposals and questions

### Regulatory structure

In 2022 the government introduced the Energy Bill into Parliament, appointing Ofgem as the regulator for heat networks. The consultation proposes that Ofgem will be responsible for regulating the sector and monitoring compliance with the regulatory framework (including managing the authorisation regime, ensuring compliance with consumer protections, and managing audits, compliance and enforcement activity). The Energy Ombudsman will provide a 'check and balance' function within the regulatory framework and will handle consumer complaints. Where a heat network dispute concerns a tenant or leaseholder of a social landlord, is part of a wider housing issue, and is against the landlord, it will continue to be the Housing Ombudsman's responsibility to handle such complaints if not resolved between the tenant / leaseholder and landlord.

## Scope of the regulation and authorisation regime

Two activities will fall within the scope of regulation, namely the operation of relevant heat networks (meaning district and communal heat networks) and the supply of heating, cooling or hot water to consumers through a relevant heat network.

### What is a relevant heat network?

Heat network as defined in the Energy Bill is ‘a network that, by distributing a liquid or a gas, enables the transfer of thermal energy for the purpose of supplying heating, cooling or hot water to a building or persons in that building’. A district heat network is ‘a heat network by means of which heating, cooling or hot water is supplied to two or more buildings or persons in those buildings’. A communal heat network is ‘a heat network by means of which heating, cooling or hot water is supplied only to a single building divided into separate premises or persons in those premises’.

Common examples of what would be considered a relevant heat network for the purpose of regulation would include a single residential building with multiple final consumers in separate premises (for example a block of flats) or sheltered or social housing (where these are provided as separate homes with a networked heat supply). **A heat network providing heating to a single building with shared facilities (for example a nursing home, university hall of residence or other homes of multiple occupancy) which do not have fully self-contained facilities will fall outside of market framework regulation because the facilities do not constitute separate premises**

**Do you agree with the scope outlined in this section, and which networks the regulatory requirements should apply to? Please provide views and evidence to support your position where you can.**

### Regulating small networks

DESNZ does not plan to introduce a minimum threshold below which small heat networks would be exempted from regulatory requirements. However, regulation will introduce challenges for these types of heat network. Resourcing towards and expertise on heat network operation may be lower than large energy suppliers, there will be fewer consumers to spread costs across, and older schemes may incur higher compliance costs to bring performance up to standards. The proposals seek to ensure regulation introduces proportionate requirements on small networks in achieving the principal objective of protecting consumers.

## **Lowering costs for heat networks and consumers**

Under the regulatory framework, entities that operate multiple communal networks will be able to cross-subsidise to even out cost recovery of regulatory fees across schemes.

## **Outcomes and principles-based regulation**

The proposed approach to regulation focuses on the end outcome for consumers, such as Guaranteed Standards of Performance. Principles-based regulation is proposed in some areas, such as cost allocation, market-led step-in and billing. This will enable small networks to comply with regulation in proportionate and cost-effective ways and will enable them to continue existing practices where they already achieve minimum standards.

## **Templates and guidance**

DESNZ is exploring the issuing of guidance on areas such as pricing and market-led step-in, as well as templates for establishing billing regimes, complaints handling processes, and heat supply contracts.

**Do you consider that our approach to regulation is suitable for the large number of small networks in the sector?**

**Do you consider there to be any consumer protection rules proposed in this consultation that small networks will struggle to comply with? Please provide rationale.**

**In addition to the proposed templates and guidance, are there any other areas where guidance and support would be useful?**

## **Transitional arrangements**

Transitional arrangements will be required to facilitate the smooth introduction of regulation into a previously largely unregulated sector. DESNZ proposes that a transition period, referred to as the 'initial period' in the Energy Bill, will be introduced and will commence on the first day of regulation. This is expected to last no more than one year. The initial period intends to provide an appropriate period for industry to further their preparations and readiness for regulation. It is also expected to allow the phasing in of certain consumer protections and a 'soft launch' of other measures, such as Guaranteed Standards of Performance.

### **Authorisation of existing regulated activity during the initial period**

The consultation proposes that operation of heat networks will become a regulated activity at the start of the initial period. Existing heat network operators and heat suppliers will be required to provide certain information about their existing networks to Ofgem before the end of the initial period. The required information will broadly align with the notifications data that has been submitted since 2015 to the Office for Product Safety and Standards (OPSS) as part of the Heat Network (Metering and Billing) Regulations (HNMBR). This information will be submitted digitally.

### **Authorisation process for new heat network operators/suppliers**

Before a new heat network commences operation at any time after the start of the initial periods the heat network operator/heat supplier would be required to apply to Ofgem for authorisation. The authorisation process would not provide any endorsement of the suitability of any entity to undertake the regulated activity, instead it would be a point in time check against certain minimum standards or requirements. In addition to the information required from existing heat network operators/heat suppliers, new operators/heat suppliers will also be required to provide details of:

- Complaints handling processes.
- Pricing data, information and methodology.
- Vulnerability procedures.
- Evidence of compliance with technical standards.
- Commitments to address faults and interruptions within a defined time period.

**A further consultation on the authorisation process and authorisation conditions will be released in 2024.**

### **Use of HNMBR notifications data for existing operators/suppliers**

Under the requirements of the HNMBR, heat networks notify the OPSS every four years, providing data on their network as set out in the OPSS notification template. Most heat suppliers submitted notifications in 2015, when HNMBR came into effect, and subsequently in 2019. The next round of notifications for these suppliers is due this year. DESNZ is considering the potential use of HNMBR notifications data to

prefill the submission required for those existing heat networks that are already registered with the OPSS.

**Do you agree with our proposed approaches for the authorisation of existing and new heat networks? What are your views on the potential use of HNMBR notifications data to support the information provision process for existing heat networks? Are there any specific actions around notifications due this year that you feel could further facilitate this process?**

## **Approach to protecting consumers and regulating the sector**

The regulatory framework aims to ensure that heat network consumers receive comparable standards to gas and electricity consumers. Social housing regulations set out specific requirements for the management and operation of social housing properties to protect tenants, including requirements around repairs and maintenance, health and safety, and tenant involvement. Proposals for heat networks regulation aim to build a stronger framework for consumer protection and will need to co-exist and work together with existing regulations.

DESNZ proposes to take a regulatory approach that combines high level principles where possible (to enable innovation) with prescriptive rules where minimum requirements need to be met (for example, to protect consumers in vulnerable circumstances or to set minimum standards for reliability). This will allow a flexible approach that can be applied by small communal networks up to the largest district heating networks.

**Do you agree with the proposal to use a mixture of principles and prescriptive rules to protect consumers? Do you agree with our assessment that parts of the sector are likely to want directive rules and supporting guidance to help them comply?**

## **Overarching principles – Standards of Conduct**

The consultation proposes to draw on Ofgem's existing Standards of Conduct to protect heat network consumers. Heat network operators and heat suppliers would be expected to:

- Behave and carry out any actions in a fair, honest, transparent, appropriate, and professional manner.
- Provide information to customers of a certain quality (for instance, complete and not misleading), in plain and intelligible language, relevant, and sufficient for the consumer to make informed choices.

- Provide consumer service of a certain quality (for instance, easily contactable), prompt and courteous to act when a mistake is made, and a generally well-run consumer service function.
- Identify vulnerable circumstances effectively and appropriately and support these consumers appropriately.

Operators and suppliers will be able to tailor the implementation of this principle to their local circumstances. This will be supported through guidance issued from the regulator. DESNZ is also considering adding a further principle to engage consumers and bring the consumer voice into the operation of the heat network, similar to the recent direction from DLUHC regarding tenant involvement.

**Do you agree with the introduction of an overarching Standards of Conduct principle for all heat networks? While we expect all heat networks to identify and support customers in vulnerable circumstances, we would be keen to understand if any networks would find this particularly challenging to deliver.**

**Do you think we should further consider requirements on consumer engagement and including the consumer voice in heat networks' decision making?**

## **Fair pricing**

The proposals on legislation in relation to pricing are aimed at improving transparency and giving the regulator specific powers to protect consumers from disproportionate pricing and monopoly power. The consultation proposes that Ofgem's focus will be on addressing pricing issues where these arise while reducing burdens on heat suppliers as far as possible. Ofgem will have the following powers in relation to pricing:

- Mandated price transparency.
- Pricing structure and cost allocation rules.
- Pricing investigations and powers to introduce rules and guidance.
- The ability to collect data and develop a comparison methodology.

## **Outcomes**

The proposals recognise that costs and prices will vary depending on network, technical and commercial characteristics. Regulation will need to accommodate networks of different scales and ages, as well as varying energy inputs, as the sector's low carbon transition continues.

## Transparency

The consultation proposes billing and transparency measures that provide consumers with both individual bill transparency, including breakdowns of variable and fixed costs, and greater transparency across the sector. The aim of this is to enable consumers to compare prices, to inform the sector and Ofgem of wider trends seen across the market and to inform secondary markets (such as heat network improvement firms). Such transparency measures would require the development and publication of centralised pricing data and information that could include network characteristics such as price by location, technical efficiency level, and age. The approach needs to consider that costs can vary significantly with the nature and size of a scheme and therefore price comparisons between different schemes are not always meaningful and could lead to consumers incorrectly perceiving prices as unfair.

The consultation sets out four approaches to the centralised publication of pricing information:

1. Full heat network register – a list of all heat networks, with their prices and key characteristics (efficiency, size, energy source) shown at a network level.
2. Segmented approach – a list of different groups of heat networks. Heat networks will likely be grouped by characteristics (efficiency, age, technology, etc.), with a range of prices or an average for each grouping.
3. Across market average and comparison to gas and low carbon alternatives (indicators/infographics) – a high-level market averages comparison. This could take a similar approach to published data on gas and electricity indicators, or the Heat Trust cost comparator.
4. Provide information on the best and worst performers across the market – Ofgem uses this approach for data on service provision for vulnerable consumers, publicly listing the best and worst performers in the market.

**How often should Ofgem update any public register of pricing data? How often should heat suppliers be required to submit pricing data to Ofgem?**

**What are your views on Options 1, 2, 3 and 4 for centralised price transparency? What combination of options would work best? Please provide detail on why a particular combination could work well.**

## Cost allocation

The consultation proposes to set cost allocation rules on what costs should be recovered through fixed and variable charges to prevent inconsistent approaches leading to some consumers paying disproportionately high prices. DESNZ is seeking examples and views on how cost allocation could be approached in the market.

**Should cost allocation rules be applied uniformly across the sector, or should there be different rules for different segments? If the latter, what segmentations do you suggest? Please cite examples of good practice for your suggested approaches.**

**How are the current tariffs charged by heat suppliers broken down into the components of standing charge and variable charge? What are the variables affecting the cost components and what are their accounting / financial methodologies? We would also be interested to know how very small networks decide how to set standing and variable charges.**

## Comparison methodology and benchmarking

The consultation proposes to take a benchmarking approach to identify instances of disproportionate pricing. When deciding on the appropriate method for benchmarking, research requirements need to be considered, as well as the effectiveness of the benchmark in providing fair pricing and possible unintended consequences. DESNZ's three preferred options for benchmarking are:

1. External benchmarks: comparison against a counterfactual – usually the best alternative, e.g. gas boiler or heat pump.
2. Comparator price-based benchmark: networks' prices are compared to others with similar characteristics that affect costs (e.g. age of network).
3. Comparison to own prices: under this method, the prices set by each heat network would be compared to its own past prices over several years to detect significant deviations that are not explained by input cost fluctuations.

Benchmarking will require heat networks to provide Ofgem with their tariffs and prices, some cost and profit information, and network efficiency. DESNZ wants to strike the right balance between minimising administrative burden and ensuring they

have adequate information to spot issues. Heat networks could be required to provide this information annually, biannually (twice a year) or quarterly.

**What are your views on the proposed benchmarking approaches? With each approach, what are the main considerations and implementation challenges for the sector that should be considered when developing the methodology?**

## Price investigations and compliance

Ofgem will have the power to take action where prices for domestic consumers appear to be disproportionate. If disproportionate pricing is found, an appropriate set of actions to address this will be considered. Ofgem will need to find a balance between investigating promptly while allowing time for compliance processes and data-gathering. Ofgem will issue guidance that covers:

- **Approach and evidence:** The possible indicators of disproportionate pricing and the evidence Ofgem is likely to consider when establishing if compliance or enforcement action is appropriate.
- **Process:** If there are indications of disproportionate pricing, these are likely to trigger initial discussions and further evidence gathering, so that Ofgem can better understand the facts of the specific case.
- **Assessment:** Each case will be considered on its own facts. Similar to publications by Ofgem for other markets, the guidance will encourage heat networks to establish a pricing strategy and be ready to provide evidence and justification for that strategy.

## Price regulation

The Energy Bill provides the Secretary of State with powers to direct the regulator to introduce price regulation (for example a price cap or profit regulation) in the future. The government's position is that the benefits of a price cap or profit regulation are outweighed by the risks to consumers. The government will consider introducing price regulation in the future should there be evidence of widespread consumer detriment, and/or as a mechanism to incentivise innovation to reduce costs and encourage growth in a more mature market.

**Do you agree that price regulation, such as a price cap or profit regulation, should not be introduced in the near term but that this should be kept under review?**

## Quality of service and supply of heat

DESNZ has identified scope for improvement in current complaints handling performance. They propose to align complaints handling rules with those existing in gas and electricity, which in turn are very similar to those in other regulated sectors, and disseminate good practice for complaints handling. This would include:

- Standardising the definition of a complaint as an expression of dissatisfaction.
- Requiring high level processes.
- Requiring that complaints can be made by multiple channels.
- Mandatory complaints reporting to Ofgem.
- Requiring specific processes for complaints made by consumers in vulnerable circumstances and consumers assisted by consumer advocacy bodies, such as the Extra Help Unit.
- Requiring good practice requirements particularly around communication with the consumer and supporting those with additional needs.

## Guaranteed standards of performance

Guaranteed standards of performance are minimum standards consumers can expect from their provider of essential services, they act as a tool to incentivise regulated entities to provide a minimum level of service. Guaranteed Standards of Performance often focus on core elements around making and keeping appointments, supply interruption and restoration, and responses to complaints or other customer service requirements. The proposals suggest that the following core elements should be included in heat network standards:

- Requirement for the heat network to maintain a register of interruption.
- Requirement to have out of hours arrangements to report interruptions.
- Requirements with compensation on making and keeping appointments, providing adequate notice of planned interruptions, providing additional support to certain consumers in vulnerable circumstances, supply restoration within a certain timeframe (both for unplanned and planned interruptions), exceeding a threshold for multiple short interruptions in a set time period, and meter repairs within a certain timeframe.

There is a wide range of approaches that can be taken on payment amounts and DESNZ welcomes stakeholder views on this.

**Can you provide us with information on the Guaranteed Standards of Performance (with or without compensation) that you currently have in place?**

**How should guaranteed standards of performance work for heat networks operating on a cost recovery model? How can we avoid consumers paying for their own compensation through higher prices in the future? How can we further incentivise reliability for these networks?**

## **Customer supply continuity plans**

As a condition of their authorisation, heat networks will be required to produce a plan and a process for maintaining heat in event of sudden failure, and to provide necessary information that would facilitate the smooth onboarding of any incoming new supplier or operator. Customer supply continuity plans (CSCPs) should detail key steps for maintaining heat supply, particularly what interim measures would be taken if heat was lost suddenly. The plans also need to focus on having a clear and well-prepared strategy for exit and provide a list of the key physical and contractual assets. As part of regular reporting, a heat network could self-certify and submit a declaration that it has reviewed its CSCP in the last 12 months.

Guidance could set out the expected content of the CSCP plan, including supplier information, key contacts, customer account information, details of data sets, and details of key physical and contractual assets.

**How should Ofgem monitor compliance with the requirement for heat networks to have a Customer supply continuity plan in place, recognising the scale of the sector, number of plans that should be in place and the overall approach envisaged for monitoring and compliance?**

## **Protections for consumers in vulnerable circumstances**

DESNZ is proposing a vulnerable/Priority Services Register to enable vulnerable consumers to effectively communicate with their provider, prepare for potential outages and stay safe. The proposals plan to build on existing practice from the sector, including in social housing, with the aim of ensuring that all heat domestic consumers have access to the services they need. All heat networks will need to have a Priority Services Register and will need to promote this to domestic consumers, where appropriate. For consumers who are placed on the Priority

Services Register, they should be offered specific priority services (including a password scheme to identify genuine representatives from the heat network, third party billing, communication in accessible formats, offer to take meter readings if the consumer is unable to do this themselves, provide information on how to prepare in case of interruptions, and promptly notify consumers in case of unplanned interruptions). Heat networks must keep their Priority Services Registers up to date and promote this in interactions with consumers, to ensure customers can get the priority support they need.

**Do you agree with the proposal to require heat suppliers to operate a Priority Services Register and provide specific services for consumers who need them? Would you find it challenging to deliver this?**

## **Payment difficulty and disconnection**

The proposals introduce rules that follow established best practice in gas and electricity which requires providers to be proactive when it comes to non-payment and get consumers onto affordable repayment plans. When payments for the supply of heat through a heat network are included in rent or housing payments and not charged separately, housing specific protections related to non-payment of housing costs will apply instead of specific heat networks payment protections.

Disconnection for non-payment should be a last resort and DESNZ is looking at the feasibility of a disconnection ban for vulnerable consumers during the heating season (October to March) and beyond this. They would like to receive feedback from stakeholders on whether this is something they should explore further, or if it would have a disproportionate effect on other consumers on a small network and create cash flow issues for heat suppliers.

**What is your current policy/process for debt management and disconnection? Please provide us with information on the number of disconnections, and outline whether your approach varies across networks (e.g. unmetered/metered, smaller/larger heat networks). Is there anything specific you can share on how you approach customers who might be in vulnerable circumstances?**

**Do you agree that non-payment of heat charges when part of housing charges should follow housing non-payment protection rules?**

## Pre-payment meters and use of powers of entry

While pre-payment meters (PPM) can be a useful payment method for managing consumption and debt levels, there are circumstances where a PPM is not appropriate. The proposals introduce a number of protections for heat network consumers:

- Minimise domestic PPM consumers in vulnerable circumstances resorting to self-disconnection or self-rationing.
- A domestic consumer is only put or kept on a PPM where it is appropriate for that consumer, with a supplier identifying circumstances making a PPM inappropriate before PPM installation or early on during PPM use if already installed.
- Suppliers have sustainable cash flows and, where appropriate, can resort to PPM use to avoid unsustainable debt accrual.
- Suppliers and their third-party contractors only use powers of entry into a communal area or dwelling to force-fit a PPM as a last resort, and not at all if doing so is not appropriate.

**Do you agree with the approach for ensuring that consumers in vulnerable circumstances do not resort to self-disconnection or self-rationing and that pre-payment meters are only used where appropriate for the consumer?**

## Transparency of information to the consumer

**Currently the HNMBRs require the installation of final customer heat meters in newly built heat networks, and in existing heat networks where it is cost effective and technically feasible to do so.** The HNMBRs do not specify types of heat meters which heat networks should install. Under the new regulatory framework, DESNZ proposes that Advanced Meter Infrastructure, or ‘smart’ meters, will be installed by default. They propose a phased rollout of smart meter requirements:

1. New build heat networks
2. Existing heat networks who previously were not required to install heat meters
3. Existing heat networks with existing, non-compliant heat meters.

## Requirements to install meters

Meters help to reduce emissions, improve communications on pricing and billing for customers, and provide insight into network efficiency – enabling improvements to network performance and ultimately reducing energy costs for customers. DESNZ proposes to increase the number of meter installations required by meter regulations

when meter regulation moves to the regulatory framework. They propose to carry forward the 'viable' class (which requires all new build properties and any building which undergoes major renovations to install heat meters). They are considering changes to the 'open' class. They have developed three options for increasing the scope of meter installation:

- Amend the tool to account for additional energy saving benefits and the social value of metering.
- Narrow the scope of the Open building class to only consider heat networks where additional works would be needed to implement metering, or there are other barriers to compliance (for example, a listed building).
- Remove the Open building class entirely, moving heat networks currently in that class to either the exempt or viable class, depending on the network's age and type.

**Do you agree with our proposal to increase the rollout of individual Advanced Metering Infrastructure (AMI) heat meters? If you disagree, please indicate why, and provide evidence to support this view.**

**Do you agree that the Open class of existing Regulations should be either reformed or revoked? If not, please explain why, if possible, providing evidence to support your views.**

## **Transparency of information during residency**

The accuracy, transparency and frequency of information that goes to consumers is key in determining their experience. DESNZ intends to introduce mandated minimum standards on the transparency of information to consumers during residency. Billing practices can differ from other regulated sectors due to the more limited use of metering and the fact that some consumers' heat bills form part of wider utility or housing bills. Rules therefore need to work with other ways that consumers pay for heat charges, for example through rent or service charges. For consumers in unmetered properties, where heat costs will continue to be billed through a service charge or rent, DESNZ is proposing new rules to boost transparency. At a minimum, bills for consumers in unmetered properties should provide:

- The heat charge for the relevant period.
- A clear and understandable explanation of how the bill has been calculated.
- The final due date for payment, and the acceptable methods of payment.
- Contact information for organisations who can offer support if the consumer is struggling to pay the bill (i.e., Citizens Advice).

- Contact information for organisations who can provide information and advice about energy efficiency improvement measures.

DESNZ also intends to introduce protections that ensure consumers will not be billed for heat that was consumed more than 12 months before the bill is issued. **12 months could be an inappropriate timeframe for social housing providers given this would be inconsistent with existing 18 month back-billing requirements on service charges in the Landlord and Tenant Act 1985. On the other hand, a 12 month timeframe could create issue for existing metering and billing methodologies in social housing.**

**Do you agree with the proposed rules on billing information, frequency, and method?**

**Do you agree with the proposed rules on back-billing, price change notifications, and heat supply contracts?**

## **Sequencing of consumer protection rules**

DESNZ proposes that a selection of suitable rules will come into force in the first year of regulation, with the rest of the rules coming in after the first year. They propose to introduce the following measures in the first year:

- Requirement on sector to provide Ofgem with data on pricing.
- Overarching standards of conduct.
- Complaints handling rules.
- Energy Ombudsman and consumer advocacy bodies.
- Authorisation conditions requiring heat networks to provide basic information to developers and estate agents to pass onto prospective consumers.
- Authorisation conditions on bill transparency, bill frequency, price change notifications, heat supply contracts, and back-billing.
- Authorisation conditions requiring heat networks to develop and maintain a Priority Services Register.
- Integration of modified Heat Networks (Metering and Billing) Regulations and safeguards in relation to the force-fitting of PPMs.

- Authorisation conditions on financial responsibility and operation capability principles, control over material assets, and Customer Supply Continuity Plans.

**Do you agree with the proposed rules and activities for introduction in the first year of regulation? Are there any that you think should not be introduced in the first year?**

## **Monitoring, audit, compliance, and enforcement**

Ofgem plans to put a monitoring programme in place to ensure they have an ongoing view of the market and individual heat networks' compliance with authorisation conditions. They propose to develop an ongoing reporting and intelligence gathering process, which will include regular, mandatory reporting by heat networks across a range of metrics. There is likely to be segmentation across the market to determine if monitoring metrics should vary, particularly for small networks. Proposed reporting requirements include:

- General information such as type of network, type of consumers (domestic / nondomestic), and number of consumers.
- Metering (total numbers, type including numbers of prepayment meters, and ability to install smart meters assessments).
- Financial data – capital, debt, investment, trading, hedging, and continuity plans.
- Billing (payment methods and frequency).
- Pricing and tariffs (tariff structure, average price, reliability – alongside wider technical reporting to the Code Manager).
- Consumer protection and quality of service – number of consumers on Priority Services Register, number of consumers in payment difficulty, and number of complaints.
- Interruptions – frequency, length, and Guaranteed Standards of Performance payments.

Ofgem proposes to implement an audit process as part of its approach to regulation. Audits will look at whether heat networks in the market comply with authorisation conditions and other requirements such as technical standards. Ofgem will refine the number, structure, and scope of audits as regulation is implemented and provide details in guidance.

Ofgem's compliance activity will be a mixture of proactive assessment and addressing issues when brought to their attention. Where non-compliance has been identified or reported, they may open a compliance case.

If Ofgem sees widespread behaviour by a heat network in a potential major breach of its obligations and/or leading to serious consumer detriment, or where a heat network does not engage with monitoring, audit or compliance action, they may escalate the case to enforcement action.

DESNZ is considering the case for fixed penalty notices for certain binary non-compliance issue such as non or poor-quality submission of mandatory information. However, for some heat networks such as not-for-profits, penalties, including fixed penalties, could result in direct cost pass through to consumers. DESNZ plans to consult further on our Enforcement Guidelines and Penalties Policy for heat networks, which will then be published.

**Are these the right metrics to ensure we have a picture of heat networks' performance and consumer service? Are there any which should not be included or others which should be included? If so, why? Is there a frequency of reporting for particular metrics which would provide a clear picture of performance?**

**Do you agree with the overall scope of and approach to auditing to support compliance with regulation, including the initial areas of focus?**

**Do you consider that our penalties policy should include Fixed Penalties as an efficient way of addressing certain non-compliance? If so, what are the main benefits and risks that need to be considered when implementing this approach, including how they would apply to different segments of the market?**

## Next steps

We are seeking members' views on the proposals in the consultations to inform our sector response. While we haven't included all of the government's questions in this briefing, we welcome feedback from housing associations on all areas of all of the consultations.

Please [share your feedback with Natalie Turner](#) by **Monday 25 September**.