

National Energy Action (NEA) response to heat networks regulation: consumer protection consultation.

About National Energy Action (NEA)

NEA¹ works across England, Wales, and Northern Ireland to ensure that everyone in the UK² can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, work on local projects, and co-ordinate other related services which can help change lives.



Action for Warm Homes

Background to our response

NEA is pleased that the government and Ofgem are consulting on the establishment of consumer protection requirements for heat network consumers. We recognise the importance and potential for growth of heat networks in providing local, low carbon heat sources for households. NEA has a lot of experience in providing support for households supplied by heat networks, and our experience has led us to believe that the establishment of regulations is essential. We believe that these consumer protections should be equivalent to the protections in place for households served by electricity and gas suppliers. Households connected to heat networks need the same protections, especially because they do not have the same freedom as other households in terms of choosing a supplier.

Summary of our response:

Our response, in summary, focuses on three main areas:

- Ensuring the right balance of prescriptive and principle-based regulations
- Introducing minimum compliance standards
- Arrangements to ensure fair treatment of consumers on an enduring basis

Balancing prescriptive and principle based regulations

Establishing consumer protections requires both prescriptive and principle-based regulations to be implemented. This begins with the implementation of a cross-cutting Standards of Conduct principle that provides a framework for heat network suppliers to treat customers fairly. This principle is critical for transitioning away from business-as-usual practices and has been instrumental in changing cultures relating to customer service within electricity and gas suppliers. Principles-based regulation will not however be sufficient by itself to ensure protection for vulnerable households, and may lead to inconsistent treatment of consumers across different networks. Fairness and standards cannot be left to be defined by individual organisations. The Heat Network Consumer and Operator survey demonstrates that there is likely a higher proportion of vulnerable households supplied by heat networks than in the energy sector.³ These households must receive, at minimum, the equal standards of protection. **This is why we feel there is a clear and important role for prescriptive regulation.**

In the case studies drawn out in our response, we have highlighted several instances of poor customer experience. In many of the circumstances, multiple actors were involved. This often generates blurred lines between which agents are responsible for what, which is ultimately detrimental to the consumer. A principled approach to regulating the heat network market is therefore inadequate for clearing up the roles and responsibilities of actors in this space.

Case study 1: Mr C

Mr C lives alone. He is disabled, has poor mobility, and suffers with mental health and severe anxiety. He rents a housing association property which is served by communal heating. He is on a low income and in receipt of PIP and ESA. Mr C contacted NEA after being disconnected by his supplier. He was told that his supply would not be restored until he paid the £700 outstanding arrears. Mr C was under the impression he was registered for his supplier's priority services register. When he raised this, he was told he wasn't. He also told us that he was spoken to in an unacceptable manner by a representative of his supplier.

NEA contacted the housing association and found the best contact to deal with this. They informed NEA that when a debt is 60 days overdue and the customer has not contacted the supplier to make a satisfactory repayment agreement, the debt is then passed to the housing association and the debt with the supplier is wiped. The tenant is encouraged to set up a variable direct debit, so that they clear their debt in full each month with the supplier. Customer debts passed to the housing association are placed into a sub account which will show on their overall rent balance and is recoverable from the customer. On this occasion there had been inadequate communication between the supplier, the housing association concerned and the customer. It took over a week to reconnect Mr C.

Minimum compliance standards

The implementation of heat network regulations must be accompanied by a clearly defined compliance and enforcement approach. We welcome the recognition of the need for mandatory reporting from heat networks to Ofgem. While we recognise the list of proposed monitoring metrics is not exhaustive, we believe that Ofgem must include reporting requirements for all heat networks around the monitoring of vulnerable customers and customers in payment difficulty on a recurring/enduring basis. Specifically, we believe reporting requirements should include self-disconnection, debt and arrears data. This will help to develop a view on the effectiveness of the proposed regulations around protections for customers in vulnerable circumstances, as well as customer experience in this area. It will also allow for greater monitoring at a national level of energy related debt and fuel poverty, which can help to inform the need for additional regulatory or policy interventions.

More broadly, the consultation outlines a plan to ensure that regulatory requirements are proportionate to segments of the heat network market. This is a plan that must be approached carefully. Heat networks should be able to demonstrate compliance with consumer protections once they come into effect, and if they cannot demonstrate compliance then they should not be granted, or retain, authorisation to supply heat to households. While many of the proposed consumer protection measures may be a greater administrative task for small heat networks relative to larger heat networks, consumer protections should not be compromised for households served by smaller networks.

We recognise the difficulty in ensuring that all heat networks have these arrangements in place. Proactively assessing compliance of heat networks to the regulations will be more difficult than assessing the compliance of retail energy suppliers. The proposal to audit a sample of heat networks on a periodic basis will go some way to ensure that heat networks have the necessary processes in place. However, we feel that it should be essential for heat networks to demonstrate their capability to ensure continuous supply and adequate protection for vulnerable customers through the authorisation process. Audits should be used as a means of ensuring processes in these areas are up to date. **Authorisation**

should not be granted to any heat network which fails to demonstrate their ability to comply to these minimum standards.

Arrangements to ensure fair treatment of consumers on an enduring basis

With regards to protections for vulnerable customers, we support the approach of adopting recent learnings around consumer protections from the retail energy market, such as the application of Ofgem's Code of Practice for involuntary prepayment meter installations. We also support the intention to apply retail energy standards regarding complaints handling, the appointment of the energy ombudsman as an alternative dispute resolution body, and the development and implementation of guaranteed standards of performance for heat networks in the future.

We welcome the plan for Ofgem to consult on complaints handling next year, however we are keen to ensure that complaints handling regulations are in place as soon as possible so all households be can more easily able to express dissatisfaction and to seek redress. According to the Heat Network Consumer and Operator 2022 survey, a low number of households (40%) were satisfied with how their complaint was handled.⁴ This is an unacceptably small proportion of the households that reported making a complaint against their heat network in the 12 months preceding the survey. Complaints standardisation is therefore needed to both increase the awareness of how to raise a complaint, and to encourage greater standards of service with regards to complaint handling from heat networks.

Combined, these measures should facilitate a shift in the behaviour of heat network organisations and improve consumer experience. But to ensure fair treatment of consumers on an enduring basis, there are several problems that regulation must aim to tackle. This includes transparency around pricing, and compliance checks with whichever price benchmarking approach is decided upon, with clear guidance on the functions of different actors in the heat network space. There can be no guarantee that the proposed regulations will deal with these issues entirely. Much of the good practice in the electricity and gas markets must therefore be applied consistently to heat networks, for instance rules around not applying interest to consumer arrears. Households supplied by heat networks are more likely to be cut off from supply because of being unable to pay their heating costs. Disconnection and customers in payment difficulty are two crucial subjects which must have consistently applied protections in place.

In the consultation document, it is stated that there are ~500,000 households supplied by heat networks, though we understand this data is from 2017.⁵ Industry stakeholders have informed us that the correct number of households supplied by a heat network is closer to twice that amount.⁶ Many of the views shared on heat network regulation will be derived from an incomplete view of existing issues in the heat network market, including the number of households impacted. In the case of our response, the suggestions made are derived from the lived experience of households captured through the Heat Network Consumer and Operator Survey 2022, which surveys less than 1% of households in the market, in addition to the experiences of our frontline support workers.⁷ In the absence of a detailed understanding of the issues in the market, the monitoring and compliance arrangements should be developed in such a way as to streamline the identification and remediation of market wide issues, as well as poor practice from individual heat networks.

Q4. Do you consider that our approach to regulation is suitable for the large number of small networks in the sector?

We agree with the general approach to applying regulation to the sector, including applying regulations to many small networks. As we highlight in more detail throughout our response to these consultation questions, we have many concerns about how consumer protection will be applied. NEA believes that regulation must apply to all actors in the heat network space to ensure that households receiving a heat supply are adequately protected.

Q5. 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.

Whilst NEA recognises that small networks may struggle to comply with consumer protections, we believe it is essential that all networks are expected to uphold the consumer protections deemed to be appropriate for the heat network market. If they cannot, then they should not be permitted to supply heat to households.

Q7. Do you agree with our proposed approaches for the authorisation of existing and new heat networks?

While we recognise the role that heat networks will play in providing low carbon heat to households, heat networks should only be authorised to supply heat if they can demonstrate capability to protect the consumers they will supply. At the point of applying for authorisation, Ofgem must therefore assess their ability to do this.

The authorisation process, at a minimum, should ensure that supply terms and conditions are set out in writing for consumers through a domestic heat supply agreement or similar document. These terms should be compliant with the regulations due to be introduced.

Q9. 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?

Yes, principles-based regulation (as we elaborate in response to Q10) is essential for facilitating a transition from an unregulated approach to heat supply to a regulated one. However, principles do not offer sufficient guidance for networks on the levels of service they are expected to offer. Prescriptive rules are therefore necessary to ensure adequate consumer protection.

Q10. 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.

Many organisations who operate in the heat network industry do not have first-hand experience of the domestic retail energy sector. Yet the services being provided in each sector are broadly similar. Establishing an overarching standards of conduct principle is essential, in our view, for facilitating the transition into a regulated environment. It provides organisations in the heat network space a broad framework within which they can reform their operational structure to meet consumer protection requirements.

While NEA recognises that some networks may find it difficult to identify and protect vulnerable customers, we want to reiterate our view that it is essential for all networks to be able to do so. The Heat Network Consumer and Operator survey demonstrates that there is likely a higher proportion of vulnerable households supplied by heat networks than in the energy sector. There are several thousand organisations supplying heat to those households, compared to a handful of energy suppliers, making it difficult to monitor performance in this area. This is why NEA believes it is critical that heat networks can demonstrate that they can identify and support vulnerable customers as part of the authorisation process. If they cannot, then they should not be permitted to supply heat to households.

Q11. Do you think we should further consider requirements on consumer engagement and including the consumer voice in heat networks' decision making?

Yes. NEA supports consumer-engagement in the decision-making process of heat networks. Fundamentally, heat networks should build a view of consumer satisfaction. This, in our view, is the best way to ensure that consumer voice is a factor in decision-making. The role of consumer voice in heat networks' decision-making will be different depending on the structure and nature of the organisation responsible for the heat network. Therefore, regulation in this area should aim to provide consistency in approach or frequency for gaining consumer feedback. This should of course be accompanied by an enduring complaints process allowing heat network consumers to express dissatisfaction as it happens – and we would expect that heat networks use complaints data to identify where they can improve their standards of service.

Q13. 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.

Case Study 2: Mr A

Mr A is 64 years old and is a carer for his disabled wife. Mr A is not in receipt of pension until next May. They live in Leicester and pay their heating bill on a weekly basis. A recent price increase for their heat has had a significant impact on the family. Their 3-bed property has seen the cost for heating go from £12.50 a week to around £45.00 a week. This increase was sudden, not clearly explained and applied retrospectively. That meant Mr A was unable to prepare for the increase in any way and found himself immediately in debt.

He is struggling financially. Since he was on a prepayment meter for electricity, we were able to offer him top-up vouchers of £147.00, and a winter warmth pack. He also benefited from our Winter Support Fund through which he received a slow cooker to make cooking cheaper.

Mr A is digitally excluded so needs more face-to-face support ideally. His heat supplier could not provide this. We referred him to Age UK who offer both energy home visits and more holistic support, including income maximisation and local support activities.

He has applied for HSF twice since this increase to help with energy and food costs. We also referred him to a new food bank in the area that he benefitted from since his wife has diabetes, meaning the family are on a strict health diet. While some of the food from food banks did not meet their needs, he was grateful. Mr A is reliant on this support on account of the sudden and improperly communicated increase to his heating bills.

He called NEA almost every week for about 3 months after the initial contact to ask if we had any further help we could offer.

We support the idea of a full heat network register. A register is an important tool for ensuring transparency and accountability. The other proposed approaches would not achieve this aim.

A register which provides information only on the best and worst performers across the market would not provide adequate coverage of the thousands of networks in between. A market average would conversely fail to demonstrate the best and worst performers across the market.

A segmented approach, in our view, would be complicated and require significant refinements. It would also likely be confusing for comparing the performance of different networks. A heat network may find an incentive in improving its performance to move into the next threshold, but not to improve its performance as far as possible.

In contrast to these approaches, a full register of heat networks will provide the simplest display of performance with regards to price, carbon emissions, efficiency and resilience.

The absence of a register, under the “do nothing” option, or a voluntary register would fail to provide incentives for heat networks to improve their performance. It would also mean that heat network performance would be more difficult to identify for consumer groups and policy makers who rely on such data to propose regulatory and policy solutions to ongoing issues.

Q15. What are your views on a general obligation on heat networks to provide fair and transparent prices, accompanied by rules and/or guidance, setting out minimum expectations, principles, and good practice? We are particularly interested to hear from leasehold arrangements, not-for-profit networks and small players.

We are supportive of an obligation for providing fair and transparent prices and would like to see this accompanied by prescriptive rules. One area of pricing which lacks transparency currently, in our view, is maintenance costs. We would like to see prescriptive rules regulating how maintenance costs are applied to bills (in terms of cost allocation). Furthermore, we understand that in some cases, tenants are paying maintenance costs twice. First through rent and second through the heating charges. These regulations therefore must address this and ensure consistency with tenant protections under Section 11 of the Landlord and Tenant Act 1985. We understand that maintenance costs can form a significant part of a heat network’s operational costs. Analysis suggests that maintenance costs can reach £400 per year for some households.⁸ It’s therefore critical that this area is addressed through the implementation of regulation.

Q16. Do you agree with the broad set of outcomes (in the bullet point list on page 41) that would define our expectations on fair pricing?

Yes, NEA agrees with the outlined broad set of outcomes intended by introducing fair pricing regulations. We would like to highlight the particular importance of prices being reflective of efficient costs of the network, an appropriate quality of service, have regard to affordability, and consumption levels of consumers. We agree with the expectations that networks should take steps to create cost efficiencies, implement technical efficiencies, implement metering for accurate consumption readings, and recover costs effectively. Networks should already provide metered supply. It’s unfair to consumers to indefinitely persist apportioning costs based on estimated consumption. Accuracy must be prioritised to remove the incentives for wasted energy. Metering requirements are therefore very important for fair pricing rules. In unmetered households, high users benefit from estimated costs while lower usage customers, who are more likely to be low income, pay more than their fair share. This is an issue Ofgem should monitor and work with government to remedy.

Q17. We are interested in stakeholder views on the balance between prescriptive rules (setting minimum standards) and general guidance, that could be introduced across

all heat networks. Which areas, in Table 4 above and Appendix 1 Fair Pricing - rules and guidance, should be covered in rules, which should be covered in guidance, and which should be left to the market?

For gas and electricity supplies, these rules are mostly prescriptive. We would like to see an equivalent level of prescription for heat networks.

Q18. 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.

NEA believes cost allocation rules should be applied uniformly. This allows for greater transparency and ease of understanding from a customer perspective. It also enables proper scrutiny in terms of assessing if prices are fair.

Q20. How prescriptive should these rules be? What are the constraints and issues that need to be considered during the transition period and beyond?

Cost allocation rules should be prescriptive. Without prescription on how to allocate different costs to consumer bills, it is extremely difficult to compare performance, monitor market-wide price levels, and to identify inefficiencies within the heat network market.

But the allocation of costs should be approached with caution. In the retail energy market, standing charges have almost doubled since 2019, with an increasing amount of costs being added, or shifted to, standing charges. The result of this has been an increase in the number of self-disconnections for prepayment households, and more extreme forms of self-rationing occurring for households who pay by any payment method, due to the decreased impact of reduced energy consumption on bills.

Q21. What are the main implementation challenges with the different options?

Under all the options for cost allocation, we are particularly concerned about how different socio-economic groups will be impacted by cost allocation changes. In our experience of cost allocation in the retail energy market, mentioned previously, we have seen that high standing charges have a significant negative impact on fuel poor-households. Households that pay by prepayment meters are most at risk of being negatively impacted, since the payment method allows for periods of disconnection. Much analysis has been conducted on the relationship between payment method and socio-economic circumstances in the retail energy space. For the heat networks market, this is unfamiliar territory. In the absence of a good understanding of the breakdown of demographics and payment methods within the heat network market, it is difficult to identify the optimal approach to outlining cost allocation rules. Further research will need to be conducted (such as a repeat of the Heat Networks Consumer and Operator Survey) once consumer protection measures are implemented.

Our view remains that there needs to be consistency across heat networks in how costs are allocated to consumer bills. This allocation needs to be treated with caution. It is important to first have a baseline for how costs are allocated. This can be followed by analysis for how to improve cost allocation once more data on debt, vulnerability and disconnection is collected through the several reporting requirements outlined in this consultation.

Q27. What information and evidence should Ofgem be seeking as part of our monitoring activity to identify where there is a case of disproportionate pricing?

We do not have a strong view of the extent to which there is disproportionate pricing in the heat network market. However, we believe that as these regulations come into effect, the monitoring process should seek to understand the levels of profit being allowed for in heat network pricing, in addition to heat network allowances and processes for debt. This will help

to inform the need for additional consumer protection, such as a price cap or profit regulation, in addition to identifying potential cases for enforcement action if only a limited number of networks are disproportionately pricing heat supply.

Q28. 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?

Heat network pricing is an important issue that we feel the current proposed regulations will not resolve. Regulation needs to provide two things regarding pricing: efficient pricing, and the identification of disproportionate pricing requiring enforcement action.

The landscape of the heat network market is entirely different than the landscape of the retail sector, so the same approach to capping prices may be difficult to implement. A price register is likely to increase transparency of prices but does not, in our view, provide adequate incentive for efficiency. According to the Heat Trust data from 2021, the average heat network has a low efficiency of 35-45%. Regulation must aim to increase this level, with aid from the HNTAS scheme, in order to minimise costs for consumers.⁹ If the proposed regulations do not keep prices low, in the eyes of consumers, regulation will be seen to have failed.

In the retail energy sector, the price cap remains an appropriate tool for ensuring that suppliers operate efficiently regarding keeping the costs passed through to households lower than they could otherwise be. It also provides a mechanism for Ofgem to identify where customers are not getting a price that they could be offered elsewhere. With the possibility to switch suppliers being absent in the heat network market, we are sympathetic to the use of a price cap and profit regulation in the heat network space. At the very least, NEA believes these are important tools that Ofgem should be prepared to use if improvements are not seen in heat network pricing. But this first requires a better understanding of what efficient costs are for the supply of heat across the market.

As in the case of Mr A, above, it is clear that an absence of effective price regulation will mean that many households will continue to be severely negatively affected.

Q29. Do you agree with this approach to regulations related to complaints handling?

Yes, we fully support the alignment of complaints handling rules with those existing in gas and electricity licences. Mentioned previously, NEA would like to see complaints-handling rules be established sooner rather than later. We note the intention to consult on complaints handling further next year. We would like to see this done in a timely manner so that complaint-handling rules can be amongst the first to be implemented as regulations come into effect.

Q30. Do you agree with the proposed core elements of the Guaranteed Standards of Performance

Yes, we agree. The core elements are broadly comparable to what already exists in gas and electricity. Additional SoP payments should also be made where a heat network failed to make the GSoP payment in the first place.

As we've seen several occasions of non-compliance with GSoP regulations from gas and electricity suppliers since 2019, we would like to see GSoP requirements be closely monitored. Due to the number of heat networks, we recognise that this will be a challenge. But heat networks must not be able to pass through the costs of GSoP payments to households without pressure to improve the quality of service/supply. Please see our response to question 32 for more information.

Q32. 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?

We agree that for guaranteed standards of performance payments to be effective, attention must be given to how heat networks pass through these costs. In our view, it is a matter of ensuring reliable supply in the first instance. As noted by Heat Trust, disconnections are frequent and relative to supply interruptions in the gas and electricity sector. Outages often last several hours, and many heat networks, who are not registered with Heat Trust's voluntary regulation, do not necessarily offer any compensation for outages. Households supplied by heat networks are more likely to experience outages than other households.¹⁰

It is therefore critical that Ofgem has powers to order accelerated technical remediation measures where its monitoring data shows that poor technical performance is resulting in severe detriment to consumers in terms of price and/or reliability. Efficiency improvements in heat network performance is the best way to ensure additional costs are not passed through to households.

Prescription is also required in terms of identifying health-based vulnerability in the case of an outage. Households with a health-based vulnerability must be provided with a replacement supply of heat to keep them safe. But there should also be prescription regarding the type of temporary heating vulnerable households are provided with. Electric fans, which are commonly provided, are too expensive and unsafe, therefore causing a degree of additional detriment and undermining the safety of households. We would prefer that oil-filled radiators are provided, especially if there is an outage for a prolonged period.

Q34. Do you agree that the proposed Conditions, in Table 6, could be appropriate for heat networks? We are interested in views and evidence on how the Conditions could be adapted for heat networks and examples of good practice.

Broadly, yes. Perhaps most importantly, the operational capability principle should be applied to heat networks. As previously stated, if heat networks are not organised to comply with essential consumer protections, they should not be authorised to supply heat. The operational capability principle, like the standards of conduct principle for treating customers fairly, is therefore essential for ensuring that the application of regulations to heat networks is successful.

Q35. What are your views on obligations and protections that are currently in place for ensuring continuity of heat supply in the case of failure? If you consider further requirements or a regulatory safety net is required, please expand.

If a heat network is unable to continue to operate, whether this is because of insolvency or another reason, customer account information, priority services information, usage data and money should be protected. Supply must also be continued without interruption. To achieve this, we propose that plans for the event of failure are presented as part of the authorisation conditions. Temporary arrangements may be required to ensure continuous supply.

A supplier of last resort process could be very costly for customers, and it's far more likely that a heat network will fail than an energy supplier. There is a high risk with regards to the cost of failure being socialised, and we believe Ofgem should consider a range of options to ensure continued supply. Our preference would be for a special administrator (paid for by the government through taxation). Another process could be to have an alternative provider nominated at point of authorisation (and reviewed yearly), such as a leaseholder-controlled entity taking over as heat supplier, or an ESCo arrangement being put in place while a permanent solution is sought. This should run alongside a requirement for indemnity insurance, so the process and who owns the scheme in a failure is clearer.

Q36. What are your views on heat networks being contractually required to have a contingency plan in place to ensure the continuity of heat supply? Should this obligation apply to all heat networks, including small networks?

Since this is expected for retail energy suppliers and networks, we also expect that it would be applied to all heat networks. The purpose of a contingency plan is to ensure continuity of supply. As the consultation document argues: “requiring heat networks to have a CSCP in place seems proportionate given the monopoly position of the networks and consumers’ limited ability to switch”. The absence of such arrangements could lead to significant consumer detriment in the form of loss of supply and additional costs for an inefficient onboarding of a new supplier/operator.

Q37. What are the challenges and costs of placing this obligation on existing heat networks? What timescales or transitional period would be needed?

Especially for new heat networks, a CSCP should be provided as a condition for authorisation. For existing heat networks, it should also be requested through the authorisation process. If that’s unfeasible, all heat networks should be required to have a CSCP in place by the time of *Phase 3: Fully operational protections framework*.

Q38. How should Ofgem monitor compliance with the requirement for heat networks to have a CSCP 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?

As suggested in our response to Q37, we believe that a CSCP should be demonstrated as a condition of authorisation – and where this is not possible it should be provided within 12 months of authorisation. In terms of ensuring CSCPs remain up to date, the CSCP should be part of the terms of reference for any audit conducted for monitoring purposes. Additionally, through the financial data collected from heat networks by Ofgem, Ofgem should proactively seek to identify heat networks at risk and ensure that a CSCP is in place to facilitate intervention if it is necessary.

Q40. 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? As previously stated, we would really welcome views from networks that would find it particularly challenging to deliver this.

Yes, a PSR is in essence a log of customers who require additional levels of support. We would expect that all heat networks or service providers would keep such a register. It is a standard requirement across gas, electricity and water providers which protects those who are most vulnerable, including those who require a constant supply of heat for medical purposes. Based on the Heat Network Consumer and Operator Survey 2022, less than half of surveyed heat networks reported maintaining a register of vulnerable consumers.¹¹ Priority services must be available for all households to ensure their safety.

Based on the ongoing workstream to create a shared PSR between the energy and water industries, we also believe that some consideration should be given to data-sharing from heat networks. To simplify the process for customers who require priority services, enrolment onto one PSR should result in priority services being received from all relevant suppliers of energy.

Q41. Do you agree with our approach to drive good debt management practices and deter disconnection? Do you agree that assessing ability to pay and offering tailored repayment plans is possible for small heat networks operated/supplied by small entities?

In the gas and electricity sector, debt levels have increased significantly since 2021. Many households are living with negative budgets, meaning they are unable to meet their ongoing costs, let alone pay for debts that have accrued previously. Heat is an essential service for physical and mental wellbeing, which is why we feel that good debt management practices, and avoiding disconnection where possible are important protections that must be put in place.

With regards to small heat networks operated/supplied by small entities, NEA believes that these practices should be possible. In response to Q34, we argued for the importance of having a financial responsibility principle. We recognise that in their current structure, some heat networks may be ill-prepared to offer this support. However, the purpose of establishing these regulations is to raise the level of consumer experience, to provide households supplied by heat networks with minimum standards of service – including service around debt repayment arrangements – and to protect the most vulnerable households. It would be unfair for those households if their heat network operator/supplier was in any way exempt from being obligated to provide such services.

Q43. What do we need to consider when exploring a disconnection ban for the sector? We welcome evidence you can provide on benefits to consumers in vulnerable circumstances (including what groups of consumers should be protected), impacts on wider consumers (including specific financial impacts on other consumers on the network), and impacts on heat suppliers (for example with regard to cashflow and financial stability).

As a minimum, we feel that a disconnection ban should be implemented for the groups of people considered ‘high-risk’ as per Ofgem’s rules around the involuntary installation of prepayment meters. In all cases, disconnection should first aim to assess the impact on the wellbeing of residents in the household. If it is considered unsafe to leave the household without a supply of heat, they should not be disconnected.

Q46. Do you agree with our approach for ensuring that consumers in vulnerable circumstances do not resort to self-disconnection or self-rationing and that PPMs are only used where appropriate for the consumer?

NEA believes that the expectations about the treatment of prepayment customers by energy suppliers should be applied to heat networks. All prepayment households should have access to friendly credit hours, additional support credit, and the means to move off a prepayment meter where it is not safe to be on one – for instance where they are repeatedly relying on additional support credit to maintain supply.

Our frontline advisers have also experienced instances of prepayment meters being installed without adequate provision of information on how to use/top up the meter. Where a heat network installs a prepayment meter, it should be obligated to provide this information.

Q47. Should we include financial vulnerability as a required consideration for whether a PPM is ‘safe and reasonably practicable’?

Yes, as with the rules around involuntary installation of prepayment meters, suppliers/operators should be obligated to assess whether a PPM is safe and reasonably practicable. These rules should reflect the new licence conditions coming into effect for retail energy suppliers in November 2023.

Q48. Do you consider these measures to be achievable across all segments of the market? Please provide rationale.

Yes. As per our response to Question 34, heat networks should be subject to the operational capability and financial responsibility principles. If a heat network lacks the operational capacity to identify and protect vulnerable customers, or is financially unstable, this poses a

risk of failure, which would add significant costs to households on its supply. All segments of the heat network market must therefore be able to identify and provide support to vulnerable households, especially those on prepayment meters who are at risk of self-disconnection.

Q49. Do you agree with this approach to regulation for ensuring heat networks have sustainable cash flows and only install PPMs involuntarily as a last resort?

Yes. Ofgem's decision to create new licence conditions around the involuntary installation of prepayment meters should be fully replicated in the heat network market.

Q50. Do you agree with our proposal to increase the rollout of individual AMI heat meters? If you disagree, please indicate why, and provide evidence to support this view.

Yes, we agree.

Q53. Do you agree that an equivalent approach implementing standards of accuracy and processes for pattern of construction and manner of installation regulation in the heat meters market is proportionate? If no, please provide an explanation and support with any available evidence.

Yes, we agree.

Q57. Do you agree with the proposed rules on billing information, frequency, and method?

Yes, we agree with the broad requirements that have been proposed. Tariff rates are essential, as well as essential information on payment dates, payment method and payment support. NEA believes that heat networks have a responsibility to help their customers in payment difficulty (like energy suppliers are required to), though we welcome the requirement to signpost third party support organisations.

In terms of the transparency of pricing, NEA believes that bills should be structured like energy bills, clearly displaying the period for the bill, the energy consumed, the standing charge and any VAT applied. We would also suggest that where the billing period overlaps with a price change, the bill is required to be separated into the original tariff rates and the new tariff rates (as opposed to an average charge per unit for the period).

For prepayment meters we agree that an annual statement (at a minimum) is sufficient. We also welcome the requirement to signpost organisations who can provide support, financial advice and energy saving and efficiency advice.

For consumers in unmetered properties, we agree that networks should be bound by the same requirements as metered networks in terms of billing, transparency and price communication principles. However, we urge caution around the ability for unmetered networks to avoid these regulations by claiming they are unreasonable for them. The Heat Network Consumer and Operator Survey 2022 identified that three in ten (28%) who received a bill reported that it had too little information, higher than non-heat network consumers. This figure is higher among those on unmetered networks (41% compared to 25% for metered households). Clarity is needed on why it would be unreasonable for a network to provide the same standards as metered networks. If they cannot, then more consideration should be given to the need to ensure that all heat supply is metered. Heat network consumers are considerably less likely to pay for their heating and hot water based on actual or estimated usage.¹²

Q58. Do you agree with the proposed rules on back-billing, price change notifications, and heat supply contracts?

Regarding back-billing, a timeframe of 12 months is appropriate. This is consistent with rules in place in the retail energy market. However, the nature of what's permissible to back-bill is

more important. NEA believes that any retrospective raising of prices should not be allowed. This is something we see happening in the heat network space. There are two reasons why we believe this. Firstly, allowing heat networks to retrospectively raise unit rates and standing charges reduces their incentive to price accurately in the first place. Secondly, it damages a consumer's ability to budget and meet their costs of energy, which is especially difficult under current economic circumstances. Back-billing should furthermore only be permitted for correcting volumes of heat consumed, and the period for billing. If a heat network has incorrectly priced its tariff, it should be expected to incur the cost, to incentivise more accurate pricing in the future, or recoup it through future price changes.

For price change notifications, we agree with the proposal for heat networks to notify consumers of a change to heat prices in writing a minimum of 30 days in advance of the change taking effect. And we also agree that changes to the price a consumer pays would be limited in frequency to no more than once every six months. This must be accompanied by requirements for notifying consumers in advance of their fixed tariffs ending.

Q59. Do you agree that this package of measures on pre-contractual transparency will provide prospective consumers with sufficient information prior to and during a property transaction? What other information and mechanisms for providing that information should we explore further?

Yes, we would also like to suggest that heat networks should make clear that they are regulated separately to energy suppliers, and that they will not be involved in the supply of electricity.

Q60. How can we ensure pre-contractual transparency for prospective consumers in new developments?

This may not be achievable by Ofgem, but government should consider a contractual requirement to specify that heat to the property is supplied by a heat network for relevant sales and lettings of properties.

Q63. 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?

Yes, we agree with the sequencing for the introduction of regulations as outlined in the consultation document. We would like to reiterate the need for a clear complaints process to be in place as soon as possible to ensure that consumers of heat from heat networks are empowered, and not subject to poor levels of service without accountability.

Q65. Should we take into account different market segments in our approach to general monitoring and compliance and financial monitoring? If so, what factors should we consider?

One interesting outcome of the Heat Network Consumer and Operator Survey 2022 was the identification of a low level of understanding of existing regulations (mostly regarding Heat Network Metering and Billing Regulations).¹³ For these regulations to be impactful, Ofgem must ensure that all market segments adequately understand the regulations.

It is therefore important for small heat networks to be subject to reporting requirements. Since households that are supplied by heat networks are unable to switch heat suppliers, it is extremely important that Ofgem creates a framework which allows for the identification of poor practice or inadequate understanding of the protections that must be in place.

Among larger heat networks, trends of poor practice may be easier to identify through third party organisations who can proactively report poor practices, and households coming forward through complaints processes. If smaller heat networks are failing to signpost organisations who can assist households, it will be difficult for Ofgem and for third-party

support organisations to know. Reporting requirements are therefore a tool which should be used across all segments of the heat network market to allow for effective monitoring of heat network performance.

Q66. 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?

There must be compulsory reporting around self-disconnection for heat networks which use prepayment meters. We would like to see the reporting requirements here reflect what exists in the retail energy market.

Q67. Do you agree with the overall scope of and approach to auditing to support compliance with regulation, including the initial areas of focus?

Yes, we agree.

Q68. Do you consider that the proposed compliance and enforcement framework is appropriate for ensuring that non-compliance is addressed?

Yes, we support framing the enforcement framework around existing approaches for gas and electricity licensees.

Q69. 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?

Fixed penalties are an appropriate tool for some instances of non-compliance. Mostly, they're useful as a deterrent, which is why we broadly support them as a penalty measure. The scale and use of fixed penalties should be determined by Ofgem on a case-by-case basis.

Q74. What are the benefits, drawbacks, and possible unintended consequences of imposing a de minimis threshold that we have not considered above?

For networks which fall just outside of the criteria for a de minimis exemption, the value of costs being passed on to consumers would be greater. If a de minimis threshold is applied, we would encourage Ofgem to carefully consider the level of detriment for households supplied by such networks.

References and Notes

¹ For more information visit: www.nea.org.uk.

² NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

³ Gov UK (2023) [Heat Network Consumer and Operator Survey 2022](#)

⁴ Gov UK (2023) [Heat Network Consumer and Operator Survey 2022](#)

⁵ CMA (2017) [Heat networks market study: summary of final report](#)

⁶ Social Market Foundation (2023) [A fairer deal for heat networks](#)

⁷ Gov UK (2023) [Heat Network Consumer and Operator Survey 2022](#)

⁸ Inside Housing (2021) [‘What Is Going Wrong with Heat networks?’](#)

⁹ Heat Trust (2021) [Heat Trust Annual Report 2021](#)

¹⁰ Gov UK (2023) [Heat Network Consumer and Operator Survey 2022](#)

¹¹ Gov UK (2023) [Heat Network Consumer and Operator Survey 2022](#)

¹² Gov UK (2023) [Heat Network Consumer and Operator Survey 2022](#)

¹³ Gov UK (2023) [Heat Network Consumer and Operator Survey 2022](#)