



Welcome

Heat networks regulation: consultations

Local Government Association 17 Dec 2024

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Overview of regulatory framework and consultations

Dave Newton

Who will be regulated?

Supply

The person that supplies heat to premises

Has a contract with the customer

Obligations:

- Billing
- Complaints
- Consumer vulnerability
- Debt support
- Standards of conduct

Operation

The person that ultimately controls the heat network and can make decisions regarding investment and upgrades

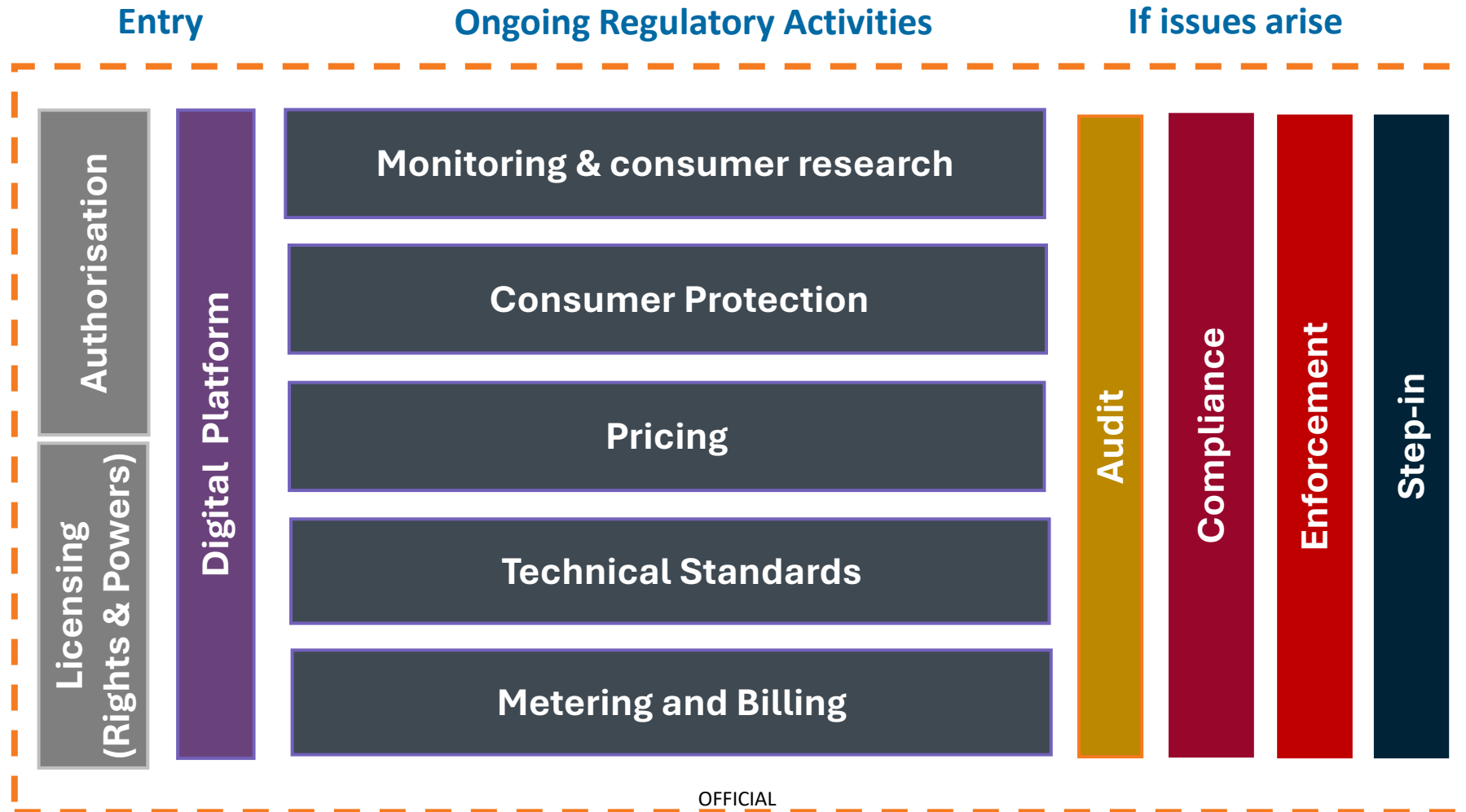
May be the asset owner

Obligations:

- Technical standards compliance
- Guaranteed Standards of Performance

What will regulation cover?

Under the proposed framework Ofgem will be responsible for a range of regulatory activities.



Regulatory Structure



Department for Energy Security & Net Zero

Heat networks need to obtain certification through the Heat Networks Technical Assurance Scheme

ofgem

Making a positive difference for energy consumers
Regulates the sector through processing of authorisations and enforcement of conditions. Monitoring, audit and compliance activities based on evidence of consumer detriment.

Energy Ombudsman

Regulated entities join Energy Ombudsman scheme, Provides Redress & Dispute Resolution services.



Department for Energy Security & Net Zero

ofgem

Making a positive difference for energy consumers

Market trends, behaviours and evidence of consumer issues and detriment used to review and where necessary reform regulations

citizens advice



Consumer Scotland

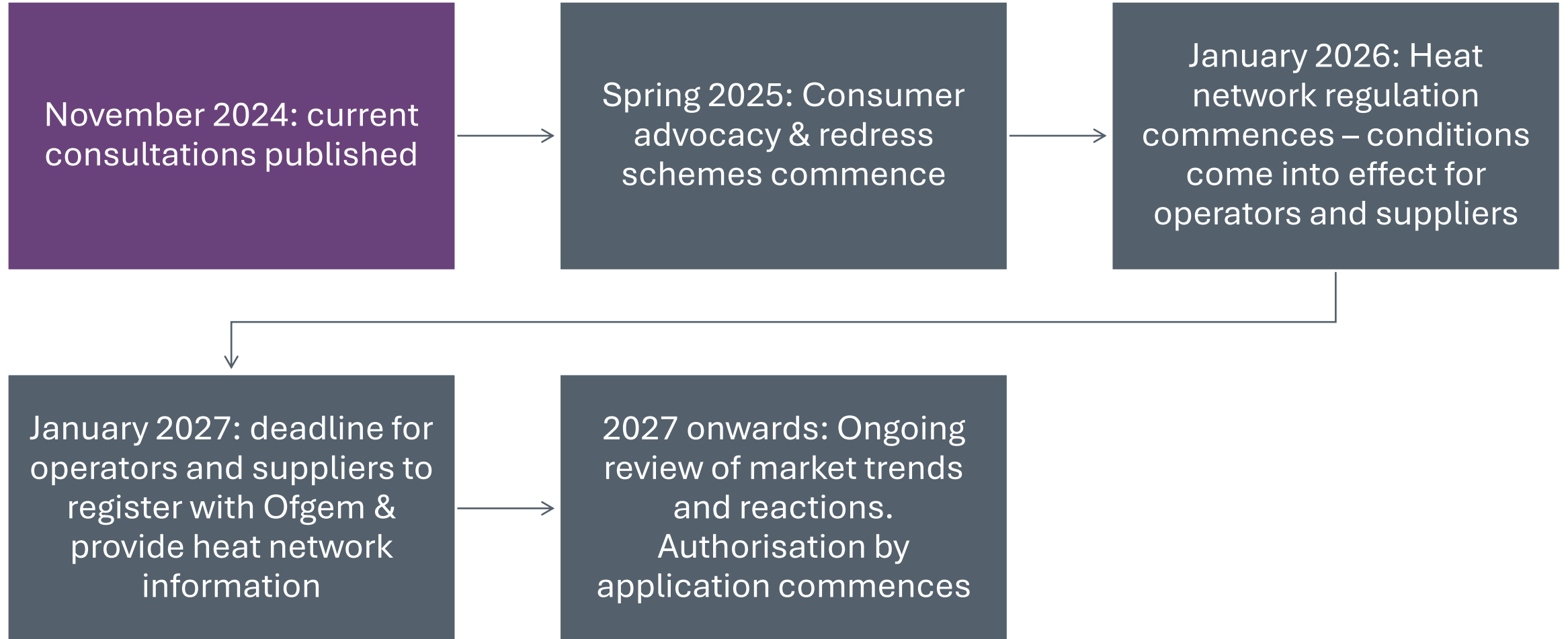
Luchd-Cleachdaidh Alba

Offer advisory and advocacy services for heat network consumers



Heat network activities become prohibited without holding and maintaining authorisation

Timeline



Implementing Consumer Protection Consultation

Joint DESNZ and Ofgem

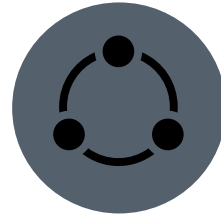
- Final joint consultation on consumer protections with focus on areas where we require additional stakeholder views.
- For heat network operators, suppliers and developers, and domestic, non-domestic and SME customers of heat networks.
- Approach to different network types
- Market segmentation approach
- Standards of Conduct
- Fair Pricing
- Vulnerability
- Quality of service: complaints and GSOPs
- Billing and Transparency
- Step-in
- Draft Authorisation Conditions

Implementing consumer protections: key proposals

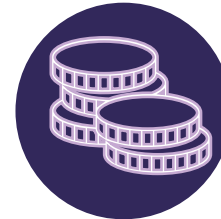


Standards of Conduct

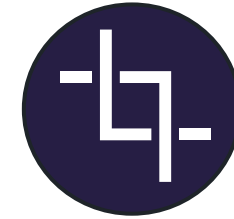
A set of 5 outcome-focussed principles



Updated proposals for **protecting vulnerable consumers**



A general obligation to provide **fair and transparent prices.**



Step-in measures to mitigate the risk and impact of heat network failure.

Authorisation and Regulatory Oversight consultation

Ofgem only

- The regulatory activities and processes which will underpin the regulatory framework.
- For heat network operators and suppliers, metering and billing agents, large or small heat network entities, not-for-profits and entities for profit.

- Scope of authorisation and regulatory obligations
- Registration and Authorisation Application processes
- Making changes to an authorisation
- Monitoring – market segmentation, reporting requirements, implementation
- Auditing process
- Approach to compliance and enforcement

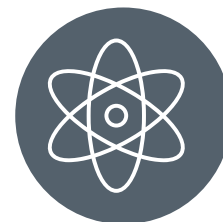
Authorisation and regulatory oversight: Key proposals



The **scope of regulation**, including who and what activities will be regulated, and the Registration and Authorisation Application processes.



Outline of the monitoring regime, including the level of detail and frequency of the data which will need to be reported.



Our planned **approach to audit**, including implementation timelines and proportionality in our sampling approach.



The **range of compliance approaches**, including where we will focus compliance during the introduction of the regulatory framework.

Consumer protection proposals

Gareth Gill and Tricia Quinn

Consumer protection objectives

The high-level consumer protection objectives are to ensure consumers:

- Receive clear and accurate information about the terms of their supply, so they can understand what they are paying for, and what they are likely to pay in the future
- Have recourse to a complaints handling process, including access to an independent redress scheme to escalate complaints if things go wrong
- Receive a fair price, supported by a data-based framework which enables us to identify and take action against disproportionate pricing
- Receive a reliable supply of heat, backed up , where appropriate, by a compensation regime if they experience interruptions

In overseeing this consumer protection regime, we will also...

- Require providers to identify customers in vulnerable circumstances, so that tailored information and support can be provided
- Responsibly manage the costs of delivering this regime, which are met by consumers of heat networks, and shared by gas and electricity consumers
- Consider the ability of heat network providers to finance obligations imposed by the regulatory framework

Standards of Conduct

These are a **set of outcome-focused principles underpinned by the objective of treating consumers fairly.**

Segmentation

Across the framework we plan to use segmentation to:

- Balance regulatory proportionality and fair consumer outcomes
- Structure our communications and interactions with suppliers and operators

Supplier
behaviour

Ensure that consumers have a positive experience when dealing with suppliers.

Provision of
information

Information should be timely, accessible, clear, complete, tailored to the customer and accurate in reflecting the relevant content.

Customer
Service

Delivery of good customer service that is effective, easy for all consumers to access, and proactively advertised.

Vulnerability

Identifying vulnerable consumers and having specific regard to their circumstances in designing processes and meeting regulatory expectations.

Customer
Engagement

A feedback mechanism which enables adequate consumer engagement and is accessible to all consumers.

We are seeking views on:

- The proposed approach to Standards of Conduct
- Existing engagement approaches and examples

Vulnerability Protections

A primary objective of regulation is to adequately protect and support vulnerable consumers.

The proposals include a vulnerability principle within the Standards of Conduct, and specific obligations on:

- Identifying vulnerable customers.
- Supporting and protecting those facing payment difficulties.
- Protections around the use of pre-payment meters (PPMs) and disconnections
- Identifying self-disconnection and offering appropriate support.

Vulnerability
Definition

PSR

Payment
Difficulty

PPMs

Disconnection

Self-
disconnection

Summary of the vulnerability Proposals

Ofgem's definition of vulnerability and a broad principle in the Standards of Conduct to ensure vulnerability is placed at the heart of the business

Requirement to operate a PSR and promote this to domestic consumers, where appropriate

Need to proactively offer repayment plans (informed by ability to pay principles), advise consumers on how to reduce their energy usage, and consider alternative payment methods

Must not install if under 2 or over 75, disabled, or terminally and/or chronically ill. No disconnection of those who need energy for medical conditions

No disconnection in winter if under 2 or over 75, disabled, terminally ill or chronically sick. No disconnection of those who need energy for medical conditions

Identify consumers who are self-disconnecting or at risk of doing so, unless technically unfeasible. And where possible offer appropriate support

Fair Pricing

General obligation on heat networks to provide fair and not disproportionate prices.

Ofgem will be consulting on proposals on cost allocation rules, central price transparency, price investigations, and benchmarking/comparison methodology in future.

Fair pricing obligation

Outcomes-based approach. It will be accompanied by guidance, setting out minimum expectations, principles and good practice.

Cost allocation

Rules around tariff structure to facilitate comparability.

Price Transparency

Ofgem is considering the publication of some pricing and technical data.

Benchmarking and price investigations

Ofgem will have the power to act where prices appear to be disproportionate, informed by tools such as benchmarking.

We are seeking views on:

- The proposed high-level fair pricing framework
- Extension of fair pricing protections to non-domestic customers

Complaints

All suppliers must ensure they have a process in place to ensure complaints can be received and are addressed fairly, effectively, and promptly

We are working with relevant bodies where there are overlaps with existing obligations.

Interactions between these existing obligations and heat network regulation be further clarified in guidance.

Processes required which mirror obligations in the Gas & Electricity, and Housing sectors, including

Procedure

Obligation to have an appropriate complaints handling procedure in place.

Consumer Awareness

Appropriate information available on the complaints procedure

Process

Fair and prompt Investigating, assessing and resolving of complaints

Sign-Posting

Signposting consumers to third-party support eg referral to a qualifying redress scheme

Resources

Allocation of adequate resources and maintenance to efficiently handle and process complaints.

Recording

Recording and publication of complaints data

Guaranteed Standards of Performance (GSOPs)

The main aim of our proposals is to reduce service outages and drive improvements in consumer protection when these occur. We recognise this is an important area of consumer protection, but we want to ensure the regulatory and cost impact is proportionate to heat networks.

Compensation levels

Seeking views on the proposed compensation levels for failure to meet standards (appointments, notice of interruptions, restoration, faulty meter). The payment amounts are comparable to Heat Trust levels.

Extending GSOPs to non-domestic

Proposed extending certain standards to apply to non-domestic consumers. These would be minimum standards and would encourage negotiations to go beyond.

Not-for-profit approach

Not-for-profit organisations required to meet equivalent Performance Standards equivalent, but without the automatic compensation mechanism. They will be required to notify and submit an improvement plan.

We will be further consulting further on GSOPs. We are interested in feedback on what would be an appropriate transitional period to update contracts and evidence of impacts.

Billing & Transparency

Obligations in respect to billing, transparency, and heat supply agreements

- Will be accompanied by guidance and where appropriate examples/best practice.
- Proposal on unbundling the individual heat supply element, and back-billing limit of 12 months.
- Working with Ministry of Housing, Communities and Local Government (MHCLG) and equivalent bodies
- Working with Scottish and Welsh Governments and advisory groups

Transparency

Provision of regular bills that are accurate and informative

Unbundling of heat charge

Separating heat charges from other service charges/rent would improve transparency and improve consumer outcomes, however, transition period aligned to metering might be needed

Back-billing

Views on proposals to limit back-billing of individual consumption of heat to 12 months. Bur dependent on the unbundling of the heat charge.

Heat supply agreements

Proposals on heat supply contracts (or equivalent) and price change notifications. Consumers should be provided with information on the circumstances and process for which heat charges may change

Pre-contractual transparency

Proposals on the types of information prospective heat network customers will need.

We are seeking views on:

- Proposals on billing and transparency
- Challenges and interactions of the unbundling of charges and interactions with housing legislation/leasehold.

Monitoring, Audit, Compliance & Enforcement

Tricia Quinn

Regulatory oversight – monitoring, audit, compliance and enforcement objectives

- To ensure authorised heat networks meet their authorisation and licence conditions, Ofgem will implement a range of tools to identify and address non-compliance, and particularly where this is causing or likely to cause consumer detriment.
- Given the number and range of heat networks our aim is that regulation is proportionate, reflecting the risk-based market segmentation approach.
- We recognise that regulation will be new to the sector and will need time to become fully embedded. Ofgem will implement a range of measures including guidance and notices to communicate and engage with heat networks on an ongoing basis.
- Ofgem also expects to highlight areas of good and poor practice to ensure compliance with regulation and improve consumer outcomes.

Regulatory oversight - monitoring

- Ofgem will implement a monitoring regime to ensure we have oversight of the market.
- We will regularly collect data from heat networks including on vulnerability, pricing complaints and disconnections, metering data and step-in arrangements. Data requirements will differentiate between different organisations and the conditions of their authorisation.
- We are considering what level and frequency of reporting will be appropriate and proportionate across all heat networks. We are proposing some different reporting requirements for certain segments of the market as this scale of regulation and associated information provision will be new for most of the sector.

Regulatory oversight - audit

- We will introduce an audit programme to provide assurance and confirm compliance with obligations. Our implementation of the audit programme will take into account proportionality and regulatory burden across the range of heat networks.
- Audits will cover the authorised entity rather than being site specific as we expect that certain policies and processes will apply across multiple sites. We may however undertake some that are site specific where there are differences or if there is a potential risk identified at this level.
- Our programme will run alongside the Code Manager's audits of technical standards.

Regulatory oversight – compliance and enforcement

Compliance

- Underpinned by draft ‘open & cooperative’ and ‘conduct principles’ authorisation conditions with heat networks required to:
 - *‘...to take action to mitigate risks of not meeting a condition or other requirement and that activities are conducted in such a way that can reasonably lead to compliance.’*
- Compliance action – based on risks identified through self-reporting, data, intelligence and audits. We expect to take account of the diverse range of heat networks in the market when considering actions required.
- Early focus expected to include registration declarations and data provision.

Enforcement

- Can be used where there are areas of significant consumer detriment and poor conduct leading to a potential breach of rules.
- Enforcement tools are contained in the Heat Network Market Framework Statutory Instrument. Includes investigations, orders and ability to impose penalties.
- Considering ‘fixed penalties’ to help ensure that heat networks view their obligations in certain areas such as information provision seriously and take action in their organisations to ensure they are compliant with them.
- Further detail to be included in enforcement guidelines and penalty policy.

Step-in – mitigating and managing risks of financial failure

Tricia Quinn

Existing obligations and scope of requirements

Background

- We want to ensure that heat network consumers are protected if their provider enters insolvency or has their authorisation revoked.
- The social housing sector is already subject to considerable regulation in terms of both financial monitoring and in terms of service provision. We do not want to introduce regulations that are disproportionate on sectors which are already subject to regulation.
- The Landlord and Tenant Act places obligations onto landlords in England and Wales to ensure continued supply of heating and hot water for tenants. In Scotland, the Housing (Scotland) Act 2001 sets out a duty on Housing Associations to provide and maintain a property in habitable and tenantable condition including the maintenance and repair of any heat network. The Housing (Scotland) Act 2006 sets out the duties placed on private landlords by the Repairing Standard including the provision of heating and hot water.

Step-in proposals

- We propose taking a segmented approach to step-in requirements, and if the authorised provider is subject to the social housing regimes in Scotland, England or Wales, **they will not be subject to the heat network requirements**. We propose in the event of insolvency, the social housing step-in process, which includes a Special Administration Regime as a back stop, would take precedence over the HN step-in process.
- Local authorities are also subject to obligations on financial arrangements and maintaining heating and hot water, so we propose they are also not subject to the requirements.

| Q&A

How to respond

For the joint consultation

[Heat networks regulation: Implementing Consumer Protections consultation](#)

For the Ofgem only consultation

[Heat networks regulation: authorisation and regulatory oversight consultation](#)

Deadline for both is 31 January 2025.

To register for additional webinars

[Consultation webinars](#)

How to respond – a bit more detail

- **We highly recommend responding online via Citizen Space (links on previous slide) as the easiest option**, however we understand some organisations prefer to respond via email.
- If so, it would be helpful if respondents could:
 1. **Submit responses saved in a compatible format, ideally Microsoft Word** and please send to heatnetworksregulation@ofgem.gov.uk for the Ofgem only consultation and to both Ofgem and DESNZ for the joint consultation heatnetworks@energysecurity.gov.uk.
 2. Ensure to **draft responses for questions individually, rather than provide bulk responses for sections**. This allows us to clearly capture your views on each proposal.
 3. Refer to the Citizen Space response page. Many questions offer the ability to provide a radio button response **i.e. Strongly Agree/Agree/Disagree**. **If you respond via email, please clearly identify which option you are aligned to, and then provide the full written response**. This would be incredibly helpful in ensuring we are able to capture your full perspective for each question.