

Heat Networks Regulation: implementing consumer protections

Consumer Scotland response to
DESNZ and Ofgem's proposals for
implementing consumer protection
for heat networks

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1. Introduction

- 1.1 Consumer Scotland is the statutory body for consumers in Scotland. Established by the Consumer Scotland Act 2020¹, our purpose is to improve outcomes for current and future consumers. We are independent of the Scottish Government and accountable to the Scottish Parliament. Our core funding is provided by the Scottish Government, and we also receive funding for research and advocacy activity in the electricity, gas, post, and water sectors via industry levies which are derived from consumers' bills.
- 1.2 Our responsibilities relate to consumer advocacy. In our 2023-2027 Strategic Plan², we have identified three cross-cutting consumer challenges, which guide our work during this period. They are:
 - Affordability
 - Climate change mitigation and adaptation
 - Consumers in vulnerable circumstances
- 1.3 From April 2025 Consumer Scotland will become statutory advocate for heat network consumers in Scotland. As part of this new role Consumer Scotland will carry out research into the issues and experiences heat network users face, using this evidence to advocate for improvements on behalf of consumers. We are currently working to establish this function.
- 1.4 Consumer Scotland welcomes the opportunity to contribute to this this consultation and support Ofgem's ongoing work to establish its role as regulator for heat networks across Great Britain.
- 1.5 Consumer Scotland has previously responded to Ofgem and UK Government proposals for heat networks consumer protection regulation.³ We have worked closely with both UK and Scottish Government's on the development of heat network regulation and plans to introduce the Scottish licensing regime. Consumer Scotland has carried out a programme of work to understand the impact that decarbonising heating in Scotland's buildings will have on consumers. As part of this work we have responded to the Scottish Government's proposals for a Heat in Buildings Bill⁴ and we recently launched an investigation looking into the green heating market.⁵
- 1.6 In addition to this work we have utilised our Consumer Principles to inform our response to the consultation. These are based on frameworks that have been developed over time by both UK and international consumer organisations. Reviewing policy against these principles enables the development of more consumer-focused policy and practice, and ultimately the delivery of better consumer outcomes.⁶

- 1.7 Consumer Scotland represents heat network consumers on a range of consumer, government and industry forums, including: the Heat Trust Committee, Ofgem's stakeholder advisory group and the Scottish Government's Heat in Buildings Strategic Advisory group.
- 1.8 Consumer Scotland has recently published in draft work programme for 2025/26,⁷ setting out our prospective plans to deliver this new role and our longer term plans for research and advocacy work. Within the work programme we stated that we wanted heat network consumers in Scotland to have access to a market that delivers safe, affordable, reliable low carbon heating. We also want to ensure that consumers are protected from harm, are well informed and have access to advice, support and redress should they need it. For this to happen the authorisation scheme needs to be effective, support operators to engage with the regulatory process and ultimately provide Ofgem with the information it needs to have oversight of the market.
- 1.9 Consumer Scotland is generally supportive of the proposals outlined in the consultation. We have not responded to all of the questions asked but have responded where we can add value from our experience in this and other markets and where we identify that proposals will have a direct impact on consumers. We would be pleased to discuss the content of this response in more detail.
- 1.10 Ofgem have published a parallel consultation on proposals for authorisation and regulatory oversight.⁸ Consumer Scotland will respond to this consultation separately.

2. Scope of Regulation and Authorisation Regime

Question 1. With reference to the draft authorisation condition on definitions, do you agree or disagree with the definitions for network types (domestic and microbusiness, non-domestic, industrial, self-supply)?

- 2.1 Consumer Scotland agrees and accepts the definition of domestic and microbusiness, as set out in condition 23 of the draft authorisation conditions appendix.⁹ We note however that non-domestic is not listed under condition 23 and we suggest that its inclusion here would be beneficial. We agree and accept the definitions of industrial and self-supply and support their inclusion under the application of general authorisation conditions (condition 22).
- 2.2 In relation to the domestic and microbusiness premises definitions, condition 23 makes reference to the general authorisation condition (classification of premises), although these do not appear elsewhere in the appendix. If this classification in reference to heat network authorisation is still in development, the classification of premises for the purpose of the standard conditions of the gas supply licence would provide a useful benchmark.¹⁰

Question 2. With reference to proposed consumer protection measures in this consultation, are there any measures that in your view are not relevant to heat networks using shared ground loops and individual consumer heat pumps? If so, what measures and why?

- 2.3 Answer included under question 4.

Question 3. Are there proposed consumer protection measures that in your view should be tailored to suit shared ground loop technology and if so, how?

- 2.4 Answer included under question 4.

Question 4. In applying consumer protections to a heat network using shared ground loops and individual consumer heat pumps, in your view should there be differentiation between networks which charge a fee to access the loop, networks that do not charge a fee, and SGL networks that utilise other ambient heat sources in addition to boreholes?

- 2.5 In line with the consumer principle of fairness, we believe that consumer protection in heat networks should be heat source and technology agnostic. This does not mean that protections should be identical in each instance, but consumers should have an equivalent level of protection across different network types whilst ensuring this does not lead to a lowest common denominator approach. In response to the 2023 consumer protection consultation,¹¹ Ofgem and DESNZ outlined that SGL networks have greater control over their

heating and cost factors than those on traditional networks, such as the ability to choose their electricity supplier which sets the largest cost component of their heating and cooling. In this consultation, it is added that SGL networks may already be subject to adequate regulatory oversight through electricity supplier licensing – in relation to considerations such as vulnerability, and that it may also be necessary to adapt some protections to suit the network type – in regards to issues such as pricing.

- 2.6 Consumer Scotland supports an approach that applies protections where they are relevant and practical to the characteristics of the network type. In relation to SGLs specifically, we propose that further engagement with stakeholders is undertaken to determine what should/should not be in scope, with a view to delivering the best possible outcomes for consumers.

Question 5. With reference to the draft authorisation condition on definitions, do you agree or disagree with the definition for bulk supply?

- 2.7 Consumer Scotland agrees and accepts the definition of bulk supply and we recognise that this definition will be useful as the accepted term for this activity moving forward. As above, the application of general authorisation conditions (condition 22) would be enhanced with the inclusion of bulk supply.

Question 6. Do you agree or disagree with our proposals to apply some consumer protection measures to bulk supply activity? Please provide evidence and reasons for your response.

- 2.8 The design of consumer protections in heat networks needs to be a holistic process which includes consideration of potential downstream impacts on consumer outcomes. A majority of respondents to the 2023 consultation supported proposals to require separate authorisation of entities where there is a bulk supply agreement in place, recognising the different activities and responsibilities - and therefore the varying potential to impact consumer outcomes - of primary and secondary networks within a connected network. It is important however that processes do not become overly complicated and impact consumers' ability to access equivalent protection.
- 2.9 Consumer Scotland accepts that the actions of bulk suppliers have the potential to impact consumers on downstream networks and agrees that the regulator needs to be able to act against bulk suppliers where their actions have resulted in, or contributed to, poor outcomes for consumers. We broadly agree with the proposed scope of consumer protection of bulk suppliers – particularly in relation to fair pricing and step-in – but would encourage further engagement on this, separate to this consultation, to help refine the design of these protections.

3. Approach to Non-Domestic/SME Consumers

Question 7. Do you agree or disagree with the proposed protections for non-domestic heat network customers? Please provide evidence to support your views, or evidence of the potential impacts.

- 3.1 When preparing our response to the 2023 consultation, Consumer Scotland spoke to organisations representing small businesses to better understand how they engage with the energy market and the challenges they face. This highlighted that small businesses are actually often more similar to domestic consumers than they are to larger business entities, in terms of their electricity and heat consumption and their general understanding of the energy market.¹² Small businesses are also less likely than larger entities to employ an energy manager, and therefore may not have expertise when it comes to choosing an energy contract or deciding whether or not to connect to a heat network.
- 3.2 As such, we welcome the proposed protections for non-domestic heat network customers as outlined in the consultation text. Applying the Standards of Conduct and complaint handling standards to all Non-Domestic Customers is a positive step towards ensuring that fair treatment is embedded in heat networks consumer protections from the outset. Our support for extending the fair and transparent pricing obligations to all Non-Domestic Customers is expanded on further in response to question 15. However, knowing as we do that small businesses are often more likely to have more in common with domestic consumers than they do with larger business entities, we would welcome a more proportionate approach to debt recovery for Non-Domestic Customers being reflected in the proposal – i.e. an approach which incorporates aspects of the gas and electricity debt pathway and where disconnection is only used as a last resort.

Question 8. Do you agree or disagree with the proposed definition of an SME for the purposes of heat network regulation?

- 3.3 Yes, we support the proposed definition which is consistent with the changes introduced in gas and electricity regulation as a result of the Non-Domestic Market Review in 2024.¹³ Moving forward, we encourage the use of the terms ‘Small Business Customer’ and ‘Micro Business Customer’ – as distinctions under the broader heading of ‘Non-Domestic Customer’ – to ensure this becomes the accepted terminology across both the gas and electricity and heat networks markets.

4. Supply to Premises

Question 9. Do you agree or disagree with the proposed approach to ‘supply to premises’ conditions?

- 4.1 By regulating conduct from the point that heat is being supplied, and recognising the commercial challenges that may arise from mandating an offer to connect, we believe that the proposed approach to ‘supply to premises’ broadly falls in the right place. We would however encourage Ofgem and DESNZ to keep this approach under review to ensure it is delivering appropriate consumer outcomes.

5. Standards of Conduct

Question 10. Do you agree or disagree with our proposed approach to the Standards of Conduct?

- 5.1 We support the proposals to introduce Standards of Conduct – a set of outcome-focused principles underpinned by the objective of treating consumers fairly – as part of the authorisation regime. SLC 0 and SLC 0A are the recognised standard in the gas and electricity market for how suppliers should behave, provide information, and carry out customer service processes.¹⁴ We welcome mirroring these conditions, as appropriate, in heat networks regulation.

Security of supply

Question 13. Do you agree or disagree with our approach to a principle on the security of supply?

- 5.2 Consumer Scotland agrees that implementing a security of supply principle will be a key step in ensuring that consumers have access to reliable, uninterrupted heating services, including during peak demand periods, extreme weather conditions, or other times of increased risk to heat network reliability. This principle should encourage operators to plan for system resilience by building in back-up systems, diversifying energy sources, and ensuring that there is adequate supply capacity on the network – which will be particularly important for larger district heating schemes. We also agree that, as set out in the consultation document, such a principle will help heat network operators to prepare for forthcoming technical standards.
- 5.3 At a sector-wide level, an effective security of supply principle should also aim to improve the overall stability and sustainability of heat networks, by ensuring that operators are proactive in maintaining and upgrading their infrastructure, and helping to mitigate the impact of supply chain disruptions or unforeseen technical failures. By securing consistent and reliable heat delivery, and promoting improved communication with customers, the principle will also enhance consumer confidence in heat networks as an attractive and reliable heating solution.

6. Fair Pricing

Question 14. Do you have any views on the high-level fair pricing framework discussed in the Fair Pricing section and in Annex 3 of this document?

- 6.1 In legislation, the Scottish Government has a requirement to demonstrate progress against all four of the recognised drivers of four poverty: energy efficiency, household income, how fuel is used in the home, and fuel prices.¹⁵ Fuel prices are the obvious driver against which heat networks can contribute to reducing fuel poverty in Scotland, but this can only begin to be realised if the sector is able to offer competitive prices to consumers. Recent examples of significant bill increases on heat networks have resulted in poor consumer experiences and attracted widespread media attention.¹⁶ If repeated, this has the potential to cause further harm to consumers and to damage the perception of heat networks as a fair and affordable alternative heating solution. This will, in turn, impact on the sector's ability to contribute to the improved wellbeing of consumers in Scotland.
- 6.2 Regulation has a key role to play in addressing these issues, and Consumer Scotland recognises that the fair pricing framework as outlined in the consultation document provides a useful starting point. Ofgem's ability to mandate price transparency, combined with broad objectives and outcomes around disproportionate pricing, and the need for heat network pricing to reflect efficient costs, will set an expected standard for regulated entities as protection around policy develops. Ofgem already has the ability to introduce a form of price control in the sector, but we recognise the significant challenges associated with benchmarking across different commercial models, fuel types, and technologies, and accept this will be a gradual process. However, from the go-live of regulation, Ofgem must be still be ready to take action wherever bad practice on pricing is identified.
- 6.3 Consumer Scotland looks forward to engaging with further consultation on fair pricing this year. As part of this, we recommend that Ofgem undertakes a rapid evidence review on pricing, to improve the evidence base and to aid policy development.

Question 15. Do you agree or disagree with our proposal to extend the scope of fair pricing to all non-domestic consumers?

- 6.4 As outlined in response to question 7, our engagement with the non-domestic sector has highlighted that small businesses often operate more like domestic consumers than larger business entities, in terms of their interactions with the energy market, and we therefore support extending some consumer protections to this segment of the heat networks market. In relation to pricing, research by the Federation of Small Businesses (FSB) in autumn 2022 found that 72% of small firms in Scotland had reported an increase in their energy prices in the last year. Meanwhile, concern about rising business energy costs was found to be more prevalent in Scotland, with 49% of small firms feeling 'extremely concerned' compared to 38% across the whole of the UK.¹⁷

6.5 Consumer Scotland is broadly supportive of extending the general obligation on fair pricing to all non-domestic consumers, including the recognition that different segments, such as Small Business Customers and Micro Business Customers, may require targeted measures. We look forward to engaging with further consultation on fair pricing later this year.

7. Vulnerability

Vulnerability: defining vulnerability and protections for vulnerable consumers

Vulnerability definition

Question 16. Do you agree or disagree with our proposed overall approach to vulnerability, adopting the existing Ofgem definition for gas and electricity consumers but combining this with targeted protections for heat network consumers, where needed, through the authorisation conditions?

- 7.1 When exercising its functions, Consumer Scotland must have regard to the interests of consumers in vulnerable circumstances.¹⁸ The proposed approach to vulnerability in the development of consumer protections is therefore of significant interest to us in our role as the statutory advocate for heat networks consumers from April 2025.¹⁹ In response to Ofgem’s consumer vulnerability strategy refresh in 2024,²⁰ we supported the decision not to change the existing definition of vulnerability, highlighting the level of synergy that exists between this definition and our own definition as set out in legislation, as well as consistency with our systems-based approach to improving outcomes for consumers in vulnerable circumstances.
- 7.2 As such, we agree with the proposed approach to vulnerability which adopts the existing Ofgem definition for gas and electricity customers. However, we wish to reiterate the recommendation that we made in our response to the vulnerability strategy refresh, where we highlighted the need for Ofgem to give greater consideration to the particular circumstances of rural consumers in Scotland. A combination of geographic and socio-economic factors contribute to a higher level of fuel poverty in rural Scotland,²¹ and this needs to be given due consideration when designing protections to ensure that this heating solution is made available to them as appropriate.
- 7.3 The proposal to combine this approach (i.e. mirroring the gas and electricity protections) with targeted protections through the authorisation conditions, is also welcome. Introducing a vulnerability principle within the Standards of Conduct, introducing Social Obligations Reporting in the sector, and requiring heat suppliers to operate a Priority Services Register (PSR), will allow protections of consumers in vulnerable circumstances to be reflective of the characteristics of the heat network market. As regards the latter, most heat network customers will also be the customer of a regulated electricity supplier, and we therefore agree that standardising PSR requirements as much as possible – across electricity and heat – will help to ensure consistency for consumers and help to facilitate cross-sector initiatives to improve data-sharing. In response to the Department of Business and Trade’s smarter regulation consultation,²² Consumer Scotland lent its support to the creation of a Share Once Support Register where simplification of the consumer journey, and ultimately improved

consumer outcomes, can be demonstrated. We welcome heat networks being part of this work as it progresses.

Disconnection for non-payment of energy costs

Question 17. Do you agree or disagree with our proposed protections from disconnection? Please give reasons or supporting evidence for your answer, and clearly outline any alternative proposal.

- 7.4 Consumer Scotland supports the rationale outlined in the consultation document for protections from disconnection in heat networks going further than in gas and electricity markets, but in our assessment, the proposed protections do not yet go far enough. In response to the 2023 consultation, we welcomed the intention to ensure that consumers who struggle to pay their bills are not only adequately protected, but are also supported to stay connected – this included our support for a requirement on suppliers to be proactive when engaging with consumers on non-payment. However, due to the known health impacts and increased mortality linked to living with inadequate heating, Consumer Scotland concluded that ultimately it would be in the best interests of consumers to introduce a ban on disconnections for non-payment of energy costs. The installation of a prepayment meter, not disconnection, should always be the last resort in instances of payment difficulty or debt accrual.
- 7.5 In gas and electricity markets, disconnection has effectively been eliminated as a practice in all circumstances, excluding where there are safety or payment protection concerns.²³ The task of drafting consumer protections in the new and emerging market of heat networks presents a unique opportunity to promote fair practice by operators in the sector, and to build-in protections – such as consumers’ access to heat as an essential for life service – from the outset. There are also benefits to the broader sector in adopting a more proportionate approach to debt recovery which does not include the threat of disconnection, in terms of building community trust with heat networks and improving consumer confidence in heat networks as a viable proposition.

Prepayment meters

Question 18. Do you agree or disagree with our proposal to align with gas and electricity PPM protection rules?

- 7.6 We broadly agree and accept the proposal to align with gas and electricity PPM rules, but have suggested some minor amendments and areas for further consideration in our response to question 19. However, as referenced in the consultation text in relation to the ‘supply to premises’ conditions, there are practical considerations related to metering which need to be considered before PPM protections can be implemented. Any newly deployed heat network and subsequent connections will require the installation of heat meters under the Heat Network (Metering and Billing) Regulations 2014 which will be reformed and implemented through the upcoming Market Framework regulations. We understand through engagement

with industry that many operators are now opting to install PPMs as a default in new networks, which poses a significant compliance issue with the proposed protections. As regards existing networks, new requirements will be set out in the upcoming consultation for the Heat Network Technical Assurance Scheme. The challenge here is the extent of unmetered sites, which we understand may account for as much as a majority of the existing sector, and the potential for detrimental debt recovery practices being adopted where PPM installation is not a practical option.

Question 19. Do you think it is appropriate to go further than gas and electricity PPM protections? If you have an alternative approach, please set this out, including how this would impact on debt management and the recovery of costs.

- 7.7 Yes, given that consumer choice is limited by the monopolistic nature of heat networks, and that research has indicated lower levels of satisfaction amongst heat network PPM users compared to those not on PPM,²⁴ we believe it is appropriate for some PPM protections to go further than they do in gas and electricity regulation.
- 7.8 Consumer Scotland agrees and accepts the proposal to replicate the ‘do not install’ categories from the standard licence conditions for gas and electricity, except in limiting this to households with children under the age of 2. In development of the involuntary PPM code of practice for gas and electricity, Ofgem consulted three NHS clinicians on the categories in which PPMs should not be installed, and they were advised unequivocally that households with children under 5 should be included.²⁵ This was due to the significant detriment young children can experience from living in a cold and damp home, such as the increased risk of breathing problems such as asthma and bronchitis, low weight gain in babies (as they use up calories to keep warm), slower growth, slower development, higher levels of hospital admissions for young children, and also the impact on mental development. This advice was however not adopted in the final code of practice. In response to the statutory consultation Consumer Scotland questioned why this advice from professionals had not been upheld,²⁶ and we recommend that the development of consumer protections in heat networks presents a unique opportunity to improve standards from the outset – by extending protections to those under the age of 5.
- 7.9 Financial vulnerability must also be a consideration in the prepayment process for heat networks, to protect those for whom a PPM is not suitable. Consumer Scotland recommended the development of the precautionary principle in the gas and electricity code of practice,²⁷ and this was ultimately adopted as part of the code – i.e. suppliers must assume that anyone faced with involuntary PPM for debt is likely to be in a financially vulnerable situation and therefore more likely to self-disconnect. We would therefore support replicating the precautionary principle in heat networks regulation.

Managing sustainable debt

Question 20. Do you agree or disagree with our proposal to explore options to mitigate the impact of unrecoverable debt arising from prohibitions on disconnecting consumers, or

installing pre-payment meters, for protected consumers? If yes, please provide any views you may have on approaches for doing so.

- 7.10 In response to the trade-offs associated with disconnection proposals in the 2023 consultation, Consumer Scotland stated that, as a general principle, consumer protection should come before financial prudence. However, we recognised that heat network operators could experience cashflow pressures as a result of carrying consumer debt, and subsequent engagement we have undertaken with industry has underlined the scale of the challenge associated with socialising bad debt in the sector. There is also a question of fairness where, for example, costs that arise from the design of the heat network are passed through to consumers' bills, with the risk of this being socialised across all consumers on that network if it ends up as bad debt.
- 7.11 Consumer Scotland therefore supports plans to explore options to mitigate the impact of unrecoverable debt, including whether the burden on smaller networks, or networks with higher number of consumers in vulnerable circumstances, might be reduced by spreading debt across the heat network market. We previously supported the debt-related cost allowance in the price cap²⁸ – which is the obvious parallel in the gas and electric market – for minimising the risk of supplier difficulty/failure through what we deemed to be a proportionate cost on individual households. We recognise however that without an existing market-wide mechanism such as the energy price cap, this will be difficult to replicate for heat networks.

Self-disconnection and self-rationing

Question 21. Do you agree or disagree with our self-disconnection proposals?

- 7.12 Consumer Scotland agrees with the self-disconnection proposals as set out in the consultation document, which broadly mirror that of the protections in the gas and electricity market. We also accept that, prior to the implementation of technical standards, some operators may be limited in their ability to monitor for self-disconnection or self-rationing and therefore additional steps would need to be adopted to ensure equivalent protection in these instances. We would however warn against an over-reliance on consumers self-reporting as a means of identification. In 2019, the Commission for Consumers in Vulnerable Circumstances identified a lack of willingness amongst energy consumers to reveal that they were in vulnerable circumstances, with as many as eight out of 10 reporting that they would not tell their supplier if they were struggling.²⁹
- 7.13 Taking into account a customer's ability to pay when setting debt repayment rates is a key step of the debt pathway in gas and electricity regulation. Debt recovery set at an unaffordable level prevents the consumer from being able to make repayments – which is a bad outcome for both consumer and supplier. We therefore welcome the reference to this practice in the self-disconnection proposals, but recommend that it is adopted more broadly and not limited to consumers that self-report.

Powers of Entry – Protections in Regulations

Question 23. Do you agree or disagree with the proposed protections that will be included in the Statutory Instrument that provides for Powers of Entry?

- 7.14 Consumer Scotland agrees with the proposed protections that will be included in the forthcoming Statutory Instrument that provides for Powers of Entry. We are especially supportive of the recognition that additional safeguards will be needed in regulation for debt management purposes, owing to the greater percentage of consumers in vulnerable circumstances on heat networks, the emerging nature of the market and therefore lack of experience in the execution of such powers, and the large and diverse number of heat suppliers.
- 7.15 Although useful in limiting the need for forced entry, remote switching practices have been a cause for concern amongst consumer advocacy and advice bodies. Remote switching to PPM should follow the same safeguarding processes and requirement for customer engagement as standard PPM protocols – including sufficient notice being provided of the switch taking place.

Question 24. Please provide evidence of any impacts or supporting rationale in your response, these can be marked as confidential if appropriate.

- 7.16 The large and diverse number of regulated entities poses a compliance monitoring challenge for the regulator. We estimate that there are around 1,080 operational heat networks in Scotland.³⁰ High profile failures³¹ have occurred in the gas and electricity sector in recent years despite there being far fewer regulated entities. Erroneous use of Powers of Entry negatively impacted consumer confidence and this is something that the heat networks sector cannot afford as it attempts to establish itself as a fair and viable heating solution. The conditions that gas and electricity suppliers are now required to meet to restart involuntary PPM installations³² is a useful example of how resetting the standard of what is expected, with a renewed focus, can lead to improved outcomes – particularly for consumers in vulnerable circumstances. We encourage Ofgem to apply these lessons to inform the approach to consumer protections in heat networks, to adopt a robust approach to monitoring and compliance from the outset.

8. Quality of Service

Quality of Service: Complaints and GSOPs

Complaints handling

Question 25. Do you agree or disagree with our proposed approach to complaint handling?

- 8.1 The consumer principle of redress is built on the belief that if things go wrong, consumers should have an accessible way to put them right. We therefore welcome the approach outlined which will require suppliers to have a process in place to ensure that complaints can be received and are addressed fairly, effectively, and promptly. Mirroring the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008 is logical given the regulator’s experience of overseeing compliance with this standard, but the relevant authorisation conditions will also have to reflect the characteristics of the heat networks market – such as allowing for group complaints where a technical issue affects multiple households. Recognition that there are potential touchpoints with complaints processes in housing regulation – and working to incorporate this in the complaints framework – is also welcome, as this will help to ensure a positive customer journey.
- 8.2 Section 45(2) of the Consumers, Estate Agents and Redress (CEAR) Act places a duty on Consumer Scotland to publish such statistical information as it considers appropriate relating to the levels of compliance with the prescribed complaints handling standards. In 2023 we outlined our approach to complying with this duty,³³ which includes signposting to existing publications on our website, undertaking advocacy with Ofgem and statutory partners to address weaknesses, and a commitment to keep our response to the duty under review. As such, we would welcome further engagement with Ofgem and DESNZ on the development of complaints handling standards in heat networks, and around the design of accompanying guidance.

Guaranteed Standards of Performance

Question 26. Do you agree or disagree with our proposed compensation levels that broadly align with existing practice in the sector (Heat Trust levels)?

- 8.3 Yes, we agree with the proposed compensation levels that broadly align with existing practice in the sector. This will be a useful starting point with the ambition for further development as regulation of the sector takes shape. We would encourage further engagement with the Heat Trust, as the owners of the existing guidelines, around the design and implementation of Guaranteed Standards of Performance.

Question 28. Do you agree or disagree that we should extend certain Guaranteed Standards to protect non-domestic consumers? Would the proposed standards be a reduction in protection, and would they reduce a non-domestic consumers ability to negotiate their own standards? We welcome feedback on our proposal to introduce the standards as a minimum for non-domestic consumers, providing the opportunity to go beyond.

8.4 Consumer Scotland agrees that protections should not limit the ability of non-domestic consumers to negotiate their own terms with the heat network operator. Introducing the standards as a minimum will ensure a basic level of protection and act as a starting point for such negotiation, whilst providing an incentive for operators to reduce outages and maintain service standards.

Approach to not-for-profit heat networks

Question 29. Do you agree or disagree with our proposed approach to apply Overall Standards of Performance to heat networks operating on a not-for-profit business model?

8.5 Consumer Scotland disagrees with the proposed approach to apply Overall Standards of Performance to heat networks operating on a not-for-profit business model. We are concerned that there is a risk that this approach could create a two-tier market in which heat networks are held to different standards depending on their commercial model. For consumers, this approach would mean unequal protections and inconsistent outcomes. We are also concerned that being required to submit an improvement plan would not be a strong enough disincentive to poor performance.

8.6 From our engagement with industry, we understand that a significant majority of heat networks operate on a cost-recovery basis, with only a small minority of Energy Service Company (ESCo) operated networks being run 'for profit'. Given these distinctions in operating model, clarity and consistency is needed to ensure that consumers are treated fairly across the heat network market, and this would therefore not be achieved by holding operators with a not-for-profit designation to a lesser standard. As referenced in other sections of this response, Consumer Scotland is concerned about inefficient operating costs being passed on to consumers, and we recognise that the proposed approach here is an attempt to protect against consumers effectively funding compensation payments through future price increases. Whether Guaranteed Standard of Performance payments would be considered a relevant cost which can be charged back to tenants, as per the relevant housing legislation, is something that may require further exploration.

8.7 Achieving equivalent outcomes for consumers, but through different mechanisms, could be an alternative approach here. For example, having an agreed set of parameters that apply regardless of ownership structure (i.e. Guaranteed Standards of Performance or similar), but with various regulatory interventions being available that reflect the characteristics of different heat networks and their customers. Consideration may also need to be given to how such an approaches might interact with relevant aspects of housing regulation, and where a holistic approach would produce better outcomes for consumers.

9. Billing and Transparency

Billing and Transparency: Updated proposals

Transparency of information to the consumer during residency

Question 30. Do you agree or disagree with the proposals for including additional information on consumer bills? If you agree, what timescales could you reasonably implement these changes?

- 9.1 Yes, we agree with the proposals for including additional information on consumer bills. We do not take a view on a timescale for implementing this, but would suggest that specifying a set time period after authorisation is likely to promote compliance.

Unbundling heat charges

Question 31. Do you agree or disagree that we should further explore the proposal on unbundling heat from other service charges, noting this may require legislative change to be implemented?

- 9.2 Unbundling heat from rent and other service charges will be essential in order to introduce transparency into billing processes in heat networks. We agree, as outlined in the consultation text, that unbundling is a key gateway policy to a number of vital consumer protections, such as access to the debt pathway, whilst also ensuring that energy debt is no longer a contributory factor in evictions. Securing these protections will be necessary to build consumer confidence in heat networks as a fair and viable heating solution.
- 9.3 We recognise the complexity of unbundling heat charges, including potential legislative changes and the interaction with technical standards such as the roll-out of metering. However, these challenges should not be used as a justification to delay progress on unbundling, or to pursue an alternative course of action. There will also be a need to understand what actions will be required to unbundle heat charges in Scotland, where housing policy is devolved, and we would welcome further engagement on this.

Question 32. Do you have any views on options 1, 2 and 3?

- 9.4 We suggest that Option 2 be taken forward. Option 1 would not result in the necessary reforms as referenced in our response to question 31, and we would be concerned about the unequal protections that may result from Option 3.

Back-billing rules

Question 33. If we were able to unbundle the heat charge for individual properties, do you agree or disagree with our proposals on limiting back-billing to 12 months?

- 9.5 In March 2018, Ofgem proceeded with changes to the gas and electricity supply licence which prevented suppliers from back-billing customers for consumption older than 12 months, except where the customer's behaviour had been obstructive or manifestly unreasonable.³⁴ This was an important step in protecting consumers from the detrimental impact of catch-up bills, which were a widely recognised factor in the growth of problematic debt in the sector. Consumer Scotland therefore recommends that prescriptive rules around back-billing should also be established in heat networks regulation, to ensure equivalent protection across markets.
- 9.6 As outlined in our response to question 31, we recognise that the unbundling of heat charges will be essential in achieving billing transparency in heat networks. However, progress on back-billing is too important to be delayed whilst the complexities around unbundling are worked through. We therefore recommend that back-billing for individual properties must be limited to 12 months across the heat networks sector. The process for designing consumer protections in heat networks presents a unique opportunity to implement good practice from the outset, and in this instance that should mean ruling out defaulting to the limitations as outlined in housing regulation.³⁵
- 9.7 In January 2025, Citizens Advice urged Ofgem to limit back-billing of customers with a smart meter to six months, rather than the current 12, to avoid large shock payments.³⁶ Consumer Scotland supports this ambition in both the gas and electricity and heat networks markets.

Question 35. Do you agree or disagree that we should seek to align with HNTAS technical standards/metering rules to give networks adequate time to meet regulatory requirements?

- 9.8 Consumer Scotland disagrees that the introduction of a back-billing rule should align with HNTAS. We understand the logistical rationale for this, i.e. that billing transparency - and therefore the ability to apply a back-billing rule - will be enhanced with the rollout of metering, but we are concerned that the HNTAS timeline is too long to wait to begin introducing important consumer protections. HNTAS allows heat networks until 2029 (for those built since 2014) or until 2031 (for those built before 2014) to install metering for all end consumers,³⁷ but we would expect to see improvements in billing processes, including in back-billing, from the go-live of regulation in 2026.

Heat Supply Contracts

Question 36. Do you foresee any potential challenges of creating new contracts or amending existing ones to ensure the information proposed is included?

- 9.9 It is essential that the terms of heat supply are clearly set out in a contract – this will help to ensure that key information including price, quality of service, and routes to redress are all clearly set out for the consumer. Given the importance of this, we do not foresee any

challenges of creating new contracts or amending existing ones - to ensure that the required information is included - that the regulated entity cannot overcome.

Question 37. What timeframe should we allow heat networks to implement this?

9.10 Setting a fixed timeframe for implementation will outline a clear requirement on regulated entities. We do not take a view on the length of time that is appropriate, but suggest that specifying a set period of time following authorisation may be a sensible approach. This should be a transparent process in which the regulated entity can correspond with Ofgem regarding its progress, working through any challenges, etc., to ensure effective implementation.

Question 38. Do you agree or disagree that the risks associated with failure in social housing and local authority operated heat networks can be managed within existing regulatory arrangements? If you disagree, please explain why.

9.11 Our engagement with the social housing sector indicates that sufficient protections already exist through the regulatory framework, including the requirement for registered social landlords (RSLs), where they are the parent within a group structure, to control the activities and manage risks arising from subsidiaries. One example is the Scottish Housing Regulator's ability to act where a landlord is failing to provide services or manage its affairs to an appropriate standard. In the most extreme cases, this can result in the landlord being directed to transfer assets to another RSL. Therefore, the social housing regulatory framework should be used in relation to heat network entities where applicable, to avoid duplication of regulation.

10. Step-in

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

Financial resilience and monitoring

Question 40. Do you agree or disagree with the proposals for authorisation conditions on financial responsibility and control over assets? If you disagree, please provide rationale or suggestions for other ways to address the risks.

9.12 Yes, we agree and accept the proposals for authorisation conditions on financial responsibility and control over assets. In developing the enhanced Financial Responsibility Principle in the gas and electricity sector,³⁸ Ofgem recognised that while the level of wholesale price increases in recent years would have inevitably resulted in supplier failures, tougher standards and controls should have been in place to ensure financial resilience, and that the methods of regulation in that regard needed to evolve. Mirroring this approach in heat networks regulation from the outset will help to ensure that authorised parties have the necessary operational and financial arrangements in place to serve customers on an ongoing basis, whilst compliance with an Availability of Resources condition will ensure access to funds and investments as necessary.

9.13 Consumer Scotland also notes the recent steps taken towards the ringfencing of customer credit balances in gas and electricity regulation,³⁹ and would suggest that this be an ambition in heat networks regulation as the design of consumer protections – in relation to financial resilience and the risk of market exit – continue to develop.

Question 41. Do you agree or disagree with the proposed financial monitoring requirements, including the metrics and the frequency? If you disagree, please provide further details and/or alternative suggestions.

9.14 Yes, we agree and accept the proposed financial reporting metrics and frequency. In response to the 2023 consultation, we suggested that there may be circumstances where it could be reasonable and practicable to take into account different market segments when approaching market monitoring, e.g. in instances where the requirement may be overly burdensome to smaller networks. However, we do not assess the metrics and frequency as set out in the consultation document – i.e. reporting on a handful of data points annually – to be overly onerous for a heat network of any size. We also support the potential collection of additional data in the event of identified risk, as a key step in ensuring security of supply for consumers, and would encourage Ofgem and DESNZ to develop this further.

Operations/Supply Continuity Plans

Question 42. Do you agree or disagree with the structure and contents of the proposed Operations/Supply Continuity Plan? If you disagree, please provide feedback such as additional material you consider should be required or other suggested changes.

9.15 In-keeping with the consumer principle of safety, and the need to ensure that consumers are adequately protected from risks or harm, we support the requirement on authorised entities to have an Operations/Supply Continuity Plan in place and for this to be kept under review and updated as required. The contents, i.e. the information that is proposed to be held in the plan under the headings of ‘supplier information’ and ‘customer account information’, appear sufficient in ensuring that consumers will be contacted and receive an uninterrupted service in the event of a transfer of activity – including those in vulnerable circumstances.

9.16 Consumer Scotland also accepts that Operations/Supply Continuity Plans will not look identical in every instance, with variations reflecting different commercial models, but it is important that consumers receive equivalent protection across the market.

Contractual step-in

Question 44. Do you have any feedback on what support could facilitate the implementation of a contractual step-in requirement for an existing heat network? Are there any arrangements that you think would support its introduction?

9.17 In response to the 2023 consultation we suggested that there may be market segmentation considerations with contractual step-in, and we welcome this being referenced here in relation to the practicalities of, and potential challenges that, smaller operators may face in trying to set-up step-in arrangements. Further engagement will be required here to define when, and how, the requirement for contractual step-in arrangements will apply. Potential solutions such as the provision of guidance through an established trade body will also require further policy development.

Question 45. Where a heat network has a separate supplier and operator, do you agree or disagree that the supplier’s contractual arrangement should be with the heat network operator?

9.18 Yes, it seems logical for the contractual step-in arrangement to sit with the heat network operator, and for the heat network supplier’s contractual arrangement to be with the heat network operator. The operator has direct influence on the reliability, safety, and performance of the network, whereas the supplier’s role is likely to be less tied to the operational management of the network, meaning that step-in provisions are likely to be better-placed with the operator to ensure continued service delivery.

Last Resort Direction

Question 46. Do you envisage any additional risks associated with the proposed Last Resort Direction process? If so, what do you consider are the most appropriate mitigations to these risks?

9.19 Consumer Scotland welcomes the concept of a Last Resort Direction in principle, as part of the process of protecting consumers in the event of heat network failure. However, we recognise the complexities that will be involved in developing this concept into a functioning part of heat networks regulation. If, as expected, this is a lengthy process, policymakers must ensure that there are sufficient protections in place to protect consumers in the period between the end of the authorisation window and the introduction of the Last Resort Direction.

Special Administration Regime

Question 48. Do you agree or disagree with the proposal to introduce a Special Administration Regime, modelled on existing SARs and using bespoke provisions, where appropriate, to ensure it functions in the heat network sector?

9.20 Arrangements for the creation of a Special Administration Regime (SAR) in heat networks already exist in legislation and, as with the Last Resort Direction, Consumer Scotland views this as a necessary step in the process of protecting consumers from the impacts of market exit. A functioning SAR in the heat networks sector will secure the supply of heating, cooling and hot water at lowest possible costs, whilst ensuring that the heat network continues to be maintained and developed.

9.21 We support modelling the SAR on existing regimes, with bespoke provisions to reflect the characteristics of the heat networks market. A useful example from the gas and electricity sector is the appointment of an SAR in November 2021 to protect the customers of a company that could no longer continue trading.⁴⁰ The SAR ensured continued energy supply and protected customer credit balances before agreement was reached in October 2022 to transfer the customers to a new provider. A report by the National Audit Office (NAO) in March 2023 concluded that, whilst it was too soon to rule on the achievement of the wider objectives of the SAR, the government had achieved its primary objectives of protecting customers and completing the sale process.⁴¹ Falling wholesale prices in the SAR period resulted in an unplanned taxpayer benefit from the process, although the NAO also highlighted risks to the recovery of taxpayer funding which could ultimately be absorbed by customers.

Transfer schemes

Question 49. Do you agree or disagree with the proposal for the introduction of transfer schemes?

9.22 Yes, we agree and accept the proposal for the introduction of transfer schemes, as an enabling mechanism for the Last Resort Direction and the Special Administration Regime.

Funding options

Question 50. Do you agree or disagree with the proposal that heat networks should put in place a funding mechanism to support the regulatory interventions outlined?

9.23 Consumer Scotland accepts the need for a funding mechanism in the event of a Last Resort Direction or Special Administration Regime, but we do not take a view on the different funding options outlined.

11. Market Segmentation

Question 53. Do you agree or disagree with the proposed approach to Market Segmentation, including the characteristics we have identified to inform our proposals?

9.24 We broadly agree with the direction of travel for the proposed approach to market segmentation, as outlined. We will be particularly interested in the thinking around the 'customer type' characteristic as the approach to segmentation develops. Given the expected scale of the heat networks sector, i.e. the high number of authorised entities which will be subject to market monitoring, it is logical that some form of segmentation will be required to group networks together by common characteristics. However, it is important that segmentation does not result in generalisations being made about heat networks or their customers which lead to sub-optimal or even poor consumer outcomes. It will also be useful to consider how the proposed segmentations interact with commonly used industry terminology to describe different heat network types, such as communal networks and district heating schemes.

Question 54. Do you agree or disagree with the proposal to develop and implement a minimum standard for regulated providers across some services over time?

9.25 Heat is an essential for life service, and it is therefore imperative that the provision of this service be subject to minimum standards.

Question 55. Which services would you find appropriate to be regulated by a minimum standard?

9.26 Consumer protections should be equivalent across all heat network types, not identical in every instance. Minimum standards should therefore provide the basic level of protection that is consistent across the heat networks sector and apply to the areas that are of most importance to consumers, in terms of their safety and the service they receive. Variations on the headings under the summary of proposals feel like a useful starting point in the development of minimum standards, including:

- Vulnerability, priority services
- Disconnection
- Debt recovery processes and involuntary PPM
- Customer service standards, complaints, GSOPs
- Billing

9.27 Consumer Scotland welcomes further engagement on the specific areas identified, as minimum standards develop.

12. References

- ¹ [Consumer Scotland Act 2020](#) [Consumer Scotland Act 2020](#)
- ² [Consumer Scotland \(2023\) Strategic Plan 2023-2027](#) [consumer-scotland-strategic-plan-2023-2027.pdf](#)
- ³ [Consumer Scotland \(2023\) Response to Heat Network regulation – consumer protection consultation](#) [response-to-heat-networks-regulation-consumer-protection-consultation.pdf](#)
- ⁴ [Consumer Scotland \(2024\) Response to proposals for a Heat in Buildings Bill](#) [scottish-government-heat-in-buildings-bill-consultation-response-8-march-2024.pdf](#)
- ⁵ [Consumer Scotland \(2024\) Converting Scotland’s Home Heating](#) [consumer-scotland-investigation-converting-scotlands-home-heating.pdf](#)
- ⁶ [Citizens Advice Scotland \(2018\) Leading by Example: A principled journey through regulation](#) [2018-01-29_leading_by_example.pdf](#)
- ⁷ [Consumer Scotland \(2025\) Draft work programme 2025-26](#) [consumer-scotland-draft-work-programme-2025-2026-2.pdf](#)
- ⁸ [Ofgem \(2024\) Heat Networks Regulation: Authorisation and Regulatory Oversight](#)
- ⁹ [Heat Networks Regulation draft authorisation conditions appendix](#)
- ¹⁰ [Decision letter: Classification of premises for the purposes of the standard conditions of the gas supply licence](#)
- ¹¹ [Heat networks regulation: consumer protection - government response](#)
- ¹² [Heat Networks regulation: consumer protection consultation | Consumer Scotland](#)
- ¹³ [Non-Domestic Market Review Decision](#)
- ¹⁴ [Standards of Conduct Guidance](#)
- ¹⁵ [Fuel Poverty \(Targets, Definition and Strategy\) \(Scotland\) Act 2019](#)
- ¹⁶ [Affordable home residents in Edinburgh hit by 450% gas price rise - BBC News](#)
- ¹⁷ [FSB | Out In The Cold: Helping small businesses through the energy crisis](#)
- ¹⁸ [Consumer Scotland Act 2020](#)
- ¹⁹ [Consumer Scotland to become statutory advocate for heat network consumers | Consumer Scotland](#)
- ²⁰ [Ofgem consultation: Refreshing our Consumer Vulnerability Strategy | Consumer Scotland](#)
- ²¹ [A-Perfect-Storm-Fuel-Poverty-in-Rural-Scotland.pdf](#)
- ²² [Smarter regulation: strengthening the economic regulation of the energy, water and telecoms sectors | Consumer Scotland](#)
- ²³ [Energy theft and meter tampering | Ofgem](#)
- ²⁴ [Heat Network Consumer and Operator Survey 2022](#)
- ²⁵ [Statutory Consultation – Involuntary PPM](#)
- ²⁶ [consumer-scotland-response-to-ofgem-ppm-statutory-consultation-august-23.pdf](#)

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- ²⁷ [response-to-ofgem-s-call-for-evidence-prepayment-rules-and-protections-for-domestic-consumers.pdf](#)
- ²⁸ [Ofgem Call for Input: debt-related costs allowance in the price cap | Consumer Scotland](#)
- ²⁹ [The Commission for Customers in Vulnerable Circumstances Final Report 2019 - Energy UK](#)
- ³⁰ [Supporting documents - Heat networks delivery plan - gov.scot](#)
- ³¹ [Ofgem statement on British Gas prepayment meter installations | Ofgem](#)
- ³² [Ofgem sets out prepayment meter expectations to energy bosses as EDF, Octopus and Scottish Power meet regulator's restart conditions | Ofgem](#)
- ³³ [Consumer Scotland and complaints handling statistics | Consumer Scotland](#)
- ³⁴ [Decision: Modification of the electricity and gas supply licences to introduce rules on backbilling to improve customer outcomes | Ofgem](#)
- ³⁵ Landlord and Tenant Act 1985, as referenced in the consultation text. Not applicable in Scotland.
- ³⁶ [Number of people seeking help with energy bills up by 20% last year | Energy bills | The Guardian](#)
- ³⁷ [Heat networks regulation: technical standards - GOV.UK](#)
- ³⁸ [Decision on Strengthening Financial Resilience](#)
- ³⁹ [Decision on operational changes to Renewables Obligation and Customer Credit Balance Ringfencing guidance and templates](#)
- ⁴⁰ [Bulb customers protected as energy provider enters special administration - GOV.UK](#)
- ⁴¹ [Investigation into Bulb Energy - NAO report](#)