

AFCA presents final report on sector inquiry into district heating

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Around one in three households in Austria uses district heating, which makes it the most commonly used type of heating. The Austrian Federal Competition Authority (AFCA) had been receiving an increasing number of complaints about high and non-transparent prices, some of which varied greatly, complex price adjustment clauses and a lack of transparency, prompting it to launch a sector inquiry in August 2024. The final report has now been published, proposing 14 recommendations for greater competition, more efficient control and uniform rules applicable across the whole of Austria.

The most important results

The market is dominated by local monopolies. Until customers reach a decision on which form of heating to use, there is competition among the different systems. As soon as a district heating system has been put in place, however, the usual switching options cease to exist. Long tie-in periods and high connection costs further increase customers' dependency on their chosen provider.

High prices must be explained in a way that customers can understand. Revenues and costs surged during the energy crisis. Profit margins fell compared with previous years. Our analysis did not yield any evidence of systematic profit increases that could not be explained by the cost structure, or evidence of abusive price increases. However, it is not possible to draw a definitive conclusion from this on whether the prices being charged to individual households are abusive or not.

Households need clear rights and points of contact. Customers should be able to understand their prices, contracts and bills and should also be able to enforce their rights effectively. To this end, the AFCA recommends an Austria-wide uniform legal framework and an independent arbitration body. Such a body should also be responsible for any issues relating to metering and billing service providers.

Approach used in the sector inquiry

The AFCA sent out requests for information in seven rounds. The Authority collected data from a total of 37 district heating companies and surveyed 49 heat suppliers as well as 151 industrial customers. In addition, it held discussions with industry representatives and consumer protection organisations.

The analysed district heating companies provide their services in nearly 290 supply zones within a network spanning some 6,500 km across Austria. The economic analysis covered the years from 2019 until 2024.

The aim was to examine the Austrian district heating sector from a competition perspective, to unearth competition problems and to suggest measures to improve the market situation. The

assessment did not include an evaluation of any objectives in relation to energy policies. If a sector inquiry gives rise to indications of possible antitrust infringements, the AFCA may initiate separate investigations.

Market structure and limited choice

Each district heating provider is a monopolist in its supply area. Concentration is also evident in terms of network length across Austria: around half of the recorded district heating network length is operated by just three companies. The ten largest district heating network operators account for around 85% of the recorded network length. A network operator may operate in several supply areas.

Direct or indirect connection requirements may already limit the available choice of heating system. Once a customer has been connected to a specific heating system, it is often difficult, if not impossible, to switch to a different system again. Retail customers' contracts have an average term of 9.5 years, and for those who rent their home, there is usually little scope to influence the choice of heating system used.

Transparency and responsibilities

We found considerable differences between local supply zones. Energy sources, population density, distribution network losses and available heat sources all have an impact on the cost of energy supply. A direct comparison of the prices charged by the various networks is therefore of only limited significance, which makes it even more important that customers understand the prices they are paying and how these prices change over time.

Complex price adjustment clauses make it more difficult to verify price increases. Allocating costs to individual price components and charges for additional services are also sometimes hard to keep track of.

There are also cases where additional contractual parties, such as contracting companies, come between the district heating company and the end consumer. As a consequence, it is often not evident who is responsible for a service, a bill or the handling of a complaint.

Existing legal regulations are fragmented and complex. In contrast to the electricity and gas market, there is neither a sector-specific regulatory authority for district heating services nor an independent sector-specific arbitration body. We recommend an arbitration body equipped with sovereign rights that also has the power to look into issues with contractors. All involved companies should be obliged to cooperate.

Costs and profit margins

District heating companies use various sources of energy to generate heat. Depending on their mix of energy sources and price developments, the energy crisis affected these companies to varying degrees, but the increased cost of fuel was a key factor pushing up district heating prices.

Profit margins between 2022 and 2024 were down overall compared with the period from 2019 until 2021. However, the sector inquiry is not intended to replace a detailed examination of individual companies. There remains a need to look into the structures of competition, transparency and customer rights.

AFCA recommendations

“District heating is characterised by local monopolies and dependencies. Once connected to the network, switching is hardly possible. This makes a clear legal framework, transparent prices and effective oversight all the more important”, explains Natalie Harsdorf, Director General of the AFCA.

The AFCA derived the following recommendations from the results of its investigations:

Competition

1. Enable competition between heating systems and avoid mandatory connection requirements
2. Strengthen competition for district heating services
3. Ensure more transparency around district heating services
4. Facilitate and clearly regulate third-party feed-ins into the district heating network

Monitoring

5. Set up an independent sector-specific arbitration body with sovereign rights to secure the rights of end users
6. Commission an arbitration body as mediator to secure the transparent and non-discriminatory access of third parties to district heating networks
7. Reform and redirect the publicly commissioned comparison platform of heating and cooling prices www.waermepreise.at
8. Publish the official price decisions (including the underlying expert opinions) and official decisions to delegate the supply of district heating to certain companies
9. Make the consequential costs for network expansions transparent

Uniform legal framework conditions

10. Ensure a uniform and simplified legal framework for the district heating sector
11. Draw on independent indices for price changes
12. Ensure a high proportion of variable price components
13. Create uniform minimum rights
14. Determine standardised minimum information requirements for tariff schedules, heating contracts and bills, as well as advance payments similar to electricity and gas at every stage up to the customer.

Competition monitoring of future measures

In addition to the 14 recommendations, future regulatory and statutory measures in the district heating sector should also be consistently examined from a competition perspective. Such competition monitoring will help to promote well-functioning markets, efficient use of resources and the common good.

Feedback on the sector inquiry

We welcome your thoughts and suggestions on the sector inquiry. Please email us at [wettbewerb\[at\]bwb.gv.at](mailto:wettbewerb[at]bwb.gv.at).

<https://www.bwb.gv.at/en/news/detail/afca-presents-final-report-on-sector-inquiry-into-district-heating>