



Department for
Energy Security
& Net Zero

ofgem

Heat networks regulation

Implementing consumer protections
consultation

Closing date: 31 January 2025

November 2024



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Foreword from Minister Fahnbulleh

We set out in our manifesto that we would put in place a much tougher system of regulation that puts consumers first and attracts the investment needed to cut bills.

This consultation is an important milestone in achieving that ambition.

It is clear that heat networks will play a key role in decarbonising heat. They offer the potential to use everything from biomass boilers, heat pumps, geothermal energy, or waste heat from data centres to deliver low cost, low carbon, heat and hot water to people's homes. This diversity will be key in helping to drive forward the sector's growth, with our analysis showing that heat networks could provide about 20% of total heat by 2050. They currently provide 3%.

For too long though, heat network consumers have struggled with poor service and inadequate protections. I am determined to put in place the protections heat network consumers need and deserve.

This consultation sets out our final proposals ahead of the introduction of heat network regulations across Great Britain. The consultation proposals aim to give domestic heat network consumers and businesses the same level of protection that existing gas and electricity regulations provide. Achieving the same outcomes cannot be achieved by simply replicating the existing gas and electricity regime for heat networks. The diversity of the heat network sector means we will need different approaches, and the consultation sets out how we aim to reflect that through things like segmentation.

These proposals set out options for price regulation, which will give Ofgem powers to investigate and intervene on networks where prices appear to be disproportionate or unfair. They also establish the foundational elements of a robust consumer protection regime, including formal complaints procedures, guaranteed standards of performance and proposals to ensure continuity of supply, should heat networks fail.

Alongside this consultation we are also putting in place legislation to establish Ofgem's role as the Regulator, the Ombudsman's role as the statutory redress provider and the role of Citizens Advice and Consumer Scotland as statutory advice and advocacy organisations. It is vital that Government works with these organisations to build the capability of the sector and put in place the processes to bring these regulations to life so all heat network consumers can benefit.

Energy and heat are essential, and so this framework and the proposals we are consulting on will need to flexibly respond to emerging issues and changing circumstances. The past few years have taught us all the importance of that.

I am determined to deliver for people as the Minister for Energy Consumers and this consultation sets out the how this new Government will do that on behalf of heat network consumers.

Foreword from Jonathan Brearley

Heat networks will play a crucial role in our efforts to achieve our net zero goals and achieve clean power by 2030, which is now a national mission of government. According to Climate Change Committee projections, by harnessing local renewable heat sources, they are predicted to meet around a fifth of UK heat demand by 2050.

So as Ofgem begins a phased regulation of heat networks, it will be essential to design a regulatory framework that protects the interests of the growing number of families and businesses dependent on these networks for their heating supply. In particular, we need to consider findings, both from the Consumer and Markets Authority investigation and more recent evidence, that some heat network customers have faced difficult circumstances, such as higher bills, low network reliability, and a lack of transparency.

Equally, we recognise there are challenges in addressing the needs of a new and distinct sector. Our regulation must give heat network developers and operators confidence in stable regulatory regime and clarity about what is expected of them, with tough but proportionate regulation that is balanced and achievable for networks both large and small.

This consultation seeks views on a broad range of measures designed to ensure heat networks deliver transparent billing, fair pricing, and improvements in reliability and service. Most importantly, it seeks views on how we can protect vulnerable customers, which these networks are more likely to serve, proposing a number of bespoke measures to support them.

Working closely with government, the sector and consumer groups, together we can shape a healthy and competitive heat networks sector that protects the interests of all its customers and makes a major contribution to delivering a clean power energy system. We welcome engagement across all stakeholders and look forward to receiving your feedback.

Jonathan Brearley

CEO, Ofgem

Introduction

The Competition & Markets Authority (CMA) recommended that we regulate the heat network sector, a recommendation that Government accepted in 2018 and took powers to implement through the Energy Act 2023.¹

This is the third and final joint DESNZ and Ofgem consultation on consumer protections for heat network consumers. The two previous consultations in 2020² and 2023³ informed the provisions in the Energy Act 2023 and the Heat Networks Market Framework Regulations SI.

In this consultation we do not revisit matters that were settled through those consultations. The focus is on areas where we require additional stakeholder views to finalise proposals ahead of a second statutory instrument due to be laid in 2025 and consultation on detailed Ofgem Authorisation Conditions. Where helpful, we provide relevant context to support you in forming a view on the right approach.

DESNZ is also planning to further consult to establish a Heat Network Technical Assurance Scheme (HNTAS), to implement mandated technical standards and there will be further consultations on the detailed authorisation conditions and policy issues, such as step-in, that require additional policy development ahead of implementation.

Context to this consultation

Heat networks will play a crucial role in decarbonising heat in buildings. Heat networks take heating, cooling or hot water from a central source(s) and deliver it to a variety of premises such as public buildings, shops, offices, hospitals, universities, and homes. They are also an important part of securing the UK's energy independence through local, low carbon heat sources and reducing the cost of living through efficient, affordable heating in densely populated areas. Our analysis shows that heat networks could provide about 20% of total heat by 2050. They currently provide about 3%.

The government therefore expects the sector to grow rapidly in the coming decades, and we are committed to facilitating that growth, whilst ensuring consumer outcomes and standards across the sector improve. We are unlocking private investment by introducing heat network zoning in England and giving developers rights and powers to build and expand low carbon networks quickly and cost effectively. This will provide investors with certainty on the scale, capital costs, and rates of return of new networks, which will be key for increasing investment into the sector. We continue to support the sector through two grant funds: the Green Heat Network Fund and the Heat Network Efficiency Scheme. Alongside creating the conditions for increased private investment in large-scale heat networks, we are introducing a regulatory framework to improve consumer outcomes and increase consumer confidence in heat

¹ In this document, we will refer to previous consultations and government responses that have been published. In August 2023, we published the joint DESNZ/Ofgem Heat networks regulation: consumer protections consultation. This is referred to in this document as the '2023 consultation'. The subsequent government response is referred to as the '2024 government response'. In 2020, we published the Heat networks: building a market framework consultation. This is referred to as the '2020 consultation'. The subsequent government response is referred to as the '2021 government response'. At each reference point within this document, please refer to the relevant footnote(s) for the webpage where you can access these previous publications.

² <https://www.gov.uk/government/consultations/heat-networks-building-a-market-framework>

³ <https://www.gov.uk/government/consultations/heat-networks-regulation-consumer-protection>

networks as a technology that can provide fairly priced, reliable, and low carbon heating and cooling.

The existing heat network sector is fragmented, and consumers do not always receive a good deal from being connected to them. A combination of poor technical design, variations in customer service and consumer protection, and the large number of individual entities, as well as their diversity makes the introduction of utility-style regulation a unique challenge.

Objectives

The principal objective of regulation is to protect heat network consumers, ensuring they receive a fair price, reliable supply of heat, and transparency of information. To achieve this, we seek to ensure, over time, comparable outcomes when compared to Gas and Electricity markets. While this will often mean mirroring protections in other regulated markets, the diversity and nature of the heat network market may mean we need to take different approaches in order to achieve this.

Heat network regulation isn't happening in isolation and where necessary and possible, we will seek to align with changes in related areas, such as housing legislation, consumer protections in gas and electricity markets and the review government is conducting into strengthening Ofgem.

Some previous consultation responses have suggested our approach to implementing protections should be pragmatic, to allow the market to adapt to regulation where previously no cohesive regulatory structure has existed. Regulation will be 'outcomes focused' wherever possible and guidance will be provided, where appropriate, to ensure best practice can be achieved and administrative burden reduced. Such an approach may not be possible without compromising consumer outcomes however, and so while we aim for pragmatism, there will be areas, such as requiring a priority service register and bill transparency, where fair outcomes for consumers outweigh such considerations. In these areas of consumer treatment, we will work with the sector to build capability and expertise and seek to provide guidance.

While we have clear and ambitious goals to grow the heat network market there are currently over 477,000 households connected to a heat network, equal to more than 1.1 million people⁴. Heat is a service that is essential for human life, and there are several protected characteristics under the Equality Act 2010 which apply to those who rely on access to heat for health reasons. In some cases, heat networks will need to adapt their existing practices to accommodate these requirements.

By making heat networks more efficient and responsible operators and suppliers, this will provide for better consumer outcomes and unlock investor confidence necessary to grow the sector.

⁴ This figure is based on HNMBR statistics that show that registered heat networks supply 477,733 domestic households (<https://www.gov.uk/government/statistics/heat-networks-registered-under-the-heat-network-metering-and-billing-regulations-statistics-december-2022>). The average household has 2.4 people living on a single domestic premises, according to 2021 census data. The exact figure may vary based on the exact premises supplied and living situations of residents (<https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/bulletins/householdandresidentcharacteristicsenglandandwales/census2021#:~:text=Dividing%20the%20over%20all%20number%20of,residents%20per%20household%20in%20Wales>).

Timings

While factors, including the General Election have led to some delays in commencing regulation, we are proceeding with an ambitious timetable to provide consumers with protections as soon as possible while balancing this with the time needed to do things properly, so protections are effective.

We will therefore introduce consumer protections over time. This starts from April 2025, with commencement of the Consumer Advocacy and Advice functions, carried out by Citizen's Advice in England & Wales and Consumer Scotland in Scotland, and the Consumer Redress scheme to be run by the Energy Ombudsman.

This will provide consumers with recourse and redress, advice and representation as soon as possible while providing an opportunity to gather information on consumer issues and inform Ofgem's priorities, when they begin to regulate the sector, from January 2026.

Commencement of the regulatory regime from January 2026 also provides Ofgem the time necessary to develop and consult on authorisation conditions and to build and test the digital service necessary to register authorised networks.

Heat networks will be deemed to be authorised from the outset of regulatory commencement, from April 2025, and given until early 2027 to complete registration through Ofgem's digital service.

Most authorisation conditions will take effect from January 2026, while data provided during registration will allow Ofgem to carry out more complex regulatory activities in areas like pricing and standards of performance from January 2027.

This approach to regulatory commencement will also provide the time necessary for the sector to prepare for the big changes we are implementing.

The regulatory structure

Implementing the market framework will require close collaboration across government, regulators, consumer advocacy groups, and Ombudsman Services. Roles in regulations will be defined in the Market Framework Regulations. A diagram outlining the proposed regulatory structure follows a summary of the proposed roles and responsibilities:

- **Ofgem** will be responsible for regulating the sector and monitoring networks' compliance with the regulatory framework. This includes managing the authorisation regime, overseeing compliance with consumer protections, and managing audits and enforcement activity where necessary.
- **Consumer Advocacy bodies (Citizens Advice in England and Wales, Consumer Scotland in Scotland)** will provide advisory and advocacy services for heat network consumers, ensuring consumer rights are upheld and detriments addressed. Moreover, these bodies will work closely with Ofgem and Ombudsman Services, offering insight into issues in the market and input into future heat network policy and regulatory development.

- **Ombudsman Services**, also known as the Energy Ombudsman, will provide a crucial check-and-balance function within this regulatory framework. It will handle complaints from consumers that have not been satisfactorily resolved through direct interaction with their heat network or via the advice and advocacy bodies. Their role will include investigating complaints, making judgments, requiring redress where necessary, and reporting systemic issues to Ofgem. Where a heat network dispute concerns a tenant or leaseholder of a social landlord, is part of a wider housing issue, and is against the landlord, it will continue to be the Housing Ombudsman's responsibility to handle such complaints if not resolved between the tenant / leaseholder and landlord. As is the case for retail energy, the Energy and Housing Ombudsmen will work closely to ensure efficient and accurate cross-referring of cases.
- **The Office for Product Safety and Standards (OPSS)** will have responsibility for monitoring the accuracy of heat meters installed on heat networks. This may involve monitoring based on testing methodologies, and checks against agreed accuracy standards. By performing this role, OPSS will improve the accuracy and reliability of heat meters, helping to ensure consumers are billed accurately and transparently for the heat they use.
- A **code manager** will be established and will be responsible for delivering a framework of technical standards that will improve the performance and efficiency of heat networks over time and ensuring compliance with that framework. The code manager will also set requirements on assessors who will be responsible for ensuring standards are met across a network's design, operation, and maintenance lifecycle. Ofgem will be responsible for licensing the code manager.

Formal communication mechanisms will be established among these entities to facilitate regular information sharing and intelligence reporting for market monitoring purposes. This will help to avoid any regulatory gaps or overlaps, and ensure a coordinated response is taken to future challenges in the heat network sector.

The Heat Trust are a non-profit consumer body, that runs and maintains a voluntary consumer protections scheme. Currently their scheme protects around 79,000 consumers over 122 heat networks. Recognising the valuable experience and insights accumulated by the **Heat Trust**⁵ over the years, we propose their continued involvement in the initial stages of regulatory commencement. The Heat Trust's established role in setting industry standards provides a strong foundation upon which the new regulation will build, and their continued involvement will aid transition, ensuring continuity, and reducing risk of disruption for the sector and its consumers, particularly as we take a phased approach to regulatory protections.

As the new regulatory structure matures, we will work with the Heat Trust to discuss its ongoing role with the aim of ensuring the most effective and efficient regulatory framework continues to develop.

⁵ <https://www.heattrust.org/>

Figure 1: Proposed regulatory structure

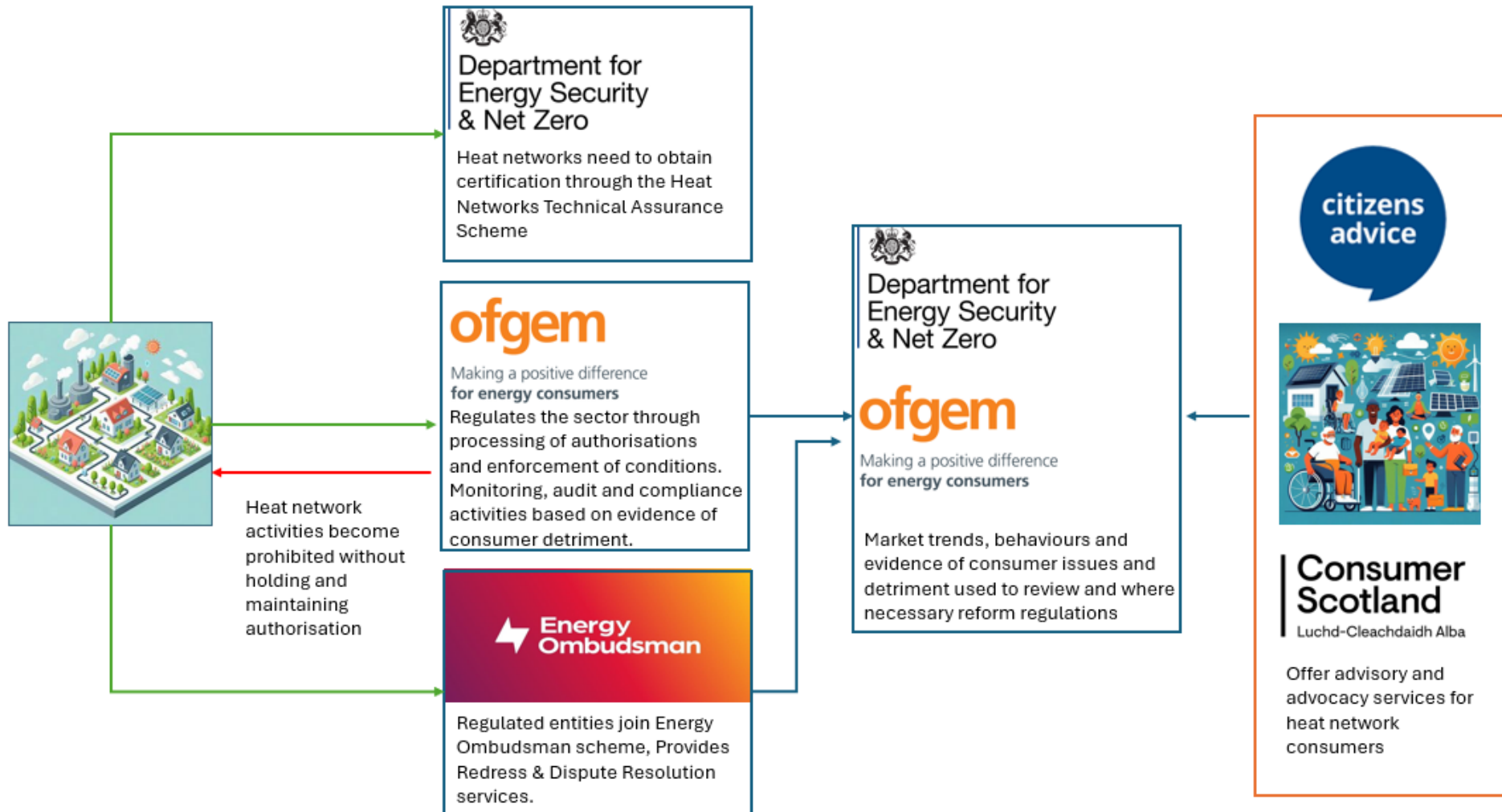


Figure 2: Heat network market framework timeline



Devolution

Introducing heat network regulation is reserved in Wales and devolved in Northern Ireland. Legislating for heat is devolved in Scotland, except for consumer protection regulation which is a reserved matter. This means that these rules will apply to authorised heat network entities in Scotland alongside the regulatory regime established by the Heat Networks (Scotland) Act 2021. We have also agreed and are working with the Scottish Government to introduce GB-wide protections for microbusinesses and SMEs supplied by a heat network. Step-in provisions will apply in Scotland insofar as they relate to protecting consumers from a loss of supply of heat caused by insolvency or authorisation revocation.

Consumer protection rules will be set and enforced via the GB-wide authorisation regime. Consumer advice and advocacy is devolved in Scotland and Consumer Scotland will take on this role for Scottish consumers, with Citizens Advice performing this role in England and Wales. The Energy Ombudsman will additionally be appointed to provide a statutory consumer redress function across GB.

Pre-contractual transparency is broadly a reserved matter, however Energy Performance Certificates and housing rules – two mechanisms for introducing pre-contractual transparency – are devolved in Scotland. The proposed approach to these measures in Scotland is set out in the pre-contractual section of this consultation.

As well as taking on the role of heat network regulator in Great Britain, Ofgem will be appointed as the Scottish licensing authority under the Heat Network (Scotland) Act 2021. This will ensure regulatory coherence and cost savings across the two regimes and allow Ofgem to adopt a holistic approach to achieving its principal consumer protection objective alongside the Scottish Government's licensing regime.

Draft Authorisation Conditions

Authorisation conditions will set out what authorised persons must do to meet the terms of their authorisation. These will range from complaints handling through to billing transparency.

We are publishing an initial batch of authorisation conditions alongside this consultation, that will form part of the authorising regime. These reflect the decisions set out in the government response to the 2023 consultation⁶. Drafting of the remaining authorisation conditions will be informed by further consultation.

The proposed conditions are consistent with the Energy Act 2023 and the provisions of the Market Framework Statutory Instrument. Where appropriate they have been based on the drafting of existing Gas and Electricity Supply Licence conditions, however they have been adapted, where necessary, to take into account the differences with heat networks.

We are seeking views on whether the draft authorisation conditions reflect the policy intent of our policy proposals. As these are initial drafts, it is likely we will need to further develop the conditions and engage further on the structure of the authorisation conditions.

⁶ <https://www.gov.uk/government/consultations/heat-networks-regulation-consumer-protection>

The draft authorisation conditions in this document do not reflect all the obligations that will form part of the regulatory framework. We intend to consult on further authorisation conditions following responses to this consultation, including draft authorisation conditions in respect to our step-in proposals. Ofgem are also publishing the document 'Authorisation and Regulatory Oversight' that sets out the background to the authorisation conditions associated with these obligations⁷.

Each condition in the appendix will contain a short summary above the relevant terms, detailing the intended objectives of each condition. At the bottom of this document, we will include additional consultation questions, that will help us to determine whether the conditions reflect the policy intent. We would encourage all stakeholders to engage with these and provide their feedback, as well as the main consultation document.

This list of authorisation condition questions can be found on page 9191.

The appendix can be found on the webpage here:

<https://www.gov.uk/government/consultations/heat-networks-regulation-implementing-consumer-protections>

⁷ This can be found here: <https://consult.ofgem.gov.uk/energy-supply/heat-networks-regulation>

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General information

Why we are consulting

This is a joint consultation by the Department for Energy Security and Net Zero and Ofgem seeking views on the consumer protection requirements that the heat network sector will need to comply with as part of the regulatory framework, introduced through the Heat Network (Market Framework) Regulations (2024).

Consultation details

Issued: 8 November 2024

Respond by: 31 January 2025

Enquiries to:

Heat Network Policy Unit
Department for Energy Security and Net Zero
3-8 Whitehall Place
Westminster
London
SW1A 2AW

Email: heatnetworks@energysecurity.gov.uk

Heat Network Regulation Team
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

Email: heatnetworksregulation@ofgem.gov.uk

Consultation reference: Heat network regulation: Implementing consumer protections consultation

Audiences:

The consultation will be of interest to the Heat network industry and those with a broader interest in the decarbonisation of heat, including:

- Consumer advocacy groups
- Industry trade associations
- Energy supply companies
- Local authorities

- Housing associations
- Managing agents, property management companies, and developers
- Landlords
- Building owners
- Heat network consumers

Territorial extent:

Great Britain

How to respond

Respond online at: <https://energygovuk.citizenspace.com/heat/heat-networks-implementing-consumer-protections>

or

Email to: heatnetworks@energysecurity.gov.uk and heatnetworksregulation@ofgem.gov.uk

Write to:

Heat Network Policy Unit
Department for Energy Security and Net Zero
3-8 Whitehall Place
Westminster
London
SW1A 2AW

Heat Network Regulation Team
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

The consultation page for GOV.UK is below. Updates and supporting documents can be found at <https://www.gov.uk/government/consultations/heat-networks-regulation-implementing-consumer-protections>

This is a joint consultation, run by DESNZ and Ofgem. The Ofgem consultation page can be found at <https://www.ofgem.gov.uk/consultation/heat-networks-regulation-implementing-consumer-protections>

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data

Protection Act 2018 and the Environmental Information Regulations 2004). Both the Department for Energy Security and Net Zero and Ofgem will receive your consultation response. We intend to share responses relevant to Scotland with the Scottish Government, and responses relevant to Northern Ireland with the Northern Ireland Executive, in accordance with UK legislation.

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our privacy policy.⁸

We will summarise all responses and publish this summary on GOV.UK.⁹ The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the government's consultation principles.¹⁰

If you have any complaints about the way this consultation has been conducted, please email: beis.bru@energysecurity.gov.uk.

⁸ <https://www.gov.uk/government/organisations/department-for-business-energy-and-industrial-strategy/about/personal-information-charter>

⁹ <https://www.gov.uk/government/consultations/heat-networks-regulation-consumer-protection>

¹⁰ <https://www.gov.uk/government/publications/consultation-principles-guidance>

Summary of proposals

Scope of the regulation and authorisation regime

This section will be of particular relevance to heat network operators, suppliers and prospective developers of heat networks.

For information, we define two ‘regulated activities’. The first is operating a relevant heat network and the second is supplying heating, cooling or hot water to heat network consumers by means of a relevant heat network. The operator in many cases is likely to be owner of the building who will be within scope and will have to meet the requirements of regulations. This may include for example, freeholders, landlords, enfranchised leaseholders, management companies and housing associations. These activities are referred to hereafter as ‘operation’ and ‘supply’ respectively.

Summary of final proposals

We propose that consumer protections will apply according to whether the end consumer on the network is a domestic and microbusiness consumer, non-domestic consumer, small businesses consumer or SMEs, industrial and self-supply.

Shared Grounds Loops (SGLs) are in scope of the consumer protection regulations and due to the way SGL technology differs to that of traditional heat network, we intend to apply protections where they are relevant and practical to the characteristics of this network type.

Bulk supply activity is defined in the draft authorisation conditions appended to this consultation. We propose that consumers on bulk supplied networks are afforded the same protections as heat network consumers who are supplied directly. Detail of specific consumer protections that we are proposing to apply is provided. Without these provisions, regulatory focus may fall disproportionately on the party that interfaces directly with the consumers.

Approach to non-domestic/SME consumers

This section will be of particular relevance to non-domestic/SME customers of heat networks, and operators, suppliers and prospective developers of heat networks for those consumers.

Summary of final proposals

We are proposing to align our non-domestic obligations to those for gas and electricity¹¹, ensuring that businesses receive comparable protections.

¹¹ https://www.ofgem.gov.uk/sites/default/files/2024-04/Non-domestic_market_review_decision.pdf

Supply to premises: connection, treatment of consumers and recovering connection costs

This section will be relevant to heat network developers and domestic consumers.

Summary of Obligations/final proposals

We are proposing to use language in Supply Licence Condition (SLC) 22 of the gas and electricity supply licence conditions to regulate the behaviour of heat network operators/suppliers when making a connection and once heat is being supplied.

Standards of Conduct

This section will be relevant to all heat network consumers, suppliers, operators and consumer groups and charities.

Summary of Obligations/final proposals

Aligning with gas and electricity markets, we propose implementing Standards of Conduct guided by the following overarching consumer objective that: each consumer, including domestic consumers in a vulnerable situation, is treated fairly.

These standards include:

- Supplier behaviour, with an expectation suppliers take steps to ensure that consumers have a positive experience when dealing with them;
- Provision of information: that all information provided to the consumer by the supplier should be, at minimum, accessible, clear, complete, and accurate in reflecting the relevant content, tailored to be relevant to the specific consumer;
- Customer Service: suppliers and operators deliver good customer service, including proactively identifying vulnerable consumers and operating a
- Priority Services Register;
- Consumer Engagement: an expectation that suppliers seek and respond to feedback from their consumers.

Fair pricing

This section will be of interest to heat network suppliers and operators, all heat network consumers and consumer groups and charities.

Summary of Obligations/final proposals

We are proposing the following obligations in the authorisation conditions:

Fair pricing authorisation condition(s): An authorisation condition setting out a general obligation on heat networks to provide fair and not disproportionate prices that would ultimately

be paid by the end-consumer (this should cover prices even if they are not charged directly to the end-consumer, for example, prices charged by an operator to the supplier).

A future Ofgem-led consultation will set out more detail on the price protection proposals, but in summary the general obligation will be accompanied by guidance setting out minimum expectations, principles and good practice.

Vulnerability

These sections will be of interest to heat network suppliers and operators, domestic consumers and consumer groups and charities. We note that the use of powers of entry in gas and electricity markets has been controversial, so also invite responses from groups with an interest in rights of entry.

A primary objective for Ofgem and government is to adequately protect and support vulnerable consumers. It is also important to consider the impact of our proposals on wider consumers and ensure they are proportionate to heat networks. We have previously proposed an approach to vulnerability that follows existing practices within the gas and electricity market, including the integration of vulnerability principles into standards of conduct, creation of a priority services register to identify consumers who are vulnerable and may require additional service support, and specific additional services to help people with specific needs.

Summary of vulnerability definitions

We are proposing to adopt Ofgem's existing definition of vulnerability, a broad definition, to reflect the complexity of vulnerability. We think that a more prescriptive definition might leave some consumers in unique circumstances without adequate protection and support.

Summary of protections for vulnerable consumers from debt recovery proposals

We have sought to balance protections for vulnerable consumers with the need for effective debt management. Heat network consumer bases are much smaller than those of gas and electricity suppliers, the impact on cost recovery to heat network suppliers can be much higher, as unpaid prices need to be recovered from fewer consumers.

We proposed to align with gas and electricity levels of protection from disconnection and pre-payment meter installation, which ranged from a ban on practices for some groups who would be actively endangered by them to an additional need to assess the impact and safety of taking that action against households with specific vulnerabilities.

We want to better understand current debt management practices and their impacts on consumers and heat network operators. We're proposing to explore ways these might be mitigated, for example, whether the burden on smaller networks or networks with higher numbers of vulnerable consumers might be reduced by spreading debt across the heat network market.

Summary of Powers of Entry proposals for debt management

While we acknowledge that the provision of these powers is necessary, we also feel that the risk that these powers are misused is greater in heat networks than in gas and electricity, due to the number of suppliers that powers are being given to. In addition to following Ofgem's general approach that the use of these powers should be the absolute last resort, we have also considered what additional safeguards can be put in place to manage the risk of imposition on

consumers' privacy and dignity. We also consider that these powers will be temporary, and that the use of remote signal metering will remove the need to enter premises.

Summary of disconnection for non-payment of charges proposals

We are proposing obligations in the authorisation conditions to protect certain vulnerable groups from disconnection of supply. We have set out our final proposal for a proposed disconnection ban for certain vulnerable groups.

There will be a future guidance consultation where we will develop guidance to strengthen and support the disconnection obligations. Guidance will provide further information, such as examples of medical conditions that protect consumers from disconnection.

Prepayment meters

Summary of Obligations/final proposals

Following the previous heat network consumer protection consultation, we are proposing in the heat network authorisation conditions to replicate Gas and Electricity SLCs and use published Ofgem guidance on PPM installation and usage. However, we recognise the potential for detriment to vulnerable households, and therefore we propose to keep these protections under review, as we assess data on prices, vulnerability, and debt management.

Self-disconnection/ Self-rationing

Summary of Obligations/final proposals

In line with the 2023 Consultation and stakeholder feedback, we will continue to proceed with replicating the Gas and Electricity Supply Licensing Conditions and Ofgem's code of practice provisions, which require suppliers to take efforts to identify domestic consumers on PPMs that are self-disconnecting, and whether they are in vulnerable circumstances.

We are proposing obligations in the authorisation conditions¹² that require:

- Heat suppliers to proactively identify consumers, particularly those in vulnerable circumstances, who are self-disconnecting or at risk of doing so, unless technically unfeasible;

Where it is technically unfeasible to proactively identify consumers, the heat supplier must ensure that communication channels are available for a consumer to inform the heat network that they are self-disconnecting or self-rationing.

- Having access to emergency credit and friendly hours credit before having to self-disconnect or self-ration, unless technically unfeasible; and,
- Greater flexibility on when and how quickly to pay off debts to mitigate the risk that a consumer self-disconnects or self-rations in fear of debt increases.

¹² See: <https://www.gov.uk/government/consultations/heat-networks-regulation-implementing-consumer-protections>

Quality of service: Complaints and GSOPs

This section will be of particular relevance to domestic and non-domestic heat network consumers, operators, suppliers and consumer groups and charities.

Rules on complaints procedures and guaranteed standards of performance (GSOPs) are integral to improving consumer outcomes, ensuring that consumers have a realistic way of making complaints or reporting issues and ensuring that a minimum quality of service is provided at all times, and, where appropriate, that compensation is made available where failures happen.

Summary of Complaints handling proposals

Complaints handling expectations in gas and electricity markets are set out in the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008. We propose to mirror this approach, requiring that all regulated entities have a complaints procedure in place for consumers to follow. These requirements include:

- Ensuring that a complaints procedure allows complaints to be made by any reasonable means, is understandable to consumers, and clearly sets out for process for investigating complaints.
- Ensuring that consumers are made aware of the complaints procedure;
- Taking the necessary steps to fairly and promptly investigate and resolve a complaint;
- Informing consumers of available third-party support and the Energy Ombudsman's Consumer Redress Scheme; and,
- Maintaining the resources needed to handle complaints and maintain records of complaints received.

Drawing on evidence from the non-domestic market review, we propose to mirror these requirements to Small Business Consumers.

Summary of GSOP proposals

Guaranteed Performance standards have two main objectives: to reduce the frequency, length and impact of interruptions, and to ensure that where planned interruptions happen, adequate notice is given, and support is provided to those with additional heating needs.

In this consultation, we propose a compensation payment scale for breaches of the standards set. These are comparable to Heat Trust compensation levels and are intended to broadly align with existing practice in the sector.

We suggest that certain standards, in addition to applying to domestic consumers, also protect non-domestic consumers as well. It is expected that these standards will provide a minimum standard for non-domestic consumers.

We propose to take a bespoke approach for heat networks operated on a not-for-profit business model, where there is a risk of consumers having to fund their own compensation payments through future heat bills. We propose introducing Overall Performance Standards to apply to this type of heat network. Not-for-profit heat network providers who fail to comply with an Overall Performance Standard may be required to submit specific improvement plans to

Ofgem, without the need for automatic compensation for consumers. While not enabling compensation for such a failure, this approach would allow Ofgem to take stronger compliance action should those improvement plans not be fully implemented. While we are considering a different approach for not-for-profit heat networks, our objectives remain consistent.

Billing and Transparency: Updated proposals

This section will be of particular relevance to domestic and non-domestic/ SME heat network consumers, operators, suppliers, consumer groups and charities, and energy brokers.

We are proposing to extend the scope of application of the general obligation ‘treat all customers fairly’ to all non-domestic consumers regardless of size, and the scope of these transparency obligations will apply to all domestic and SME/microbusiness suppliers. Bill transparency, being clear to consumers what they are being charged for and how bills have been calculated, is integral to delivering good consumer outcomes. We have previously confirmed that we will be implementing most of the transparency proposals in our 2023 consultation. This consultation covers these additional areas: in-residency transparency, bundled bills with other charges, and back-billing and contracts.

Summary of Obligations/final proposals

We propose that additional information be provided to consumers in addition to that data already expected under Regulation 9 of the Heat Networks (Metering and Billing) Regulations 2014. These include information on the role of heat networks in delivering net zero, their operational model and monopolistic nature, and information on energy savings for consumers based on billing options.

In addition to these areas, bills will also be required to provide information on the availability of consumer advocacy and advice services and support mechanisms from the Energy and Housing Ombudsmen, which were not previously available when the Heat Network (Metering & Billing) Regulations were laid. On bundled heat charges where heat supply is tied to rent, service or leasehold charges, issues with transparency and housing rules can lead to a lack of clarity about bill elements, higher prices and poorer service.

In particular where heat charges are recovered through social housing rent or leasehold charges, failure to pay those charges can lead to eviction or leasehold forfeiture proceedings. Against that, however, leaseholders are able to enjoy existing statutory protections under the Landlord and Tenant Act 1985, including the right to challenge the reasonableness of the service charge at the First-tier Tribunal in England (or Leasehold Valuation Tribunal in Wales). In addition, Section 20B of the 1985 Act, a landlord has 18 months within which to notify a leaseholder of service charge costs being incurred or demand payment from the leaseholder¹³.

We aim to ensure that, eventually, protections are extended to prevent evictions and forfeiture proceedings for heat charges consumed within individual flats. We seek views on proposals to align housing legislation with our desired outcomes, if necessary, by amending relevant legislation.

We continue to consider that heat charges should not be backdated past a 12-month period, but there are challenges in the housing sector in delivering this. Unbundling heat charges from

¹³ See: <https://www.lease-advice.org/case-study/service-charges-18-month-rule/>

other permitted bundled charges in law, through metering individual premises, would overcome these challenges.

Landlords may still have an obligation to heat communal areas in buildings. Such charges will, as now, form part of the service charge and, for leaseholders, the protections under the 1985 Act will continue to apply.

In the interim we propose offering an exemption for social housing providers to allow them to transition from 18-month billing periods towards 12 months, with the assistance of guidance on best practice. We also propose that all domestic and SME consumers have their supply delivered through a formal Heat Supply Contract, or an equivalent legally binding agreement.

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

This section will be of interest to heat network suppliers and operators.

Our objectives for step-in are to ensure that consumer supply of heating and hot water is not interrupted in the event of heat network failure through operator or supplier insolvency, and that heat networks adequately manage the risk and impact of failure.

Summary of obligations/final proposals

We are proposing a hierarchy of measures and interventions to mitigate this. These are illustrated in Figure 5 on page 84.

Key to the measures is the expectation that operators and suppliers will find market-led solutions to insolvency or market exit in the first instance. This is then supported by the inclusion of a regulatory backstop. This is a common approach which exists in multiple industries where the interests of consumers must be placed at the forefront of considerations.

We propose to introduce obligations on financial responsibility and asset control, supported by periodic provision of financial data and declarations of financial health. We will require heat network operators and suppliers to maintain operator/supplier continuity plans as appropriate, and to enter into contractual arrangements on an ongoing basis with another authorised party to take over their authorised activities in the event they need to exit the market.

Where regulatory action is needed to ensure that a heat network can continue to deliver its authorised activities, we seek views on a Last Resort Direction process, giving Ofgem the power to nominate a new authorised party to take over a heat network (noting a number of challenges with this proposal, including identifying willing parties to take on a heat network which may be commercially unattractive, and the speed at which such an intervention could take effect). Where these measures fail, we propose that DESNZ will have the power to implement a Special Administration Scheme (SAR), to ensure the continuation of authorised activities. A statutory transfer scheme would support these regulatory measures by enabling the regulated activities to pass between outgoing and new authorised parties.

We recognise that the proposals for both Last Resort Direction and SAR processes would require a funding mechanism. We propose to require heat networks to put in place funding arrangements to support these interventions, giving them the flexibility to provide this through insurance, ring-fencing or another agreed source.

Market Segmentation

This section will be of interest to heat network suppliers and operators, in particular local authorities and housing associations which operate or supply networks.

Given the size and complexities of the heat network market, segmentation is a tool that will allow Ofgem to aggregate heat networks together through common characteristics that may drive specific outcomes or have particular needs. When used in the correct manner, segmentation will be an effective aid in delivering regulatory functions in a proportionate and effective way.

Summary of obligations/final proposals

The regulatory framework has taken into consideration a long list of characteristics which make heat networks unique, however we have proposed to interact with the market through three primary segments; large, and small networks, and networks operated on a not-for-profit basis.

Segmentation is being used across the framework, however the chosen use-case or area of regulation will determine the way in which it is implemented. We intend to make full use of our regulatory tools to align with these varied purposes and approaches, from prescriptive carve-outs in authorisation conditions, to high-level principles and outcome-based rules as well as detailed guidance to support the industry. One example of this is the various differences in consumer type, with rules for domestic and non-domestic consumers, as well as the requirement of every supplier and operator make additional considerations for consumers in vulnerable situations.

Where existing regulation of the social housing sector effectively safeguards the continuity of authorised heat network activities, we do not propose to apply step-in requirements.

The detailed proposals

Scope of the regulation and authorisation regime

In response to our previous consultations, stakeholders generally supported the proposed scope of the regulation and authorisation regime for heat networks.

In the government response to the 2023 consultation¹⁴ we committed to further refine definitions when we consulted on the draft authorisation conditions.

Definitions

Regulated activities

Definitions for the ‘regulated activities’ have been refined to target the focus of regulation on the party with significant control and influence over aspects of a heat network which are closely related to consumer outcomes such as network efficiency, reliability and pricing. Drafting of the regulated activity definitions in the upcoming Heat Network Market Framework statutory instrument reflects this intention.

There are two regulated activities - operating a relevant heat network and supplying heating, cooling or hot water to heat network consumers by means of a relevant heat network. These activities are referred to hereafter as ‘operation’ and ‘supply’ respectively.

A person or entity operates a relevant heat network if they control the transfer of thermal energy on that network for the purposes of supplying heating, cooling or hot water. Control may be held through ownership of the asset and/or decision-making power over development, maintenance and upgrades to the asset such as where required to achieve certification under the Heat Network Technical Assurance Scheme (HNTAS).

We expect a party undertaking supply activity will hold a heat supply contract (or equivalent contract) with heat network customers for the supply of heating, cooling or hot water to a consumer’s premises, and have control over the terms of that contract. We expect that heat network suppliers will act as the customers’ point of contact for any issues that arise on the network.

We expect in the vast majority of cases, the same person or entity will carry out both operation and supply activity on a heat network. The proposed process for applying for authorisation and registering activity includes the assumption this is the case, unless the regulator is advised otherwise. These processes are subject to consultation in the Ofgem consultation on authorisation and regulatory oversight¹⁵ which has been released in parallel with this consultation.

The draft authorisation condition Application of General Authorisation Conditions, included in this consultation, sets out how conditions will apply when undertaking operation, supply or either regulated activity.

¹⁴ <https://www.gov.uk/government/consultations/heat-networks-regulation-consumer-protection>

¹⁵ <https://consult.ofgem.gov.uk/energy-supply/heat-networks-regulation>

Network type

In the 2024 government response¹⁶, we confirmed regulatory obligations will be applied with regard to the characteristics of the relevant network; where a network serves domestic consumers, the full suite of consumer protections will be applied.

Draft authorisation conditions in this document provide definitions for the classification of premises. The type(s) of premises being supplied on a heat network will determine the extent to which consumer protection measures and other measures apply under the regulatory framework.

The relevant heat network types are:

- Domestic and microbusiness consumer
- Non-domestic consumer, small businesses consumer or SMEs
- Industrial
- Self-supply

Shared Ground Loops / Ambient loops

In the 2024 government response¹⁶ to consultation on consumer protection, while we confirmed that heat networks using Shared Ground Loops (SGLs) are within the scope of regulation, we also acknowledged that individual consumers in these networks have greater control over heating and electricity supply to an individual heat pump, which is likely to be the greatest cost component of accessing thermal energy on this type of network.

Due to the way SGL technology differs to that of traditional heat networks, we intend to apply protections where they are relevant and practical to the characteristics of this network type. For example, the consideration of consumer vulnerability on SGL heat networks may already be subject to adequate regulatory oversight through electricity supplier licensing. It may also be necessary to adapt some consumer protections to suit this network type such as pricing, where we may seek to ensure that the principle of fairness is applied to loop access charges, but unit pricing rules may not be relevant. However, because SGL heat networks do hold similarities to other heat network types in that they involve a reliance on common infrastructure (the shared loop) and are monopoly networks, we intend that the principles of consumer protection should apply.

Bulk Supply

Bulk supply activity is where thermal energy is supplied “in bulk” to an intermediary party who is not the final consumer of that thermal energy but instead on-sells it to other parties such as its own heat network customers. Generally, we expect the point of sale between the bulk supplier and the intermediary to be at a plot connection or building connection, such as between a district network and a separately operated communal building network. Bulk supply is defined in the draft authorisation conditions appended to this consultation.

Following the 2024 Government response¹⁶, we have considered how regulations should be designed to ensure that consumers on bulk supplied networks are afforded the same protections as heat network consumers who are supplied directly. The table below lists

¹⁶ <https://www.gov.uk/government/consultations/heat-networks-regulation-consumer-protection>

consumer protection principles that we are proposing to apply where regulated parties undertake bulk supply. Refer to the relevant sections for further detail on these protections.

We have proposed this because the actions of a bulk supplier have the potential to influence outcomes for heat network consumers on downstream networks. The regulator needs to be able to act against the bulk supplier where their actions have resulted in poor outcomes for consumers, and incentivise reliability and efficiency. Without these provisions, regulatory focus may fall disproportionately on the party that interfaces directly with the consumers.

Table 1: Consumer protection measures

Consumer protection measure	Commentary
<p>Standards of conduct:</p> <p>Supplier behaviour</p> <p>Provision of information</p> <p>Security of supply</p>	<p>The consumer interfacing supplier may rely on cooperation from the bulk supplier to meet its obligations in regard to Supplier behaviour and Provision of information.</p> <p>Supply interruptions affecting the bulk supplier are assumed to directly impact end consumers, as such Security of supply principle should apply to the bulk supplier.</p>
<p>Fair pricing</p>	<p>The price for bulk supplied heat will heavily influence the final consumer price and the consumer interfacing supplier may have limited ability to negotiate or connect to an alternative source.</p> <p>The bulk supplier must be required to enact pricing which reflects the efficiency of its network and be incentivised to drive greater network efficiency.</p>
<p>Guaranteed Standards of Performance (GSOP):</p> <p>Notice of interruption</p> <p>PSR Service</p> <p>Restoration of supply</p> <p>Multiple interruptions</p>	<p>If a compensation payment is required to be made by the consumer interfacing supplier because of actions of the bulk supplier, a mechanism for cost recovery is required. This includes where costs are incurred for PSR alternative provisions because of actions of the bulk supplier.</p>
<p>Complaints handling</p>	<p>If the consumer interfacing supplier receives a complaint because of actions of the bulk supplier, the bulk supplier must be required to cooperate in addressing the complaint.</p>
<p>Step-in</p>	<p>If a bulk supplied network includes domestic consumers, continuity of supply is essential and so</p>

	operator and suppliers throughout the chain must be required to adhere to step-in requirements.
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Consultation questions

1. **With reference to the draft authorisation condition 23 on definitions, do you agree or disagree with the definitions for relating to network types (domestic and microbusiness, non-domestic, industrial, self-supply)?**
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?**
3. **Are there proposed consumer protection measures that in your view should be tailored to suit shared ground loop technology and if so, how?**
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 networks that utilise other ambient heat sources in addition to boreholes?**
5. **With reference to the draft authorisation condition 23 on definitions, do you agree or disagree with the definition for bulk supply?**
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.**

Approach to non-domestic/ SME consumers

Context

In the August 2023 Consumer protection consultation¹⁷, we said that domestic consumers would benefit from all consumer protections and micro-businesses would benefit from most consumer protections regardless of whether they are supplied by a small communal network or large district network.

Our understanding was that some businesses are in a stronger position to negotiate their own prices and terms of service with their supplier than domestic consumers are. We said that businesses' contractual arrangements should also provide adequate routes to redress and therefore regulatory protections were not as crucial in determining outcomes.

However, recognising the monopolistic nature of heat networks, we sought views on protections for SMEs and noted we would consider the insights gathered from Ofgem's review into the non-domestic gas and electricity market.¹⁸

¹⁷ <https://www.gov.uk/government/consultations/heat-networks-regulation-consumer-protection>

¹⁸ <https://www.ofgem.gov.uk/consultation/non-domestic-market-review-findings-and-statutory-consultation>

Proposals

The Gas and Electricity Non-Domestic Market review identified and prioritised several key areas of consumer harm and developed a package of policy measures to address these harms. In April 2024, Ofgem decided to extend some additional protections to non-domestic consumers.¹⁹

We have considered the insights gathered through this review, the changes that have subsequently been implemented, and the characterisation of heat networks as natural monopolies with the implication of higher risk of consumer harm compared to a competitive market.

We therefore propose the following non-domestic protections under the market framework:

- *The Standards of Conduct will apply to all non-Domestic Customers*

All customers deserve fair treatment from their heat network suppliers and operators. We intend to replicate the changes in gas and electricity where the Designated Activities in respect of microbusiness consumers in the Standards of Conduct (SLC 0A) have been extended to all non-domestic customers. More detail is set out in the Standards of Conduct section (page 20).

- *The complaints handling proposals to cover Small Business Consumers*

The evidence from gas and electricity showed that businesses larger than Microbusinesses can also need help to resolve issues with their supplier and cannot always afford to take their issue to court. We propose that our complaints handling proposals will cover SME Customers (and not only microbusiness) and introduce an equivalent definition. More detail is set out in the Complaints section (page 23).

- *The obligation to provide fair and transparent prices will apply to all non-domestic customers*

The evidence from the gas and electricity review shows that customers, regardless of type, want to better understand the contract rates they are paying and why they may change. We propose that obligations in relation to fair and transparent prices will apply to all non-domestic customers and will be supported by guidance. More detail is provided in the Pricing section (page 20) and Billing section (page 24).

- *Certain Guaranteed Standards of Performance (GSOPs) will apply to all non-domestic customers*

We received stakeholder feedback that some businesses may struggle to negotiate appropriate standards. However, we are aware that even if these protections were proposed as minimum levels, these might reduce a non-domestic customer's ability to negotiate their own standards and compensation levels. In this consultation we are therefore seeking views on whether only specific standards should apply to non-domestic consumers on heat networks. More detail is set out in the GSOPs section (page 23).

- *The step-in framework will apply to all non-domestic customers, and to bulk supply arrangements where there are connected domestic or non-domestic customers*

¹⁹ <https://www.ofgem.gov.uk/decision/non-domestic-market-review-decision>

Due to the monopolistic nature of heat networks, failure of the heat network operator would result in loss of supply for connected customers. We do not consider it reasonable to expect that non-domestic customers would have alternative arrangements in place for the failure of their heat network and consider that the step-in framework should apply to networks who serve non-domestic customers. The exception to this is networks where there are purely industrial customers. We welcome views on this position.

Definitions

We propose that non-domestic customer means a heat network customer supplied or requiring to be supplied by means of a relevant heat network at a Non-Domestic Premises but excludes such a heat network customer insofar as they are supplied or require to be supplied at premises other than Non-Domestic Premises. The definition of non-domestic premises is provided in the authorisation condition for Classification of Premises included in the appendix to this document.

We propose adopting an equivalent definition to the new ‘Small Business Customer’ introduced under the Non-Domestic Market Review, which is:

- uses no more than 200,000 kWh of electricity per year; or,
- uses no more than 500,000 kWh of gas per year; or,
- has fewer than 50 employees (or their full-time equivalent) and an annual turnover no greater than £6.5 million or balance sheet total no greater than £5 million.

This definition would need to be adapted to refer to kWh of heat per year, rather than gas.

There are, however, alternative definitions that could be used for example, SME is defined under s123(1) of the Procurement Act 2023 as “any organisation larger than a microbusiness that has fewer than 250 staff and a turnover of an amount less than or equal to £44 million, or a balance sheet total of an amount less than or equal to £38 million”.

In the 2023 consumer protection consultation we asked stakeholders what consumer protections they would expect to apply to SMEs, using the definition of SME as any organisation larger than a microbusiness that has fewer than 250 employees and a turnover of less than €50 million.

Consultation questions

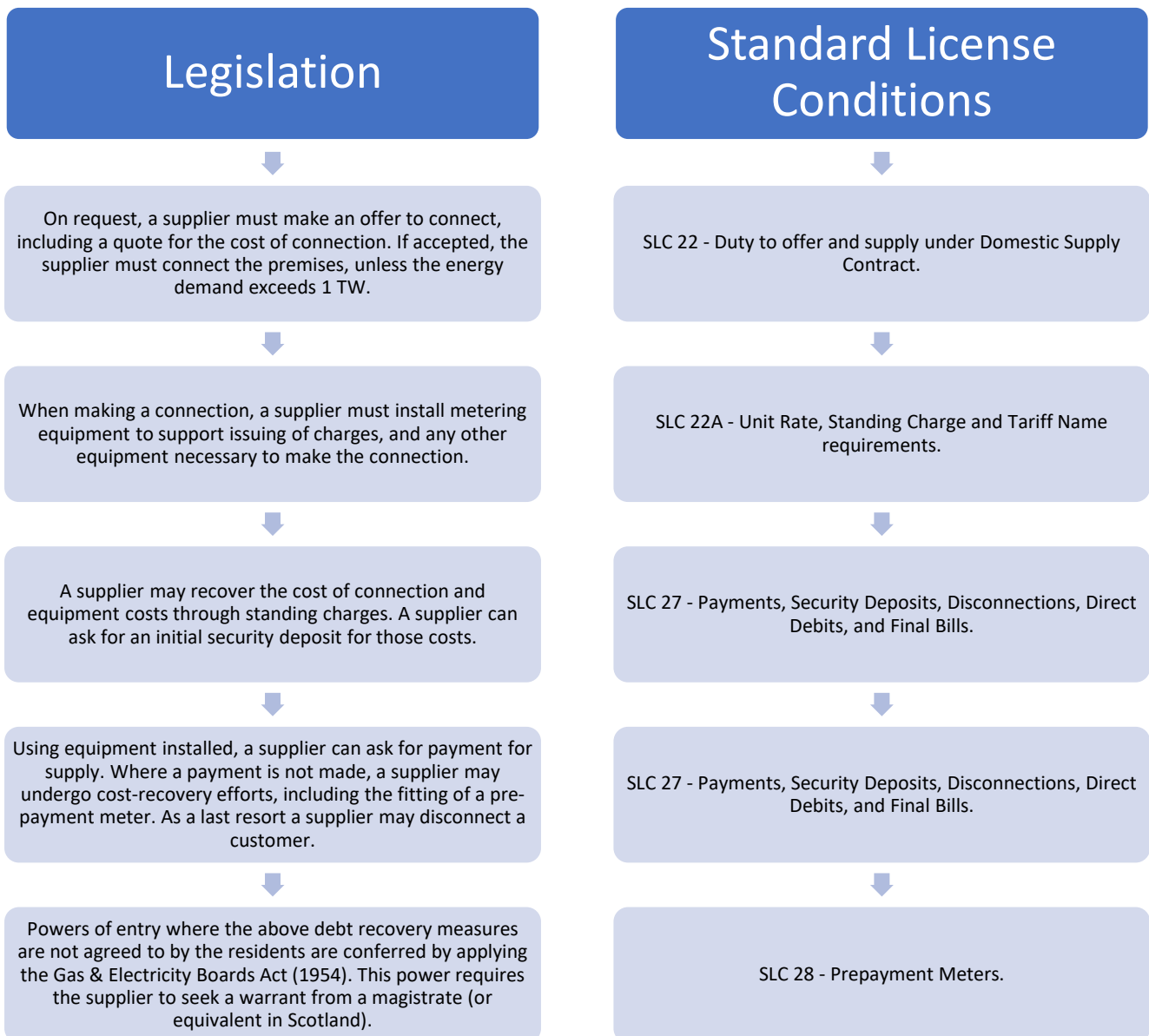
- 7. Do you agree or disagree with the proposed protections for non-domestic heat network customers? Please provide evidence to support your views, or evidence of the potential impacts.**
- 8. Do you agree or disagree with the proposed definition of an SME for the purposes of heat network regulation?**

Supply to premises: connection, treatment of consumers and recovering connection costs

Context

‘Supply to premises’ is a concept from gas and electricity regulation that refers to the process of connecting a premises to a supplier’s network. This also relates to obligations about installation of metering and maintenance equipment, powers to make requests for payment for supply, and debt recovery powers are then provided. While parts of this concept have already been discussed, including approaches to meter installation, billing and debt recovery in the Consumer Protection Consultation, the concept of connections and ‘deemed supply’, where new residents in a connected property are automatically onboarded as customers, has not been directly addressed. Figure 3 details the flow of powers used in gas and electricity.

Figure 33: Supply to premises approach in gas and electricity markets



Scope

We set out our approach to metering in our previous 2023 consultation²⁰. Regardless of the approach taken with the development of future heat networks, any newly deployed heat network and subsequent connections would require the installation of heat meters under the Heat Network (Metering and Billing) Regulations 2014, which we intend to reform and implement through the upcoming Market Framework regulations. Details about new requirements for existing heat networks will be set out in the upcoming consultation for a Heat Network Technical Assurance Scheme.

Additionally, while powers of entry, disconnection, debt recovery and Pre-Payment Meters (PPMs) are all touched on in gas and electricity legislation under the supply to premises umbrella, in practice there are a range of additional provisions and considerations which have already been addressed through previous consultation. Bespoke sections about these areas can be found in this document.

Proposals

We propose not requiring heat networks to provide an offer to connect. We considered alignment with gas and electricity regulations, particularly in relation to the requirement to make an offer of connection on request.

We are conscious that by not mandating a right for consumers to receive an offer to connect on request, this could lead to discrimination, for example when considering connecting buildings that have more vulnerable consumers living there who would potentially be more costly to serve. However, gas and electricity networks are vast in scale, compared to heat networks, meaning that the impact of most new connections on that network would be small. Having a similar requirement to make a connection could be challenging and, in some cases disproportionate, in the case of communal networks, and pose substantial issues with the ability of the network to meet the new capacity demands from the connection in district networks.

Conditions of connection and supply

We propose to adopt the wording used for SLC 22 gas and electricity supply licences to regulate the behaviour of heat network operators/suppliers while a connection is being made and once heat is being supplied.

This will obligate an authorised heat network to supply heat to domestic households connected to their heat network under a Domestic Supply Contract, or a Deemed Contract if heat is being used without a Domestic Supply Contract being signed (see Billing and Transparency section on heat supply contracts).

Upon receiving a request for heat supply, the authorised heat network must offer a Domestic Supply Contract to the customer. If accepted, the authorised heat network must supply heat as set out in the contract. The contract must be in writing, including all terms and conditions, and identify charges for heat and other services. It must also reflect provisions for contract termination. Contracts entered into must also include the network supplier's details, services provided, connection details, tariff information, renewal conditions, compensation arrangements, and dispute resolution procedures.

²⁰ <https://www.gov.uk/government/consultations/heat-networks-regulation-consumer-protection>

These rules will only apply when a connection has already been agreed and is being made, as well as when heat is being supplied.

Consultation Questions

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

Standards of Conduct

Context

In the 2023 Consumer protection consultation, we set out proposals to introduce Standards of Conduct (Standards) – a set of outcome-focused principles underpinned by the objective of treating consumers fairly – as part of the authorisation regime. These Standards set out the relationship between energy suppliers, operators and consumers. We expect these to be applied to all interactions between a regulated entity and their consumer. This includes a responsibility to manage the behaviour of any third-party organisation contracts, if interacting with their consumers.

While we want to see innovation amongst heat network suppliers and operators, in the first instance we expect these principles to drive a standardised quality of behaviour, which is on average higher than current practices. Meeting the Standards will be a requirement of all new and existing heat networks captured by Ofgem’s authorisation regime, and regulated entities will be expected to have regard to any guidance related to these conditions.

Scope

Heat network suppliers should be the primary contact for consumers in most instances, however we expect operators to meet the Standards and consumer objective set out by these proposals. While we expect all regulated entities to implement these principles and establish a fair level of treatment for consumers, we understand this may look different across the market, depending on resources and needs of specific groups of consumers. We expect future guidance, as well as further development of the proposed minimum standards, to assist regulated entities in meeting expectations depending on their segment.

In line with our approach to non-domestic/SME consumers, we are proposing that the Standards of Conduct apply in full to both domestic and non-domestic consumers. However, mirroring Ofgem’s regulations in the gas & electricity market, we would not expect protections for consumers in vulnerable situations to apply to non-domestic consumers.

Proposals

We propose implementing five Standards of Conduct guided by the following overarching consumer objective that: each consumer, including domestic consumers in a vulnerable situation, is treated fairly. These Standards are based on protections in gas and electricity markets.

Supplier behaviour

We expect suppliers to take steps to ensure that consumers have a positive experience when dealing with them. Relevant examples of this will range from providing clear descriptions of

how charges are calculated, to ensuring that the services provided are suitable for a varied consumer base.

Fair treatment of consumers should be at the core of how regulated entities behave and manage their services, however the 2022 Heat Network Consumer and Operator Survey (HNCOS)²¹ indicated that this is not always the case.

Provision of information

We are proposing that all information provided to the consumer by the supplier should be, at minimum, accessible, clear, complete, and accurate in reflecting the relevant content. Consumers should be presented with information directly relating to the service they receive and should not be purposefully misled or placed at a disadvantage in any commercial arrangement with the service provider. This information should be tailored to be relevant to the specific consumer.

Clear and timely provision of information can play a crucial role in building consumer trust and satisfaction with a heat provider's behaviour. The quality of communication delivered can also be a key metric in an assessment of fairness. The HNCOS indicated high levels of discrepancy in suppliers'/operators' provision of information, from complaint procedures through to monthly bills. We want greater consistency across these products, particularly given the lack of understanding that some heat network consumers often have of their heating system.

Customer service

While we understand customer service processes do not need to look the same across the market, we expect all regulated entities to deliver good customer service that is effective and easy for all consumers to access. To support this, we will continue to engage with the market and provide guidance at a later stage.

We expect regulated entities to proactively advertise their customer services, including providing information so consumers understand the relevant processes and know what to expect from their provider. Those involved in a customer request or complaint should act promptly to resolve the issue and keep the customer informed as their case progresses. All processes should be equally accessible to all consumers and adaptable to individual customer situations.

By prioritising these aspects and improving standards of customer service, heat network providers are likely to benefit from fewer complaints and increased levels of consumer satisfaction.

We have acknowledged stakeholder concern regarding the financial and administrative burdens that can result from inappropriate customer service requirements. The principles of this Standard are designed to enable regulated entities to innovate and provide customer service processes that are proportionate to the number and type of consumers in their portfolio.

Vulnerability

This Standard reinforces the need for suppliers to consider individual consumer circumstances across all of their regulated activities. In meeting this Standard, we would expect regulated entities to evidence a proactive approach in identifying vulnerable consumers and having

²¹ <https://www.gov.uk/government/publications/heat-network-consumer-and-operator-survey-2022>

specific regard to their circumstances when designing processes and meeting other regulatory expectations. This includes process driven exercises such as correctly operating a Priority Services Register and providing appropriate support.

We will continue stakeholder engagement to develop guidance on how suppliers should identify and act towards consumers with additional needs. This Standard reflects Ofgem's broader approach to heat network consumers in vulnerable circumstances, including our proposed definition, which is set out below.

Consumer engagement

We expect suppliers to operate a feedback mechanism which enables adequate consumer engagement and is accessible to all consumers. We want to encourage innovation in meeting this standard and intend on continuing our market engagement to highlight examples of good practice and work towards providing guidance.

Where possible, implementation of this Standard should reflect similar requirements in the social housing sector. In developing this policy, we have actively considered both the improved consumer standards brought in by the Social Housing (Regulation) Act 2023²², and similar expectations set in Scotland.

We believe consumer engagement to be of particular importance for heat networks given they are inherently a more communally integrated system, whereby one change is more likely to impact multiple connected consumers. Engaging with consumers not only helps in understanding their needs and expectations but also fosters trust, improves service quality, and enhances customer satisfaction.

Consultation questions

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

11. Do you currently engage with your consumers on a regular basis?

12. If yes, could you provide examples of how you currently engage your consumers, both on the maintenance of the network and more broadly?

Security of supply

Context

Alongside treating consumers fairly, we believe that a reliable and uninterrupted supply of heat should be a cornerstone of the regulated entities' responsibilities. Research has indicated that while there are higher levels of consumer satisfaction among heat network consumers than non-heat network consumers, there are notable discrepancies across the market in the reliability of services provided.

Proposals

We are proposing to introduce a principle-based authorisation condition with the purpose of improving standards across the sector.

The objective of this condition is to encourage a proactive approach to maintenance to prevent unnecessary outages and interruptions in the supply of heat to consumers. Where this is not

²² [Social Housing \(Regulation\) Act 2023](#)

possible, we expect the relevant regulated entity to provide effective communication of technical issues to consumers, so to mitigate the impact of interruptions to supply. We believe this condition will support and strengthen the incoming Technical Standards obligations and the Guaranteed Standards of Performance, by improving existing performance in the sector.

We have considered segmentation based on both consumer and network characteristics in the development of this authorisation condition. But while we understand the challenges of operating networks with inefficient or outdated infrastructure, all consumers should have the assurance of a reliable supply of heat. We will continue to engage with the sector to develop guidance on how this Standard should be implemented.

Consultation questions

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

Fair pricing

Context

Our policy proposals seek to achieve good outcomes, such as reliable heat and good customer service, delivered for consumers at a fair and transparent price. In achieving this outcome and developing the framework, we need to consider, firstly, that costs and prices will vary depending on network, technical and commercial characteristics. Secondly, the heat network sector is developing and the approach to pricing must be dynamic and flexible to emerging challenges.

Our regulatory proposals aim to improve transparency and provide the regulator specific powers to protect consumers from disproportionate pricing and monopoly power through an outcome-based approach.

Ofgem's focus will be on addressing pricing issues where these arise while minimising burdens on heat suppliers as far as possible. This will minimise the impact of heat network passing additional costs onto final consumers, while providing consumers with protections from unfair prices.

The CMA's 2018 market study did not find evidence of systemic high prices across the market²³. The CMA did, however, recognise there were some pockets of higher pricing but did not identify an urgent need for intervention to reduce prices across the market. It recommended that the sector regulator should monitor that prices are not excessive and require all heat networks to comply with 'principles-based' rules or guidance on pricing.

In 2023 we consulted on our approach to fair pricing²⁴, where we said that Ofgem would have the following powers:

- Mandated price transparency
- Pricing structure and cost allocation rules
- Pricing investigations and powers to introduce rules and guidance

²³ <https://www.gov.uk/cma-cases/heat-networks-market-study>

²⁴ <https://assets.publishing.service.gov.uk/media/64d0bb84a4045e0011a84b44/heat-network-consumer-protection-consultation-document.pdf>

- The ability to collect data and develop a comparison methodology

To help define our expectations on fair pricing we identified a set of broad objectives and outcomes that could be required:

- Prices should reflect efficient costs of the network, an appropriate quality of service, have regard to affordability, and consumption levels of consumers. We expect networks to take steps to create cost efficiencies, implement technical efficiencies, implement metering for accurate consumption readings, and recover costs effectively.
- Disproportionate pricing would be where networks are pricing significantly above costs, making excess profit or not making efficiencies where clearly possible. Definitions of 'excess' or 'significantly above' could be determined with reference to external price benchmarks and/or a reasonable rate of return.
- Consumers should be protected from taking on a disproportionate level of corporate risk, such as improper recovery of significant initial capital costs in the development phase, or improper recovery of capital expenditures recovered from sinking funds that can cause temporal mismatch between consumers who are paying and consumers who are benefitting from the improvements.
- Pricing should not discredit the growth of the heat network sector given its importance to net-zero goals. Heat network consumers should not be unduly disadvantaged compared to other consumers on alternative heat sources such as gas boilers or heat pumps.
- Heat networks, in absence of competition, should strive to improve efficiency of network operation and costs, and maximise consumer benefit in their decisions. For example, through competitive fuel procurement and outsourcing contracts, cost and technical efficiencies, and restricted cost passthrough.
- The organisation(s) subject to regulation must have oversight or control over regulatory outcomes even when management is outsourced. For example, through supply chain visibility and common goals, ensuring responsible parties can manage operational costs and tariff design, and tendering criteria for contracting out.
- Heat networks should be incentivised to make choices based on long-term efficiencies. Networks should not overlook larger scale investments such as technical efficiency and decarbonisation improvements in order to cut short-term costs, and should ensure there is sufficient financing to cover such improvements.
- To complement the overarching pricing framework, authorisation conditions and pricing guidance and rules could be introduced on specific costs that are mostly likely to influence whether a price is fair.

Scope

Heat network suppliers and operators are in scope. Therefore, heat networks supplying domestic consumers both directly, indirectly or both will be in scope, so that all domestic consumers will be protected by the pricing proposals.

We propose that the scope of the general obligation on fair pricing is extended to cover all non-domestic consumers. However, specific measures might be targeted to different segments of the market such as microbusinesses or SMEs. The scope of specific rules and guidance will be further consulted upon in the pricing consultation to be published.

Proposals

We are proposing that there should be a general obligation on heat networks to provide fair and not disproportionate prices, accompanied by guidance, setting out minimum expectations, principles and good practice.

We are proposing that this general obligation would be implemented through outcomes/principle-based authorisation conditions, which would form the basis for our fair pricing protections.

We expect that these authorisation conditions will be kept under review. This means that the balance between prescription and guidance may change, if appropriate, over time. At this stage of the fair pricing policy development, the authorisation conditions need to be as high level as possible to allow us the required flexibility to keep developing the policy through guidance. As we develop our fair pricing policy and acquire experience in regulating this sector, we might seek to expand them.

Precedent

Standard licence condition 20A of the Generation Licence²⁵ (the Transmission Constraint Licence Condition, or TCLC) provides a useful basis for our initial approach to authorisation conditions around fair pricing. This is because of the similarities between the perceived market failure and potential consumer harm that this licence condition is looking to solve, and what we are seeking to achieve with our fair pricing regulation for heat networks.

This similarity stems from the fact that where transmission constraints occur, individual electricity generators, or groups of generators in particular areas, can hold a position of market power by becoming the only electricity provider(s) available to the Electricity System Operator (ESO) in those particular areas. This position of market power can be similar to the position held by heat network with respect to consumers, as heat networks are typically characterised as natural monopolies.

The TCLC exists to protect against market power by prohibiting licensees from obtaining an excessive economic benefit. Ofgem publishes guidance on its interpretation and approach to the TCLC. This includes detailed guidance relating to how it will typically expect to approach the question of whether a given bid price is excessive.

Objectives, Principles and outcomes

We have considered consumer protection regulation in different markets in the UK. In particular, we have closely looked at Ofgem's Standards of Conduct (SoC) for suppliers in the gas and electricity markets²⁶, Ofgem's Transmission Constraint Licence Condition which is part of the Electricity Generation Standard Licence Conditions (discussed above) and the Financial Conduct Authority's (FCA) recently adopted 'Consumer Duty' which is part of their wider consumer protection regime²⁷.

Both Ofgem's SoC and the FCA's 'Consumer Duty' take a similar approach to consumer protection based on a principles/outcome-based regulatory framework, however, each

²⁵ <https://www.ofgem.gov.uk/sites/default/files/2023-03/Electricity%20Generation%20Standard%20Licence%20Conditions%20Consolidated%20-%20Current.pdf>

²⁶ For further context see:

https://www.ofgem.gov.uk/sites/default/files/docs/2019/02/licence_guide_standards_of_conduct_0.pdf

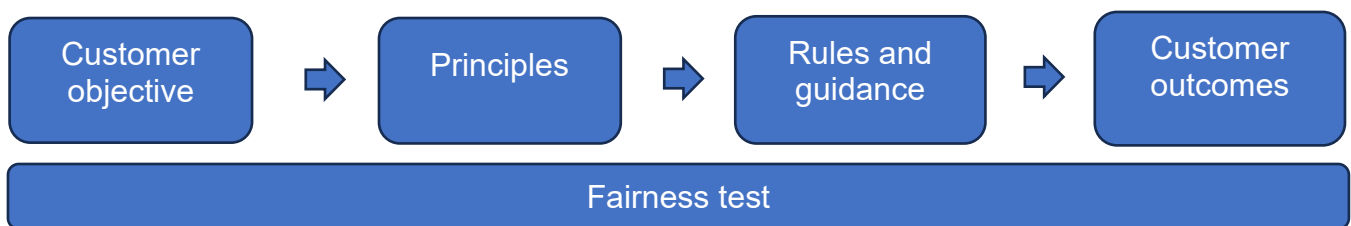
²⁷ For further context see: <https://www.fca.org.uk/publication/consultation/cp21-13.pdf>

regulatory system has its own particularities given the need to regulate markets with different characteristics.

The heat network market shares characteristics with both the gas and electricity and the financial markets, which makes these two examples particularly relevant in helping us shape our thinking.

Given this and the fact that the overall consumer protection approach is primarily drawn from Ofgem’s existing SoC, we are proposing to take a similar approach for the high-level design of the fair pricing framework using the following framework:

Figure 44: Fair pricing framework



This framework would include a ‘fairness test’ element which would be at the core of our activity ensuring heat networks adhere to this regulation.

We need to further develop this framework and will consult on it as part of a wider pricing consultation that will be published. Building on the broad set of principles and outcomes previously consulted on, we provide an example of how this framework could look at Table 7 in Annex 3: Fair Pricing framework. This is, however, subject to further policy development and, therefore, is subject to change.

Consultation questions

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

Vulnerability: defining vulnerability and protections for vulnerable consumers

Vulnerability Definition

Context

A primary objective for Ofgem and government is to adequately protect and support vulnerable consumers. In the following sections we build on previous proposals by setting out our intended overall approach to vulnerability, including how it is defined. We set out the obligations we intend to introduce via the authorisation conditions, including a Vulnerability Principle within the Standards of Conduct, the requirement for suppliers to operate a Priority Services Register (PSR) and provide specific services for consumers who need them, protections to ensure consumers who struggle to pay their bills are adequately supported and stay on supply, and a Social Obligations Reporting condition.

Scope

All authorised heat network suppliers will be required to meet the obligations to protect and support domestic vulnerable consumers. These protections are not relevant to non-domestic consumers or the authorised heat network operator activities.

Proposals

We propose heat networks should adopt the existing Ofgem definition of vulnerability, but combine this with specific, targeted support to address heat network market characteristics through the authorisation conditions. Most heat network consumers will also be electricity consumers, and so adopting Ofgem's existing definition would provide consistency, avoid confusion and could benefit future PSR sharing.

There are a wide range of vulnerabilities and some of these can change over time. Some vulnerable circumstances and characteristics are temporary, others are long term, and there may be new vulnerabilities in the future, due to factors such as climate change. To develop our definition, we have looked at well-established vulnerability definitions in other regulated sectors. As part of our analysis, we have looked at Ofgem's definition to protect vulnerable gas and electricity consumers²⁸, as well as definitions set out by the Financial Conduct Authority (FCA)²⁹, Ofwat³⁰, and the voluntary scheme operated by Heat Trust³¹.

The definitions we have assessed recognise vulnerability can arise from personal characteristics and circumstances or market characteristics or a combination of both. Vulnerability can be multi layered, various circumstances can overlap at a single point in time and increase the risk of poor consumer outcomes. We have found vulnerability definitions need to be broad to reflect the changing face of vulnerability. We think a definition that is too prescriptive might leave some consumers without adequate protection and support. We want to ensure that the approach we take to protect vulnerable heat network consumers is inclusive, and that the rules we introduce lead to improved outcomes.

Recognising that vulnerabilities can arise from personal and/or market characteristics, there are certain market characteristics we have considered in our work, to ensure the rules we introduce adequately protect and support vulnerable heat network consumers. Some of the characteristics we have considered are set out below:

- Heat networks have features of natural monopolies. Consumers cannot change their heat supplier or easily leave a network once they have moved into a property.
- The market consists of significantly more suppliers, many of which are small entities with far smaller consumer bases in comparison with gas and electricity.
- It is common for the heat supplier to also be the operator and maintainer of the network. Consumer bills often include repair and maintenance costs in standing charges, this could make consumers more exposed to build up of standing charges compared to gas consumers.
- Most modern networks are metered, but there are many older networks which are not. HNCOS told us that only 40% of operators calculated bills based on actual use.

²⁸ https://www.ofgem.gov.uk/sites/default/files/docs/2020/01/consumer_vulnerability_strategy_2025.pdf

²⁹ <https://www.fca.org.uk/publications/finalised-guidance/guidance-firms-fair-treatment-vulnerable-customers>

³⁰ <https://www.ofwat.gov.uk/regulated-companies/vulnerability/>

³¹ <https://heattrust.org/the-scheme-rules>

- It is common for landlords to bill consumers for their heat supply as part of rent or service charges.
- We know from HNCOS that consumers on heat networks are more likely to have additional needs than consumers in gas and electricity (31% for Heat network vs 28% gas and electricity).

In gas and electricity markets, Ofgem starts by looking at issues broadly, then at levels of risk within situations and the causes, before deciding where more targeted interventions are needed, through the Supply License Conditions, where there are specific rules for payment difficulty and disconnection.

Ofgem's definition of vulnerability is set out below.

Ofgem's existing vulnerability definition for gas and electricity consumers

We define vulnerability as when a consumer's personal circumstances and characteristics combine with aspects of the market to create situations where a person is:

- Significantly less able than a typical domestic consumer to protect or represent his or her interests;
- and/or
- Significantly more likely than a typical domestic consumer to suffer detriment or that detriment is likely to be more substantial.

Ofgem has recently published its Consumer Vulnerability Strategy (CVS) refresh consultation,³² and propose not to revisit the existing definition, to include financial vulnerability. We previously said we would consider the inclusion of financial vulnerability in our vulnerability definition for heat networks. We will closely follow the outcome of the CVS refresh consultation and will consider whether a different approach on financial vulnerability is appropriate for heat networks.

Our overall approach to vulnerability

We have looked at the work of other regulators in this area, including the FCA and Ofwat. We have found they have adopted the approach of a strategy or guidance, to set out priorities and objectives to ensure consumers in vulnerable circumstances are supported and treated fairly. Ofgem's Vulnerability Strategy 2025³³ sets out actions to support our objective, to adequately protect and support gas and electricity consumers in vulnerable circumstances, along with areas of focus which aim to drive improvements and improve outcomes for vulnerable consumers. The CVS refresh consultation considers heat networks as part of the updated strategy.

Regulators tend to have more targeted interventions to protect their consumer base within rules, for example Ofgem places obligations on gas and electricity suppliers through license conditions³⁴. We will introduce targeted protections for heat network consumers through authorisation conditions. Below we set out the areas where we intend to introduce authorisation conditions to protect consumers in vulnerable circumstances.

³² <https://www.ofgem.gov.uk/consultation/refreshing-our-consumer-vulnerability-strategy>

³³ <https://www.ofgem.gov.uk/decision/consumer-vulnerability-strategy-2025>

³⁴ <https://www.ofgem.gov.uk/energy-policy-and-regulation/industry-licensing/licences-and-licence-conditions>

Vulnerability Principle within the Standards of Conduct

The Standards of Conduct will contain a broad vulnerability principle. We want to ensure suppliers place vulnerability at the heart of the business, improving outcomes for vulnerable consumers by ensuring they are treated fairly, rather than the identification of vulnerable consumers becoming a box ticking exercise. The aim is to strengthen the obligations placed on regulated entities to ensure they do the right thing by vulnerable consumers.

Priority Services Register (PSR)

We confirm our intention to proceed with the requirement for heat suppliers to operate a PSR and to promote this to domestic consumers, where appropriate. We previously set out in our Consumer Protection consultation the specific priority services that providers must offer to consumers who are placed on the PSR, this includes services such as communication in accessible formats, including information on the PSR needing to be accessible for all consumers.³⁵ The aim of such a register and associated services is to ensure vulnerable consumers are identified and are clearly informed about available support. A PSR should allow consumers to effectively communicate with their provider, prepare for potential outages and stay safe.

Significant progress has been made in sharing PSR data between utility sectors, thanks to the work of Water UK and the Energy Networks Association, with support from Ofgem, Ofwat and Energy UK. Through a future guidance consultation, we intend to provide further detail on the set up of a PSR, to enable data sharing for heat networks in the future. Another important development in this area is the publication of the Smarter Regulation white paper by the Department for Business & Trade,³⁶ which confirms government will take forward work to create a Share Once Support Register, bringing together the current Priority Services Registers and similar telecoms registers. We agree this is an important development and are working with government on this project, heat networks will be considered as part of the work.

Heat Network Protections for consumers in payment difficulty

We have received widespread support for our proposed rules to support consumers who struggle to pay their bills and stay on supply. We therefore confirm that as well as needing to identify all consumers in vulnerable circumstances, suppliers will 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, such as Pre Payment-Meters or third-party deductions from social security benefits (where appropriate and available). We recognise there is uncertainty of what impact the rules will have on heat suppliers, and we are aware that the obligations will be more challenging for some heat networks, such as those operated by small entities. However, we think that these are important protections for all heat network consumers.

Social Obligations Reporting

We propose introducing a Social Obligations Reporting authorisation condition requiring heat suppliers to regularly report information relevant to its dealings with domestic consumers to Ofgem. This will include areas where vulnerable consumers may be affected, such as the number of disconnections for debt. Ofgem will publish its Heat network regulation:

³⁵ See page 61 here <https://assets.publishing.service.gov.uk/media/64d0bb84a4045e0011a84b44/heat-network-consumer-protection-consultation-document.pdf>

³⁶https://assets.publishing.service.gov.uk/media/6644d5e8b7249a4c6e9d35a3/smarter_regulation_delivering_an_environment_for_innovation_investment_and_growth.pdf

authorisation and regulatory oversight consultation in due course, which will set out proposals for the requirements for heat networks to report to Ofgem.

Rules regarding non-payment of heat charges when part of housing charges

We continue to engage with the Ministry of Housing, Communities & Local Government to develop a way forward in this area, and identify potential proposals to take forward if appropriate.

We have previously said we recognise consumers paying for their heat supply in this way may face poor outcomes. For example, there are cases where consumers are facing the threat of eviction for non-payment of bills. However, existing legislation in the Landlord and Tenant Act 1985,³⁷ makes it difficult for us to apply some of our proposed rules to this segment of the market from the start of regulation. We expect this situation to change over time as more meters are installed in individual dwellings.

Summary of Obligations/final proposals

We have two proposals to seek views on:

- Adopting Ofgem’s existing definition of vulnerability, a broad definition, to reflect the complexity of vulnerability. We think that a more prescriptive definition might leave some consumers without adequate protection and support.
- Our proposed obligations in the authorisation conditions. Introducing a broad vulnerability principle in the Standards of Conduct, the requirement to operate a PSR, Social Obligations reporting and targeted protections to ensure consumers who struggle to pay their bills are adequately supported to pay their bills and stay on supply.

We think there are advantages in adopting Ofgem’s vulnerability definition and introducing more targeted interventions to address heat network characteristics through the authorisation conditions. This approach should ensure heat network consumers are adequately protected and supported in a comparable way to gas and electricity consumers, and allow for a consistent Ofgem approach across gas, electricity and heat networks.

Consultation questions

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?

Disconnection for non-payment of energy costs

Context

Protecting vulnerable consumers from disconnection is important. There is widespread agreement that disconnection for non-payment of energy costs should be a last resort. We do, however, need to strike the right balance between protecting consumers and the cost impact of this on other, potentially vulnerable consumers and heat suppliers. We seek views on the rules we intend to introduce to protect consumers from disconnection for non-payment of debt.

³⁷ <https://www.legislation.gov.uk/ukpga/1985/70>

Scope

All authorised heat network suppliers will be required to meet the obligations to identify and protect domestic consumers in vulnerable circumstances from disconnection of supply. These protections are not relevant to non-domestic consumers, including microbusinesses, or the Authorised heat network Operator activities.

Proposals

We propose that the authorised person must not disconnect:

- In Winter, a domestic premises at which the domestic consumer has not paid charges for the supply of heating, cooling or hot water by means of the Specified heat network if it knows or has reason to believe that the occupants of the premises include a person who is under the **age of 2** or is over the age of 75, disabled, terminally ill or chronically sick.
- At any time, a domestic premises at which the domestic consumer has not paid charges for the supply of heating, cooling or hot water by means of the specified heat network if it knows or has reason to believe that the occupants of the premises include a person who has a medical condition which means that, for medical reasons, they need to receive or may need to receive a supply of heating or hot water throughout the year.

More detail on disconnection proposals can be found in the Authorisation Condition 17 Security deposits, payment difficulties, disconnections, direct debits and final bills.

In our response to the 2023 consumer protection consultation, we said we may want to go further than the rules in place in gas and electricity as well as those set by Heat Trust on disconnection. We have considered feedback that a broad vulnerability definition can be difficult to apply in this situation and might be left open to interpretation and that meeting higher standards may be more challenging for certain networks, such as those operated by small entities.

We have explored the specific protections in place for certain consumer groups within gas and electricity. The gas and electricity Supply Licence Conditions contain obligations to protect vulnerable consumers from disconnection for non-payment.³⁸ There is a two-tiered approach.

- SLC 27.10 The licensee must not Disconnect, in Winter, a Domestic Premises at which the Domestic Customer has not paid Charges for the Supply of Gas if it knows or has reason to believe that the customer is of Pensionable Age and lives alone or lives only with persons who are of Pensionable Age or under the age of 18.
- SLC 27.11 The licensee must take all reasonable steps to avoid Disconnecting, in Winter, a Domestic Premises at which the Domestic Customer has not paid Charges for the Supply of Gas if the occupants of the premises include a person who is of Pensionable Age, disabled or chronically sick and to whom paragraph 27.10 does not apply.

Despite higher energy prices, Ofgem data shows the number of disconnections for non-payment of debt by gas and electricity consumers have been very low in recent years.³⁹ There is evidence that suppliers have improved their debt and disconnection practices and rather

³⁸ <https://www.ofgem.gov.uk/energy-policy-and-regulation/industry-licensing/licences-and-licence-conditions>

³⁹ <https://www.ofgem.gov.uk/publications/debt-and-arrears-indicators>

than disconnecting households, it's more likely that suppliers will use a prepayment meter to recover debt.

From data provided to us by Heat Trust, we know, however, that disconnections are far more prevalent in the heat network market and therefore we may need to go further than in gas and electricity markets to ensure consumers in vulnerable circumstances are adequately protected.

The recent review of involuntary prepayment meter installation in gas and electricity has provided some relevant insights⁴⁰. The review was undertaken as it became clear some suppliers were not complying with the rules requiring them to check it is safe and reasonably practicable to install a prepayment meter. Following consultation, the rules were strengthened, and the 'do not install' category was extended to protect households with children under two and households only occupied by adults aged over 75.

This review also called for evidence on extending protections to households with children under five, with these placed in the 'further assessment needed' category, a supplier obligation within the prepayment meter guidance (Safe and Reasonably Practicable)⁴¹.

In developing proposals, we have also sought to balance the needs and risks to vulnerable households with the costs to heat networks and the potential for these to be shared with other, potentially equally vulnerable households, particularly networks with smaller customer bases.

Consultation questions

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.

Prepayment meters

Context

We consulted in 2023 on our proposed approach to pre-payment meters (PPMs) and how they should be used for heat network consumers. There was support for the proposal that PPM installation for vulnerable consumers should be minimised as much as possible and only used as a last resort, and that we should therefore align with Gas and Electricity rules and use Ofgem's 'Safe and Reasonably Practicable' guidance.

We said we would review how segmentation could be applied to the market and how regulatory introduction could be staggered to ensure networks could prepare ahead of this.

Scope

Regulations on installing and use of PPMs, as well as the procedures to be followed with vulnerable consumers, would apply to all authorised Heat network and suppliers. These protections are not relevant to non-domestic consumers.

⁴⁰ https://www.ofgem.gov.uk/sites/default/files/2023-09/Decision%20Involuntary%20PPM_Final%204.pdf

⁴¹ https://www.ofgem.gov.uk/sites/default/files/2023-09/PPM%20Guidance_Safe%20and%20Reasonably%20Practicable.pdf

Proposals

We propose, through heat network authorisation conditions⁴² to replicate Gas and Electricity SLCs on PPMs,⁴³ and have used Ofgem's guidance published in 2023,⁴⁴ as the basis for regulation of PPM installation and usage.

We propose that an authorised person must not:

- Install a PPM where, a Domestic Premises at which the Domestic Consumer has not paid Charges for the supply of heating, cooling or hot water by means of the Specified heat network if it knows or has reason to believe that the occupants of the premises include a person who is under the age of 2 or is over the age of 75, disabled, terminally ill or chronically sick;
- Install a PPM in a Domestic Premises at which the Domestic Consumer has not paid Charges for the supply of heating, cooling or hot water by means of the Specified heat network if it knows or has reason to believe that the occupants of the premises include a person who has a medical condition which means that, for medical reasons, they need to receive [or may need to receive] a supply of heating or hot water throughout the year, has a serious mental or developmental disability, has children under the age of 5, or is in a temporary situation (such as pregnancy), unless a vulnerability assessment has been carried out to verify that doing so would not have a significant impact on those people's wellbeing.

Concerns have been raised about the ability of some networks to carry out vulnerability assessments which are required before a supplier can install a PPM. We therefore considered whether consumers who are part of the 'vulnerability assessment' category of PPM protection should receive further protection.

In gas and electricity markets, an assessment is needed before installing a PPM meter in a household with the following consumer characteristics: Children aged 5 or under, a serious health or medical condition outside of the do not install category, a serious mental or developmental health condition, or a temporary vulnerability such as pregnancy.

We have considered moving these categories of people to the 'do not install' category, however, we have balanced the capability risk with the need for sustainable debt management in what are often marginal businesses.

Given the potential for detriment to vulnerable households, however, we propose to keep these protections under review, as we assess data on prices, vulnerability and debt management.

Consultation Questions

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

⁴² These can be found here: <https://www.gov.uk/government/consultations/heat-networks-regulation-implementing-consumer-protections>

⁴³ <https://www.ofgem.gov.uk/energy-policy-and-regulation/industry-licensing/licences-and-licence-conditions>

⁴⁴ https://www.ofgem.gov.uk/sites/default/files/2023-09/PPM%20Guidance_Safe%20and%20Reasonably%20Practicable.pdf

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.

Managing sustainable debt

We acknowledge that some heat suppliers, particularly those that manage small networks or social housing networks that have higher number of protected consumers, may struggle to socialise any unrecoverable debt or operating costs that may emerge from not having access to disconnection or PPMs as debt recovery mechanisms for protected groups. This is reflected in our Impact Assessment.

In gas and electricity markets, debt accrued through these protections can be socialised across large groups of consumers, reducing the impact. As heat networks do not have those economies of scale the impact on other consumer bills can be consequently much higher.

We expect that as fair pricing and the Heat Network Technical Assurance Scheme reduce operating costs and the risk of excessive pricing, the rate of debt accrual should fall and so the financial impact of not having these mechanisms should decline. However, we acknowledge that small networks may not be able to sustainably manage debt despite this.

As such, we are proposing to explore options to mitigate the impact of unrecoverable debt. For example, whether the burden on smaller networks or networks with higher numbers of vulnerable consumers might be reduced by spreading debt across the heat network market. This would allow all heat networks to implement these protections and distribute the burden of debt across a much larger consumer base. As part of this options analysis, we propose to assess whether additional legislation would be required to implement such measures. We invite views on whether measures such as this would be supported by respondents, and views on what approach could be taken.

Consultation questions

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.

Self-disconnection and self-rationing

Context

We want to minimise domestic PPM consumers in vulnerable circumstances resorting to self-disconnection and self-rationing due to affordability.

Licence Conditions in gas and electricity require suppliers to monitor usage in order to identify instances of self-disconnection and check if the use of PPM remains safe and reasonably practicable for the customer and, if not, make alternative arrangements. We understand from responses to the 2023 consumer protection consultation that many heat networks already meet these requirements.

Scope

All authorised heat network suppliers will be required to meet the self-disconnection obligations where it is technically feasible to. These protections are not relevant to non-domestic

consumers or the Authorised heat network Operator activities, as these tend not to have PPMs.

Proposals

We propose broadly aligning protections with gas and electricity markets as the risks of self-disconnection, self-rationing and other forms of detriment will be similar for domestic heat network consumers.

We intend to include obligations in the authorisation conditions that will require heat suppliers to take efforts to identify domestic consumers on PPMs that are self-disconnecting and whether they are in vulnerable circumstances. They will also be obligated to offer domestic consumers on a PPM additional support credit, such as emergency credit and friendly-hours credit, unless technically unfeasible or outside of the licensee's control to offer these facilities.

We will also be replicating the obligations in the Ofgem Code of Practice, which provide that where a consumer can afford to pay for consumption but not debt repayment, the supplier must consider alternative approaches to debt recovery such as delaying repayment.

However, some PPMs do not have the functionality that enables a heat network to identify when a consumer is self-disconnecting or self-rationing. Until metering is required under the Heat Network Technical Assurance Scheme and/or current meters are replaced, requiring all heat networks to take steps to identify whether a PPM consumer is self-disconnecting could be technically unfeasible. We therefore propose that where it is not technically feasible to identify if a customer is self-disconnecting, they are offered a means by which they can inform the heat network that they are self-disconnecting or self-rationing, particularly those on the PSR.

We further propose, that if a consumer informs a heat network that they are self-disconnecting or self-rationing, the heat network should consider reassessing or reducing the consumer's debt repayment plan and/or referring the consumer to third party debt advisors.

We expect that over time, the barriers to proactively identifying customers who are self-disconnecting will be removed as metering is introduced and older meters replaced.

We intend to monitor the use of these powers and where heat suppliers are able to do so they will be required to report quarterly to Ofgem on self-disconnections. We will also engage with stakeholders to develop guidance, including for smaller suppliers.

Consultation questions

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

22. Can you provide any evidence of the impacts these proposals could have on suppliers, particularly smaller suppliers?

Powers of Entry - Protections in Regulations

Context

In the 2020 Market Framework⁴⁵ and 2023 consultations we proposed that heat suppliers should have access to similar rights and powers as other utilities when carrying out certain

⁴⁵ <https://www.gov.uk/government/consultations/heat-networks-building-a-market-framework>

activities. A power of entry is a statutory right for a person to legally enter defined premises for specific purposes.

The Energy Act 2023 gives the Secretary of State (SoS) discretion to give heat suppliers Powers of Entry, and we proposed that these would be provided for in a future Statutory Instrument.

The intention is to provide heat suppliers with similar Powers of Entry as gas and electricity suppliers, subject to similar protections as provided by the Rights of Entry (Gas and Electricity Boards) Act 1954 (which requires warrants for entry).⁴⁶ These powers are necessary to allow suppliers to access properties for the following reasons:

- Essential maintenance of heat network technology in the heat network premises.
- Installation of prepayment meters.

Scope

These proposals relate to an authorised heat network supplier being granted the right of entry to install a PPM. We want to ensure that suppliers and their third-party contractors only use powers of entry to force-fit a PPM as a last resort, and not at all entering the consumer's premises if PPM use is not appropriate.

The use of Powers of Entry for the essential maintenance of heat network technology will be considered as part of the consultation on technical standards.

These procedures and conditions will apply to all authorised entities that are seeking to use these powers. These protections are not relevant to non-domestic consumers.

Proposals

The procedures and conditions we are proposing will be set out in a future Statutory Instrument that provides for the Powers of Entry. These are consistent with the proposals that will be included in authorisation conditions for PPM, which are based on SLC 28.7 in the Gas Supply Licence.

Tools within the framework support the policy outcome of ensuring Powers of Entry are a last resort and not used if inappropriate. The Standards of Conduct will also support the correct use of these powers as heat suppliers will need to ensure they:

- Carry out actions in a fair, honest, transparent, appropriate and professional manner.
- Customers in vulnerable circumstances: identify customers; consider vulnerability in actions, information, and customer service.

Additional protections in regulation

In previous consultations we acknowledged additional safeguards in Regulations would be likely needed for the use of Powers of Entry for debt management purposes, because:

- Of the greater percentage of vulnerable consumers on heat networks.

⁴⁶ <https://www.legislation.gov.uk/ukpga/Eliz2/2-3/21/section/2>

- The market is still maturing and there could be risks associated with granting these powers for debt management purposes in a market with little experience of using them.
- Use of these powers are sensitive, and they will be given to a large and diverse number of heat suppliers.

We therefore think it appropriate to include these additional protection measures within Regulations. These protections are consistent and aligned to the protections proposed in the Authorisation Conditions for the involuntary installation of PPM:

- The period after a request for payment is made in which powers activate will be 56 days and the debt must be over £200.
- In addition to the above, require that all other efforts at debt recovery must have been made; regulated entities may not seek to enter premises until all other reasonable efforts of recovering fees have failed.
- Prohibit the use of these powers where a meter that can be remotely switched to prepayment mode or remotely disconnected has been installed. We intend to prohibit the use of these powers where smart meters or AMI are installed that can remotely switch payment modes from pre-payment to credit.
- Costs of using these powers may not be charged to the customer. We intend to prevent entities from recovering administrative costs of using powers of entry or installing PPMs.
- Where there is a vulnerable consumer resident in a premises, we intend to require that a warrant to enter premises must be sought individually.
- We intend to limit the use of the powers so only warrants for entry for residents of a single building supplied by the regulated entity can be sought concurrently.
- We intend to require that the regulated entity provide the customer with 28 days' notice in writing before applying for a warrant.

As meters are rolled out that allow for remote switching of meters to prepayment mode, we expect that the use of these powers for installation of prepayment meters to be gradually phased out.

We intend to monitor the use of these powers and heat suppliers will be required to report quarterly to Ofgem on their use of these powers.

Consultation questions

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

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

Quality of service: Complaints and GSOPs

Complaints handling

Context

There is evidence of poor standards of complaint handling processes across the heat network market. In response to the 2023 consumer protection consultation, we therefore confirmed our decision to establish complaint handling standards for heat networks similar to those required under gas and electricity legislation and in other regulated sectors.

Complaint handling expectations for regulated gas and electricity providers are laid out in the 'Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008'. While we have sought to mirror these rules where possible, complaint handling requirements for heat network suppliers will be captured by our authorisation regime, rather than a statutory instrument.

Scope

Following Ofgem's non-domestic market review⁴⁷, we propose to mirror the expansion of the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008 to align with government proposals to expand access to redress and apply to Small Business Consumers.

We have considered segmentation as a tool to address stakeholder concerns about potential financial and administrative burdens, particularly for smaller networks and/or those operating complaint handling procedures under existing requirements in the housing sector. We will work closely with the various housing bodies, such as the Regulator of Social Housing, whose existing rules may overlap with regulated heat network entities. Interactions between these bodies and heat network consumers will be further clarified in guidance. While the following proposals will cover the actions of both a supplier and operator, we expect the supplier to act as a consumers' point of contact across the framework, including in handling complaints.

Overview of proposals

All suppliers must ensure they have a process in place to ensure complaints can be received and are addressed fairly, effectively, and promptly. We expect our rules and guidance to help guide a regulated entity in providing a clear, straightforward, and accessible complaint handling service, that is effective and consistent across their consumer base. We also want to empower consumers through these obligations, ensuring they feel confident to raise an issue to their supplier.

We propose these rules to be based on the classification of a complaint as an expression of dissatisfaction. We are conscious of concerns from both suppliers and consumers that the pathway to direct heating complaints needs to be separate to housing complaints, we have in part addressed this through our proposed definition of a complaint which can be found in the Authorisation Conditions⁴⁸ appendix.

As well as the complaint handling authorisation condition, we expect the principles established by the Standards of Conduct (page 35) to be implemented in a supplier's approach. This includes, but is not limited to, staff communication with consumers, including ensuring fair

⁴⁷ <https://www.ofgem.gov.uk/decision/non-domestic-market-review-decision>

⁴⁸ Found here: <https://www.gov.uk/government/consultations/heat-networks-regulation-implementing-consumer-protections>

treatment, providing clear information, and the adaption of process to suit vulnerable consumers.

Given the infrastructure of heat networks, it is likely that technical and supply issues will impact more than one consumer. As such, we are proposing that regulated entities should accept and attend to group complaints. This proposal is supported by the HNCOS⁴⁹ results which suggest that taking coordinated and collective action helped in formulating and resolving complaints. We will continue to engage the market on this policy, investigate the approach taken in the housing sector and collaborate with the Energy Ombudsman to produce supporting guidance.

While we intend on publishing guidance to support our expectations for process-driven areas like complaint handling, reflecting on the diversity of the market, we are also considering introducing a minimum standard to support our framework of market segmentation.

The aim of introducing a minimum standard is to provide prescriptive elements which correlate to outcomes-based authorisation conditions. For example, a minimum standard for advertising the relevant complaints process for a large ESCo run network may be providing consumers with an accessible website, where the same expectation could not be made for a small landlord with a dozen consumers on their network. The purpose of a minimum standard would be to guide regulated entities on best practice while taking into consideration the scale, resource capacity and complexity of the service they provide. This would be introduced over time and in response to observed best practice across the market.

Detailed final proposals

Obligation to have a procedure in place

We expect all regulated suppliers to have a complaint handling procedure in place at all times, which must be upheld in relation to each consumer complaint it receives. While we do not expect these processes to look the same across the market, they should be an appropriate quality that enables all consumers to access the relevant processes equally. Some elements we expect complaints process to include are:

- Allow complaints to be made by any reasonable means;
- Be in plain and intelligible language;
- Allow for complaints to be progressed through each stage by any reasonable means;
- Describe the steps which the regulated entity will take with a view to investigating and resolving a complaint and indicative timescales;
- Describe the consumer's right to refer their complaint to the qualifying redress scheme.

We would also expect that suppliers should have a high-level procedure in place for accepting complaints made by referral from a third party, such as Citizens Advice.

Consumer awareness

Research indicated that low consumer satisfaction with heat network complaint handling procedures was partly due to poor supply of relevant information. We expect suppliers to make available appropriate information regarding their internal procedures for handling of complaints and refer consumers to the point where this information is available. This should be done free

⁴⁹ <https://www.gov.uk/government/publications/heat-network-consumer-and-operator-survey-2022>

of charge, in an accessible format and outside of being requested. The provision of information in this regard should include signposting to the Energy Ombudsman and relevant consumer advocacy services.

Under these rules, we would expect regulated entities to publish and provide summary details of their internal complaint handling procedures and any information which would aid consumer awareness of the protections offered by the provisions of our regulation. In meeting these expectations, we would expect suppliers to cater the format to the needs of their consumer portfolio, including taking account of vulnerable consumers and in compliance with the Equality Act 2010.

Investigating, assessing and resolving complaints

We expect that, upon receipt of a complaint, a supplier will take the necessary steps to investigate it fairly and promptly, with the aim of resolving it. The HNCOS⁵⁰ identified that many heat network consumers do not complain as they see some problems as inherent to the heat network infrastructure. The same research also indicated that some consumers feared that an escalated complaint could lead to eviction.

We want to ensure all consumers feel they can complain about relevant problems with the supply of their heat, and that they can do so without being treated negatively for doing so. Heat network suppliers should acknowledge the root causes of complaints and take actions to resolve the source of the problem, identifying if the source may impact other consumers or services.

The prompt handling of complaints is in the interests of both consumers and suppliers, this includes providing indicative timescales at the start of the journey but particularly if delays in the process are expected. We would expect suppliers to resolve a complaint within the 8-week timeframe before these can be escalated to the Ombudsman Service. We are also exploring the existing complaint handling response obligations in the housing sector and their applicability to heat networks.

Signposting consumers to third-party support

Research has found that consumer awareness of Alternative Dispute Resolution (ADR) services and advisory schemes is low across both regulated and non-regulated sectors. Citizens Advice⁵¹ reinforces this with experience of heat network suppliers. Suppliers should be consistent and proactive in their signposting to the relevant redress scheme and consumer advocacy services.

It is important that consumers are signposted to supporting services by the supplier in an effective manner at the appropriate stage, before a complaint is made (in their pre-contractual material), at the time of a complaint and upon request, and at the point a deadlock letter⁵² is issued.

⁵⁰ <https://www.gov.uk/government/publications/heat-network-consumer-and-operator-survey-2022>

⁵¹ <https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/Bringing%20heat%20networks%20up%20to%20standard%20-%20How%20heat%20networks%20can%20start%20delivering%20better%20customer%20service%20outcomes.pdf>

⁵² A 'final' letter provided to the consumer to indicate that discussions have not been able to resolve the complaint, and it can be escalated to the ombudsman. This happens automatically after 8 weeks.

Elements of these referrals to consumers are likely to include, but are not limited to, the following:

- Informing consumers of their right for their complaint to be referred to a qualifying redress scheme;
- That the qualifying redress scheme process is free of charge to the relevant consumer and to any other category of complainant;
- That any outcome of the qualifying redress scheme process is binding upon the regulated provider but not upon the relevant consumer or any other category of complainant.

Allocation of adequate resources and maintenance of procedure

Each heat network supplier must receive, handle and process consumer complaints in an efficient and timely manner; and allocate and maintain such level of resources as may reasonably be required to enable that regulated provider achieve the above requirements.

Market research has indicated unsatisfactory treatment of heat network consumers during the complaints process, often a result of basic principles such as the lack of an apology. Alongside maintaining a suitable resourced service, those engaging with consumers should act sensitively, fairly and patiently.

Recording and publication of complaints data

A full record must be kept of the complaint, any review and the outcomes at each stage. In line with data retention rules in the Gas & Electricity sector, we propose these records should be kept for five years. This must include the original complaint, and the date received, all correspondence with the consumer, correspondence with other parties and any reports or surveys prepared.

Suppliers should be diligent and consistent in their collection of complaints data and should categorise it appropriately for potential audit by Ofgem. For the purpose of monitoring, we would expect suppliers, at a minimum, to have the following complaints data readily available:

- Number of complaints made and categorised by broad subject.
- Number of complaints made by consumers in vulnerable circumstances.
- Number of complainants referred to the Energy Ombudsman and Deadlock letters issued.
- Average resolution times.

Suppliers should ensure that there is a process for recording all complaints on a customer complaints database, whether complaints are handled by themselves or third party suppliers. All complaints should be recorded in such a way that the information can also be analysed for service improvement opportunities. It should be accessible and in a suitable state to be provided to Ofgem as part of the regular ongoing monitoring data requirements and any compliance engagement.

Further information on our data reporting expectations related to complaints handling will be published in our authorisation and monitoring standards consultation.

Our proposed Authorisation Conditions on this policy can be found in the appendix published as part of this consultation⁵³.

Consultation questions

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

Guaranteed Standards of Performance

Context

The main aim of our proposals is to reduce service outages and drive improvements in consumer protection when these occur.

While there will be similar considerations, we will look separately at the potential to align with work in gas and electricity markets to assess how consumer redress and automatic compensation mechanisms could be extended and developed.

Our initial Guaranteed Standards framework has received widespread support in previous consultations. Stakeholders acknowledged the alignment with existing practice in the sector such as those set by Heat Trust and highlighted the importance of Guaranteed Standards to build consumer trust in a market which is expected to experience considerable growth.

We aim to drive and improve existing performance and standards in the sector and to provide consumers with certainty of the standards they can expect. When these are not met, consumers are usually entitled to compensation payments to recognise the inconvenience caused. However, they are not designed to compensate consumers fully for consequential financial loss. Our primary objective in setting Guaranteed Standards is to incentivise:

- That the frequency, length, and impact of interruptions is reduced.
- Provision of adequate notice of planned interruptions, and support those with additional needs who struggle more with interruptions.

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. The sector has certain characteristics which may require us to consider a different approach in how we apply the Standards to certain types of heat network, such as networks operating on a not-for-profit basis, where a key risk is consumers funding their own compensation payments through future price increases.

Scope

We initially proposed to apply the Guaranteed Standards to heat networks supplying domestic consumers and microbusinesses only. However, we welcome feedback on extending certain standards to all non-domestic consumers, consistent with the approach in gas and electricity markets. Heat network operators and heat suppliers will have to meet the Guaranteed Standards, however, we expect the supplier to act as a consumers' point of contact.

We think the criteria should be that if a heat network provider is a not-for-profit organisation they should be exempt from the Guaranteed Standards of Performance (this would apply to registered social landlords who are not-for-profit but not those who are deemed local

⁵³ Found here: <https://www.gov.uk/government/consultations/heat-networks-regulation-implementing-consumer-protections>

authorities). However, not-for-profit networks would still have to meet the Overall Performance Standards and be required to provide improvement plans for failure to meet the standards. We expect this to be a small proportion of the market.

Proposals

We seek views on proposed compensation levels and propose introducing Overall Standards of Performance, an alternative approach for heat networks operating on a not-for-profit model. We set out a proposal to require not-for-profit providers to submit an improvement plan to Ofgem for failure to comply with the Overall Performance Standards. While we are considering a different approach for not-for-profit heat networks, our objectives remain consistent. Stakeholder feedback on our proposals will feed into a statutory consultation on this in 2025.

Compensation levels

Table 2 sets out proposed compensation levels that heat network operators or heat suppliers must pay to consumers for failure to meet the associated standards. The payment amounts are comparable to Heat Trust levels. Heat Trust rules do not include a Standard for making and keeping appointments. They did consult and proceed to raise a modification to their scheme rules in 2021, to include this Standard with an associated compensation payment of £30 to align with Ofgem. The modification is on hold while Heat Trust discusses with Ofgem how best to align with future regulation.

Table 2: Proposed compensation levels for all domestic and microbusiness consumers and extending certain standards to apply to business consumers larger than microbusinesses (not-for-profit networks exempt).

Guaranteed Standard	Compensation payment	Non- Domestic
Appointments not made properly	£30	Does not apply
Appointments not kept	£30	Does not apply
Incorrect notice of interruptions	(minimum 2 days' notice) £40	(minimum 2 days' notice) £40
Priority service for customers in vulnerable circumstances	Alternative heating within 12 hours for 'PSR' customers. £35	Does not apply
Restoration of supply within certain timeframe	(Payment required if supply is not restored with 24 hours for unplanned interruption; 5 days for planned interruption) Planned interruption: £45 per day	(Payment required if supply is not restored with 24 hours for unplanned interruption; 5 days for planned interruption) Planned interruption: £45 per day

	Unplanned interruption: £45 per day (£720 cap)	Unplanned interruption: £45 per day (£720 cap)
Multiple interruptions	Four 12-hour interruptions in a year £80	Four 12-hour interruptions in a year £80
Faulty meter (credit/prepayment)	£30	Does not apply

Respondents to previous consultations told us that many of the networks they operate are old, and require substantial financial investment to improve reliability, noting that funding compensation payments could make this situation worse. We have also considered other market characteristics, such as the many networks operated by small entities with small consumer bases.

Setting the bar too high initially could have significant financial consequences. We intend to set levels which incentivise heat networks, yet do not disproportionately take funds from providers, that could otherwise be used to improve heat networks. Certain standards, and associated compensation payments, such as unplanned interruptions or multiple interruptions should gradually become less challenging, as other areas of the framework take effect, for example the Heat Networks Technical Assurance Scheme should improve the performance and reliability of heat networks over time.

We have also considered the effect of the proposed Security of Supply Standard Authorisation Condition. Our intention for this standard is to improve existing reliability and associated communication standards across the market, it should strengthen the obligations in the Guaranteed Standards.

Existing standards and compensation levels vary significantly. We found they broadly varied from £2 per day to £54 per day for outages. Standards can be placed on external contractors through contract, these existing contracts are often long term, difficult to change, and include low compensation levels. We propose that heat network operators and heat suppliers take best endeavours to update existing contracts to align with our standards and compensation levels. We are interested in feedback on what would be an appropriate transitional period to update contracts.

We have explored compensation levels across frameworks of other essential services, including gas distribution and supply, electricity distribution and supply, water, and the voluntary scheme by the Heat Trust (Refer to Annex 4: Guaranteed Standards of Performance compensation levels). Of the sectors we have looked at, the highest compensation payments are set by gas and electricity. Ofgem has recently published a consultation,⁵⁴ proposing to increase the payment suppliers must make to customers when they fail to meet any of the Standards set out in the Electricity and Gas (Standards of Performance) (Suppliers)

⁵⁴ <https://www.ofgem.gov.uk/consultation/supplier-guaranteed-standards-performance-gsop-payments-inflation-uplift-consultation>

Regulations 2015.⁵⁵ The consultation proposes to increase payments, from £30, to account for inflation since 2015, and sets out a preferred option to increase the payment amount to £40. Ofgem will publish a decision document later in the year.

The financial impact of compensation payments for failure to meet the Standards is uncertain. Stakeholders have told us there is a risk that consumers would have to fund their own compensation payments through future price increases, and highlighted a risk of network insolvency, if we set initial levels too high. It would therefore be difficult to justify setting compensation levels comparable to gas and electricity from the start of regulation.

While this uncertainty remains when considering compensation payments comparable with Heat Trust levels, this needs to be balanced against the need to drive improvements for consumers. Alignment with Heat Trust levels also presents a lower risk, as we know it is broadly based on existing practice in the sector. Most registered Heat Trust participants are ESCOs however, and we recognise it may be more challenging for heat networks operated by small entities, and those that are not Heat Trust participants.

Extending Guaranteed Standards to non-domestic consumers

We have previously proposed domestic consumers and microbusinesses will be protected by the Guaranteed Standards. We said we think larger businesses are unlikely to need these protections due to their ability to negotiate their own prices and terms of service. In recognition of responses to our consumer protection consultation and considering the monopolistic nature of heat networks, however, we have proposed in Table 2 extending certain standards to apply to non-domestic consumers.

We are keen to seek views on whether the standards and compensation levels that could be introduced in the initial framework would be a reduction in protection for non-domestic consumers, and whether we would be reducing non-domestic consumers ability to negotiate their own standards and compensation levels. Our intention would be for the proposed standards to be a minimum Standard for non-domestic consumers and would encourage negotiations to go beyond, but we are aware there might not be a lot of incentive to do so.

These proposals align with the approach in gas and electricity, where there are certain Guaranteed Standards that apply to domestic consumers and microbusiness consumers only, but there are also standards in place that apply to both domestic and non-domestic consumers.

Approach to not-for-profit heat networks

Many heat networks are run on a not-for-profit business model. A not-for-profit organisation is a business that aims to do something other than to make profit for the owners, it needs to make enough money to cover its costs, but any surplus is reinvested into the business or used in other ways, such as providing a public service or helping people. For example, many housing associations are heat network providers and are not-for-profit organisations. They don't make profits for shareholders; they invest money to provide affordable homes and invest in local communities.

We have taken into consideration responses to our consumer protection consultation where views were divided. Concerns were raised that consumers on this type of network would have

⁵⁵ <https://www.legislation.gov.uk/ukxi/2015/699/body/made>

to pay for their own compensation payments through future price increases, as there is no other way for this type of network to fund compensation, with others highlighting the importance that all consumers should be entitled to the same level of compensation.

We recognise not-for-profit business models are very different to the business models of the energy companies we are most familiar with in gas and electricity. We have therefore looked at the work of the Regulator of Social Housing (RSH), the regulator of registered providers of social housing in England as a more valid comparator, as certain registered providers are not-for-profit housing associations, and some of them are heat network suppliers/ operators. The Social Housing (Regulation) Act 2023⁵⁶ introduced the power to require a registered provider to submit a performance improvement plan for failure to meet a required standard.

We propose to introduce Overall Performance Standards within the upcoming Market Framework Regulations, in addition to the Guaranteed Standards of Performance Statutory Instrument. This would enable Ofgem to publish documents, requiring not-for-profit heat networks to meet Performance Standards equivalent to those in the Guaranteed Standards of Performance (see Table 2), but without the automatic compensation mechanism, where heat network operators or heat suppliers must offer compensation payments to consumers for failure to meet the standards. Our objective in setting Overall Performance Standards will be consistent with the Guaranteed Standards of Performance objective.

We propose to introduce the requirement for a provider to submit an improvement plan to Ofgem for failure to comply with the Overall Performance Standards, as an alternative to offering compensation payments. We think an improvement plan may be a more appropriate incentive to deliver the outcomes we are seeking for consumers on this type of heat network.

If a not-for-profit network fails to meet an Overall Performance Standard, there would be a requirement to notify Ofgem. Ofgem may request that the provider submits an improvement plan to demonstrate how they will come into compliance. Improvement plans would be tailored on a case-by-case basis and would depend on what standard a heat network failed to meet. It is expected that this improvement plan be more ambitious and more strictly enforced, reflecting the lack of an automatic compensation requirement. We would expect the provider to come forward with details as to how the heat network will address the reason for failing to meet a standard and within what timeframe.

The aim of such a plan will be to require this type of heat network to address the factors and undertake any remedial works, where appropriate, which caused them to fail to meet an Overall Performance Standard in a timely manner. We intend to develop guidance to support this obligation, which will be set out in a future guidance consultation.

Consultation questions

- 26. Do you agree or disagree with our proposed compensation levels that broadly align with existing practice in the sector (Heat Trust levels)?**
- 27. We welcome feedback from those that place Guaranteed Standards on external contractors through contract, on the requirement to take best endeavours to update existing contracts to align with our standards and compensation levels or provide feedback on what would be an appropriate transitional period to update contracts.**
- 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**

⁵⁶ <https://www.legislation.gov.uk/ukpga/2023/36>

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.

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?

Billing and Transparency: Updated proposals

Context

We confirmed in the government response that we will implement most of the Transparency of Information proposals set out in the 2023 consultation⁵⁷. We are consulting now to gain further feedback on our proposals for billing information, back-billing, and Heat Supply Agreements. We are also seeking views, for the first time, on unbundling the heat supply element from other service charges and providing the charge for the individual consumption of heat separate from service charges, rent, and even maintenance charges.

Scope

Authorised heat network suppliers will be required to meet the obligations in respect to billing, transparency, and heat supply agreements. The authorisation conditions will be supplemented by guidance and best practice templates that will account for different types of heat network.

As set out in the previous section we are proposing to extend the scope of application of the general obligation ‘treat all customers fairly’ to all non-domestic consumers regardless of size.

We propose that the scope of these transparency obligations applies to all domestic and SME/microbusiness suppliers.

Proposals

Transparency of information to the consumer during residency

We seek views on requiring heat networks to provide information to consumers during residency. The accuracy, transparency, and frequency of information that goes to consumers is key in determining their experience. In the government response, we confirmed that we will go ahead with the proposals on billing frequency and method as set out in the previous consultation. We will address how these proposals will work for unmetered properties in guidance.

Providing consumers with regular bills that are accurate and informative, together with heat meters, empowers them to take steps to optimise consumption behaviours that help reduce household costs and carbon emissions. We therefore propose mandated minimum standards on the transparency of information to consumers during residency.

As set out in the previous consultation, existing billing requirements in Regulation 9 and Schedule 2 of the Heat Network Metering and Billing Regulations will be retained and incorporated into the authorisation conditions. In addition, we propose to add several

⁵⁷ <https://www.gov.uk/government/consultations/heat-networks-regulation-consumer-protection>

requirements to enhance consumer protection and achieve the following outcomes (Annex 1: Previous billing proposals information provides detail of the proposed requirements):

- Clear and accurate information for consumers on terms for the supply of heating, hot water, and cooling.
- Clear and accurate billing for consumers, who can understand what they are paying and are likely to pay in the future.
- Consumers have a choice of payment methods and are protected from unfair barriers to switching payment methods.

As well as the proposals for billing information as set in the previous consultation (see Annex 1: Previous billing proposals information for more detail) we propose that all bills should provide:

- Information on how heat networks contribute to net-zero targets;
- Information on how heat networks operate, with information on monopoly supply;
- Information on energy saving for consumers on bills;
- Contact information on the availability of consumer advocacy from Citizens Advice or Consumer Scotland;
- Information on support mechanisms offered by supplier and fuel poverty charities; and,
- Information on support mechanisms offered by Energy and Housing Ombudsman.

We also propose that if networks are able to, billing information should include:

- Fuel type/source for the network and the environmental impacts of heat generation
- Carbon emissions and heat network efficiency rating

We will support these proposals with guidance on what bills could look like, and support on how heat networks can report on their environmental impacts and contributions to net-zero targets. Later in the year, we will be conducting behavioural insights work by engaging with consumers to understand best practice in presenting this information to consumers.

Billing for non-domestic consumers

Billing rules apply to SME and Microbusinesses. To support to non-domestic consumers, we will develop guidance for scenarios where billing interacts with non-domestic heat networks.

Consultation questions

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?

Unbundling Heat charges

We are aware of examples and reports of poor consumer outcomes in scenarios where billing for the individual supply of heat is tied to rent, flat rate system or is tied to other service

charges. The person issuing a consumer's bill (heat plus rent or other service charges) is a heat supplier, and therefore falls under the scope of authorisation.

We are concerned that these consumers are unprotected by proposals in the previous consultation and face unfair treatment, and therefore want to align protections with those in gas and electricity markets and explore proposals that provide customers with their individual heat charge.

Over time, this may look like unbundling the individual heat billing⁵⁸ from rent or service charges to protect consumers from unfair treatment and poor outcomes. We are continuing to engage with the Ministry of Housing, Communities & Local Government to develop our proposals, and explore where legislative and other changes are required to facilitate this change. It can be difficult for consumers to know who their supplier is in scenarios where billing for heat charges is tied to rent, other service charges, or uses a flat rate system. Most commonly the heat supplier is the building owner/landlord, who could be a private developer, a freeholder or a local authority or housing association. Many landlord suppliers subcontract activities such as metering and billing and operation and maintenance to other entities.

Many social housing landlords run not-for-profit networks. Consumers may be billed separately, although it is common for heat related charges to be part of their rent or service charges. This is a key consideration for us, there are implications for consumers paying for their heat through rent or service charge. This means the rules in the Landlord and Tenant Act 1985⁵⁹ applies, where, in the worst-case scenarios, they can be threatened with eviction or forfeiture of lease for non-payment of debt, and there is a back-billing limit of 18-months.

For heat network consumers who pay separately for their supply of heat, we are proposing to introduce rules which mean suppliers will have to follow the debt pathway when consumers experience payment difficulty and that as a last resort, consumers face disconnection rather than eviction for non-payment of debt, and there will be a disconnection ban for certain consumers in vulnerable circumstances.

This links to the previous consultation proposals for unmetered networks, where we said we want to improve transparency for consumers in properties that are unmetered and have the heat charge tied to other service charges so that they understand what they are paying for and enable them to challenge the costs they consider unfair or unreasonable and give them similar protections to consumers in metered properties and across gas and electricity.

We are aware of recent changes in the Leasehold and Freehold Reform Act 2024⁶⁰, which aims to improve transparency in this sector. We will work with the Ministry of Housing, Communities, and Local Government to ensure our proposals align.

We think that separating heat charges from other service charges/rent and requiring suppliers to provide these consumers with a separate bill for their individual supply of heat would help achieve transparency and good consumer protection outcomes. We intend to work collaboratively with the relevant government departments to explore developing this proposal further. However, we are aware this may require changing existing legislation, such changes would be made by government and would take time to deliver.

We are also aware that heat networks will need time to adjust systems and processes and would like to seek views on achievable timescales for implementing this policy if it were to be

⁵⁸ Heat charges for common areas could still be part of service charges or rent.

⁵⁹ <https://www.legislation.gov.uk/ukpga/1985/70/contents>

⁶⁰ <https://www.legislation.gov.uk/ukpga/2024/22/contents>

introduced. We expect the installation of metering in individual dwellings would facilitate the unbundling of the billing for the individual supply of heat. We are considering whether aligning with Heat Network Technical Assurance Scheme metering requirements would give the market adequate time to meet new regulatory requirements.

The options we are considering are:

Options:

- **Option 1:** no change. Keep heat bills tied to service charge for individuals. This would mean consumers paying for their heat in this way would not be protected by our rules to protect consumers in payment difficulty, including a disconnection ban for certain vulnerable groups.
- **Option 2:** explore and work with relevant government bodies to require heat network suppliers, where heat charges are billed to consumers through service charge, a flat rate system, or tied to rent, to separate the individual heat charge and be billed separately. This will decouple heat charges from other charges, and ensure consumers are covered by all vulnerability protections, including those for consumers in payment difficulty.
- **Option 3:** require networks, where heat charges are billed to consumers through service charge, a flat rate system, or tied to rent, to keep charges together but evidence on consumers' bills the heat charge for the period with a clear and understandable explanation of how the bill has been calculated. This would mean that some consumers would not be covered by all the protections proposed under the debt pathway.

Consultation questions

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?

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

Back-billing rules

This section seeks views on proposals to limit back-billing of individual consumption of heat to 12 months. We recognise that in some scenarios charges for communal areas cannot be unbundled and charged separately. In these cases, they will not be subject to these 12-month back-billing rules.

We want to hear views on the proposals set out below. Responses to the previous consultation showed that most networks already limit back-billing to 12 months aligning with the Heat Trust and gas and electricity market rules.

We have concerns about poor consumer outcomes if back-billing is kept at 18 months across the sector, including higher unexpected bills, consumers being unfairly charged, and inaccurate billing. Our aim is to protect consumers from the shock and financial hardship of catch-up bills for unbilled consumption older than 12 months. We want to achieve strong protections for all heat network consumers and give them similar protections to consumers in gas and electricity markets. We aim to limit back-billing to 12 months across all heat networks, including situations where a supplier increases the consumer's direct debit as it was set too low, and will apply to both variable and standing charges, however, moving to a back-billing

limit of 12 months for all heat networks is dependent on the unbundling of the individual heat charge from service charges and rent.

Where these charges are bundled, they will be subject to the back-billing limit of 18 months under the Landlord and Tenant Act 1985. We are exploring unbundling the individual heat charge, and if this were to be done, then we would look to introduce a back-billing limit of 12 months for all heat network consumers.

Our previous consultation responses suggested that administrative and resourcing costs are a key challenge networks face, especially local authorities and housing associations. We are therefore proposing a transitional approach that would give networks adequate time to prepare for this regulatory requirement. This could align with HNTAS metering policy, where heat networks will be required to make changes to systems and processes to meet the updated rules in the HNTAS scheme, which should reduce administrative costs and simplify processes for heat networks.

Additional information on the impacts of our proposed back-billing limits can be found in the analytical Annex 2: Back-Billing Impacts. This considers the potential impacts of changing the rules on back-billing limits.

Our preference if we were able to unbundle the individual heat charge is to go ahead with the 12 months back-billing limit for all networks. However, we propose there will be an exemption for heat networks who charge for the supply of heat as part of rent or service charges to stick with 18 months for a transitional period, with the aim of moving towards 12 months over time. If it isn't possible to unbundle the individual heat charge, we may need to consider whether an 18 month back-billing rule will continue to apply to this type of heat network. We will issue guidance on back-billing best practice for this to avoid potential bad practice.

Consultation questions

- 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?**
- 34. Can you provide evidence of any potential impacts of limiting back-billing to 12 months for individual properties? Do you have any concerns regarding communal areas?**
- 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?**

Heat Supply Contracts

In our previous consultation and government response, we confirmed that we will be going ahead with our proposals for heat supply contracts and price change notifications. We seek views on the potential challenges of creating new contracts or amending existing ones to ensure the information proposed is included. We also want to hear views on timeframes within which heat networks could implement this.

We propose that if a regulated entity supplies heating, hot water or cooling to a domestic or microbusiness consumer (heat supplier), it must do so under a heat supply contract, the equivalent of a heat supply contract (e.g., terms in a lease or tenancy agreement), or a deemed contract. We want to ensure that all consumers receive a form of heat supply contract

with all the information as proposed in the previous consultation (see Annex 1: Previous billing proposals information).

Regulated entities must provide the consumer with information on the circumstances and process for which heat charges (including standing charges, variable charges, and discounts) may change in future. This must be communicated in a clear and transparent way and, where possible, be included in the terms of the heat supply contract, equivalent contract, or deemed contract with the consumer.

To improve transparency, we want to make sure that all consumers have a form of heat supply contract or equivalent; in unmetered networks this may be in the form of a tenancy agreement. We want to ensure that these contracts do not refer to third party or external documents, so that all information is presented in one clear document.

We will develop guidance for networks on this and also develop guidance on how these will work in unmetered networks.

Consultation questions

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

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

Pre-contractual transparency

In the 2020 consultation⁶¹ we proposed a package of measures to ensure a minimum amount of information is available to prospective residential heat network consumers prior to and during a property transaction, such as buying or renting a property. This will make prospective customers aware when a property is being supplied by a heat network, what a heat network is, key implications of living on a heat network, estimated usage and price of heat in the property, and the heat source and carbon emissions.

We consider there are three types of information that prospective heat network consumers will need:

- General heat network information, such as what a heat network is;
- Information about the specific heat network supplying the property, for example the heat supplier including contact details and heat source;
- Property-specific information such as estimated use, cost, performance and carbon emissions.

This will provide heat network consumers with the necessary information that helps them to understand the characteristics of their network and what they can expect from their supplier.

We outlined our commitment to work alongside the Ministry of Housing, Communities and Local Government (MHCLG) and equivalent bodies in Wales and Scotland to include heat network related information and signposting to further information into their 'How to...' series⁶². These are aimed at residential consumers and include guides for buying, renting, and leasing, as well as a letting guide for landlords. We affirm our commitment and will continue to work

⁶¹ <https://www.gov.uk/government/consultations/heat-networks-building-a-market-framework>

⁶² <https://www.gov.uk/government/collections/housing-how-to-guides>

alongside the MHCLG, seeking to update the relevant guidance documents to reflect pre-contractual transparency policies, alongside additional in-residency transparency policies that we outlined in the 2023 consultation to ensure consistency.

In addition, we have engaged with the MHCLG in reviewing, where appropriate, any amendments to existing legislation that can be made to obligate estate agents to report whether a property being sold is connected to a heat network, and potentially other useful information. This is a long-term avenue we will continue to probe the viability of; however, we are also seeking to address this through a multifaceted approach.

We are also working with the National Trading Standards (NTS) estate and letting agency team in updating guidance produced for estate and letting agents during property-related transactions. The current guidance produced by the NTS already makes reference to heat networks, outlining that listings “should include an accurate description or statement as to the nature of the supply (or supplies) of heating at the property”⁶³. We seek to expand on this by providing more detail, as set out above, whilst pointing towards relevant guidance documents and data produced/published by Ofgem regarding heat networks.

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

Context

We want to ensure that in the event of heat network insolvency, or if a network’s authorisation is revoked, arrangements are in place to protect consumers and ensure that they have a continued source of heating and hot water. It is also important to ensure that heat networks are adequately managing the risk and impact of failure.

In the 2023 consultation we put forward initial proposals to mitigate the risk of failure, but indicated we’d bring forward further proposals, including any regulatory backstops that we may consider are required. Stakeholder views on our proposals will inform a statutory consultation on authorisation conditions to give effect to these proposals and secondary legislation where required.

DESNZ preliminary surveys from 2022-2023 reported that 65% of heat networks have no existing arrangements to handle insolvency or failure in their contracts. In the Heat Network Consumer and Operator survey,⁶⁴ 76% reported no relevant contractual arrangements, though 49% reported some non-contractual arrangements would be made in the event of them leaving the market. Those which did report arrangements, indicated these were to transfer responsibility rather than to actually appoint a new operator.

Although studies into heat network failure are limited, and there are few examples of permanent failure to date, the sector is expected to change and expand significantly over the coming years: with change and expansion the risk of failure could increase. This could be due to, but not limited to: financial problems; operational or compliance issues which require greater resources to address than the provider has available; increased wholesale/ input prices; high maintenance costs; and high levels of bad debt. We therefore want to encourage

⁶³ Found here on page 20:

[https://www.nationaltradingstandards.uk/uploads/Material%20Information%20in%20Property%20Listings%20\(Sales\)%20v1.0.pdf](https://www.nationaltradingstandards.uk/uploads/Material%20Information%20in%20Property%20Listings%20(Sales)%20v1.0.pdf)

⁶⁴ <https://www.gov.uk/government/publications/heat-network-consumer-and-operator-survey-2022>

and incentivise the market to manage the risk and impact of failure as far as possible, and also establish any regulatory backstops that we think are needed if other initiatives fail.

We propose a suite of interventions, with the principles below in mind, that will be used to do this:

- **Financial responsibility and risk management:** Heat networks manage their finances and assets in a financially responsible way, recognising the vital role that heating and cooling plays for consumers.
- **Financial monitoring regime is risk-based, proportionate and forward-looking:** In addition, and where possible, financial monitoring enables Ofgem to identify Suppliers or Operators that pose a failure risk.
- **Commercial or contractual options are found where needed in case of exit:** Obligations and arrangements drive the sector to manage any exits through commercial outcomes or contractual arrangements.
- **Adequate Safety-Net Arrangements:** There are adequate safety net arrangements for consumers if a heat network fails. These should ensure the continuity of heat to domestic consumers. Regulatory intervention is only used as a last resort where it is essential to ensure these consumers are protected.
- **Cost Efficiency:** Step-in requirements are justified by the risk and impact of failure, and where possible, the cost of interventions is met by those who benefit from them.
- **Future market, stability and flexibility:** the framework allows heat networks to meet requirements in different ways while delivering the consumer protection outcomes. This flexibility also accommodates future delivery models and supports trust and growth in the sector.

Scope and approach to segmentation

We have assessed current obligations on heat network operators with a particular focus on measures which would protect consumers in the event of a heat network failure. We have also explored existing step-in mechanisms and arrangements for another provider to take over supply of heating and hot water in case of insolvency or supply failure.

We aim to avoid regulatory duplication or placing unnecessary additional burdens on heat networks, whilst putting arrangements in place to ensure continuity of supply for consumers. As discussed under 'Financial resilience and monitoring', we will put in place authorisation conditions setting out these expectations and monitor financial indicators to enable Ofgem to understand where there are risks and where further engagement with networks is required.

There are several existing obligations that apply to heat network operators by virtue of their wider activities, particularly in landlord-led and social housing schemes. Under the Landlord and Tenant Act 1985 there are obligations on landlords to keep in repair and working order installations for the supply of utilities including heating and heating water. The Repairing Standard in Scotland was introduced in the Housing (Scotland) Act 2006⁶⁵ and sets out duties placed on landlords to ensure properties meet a minimum physical standard including the provision of heating and hot water. In addition, social housing providers are regulated by the

⁶⁵ <https://www.legislation.gov.uk/asp/2006/1/contents>

Regulator of Social Housing in England, in accordance with objectives set out in the Social Housing (Regulation) Act 2023⁶⁶; in Scotland by the Scottish Social Housing Regulator as set out in the Housing (Scotland) Act 2010⁶⁷; and in Wales are regulated by Welsh Ministers in accordance with the Regulatory Framework for Housing Associations Registered in Wales⁶⁸. We have also considered how governance and standards are applied to social housing providers by each regulator, in particular where these extend to private registered providers, but not Local Authorities. The effectiveness of these rules, and the broader framework, may be an important factor in why we have seen limited heat network failures to date.

We have considered whether these existing obligations are sufficient to provide assurance that consumers in heat networks are already adequately protected in a scenario whereby a heat network provider goes into insolvency or has its authorisation revoked. Should this be the case, it would not be reasonable or proportionate for Ofgem to introduce a conflicting or duplicating regime.

We have identified that registered providers of social housing are already subject to regulatory structures with existing processes in place for monitoring financial stability with regulators or auditors in the three devolved nations of Great Britain. Social Housing Regulators also have powers to support relevant providers where they encounter financial difficulty including utilising a special administration regime if required. These will be in line with each Social Housing Regulator's application of these powers, for instance the Regulator of Social Housing in England this applies to private registered providers. These arrangements would include the ongoing provision of heat via any heat network operated by the social housing provider through the transfer of the heat network infrastructure.

Even where special measures arrangements are invoked in local authority schemes, the prevailing obligations under housing legislation would still apply with regards to heating and hot water provision.

We therefore propose taking a segmented approach to the heat network market both in terms of financial regulation and step-in arrangements. We propose excluding registered social housing providers where the legal entity is subject to the relevant social housing regulations, from the requirements below including financial monitoring information, Continuity Plans, Contractual step-in, Last Resort Directions, Special Administration Regime and Transfer Schemes. We will expect that these parties inform Ofgem if they are facing financial distress in line with the Open and Cooperative Authorisation Condition, and we will explore arrangements with the Social Housing Regulators to enable sharing of relevant information.

As Local Authorities are unable to enter into insolvency, we also propose Local Authorities should be excluded from these requirements.

Consultation questions

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.

39. Are there additional sectors, other than social housing, where you consider the risks are managed due to factors not identified here? If yes, please provide details.

⁶⁶ <https://www.legislation.gov.uk/ukpga/2023/36>

⁶⁷ <https://www.legislation.gov.uk/asp/2010/17/contents>

⁶⁸ <https://www.gov.wales/housing-associations-registered-wales-regulatory-framework>

Financial resilience and monitoring

Policy objectives and background

We want heat networks to manage their finances and assets in a financially responsible way, recognising the vital role that heating and cooling plays for consumers. We will put in place authorisation conditions setting out these expectations and monitor financial indicators to enable Ofgem to understand where there are risks and where further engagement with networks is required. We expect heat networks to proactively engage with Ofgem if they are facing financial distress, in line with the Open and Cooperative authorisation condition.

We propose a number of measures to promote this financial responsibility, and to support market led outcomes if a network is at risk of exiting the market.

In the 2023 Consumer Protection Consultation,⁶⁹ we consulted on introducing principles-based financial responsibility authorisation conditions, as we considered an outcomes-based principle supported by guidance would be appropriate for heat networks, recognising the aims of this policy, and the diversity of the sector.

We confirm our intention to introduce these requirements to ensure authorised entities manage their finances, and risks, responsibly. We would require heat networks to confirm through annual declarations their certainty regarding their available resource for operating the network. We also propose the authorisation conditions will require heat networks to engage proactively with Ofgem should there be concern over their ability to meet the financial responsibility condition. Ofgem has robust arrangements in place to treat financial information sensitively.

In the case of failure, it is vital that the regulated parties own, or have material control over, the assets as this supports the smooth transfer of activities to a new authorised party. We propose authorisation conditions which will deliver the following outcomes.

Table 3: Proposed authorisation conditions and intent

Proposed authorisation condition	Proposed intent for heat networks
Financial Responsibility Principle and Availability of Resources	<p>Based on the Supply Licence Condition 4B, and Gas Transporter Licence Condition 44.1 an outcomes-based principle.</p> <p>Authorised party would ensure operational and financial arrangements, including access to funds and investment as necessary to serve their customers and meet their regulatory obligations.</p> <p>Principle that the authorised party will act in a manner to ensure it has resource available to itself and continue to carry on the authorised activity. Includes the management of it financial resource, personnel, fixed or moveable assets etc.</p>

⁶⁹ <https://www.gov.uk/government/consultations/heat-networks-regulation-consumer-protection>

	<p>Requiring the authorised party to notify the authority in relation to operational resources.</p> <p>This would be supported by an annual declaration and authorised party would notify the Authority when it becomes aware of a material risk to its financial position</p>
Control over Material Assets	<p>Due to the importance of assets, including contracts and systems, to the operation of the network, we want to ensure that the responsible party has control over the assets critical to carrying out the regulated activity.</p> <p>Authorised party would have arrangements that are capable of legally transferring these assets to a successor.</p>

Consultation questions

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.

Financial monitoring

We want to take a proportionate approach to monitoring, with the overall aim of understanding the financial health of networks and identifying if there are risks of market exit. If a high risk of market exit is identified, it may be suitable for us to require additional qualitative and quantitative financial information to understand the likelihood of insolvency. As explained in the earlier section, we propose to carve out social housing and local authority schemes where the authorised entity is the party that is captured by sectoral arrangements.

Financial monitoring was addressed in the 2023 Consumer Protection Consultation, in which we said we would collect some financial data on a regular basis, and potentially additional data where risk was highlighted. Financial data requirements will be based on information either found in standard financial reporting accounts or specifically from a heat network within an entity's portfolio. It will therefore be appropriate to produce guidance regarding these questions for the benefit of smaller authorised parties to account for the separate instances of existing account reporting. Any commercially sensitive financial monitoring data provided to Ofgem will be handled securely.

We propose that relevant authorised parties will be required to report at a minimum the following data, or make the following declarations on an annual basis, reported in line with their financial year:

- What was the net profit or loss for the most recent financial year?
- What is the total amount of liquid assets that you control or have unrestricted access to?

- Did the heat network assets exceed its liabilities at the end of the most recent financial year?
- What was the average monthly fixed costs for the heat network for the previous financial year? What was the average monthly income for the heat network for the previous financial year?
- Please confirm whether the authorised entity is satisfied that it is able to meet its costs as they fall due within the next 12 months?
- How many months ahead do you hedge your gas, electricity, biomass or other fuel input requirements? What percentage volume of costs are hedged?

We will also utilise where relevant other data points captured by regular reporting from heat networks that will give an indication of the financial resilience of an authorised party. These would include consumer protections metrics regarding levels of bad debt and fair pricing.

Consultation questions

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.

Operations/Supply Continuity Plans

We propose that heat networks have an Operations/Supply Continuity Plan in place to support the transfer of activity if required. We are aware that this proposal builds on existing good practice within the sector, with networks having arrangements in place such as Exit Plans, and Business Continuity Plans. Stakeholders were broadly supportive of this proposal in response to the 2023 Consumer Protection consultation, with many requesting further information on the contents of the Plans.

In the event that a heat network's supplier and operator are not the same entity, we expect each authorised entity will have a Continuity Plan in place and have outlined in the following sections, the areas that we expect should be covered. While some aspects of the plans may apply across a portfolio of networks under the same authorisation, we expect that in some areas, a Continuity Plan will necessarily be bespoke to an individual network. The quantity of information and scale of the Plans will vary across the market, reflecting the technical and commercial arrangements of each network. We have set out below the broad areas we expect to be covered.

Implementation

This requirement will be supported by an authorisation condition requiring networks to have a Continuity Plan in place, and to keep it under review and update as required. This will be supported by an annual confirmation through the digital service that networks have a compliant Continuity Plan. We do not propose to request Plans are submitted to Ofgem on a regular basis, however we will have the ability to ask for a Continuity Plan at any point in time and will do so if we feel it necessary for any reason. We may also wish to see a Continuity Plan if we have concerns over an authorised party's financial health or if we believe they are not meeting their authorisation conditions. A Continuity Plan may also be requested as part of a targeted or random audit.

We propose that existing networks will have these arrangements in place by 26 January 2027, and networks that start regulated activity after 27 January 2026, from the start of the authorised activity.

Operations/Supply Continuity Plan breakdown

We would expect the following areas of the Operations/Supply Continuity Plan to be maintained by either the Supplier or Operator as defined. Information to be provided has been based on a number of sources, including existing practice in gas and electricity and stakeholder engagement.

Table 4: Operations/Supply Continuity Plan breakdown

Continuity plan key area	Contents	Supplier	Operator
Supplier information	<p>Details of arrangements with third-party service providers including their responsibilities and contact details.</p> <p>Billing Service information.</p> <p>Priority Service Register (PSR) customer list. We would expect figures to align with the regularly reported monitoring figures.</p> <p>Customers numbers. We would expect figures to align with regularly reported monitoring figures.</p> <p>Customer payment information.</p>	x	
Key internal contacts	<p>Details of key staff:</p> <p>Persons with significant control including Directors, Heads of Teams, Senior Officers.</p> <p>Details of key contacts at service providers.</p>	x	x
Customer account information	<p>Details of the methodologies to gather the following:</p> <p>Customer debt information including number of customers in debt and the value of debt.</p> <p>Customer account balances.</p>	x	

Data	<p>Details of process to access data sets and their location.</p> <p>Details of how data sets are kept up to date.</p> <p>Details of methodologies for handing over information and customer data.</p>	x	
Details of key contractual assets	Details of key contractual assets with customers and energy suppliers.	x	x
Details of key physical assets	Details of the key physical assets of the heat network: Plant, equipment, material spares, infrastructure or other physical assets required for the delivery of the regulated activity		x
Contractual step-in arrangements	Details of the contractual step-in arrangements including contact details for the provider and key elements of the contract (or the contract appended to the Continuity Plan)	x	x

Consultation questions

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.

Contractual step-in

We propose that heat network operators be required to have in place, on an ongoing basis, a contractual arrangement with an entity to continue the authorised activity, which could be triggered in the event there is an imminent risk of insolvency or revocation. Requiring heat networks to put in place such contractual step-in arrangements will provide a clear pathway to ensure that heating and hot water provision are maintained for consumers if the existing operator or supplier needs to exit the market, and as such we see this requirement as a key market-led component of the step-in regime.

We expect that these arrangements would only be required if alternative commercial options have been exhausted, and to ensure that there is a suitably experienced provider available to continue the authorised activity. We consider this approach would allow networks to negotiate such arrangements reflecting the commercial, technical and operational requirements of their networks.

Our approach to requiring contractual step-in arrangements will be governed by the respective failure risks in each sector of the market. Where operators are already under existing

obligations to mitigate and manage risk, such as those in the social housing sector, we do not think it is proportionate to overlay an equivalent requirement to maintain heating and hot water supply to consumers (this is discussed in the 'Scope' section above). Where no existing arrangements provide for managing failure, we believe that a requirement for a contractual step-in arrangement is needed to provide assurance for consumers in case operators need to exit the market.

We are mindful that smaller operators may find it difficult to set up a contractual step-in arrangement, due both to their lack of contacts and knowledge of the wider market, but also because potential step-in entities may be less likely to be incentivised to enter into such contractual arrangements with smaller heat networks. We would like to explore the potential for an arrangement to be established via a trade body, which could offer guidance and suggest potential contractual step-in entities for smaller operators who require support to put these arrangements in place.

In the case of larger commercial operators, we believe that they will be likely to have the knowledge and capacity to negotiate arrangements with suitable entities. Where a heat network has a separate supplier and operator, we envisage that the supplier's contractual arrangement will typically be with the relevant heat network operator.

Consultation questions

43. Are you aware of examples of, or do you already have in place, this type of contractual step-in arrangement, to enable a replacement entity to continue to operate a heat network?

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?

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?

If we proceed with the requirement to put contractual step-in arrangements in place on an ongoing basis, this will be mandated through the authorisation conditions. Contractual step-in will be closely aligned with the Continuity Plan, and enabled by associated authorisation conditions, but it will also require a discrete contractual arrangement between the authorised entity and the entity which has agreed to assume the operation, if needed. We expect such contractual arrangements to make provisions including (but not limited to):

- Definition of trigger events for contractual step-in to take place.
- An agreement to conduct phased transfer of operations where required.
- Obligations on the heat network to co-operate with the step-in entity, to provide access to data and premises as required, and to ensure an orderly transfer of operations.
- A non-frustration obligation.
- A detailed plan and timeline of the handover/transfer process.

Last Resort Direction

In previous consultations, some stakeholders have advocated for the introduction of an operator or supplier of last resort arrangement, where Ofgem could appoint a new entity to continue the authorised activity if commercial solutions have been exhausted and contractual step-in arrangements have failed.

We continue to consider the practical and legal issues to provide for a Last Resort arrangement for heat networks, by giving Ofgem the ability to find and nominate a replacement authorised entity to continue the operation of a heat network. We are also considering the costs associated with this (discussed later in this section).

If it were appropriate to give Ofgem these powers, we may need to bring forward secondary legislation using powers given to the DESNZ Secretary of State in the Energy Act 2023 (Schedule 18 paragraph 45). Ofgem would then be able to create, modify, transfer and enforce rights and liabilities to enable a new authorised entity to be appointed. The Energy Act makes provision for ensuring that there can be a legal and administrative framework for the transition of a heat network operator or supplier, ensuring that all stakeholders (creditors, employees and customers) are managed fairly and in accordance with the law.

Where a heat network authorisation is at imminent risk of failure, and where a commercial solution has not been found, and contractual step-in arrangements have failed, Ofgem could use these powers to issue a 'Last Resort Direction'. This Direction would signal our intention to require an alternative authorised party to take over the authorised heat network and associated activity.

We envisage the following high-level process for the issuance of a Last Resort Direction:

- Ofgem would ask heat networks to confirm if they would like to be contacted if this situation did arise and maintain a record of those who may be able to take on this role for another network.
- Where other exit options had been exhausted, Ofgem would share information about that heat network with possible new authorised parties, inviting them to submit proposals to take on the heat network as the replacement authorised party.
- Ofgem assess information submitted by possible authorised parties to consider who is best placed to undertake the activity, and at this point issue the Last Resort Direction, selecting a preferred entity to enter into detailed arrangements in discussion with the prior authorised party.
- After this initial phase, which we would aim to complete within a few weeks, the prior and new authorised parties would enter into dialogue, information exchange and negotiation to enable the new authorised party to take over the heat network.

It is important to note that although a Last Resort Direction would have some parallels with the Supplier of Last Resort (SoLR) process which exists in the gas and electricity supply markets, we believe that arranging the transfer of a heat network from a prior authorised party to a new authorised party would in practice be considerably more difficult and lengthier to conclude. In the gas and electricity market the replacement provider takes on only the responsibility of supply to customers of the exiting supplier (no other assets or liabilities are involved). In the case of a heat network, infrastructure and capital assets must also change hands. This would necessitate detailed dialogue between the prior and new authorised parties to undertake the due diligence necessary to satisfy themselves that infrastructure, rights and liabilities are

identified, understood and effectively transferred. It is possible that this process could take several months.

We do not propose to issue a Last Resort Direction in the event that a heat network supplier fails. In such cases, we expect that the operator of the heat network would assume responsibility for the authorised activities or arrange for a new authorised party to continue the activities of the supplier.

Once prior and new authorised parties had agreed terms, Ofgem could give effect to the Last Resort Direction through the use of a Transfer Scheme, which is explained later in this section. Whilst Ofgem would have the power to compel parties to comply with a Last Resort Direction and associated Transfer Scheme, for the reasons outlined above we believe that in practice, a Last Resort Direction could only be successfully concluded with the full agreement and co-operation of both prior and new authorised parties.

We recognise that there are significant risk areas within this proposal. Heat network operators who are at risk of failure may not be an attractive proposition for other entities to take on, for reasons of ageing or inefficient infrastructure, poor reliability and service levels, or due to a heat network's size or location. We think it is unlikely that an Ofgem process as described above (where other entities come forward to take over a heat network) would be able to identify a new authorised entity willing to take on a heat network which is commercially unattractive.

Ofgem would issue a Last Resort Direction only where we were satisfied that the new authorised party will be able to finance and operate the heat network, taking on the additional regulated activities without materially affecting any existing regulated activities they are already responsible for. Some stakeholders have advocated for a Last Resort mechanism similar to that used in the G&E markets. As we have set out, such arrangements for heat networks would be considerably more complex and would not be agreed quickly enough to take effect in a crisis situation.

There is a risk that a failing heat network may not take all steps available to them to secure an orderly exit, in the knowledge that a Last Resort Direction may be available to support the continuation of authorised activities. Additionally, there is a risk that parties who may take over the heat network, may be incentivised to wait for a regulatory arrangement, supported by funding rather than secure a commercial outcome. We are seeking views from industry on these risks and whether they can be mitigated.

Consultation questions

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?

47. If you support the introduction of such a scheme, what would be the benefits of such an arrangement, and why do you think it is necessary? What impact do you think it would have on the likelihood of commercial solutions being found?

In order to maintain and fund the operation of a heat network between the issuance of a Last Resort Direction and it being given effect through a transfer scheme, we consider that a funding mechanism would need to be put in place on an ongoing basis. We also expect that funding may be needed to support a Last Resort Direction and transfer scheme, as otherwise we expect a commercial outcome may have been possible. Supporting such a mechanism could create an additional ongoing financial burden on the sector.

Potential funding mechanisms are discussed later in this section.

Special Administration Regime

A Special Administration Regime (SAR) is proposed as the backstop to measures that have been discussed in this chapter in order to prevent the loss of supply to consumers. In a traditional insolvency process, an insolvency administrator is appointed who will act in the best interests of creditors. This means that a heat network provider could be forced to stop running the network while assets are sold or liquidated, and consumers would be left without supply of heating or hot water. A SAR will allow us to add a duty to the administrator to maintain the supply of heating and hot water until a new authorised party is found.

Special Administration Regimes exist in other markets. The Energy Supply Company SAR is designed to protect consumers if a gas and electricity supplier becomes insolvent. This allows Ofgem, with the consent of the Secretary of State, to ask the Court to appoint an Energy Supply Company Administrator to run an existing supplier rather than move customers to a new supplier.

A SAR provides a legal framework for the insolvency process which allows for:

- the administrator to fulfil specific objectives that go beyond a standard administration process, namely protecting a critical service or supply.
- the rescue of the heat network as a going concern and/or the transfer of whole or parts to another provider as appropriate.

We therefore propose that a heat network Special Administration Regime (SAR) is introduced to effectively manage consumer supply during instances of market exit. It is expected that this will be modelled on existing SARs, with bespoke elements to ensure that the SAR functions in the heat network sector.

The powers to create a heat network SAR were granted in the Energy Act 2023. It is expected that the objectives of a heat network SAR will be to:

- Secure supply of heating, cooling and hot water at the lowest possible cost;
- Ensure the heat network continues to be maintained and developed; and
- Make it unnecessary for the SAR to remain in force; and

And this might be achieved by:

- rescuing the company as a going concern; or
- transferring the company as a going concern.

As discussed above under Scope, it should be noted that regulatory structures (including, for private registered providers in the social housing sector, an existing special administration regime) are already in place where heat network are operated by registered providers of social housing, and so we propose these will be excluded from the SAR.

As Local Authorities are not able in law to go bankrupt, we propose Local Authority Housing should also be excluded from the SAR.

Consultation questions

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?

Transfer Schemes

We intend to provide for the legal transfer of existing heat network contracts and assets (“transfer schemes”) both in the context of Last Resort Directions and the SAR. We will lay out in legislation when transfer schemes are applicable and how the transfer of relevant rights, or ownership (or both), would take place. We do not propose there will be any minimum or maximum heat network size for a transfer scheme to be used.

Transfer schemes would:

- Provide a mechanism to give effect to the Last Resort Direction;
- Provide a mechanism to facilitate an exit from a Special Administration Regime.

It is expected that the scheme will be for agreement of the transferring party (or its special administrator) and the transferee. A transfer scheme would provide for property, rights and liabilities to be transferred to enable the new entity to carry on the regulated activity in an effective manner, with appropriate protections for third parties.

Where it is necessary to establish a Transfer Scheme following a Last Resort Direction, sufficient funds would be needed to maintain the operation of the heat network whilst a scheme is arranged and agreed between outgoing and new operators.

In accordance with the objective that financial responsibility and risk management should be owned by heat networks themselves, we expect costs should first be met by the exiting network, or the acquiring network, and if needed by the wider heat network sector through one of the proposed funding mechanisms discussed under Funding Options.

Consultation questions

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

Funding Options

As we have outlined, the proposals for the introduction of Last Resort Direction and Special Administration Regime, if introduced, would require a source of funding.

Where it is necessary to enact a Transfer Scheme following a Last Resort Direction, sufficient funds would be needed to maintain the operation of the heat network whilst a transfer is arranged and agreed between prior and new Authorised entities - likely to be a period of a few months. In addition, the use of such a scheme suggests a commercial outcome has not been successful, meaning that there may be a funding need to assist the incoming authorised party in taking on the heat network.

Where a SAR arrangement has been put in place, if there is an immediate funding requirement, we expect this would be met by government as is the practice in other Special Administration arrangements. However, to secure such financial support from government,

there needs to be a mechanism that could be used to recover costs from the heat network sector in the event that there is a shortfall in funding at the end of the Special Administration.

We expect that costs should first be met by the exiting network. Only where this is not possible would costs need to be met by the wider heat network sector, through one of the mechanisms outlined below. In addition to the risks of costs being passed on to wider consumers, we are concerned that putting in place a funding arrangement to support a Last Resort arrangement may lead to perverse incentives and reduce the likelihood of commercial outcomes being found.

In the event that we do not include the Last Resort Direction as a step-in intervention, it is possible that a simpler, and reactive, funding mechanism could be considered to provide for the recovery of any shortfall from Special Administration if required.

We have given consideration to a number of different ways in which these costs could be met by heat network operators. These include through the proposed authorisation fee once this is in place, via insurance schemes, or through a requirement to ringfence or set aside funds in an escrow account. We may also consider allowing the flexibility for operators to choose a funding mechanism from a 'menu' of options and could allow for them to propose other suitable mechanisms to us. We recognise that operators could prefer different funding mechanisms, depending on their individual circumstances – including size of business, age and type of heat network, company commercial structure and business model.

Each option that we have identified will entail costs, and in all cases we are mindful these costs are likely to be passed on to consumers.

The following table shows a summary of the funding options identified, together with an assessment of the benefits and risks of each option.

Table 5: Last Resort Direction and SAR funding options

Option	Benefits	Risks
<p>1. Do nothing. No funding mechanism required of heat network operators.</p>	<p>No cost burden for operators</p>	<p>Does not enable funding of Last Resort Direction.</p> <p>Does not mitigate risk to consumers.</p> <p>SAR would mean any costs fall to taxpayers.</p>
<p>2. Heat network authorisation fee / levy. Use the broader levy to target these costs at network sector.</p>	<p>Provides a fund to enable Transfer Scheme funding.</p> <p>If only facilitating a SAR shortfall (i.e. no Last Resort Direction), this could be done on a reactive basis.</p>	<p>These costs may be passed on to consumers.</p> <p>Last Resort Direction could lead to perverse incentives when a heat network is in difficulty.</p>

		<p>May be difficult to assess/set fees.</p> <p>Arrangement will not be in place at commencement of regulation.</p>
3. Central insurance scheme	<p>Market-led with light-touch regulation/verification.</p> <p>Provides an accessible source of funding and insurance industry can make judgments on risk.</p>	<p>These costs may be passed on to consumers.</p> <p>Need to establish insurance market appetite.</p> <p>Could be cost prohibitive, particularly for smaller operators.</p> <p>Monitoring cost to Ofgem.</p>
4. Heat network to arrange individual insurance arrangements.	<p>Market-led with light-touch regulation/verification.</p> <p>Provides an accessible source of funding and insurance industry can make judgments on risk.</p>	<p>These costs may be passed on to consumers.</p> <p>Need to establish insurance market appetite.</p> <p>Could be cost prohibitive, particularly for smaller operators.</p>
5. Mandating of escrow or ringfenced deposit of running costs for a specified time period (e.g. 3 months).	<p>Market-led with light-touch regulation/verification.</p> <p>Potentially easier to arrange for smaller operators in the market.</p>	<p>These costs may be passed on to consumers.</p> <p>Smaller operators may struggle to ringfence funds.</p> <p>Need to consider how funding would be protected from insolvency process.</p> <p>Monitoring cost to Ofgem.</p> <p>May not provide sufficient funds.</p>
6. Operators to choose from a 'menu' of funding options, including	<p>Market-led as per options 3&4 above.</p>	<p>These costs may be passed on to consumers.</p>

<p>insurance cover or ringfencing of funds.</p>	<p>Flexibility likely to appeal to heat network operators.</p> <p>This option could also allow operators to propose other bespoke funding mechanisms.</p>	<p>Cost and resource difficulties may remain for smaller operators.</p>
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Where possible, we want to offer heat network operators the flexibility to decide how to arrange the funding which may be needed to meet the costs associated with the step-in regime. They would then be required to notify Ofgem of the type and level of funding that would be available in the event of failure. We consider that this is most likely to be achieved through a blend of insurance arrangements and ringfencing of funds sufficient to meet the anticipated costs associated with a Transfer Scheme or SAR. We will consider proposals for alternative funding mechanisms on a case-by-case basis.

Consultation questions

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?

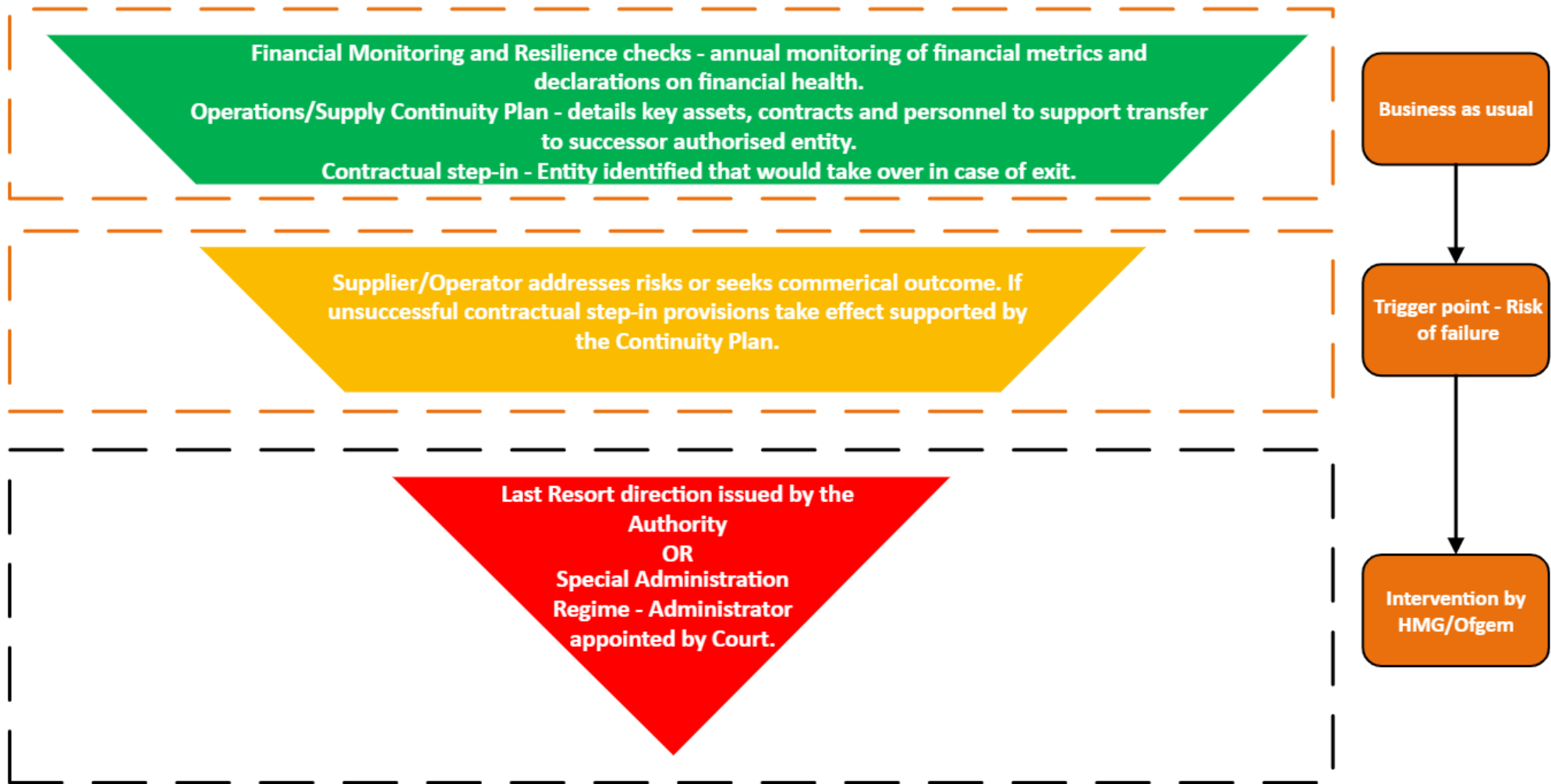
51. Are you aware of any of the proposed funding mechanisms currently being used to mitigate failure risks for existing heat networks?

52. Do you have any comments on the feasibility of the proposed funding mechanisms?

Summary of Obligations/final proposals

We are proposing a hierarchy of measures to mitigate the risk and impact of heat network failure. These measures are illustrated in Figure 5 below.

Figure 55: Step In regime structure



Market segmentation

Context

The heat network market is complex and diverse, with an estimated 14,000+ networks across the UK⁷⁰ and a large variation in network type and size, technical, commercial and consumer characteristics. This is significantly different proposition when compared to Ofgem's existing oversight of the 21 active licensed suppliers in the gas and electricity retail energy market (as of Q1 2024).

We propose to address the challenges of regulating this large variation among heat networks by the use of a segmentation approach. This approach will allow Ofgem and its Statutory Partners to aggregate heat networks together through common characteristics that may drive specific outcomes or adapt to particular consumer needs. We believe that by segmenting the market, regulations will be more effective, implemented proportionately and, in some cases, lead to better consumer outcomes.

Proposals

We propose three primary segments which will be reflected in our approach to how and who specific regulatory requirements apply to: large, and small networks, and networks operated on a not-for-profit basis.

We have set out specific policy areas in this consultation where the proposed use of the segmentation framework will be used, where we also explore introducing a prescriptive minimum standard across all regulated entities to ensure an acceptable quality of service for all consumers, for example with complaints handling.

Table 6 shows some of these areas, as well as indicative examples of how they could be implemented in this framework.

While the purpose of segmentation is to address the diversity of the heat network sector, our priority remains that all consumers, regardless of their regulated provider, receive equivalent protections and can trust in the fairness and reliability of their heat network provider.

In building our approach to segmentation, we have taken account of how differences between heat networks in infrastructure, consumer profiles and commercial models could impact a regulated entity's ability to comply with regulatory requirements. Based on this we have considered different approaches to heat networks depending on these characteristics and the consumer outcomes and the objectives we are seeking to achieve.

We have also looked at categorising by network size, organisational structures and existing legislative and regulatory obligations, as well as exploring regional differences between heat networks which may give rise to segmentation.

We encourage responses to this consultation from stakeholders operating across Scotland, England and Wales and within the devolved governments.

⁷⁰ Energy Trends, experimental statistics on heat networks (2018): <https://www.gov.uk/government/publications/energy-trends-march-2018-special-feature-article-experimental-statistics-on-heat-networks>

While there may be prescriptive exemptions in authorisation conditions where appropriate, it is likely that segmentation will mainly take the form of high-level principles and outcome-based rules. We will continue working with stakeholders to deliver detailed guidance to support the sector in understanding the role and rationale for specific examples of segmentation.

We also intend on publishing further information on market segmentation and how it interacts with our authorisation regime and monitoring requirements in the Authorisation and Regulatory Oversight consultation.

The proposed approach to segmentation will need to recognise and respond to market evolution and the interplay between market diversity and the intended standardisation driven by regulation. We will take an evidence-based approach that will be reviewed and adapted as the market changes and data availability increases.

Consultation questions

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

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

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

Table 6: Indicative use-cases of Segmentation in the regulation of heat networks

Core grouping	Characteristic	Relevance to heat network market segmentation	Potential examples
Consumer	Number of consumers	The number of individuals across households a network supplies.	Likely to be a key consideration in the assessment of supplier processes and their appropriateness to consumers.
	Customer type	Some aspects of a network's customer portfolio may determine the regulations they must adhere to.	Regulated entities, with domestic customers, will be expected to meet additional protections for consumers in a vulnerable situation.
Network	Technology type	Technologies such as heat pumps, SGLs, boilers and CHP systems will impact several aspects of operation.	We will want to collect data on the technology type of networks to build a view on the associated costs, efficiencies and the overall financial performance of the networks.
	Metering	Meter type (Smart, Automatic Meter Reading "AMR", unmetered) and accessibility or location will be a strong focus of the technical standards regime.	For consumer protection, availability of metering data will impact our assessment of fair pricing and billing transparency.
Commercial	Ownership	Ownership models will have cascading impacts across the operation of a network, be it Local Authorities, Housing Associations or Energy Service Companies (ESCOs).	We have actively considered existing complaint handling processes for those networks operating under housing legislation.
	Organisation type	Directly relating to 'ownership', the organisation type may determine their resource availability and which costs they pass onto consumers.	We are proposing a different approach for not-for-profit heat networks in our application of GSOPs. This would be based on 'Overall Performance Standards' which would not lead to automatic compensation payments for failure to comply.

Consultation Questions

Main consultation questions

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. **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?**
3. **Are there proposed consumer protection measures that in your view should be tailored to suit shared ground loop technology and if so, how?**
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?**
5. **With reference to the draft authorisation condition on definitions, do you agree or disagree with the definition for bulk supply?**
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.**
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.**
8. **Do you agree or disagree with the proposed definition of an SME for the purposes of heat network regulation?**
9. **Do you agree or disagree with the proposed approach to ‘supply to premises’ conditions?**
10. **Do you agree or disagree with our proposed approach to the Standards of Conduct?**
11. **Do you currently engage with your consumers on a regular basis?**
12. **If yes, could you provide examples of how you currently engage your consumers, both on the maintenance of the network and more broadly?**
13. **Do you agree or disagree with our approach to a principle on the security of supply?**
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?**

- 15. Do you agree or disagree with our proposal to extend the scope of fair pricing to all non-domestic consumers?**
- 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?**
- 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.**
- 18. Do you agree or disagree with our proposal to align with gas and electricity PPM protection rules?**
- 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.**
- 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.**
- 21. Do you agree or disagree with our self-disconnection proposals?**
- 22. Can you provide any evidence of the impacts these proposals could have on suppliers, particularly smaller suppliers?**
- 23. Do you agree or disagree with the proposed protections that will be included in the Statutory Instrument that provides for Powers of Entry?**
- 24. Please provide evidence of any impacts or supporting rationale in your response, these can be marked as confidential if appropriate.**
- 25. Do you agree or disagree with our proposed approach to complaint handling?**
- 26. Do you agree or disagree with our proposed compensation levels that broadly align with existing practice in the sector (Heat Trust levels)?**
- 27. We welcome feedback from those that place Guaranteed Standards on external contractors through contract, on the requirement to take best endeavours to update existing contracts to align with our standards and compensation levels or provide feedback on what would be an appropriate transitional period to update contracts.**
- 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.**
- 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?**

- 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?**
- 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?**
- 32. Do you have any views on options 1, 2 and 3?**
- 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?**
- 34. Can you provide evidence of any potential impacts of limiting back-billing to 12 months for individual properties? Do you have any concerns regarding communal areas?**
- 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?**
- 36. Do you foresee any potential challenges of creating new contracts or amending existing ones to ensure the information proposed is included?**
- 37. What timeframe should we allow heat networks to implement this?**
- 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.**
- 39. Are there additional sectors, other than social housing, where you consider the risks are managed due to factors not identified here? If yes, please provide details.**
- 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.**
- 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.**
- 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.**
- 43. Are you aware of examples of, or do you already have in place, this type of contractual step-in arrangement, to enable a replacement entity to continue to operate a heat network?**
- 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?**

- 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?**
- 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?**
- 47. If you support the introduction of such a scheme, what would be the benefits of such an arrangement, and why do you think it is necessary? What impact do you think it would have on the likelihood of commercial solutions being found?**
- 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?**
- 49. Do you agree or disagree with the proposal for the introduction of transfer schemes?**
- 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?**
- 51. Are you aware of any of the proposed funding mechanisms currently being used to mitigate failure risks for existing heat networks?**
- 52. Do you have any comments on the feasibility of the proposed funding mechanisms?**
- 53. Do you agree or disagree with the proposed approach to Market Segmentation, including the characteristics we have identified to inform our proposals?**
- 54. Do you agree or disagree with the proposal to develop and implement a minimum standard for regulated providers across some services over time?**
- 55. Which services would you find appropriate to be regulated by a minimum standard?**

Draft authorisation condition questions

Please refer to the Draft Authorisation Conditions Appendix for these questions, found here: <https://www.gov.uk/government/consultations/heat-networks-regulation-implementing-consumer-protections>

- A.1. Does the authorisation condition, 'Interpretation, reflect the policy intent?**
- A.2. Does the authorisation condition, 'Supplier Standards of Conduct' reflect the policy intent?**
- A.3. Does the authorisation condition, 'Operator Standards of Conduct', reflect the policy intent?**
- A.4. Does the authorisation condition, 'Fair Pricing', reflect the policy intent?**
- A.5. Does the authorisation condition, 'Ongoing Fit and Proper Requirement', reflect the policy intent?**

- A.6. Does the authorisation condition, 'Provision of Information and reasoned comments to the Authority', reflect the policy intent?**
- A.7. Does the authorisation condition, 'Open and Co-operative', reflect the policy intent?**
- A.8. Does the authorisation condition, 'Independent Audits', reflect the policy intent?**
- A.9. Does the authorisation condition, 'Heat Supply Contracts', reflect the policy intent?**
- A.10. Does the authorisation condition, 'Contract Changes Information (Notifications of Price Information and Disadvantages Unilateral Variations)', reflect the policy intent?**
- A.11. Does the authorisation condition, 'Complaints', reflect the policy intent?**
- A.12. Does the authorisation condition, 'Assistance and Advice Information', reflect the policy intent?**
- A.13. Does the authorisation condition, 'Provision of Billing and Price Transparency Information', reflect the policy intent?**
- A.14. Does the authorisation condition, 'Back-billing', reflect the policy intent?**
- A.15. Does the authorisation condition, 'Priority Services Register', reflect the policy intent?**
- A.16. Does the authorisation condition, 'Security Deposits, Payment Difficulties, Disconnections, Direct Debits and Final Bills', reflect the policy intent?**
- A.17. Does the authorisation condition, 'Prepayment Meters', reflect the policy intent?**
- A.18. Does the authorisation condition, 'Self-disconnection', reflect the policy intent?**
- A.19. Does the authorisation condition, 'Social Obligations Reporting', reflect the policy intent?**
- A.20. Does the authorisation condition, 'Security of Supply', reflect the policy intent?**
- A.21. Does the authorisation condition, 'Revocation', reflect the policy intent?**
- A.22. Does the authorisation condition, 'Application of General Authorisation Conditions', reflect the policy intent?**
- A.23. Does the authorisation condition, 'Definitions', reflect the policy intent?**

Next steps

We welcome responses to our proposals that we have outlined in this consultation for the Heat Network Market Framework. The consultation closes on 30th January 2025. Following the closure of this consultation, we will aim to provide the government's response in due course.

We will be consulting on heat network Technical Standards, alongside decarbonisation and metering proposals.

We will publish the government's response to the 2023 zoning consultation.

We will continue our ongoing engagement with stakeholders as we advance our proposals and where issues emerge.

Annex 1: Previous billing proposals information

Billing for unmetered properties

We propose that consumers in unmetered properties will be provided:

- The heat charge for the relevant period.
- A clear and understandable explanation of how the bill has been calculated, by, for example, disclosing a breakdown of the building's fuel input tariff alongside how the bulk meter reading has been apportioned per consumer.
- The final due date for payment, and the acceptable methods of payment.
- Contact information for organisations who can offer support if the consumer is struggling to pay the bill, including Citizens Advice and Advice Direct Scotland.
- Contact information for organisations who can provide information and advice about energy efficiency improvement measures.

Information to be included in Heat Supply Contracts

Proposed that the supply contract must include:

- The charges for the supply of heat to the consumer (see 'Billing information' section for more detail on the information that needs to be provided)
- Where possible, circumstances in which the charges for the supply of heat might change in future,
- Terms relating to the renewal and termination of the contract;
- The identify and address of the regulated entity, including contact details (this must include various contact options including email, instant message, telephone and physical letter) and this must provide a route to the regulated entity's complaints handling process in the event of a complaint;
- Details of the regulated entity's complaints handling process;
- The quality of service standards that will be met;
- Compensation and refund arrangements which apply if quality of service standards are not met, including inaccurate billing and planned and unplanned interruptions;
- Services provided by the regulated entity or any third parties, including operation, maintenance, metering, and billing services, and where there are multiple organisations offering these services, the split of responsibilities must be clear;
- Key performance indicators of the heat network, including network efficiency;

- The means by which the consumer can be provided with information on available tariffs and on changes to heat charge, including justifications and notice periods;
- Information on the consumer's rights to dispute settlement in the event of a dispute with the regulated entity, including recourse to the Energy Ombudsman;
- Information on the availability of consumer advocacy from Citizens Advice or Consumer Scotland; and,
- Information on the source of heat and the environmental impacts of the heat generation.

Annex 2: Back-Billing Impacts

To introduce rules on back-billing to improve customer outcomes for heat networks.

Definition of back-billing: An energy supplier may send a back-bill to cover a period where energy/heat has been used, but has not been charged for accurately. The back-billing rules we intend to introduce aim to encourage timely and accurate billing practices to avoid back-billing, and help protect consumers from bad billing practices.

Summary

- Our preference if we were able to unbundle the individual heat charge, is to prevent suppliers from back-billing customers for consumption older than 12 months, subject to certain exceptions including where the customer's behaviour has been obstructive or manifestly unreasonable.
- We are seeking more evidence on the costs of changing back-billing limits in this consultation.
- We know that a number of heat networks already have processes for managing back-bills including a time limit of 12 months.
- We know that some domestic networks do not yet have an internal back-billing policy or apply back-billing in excess of 12 months.
- We propose there will be an exemption for heat networks who charge for the supply of heat as part of rent or service charges to stick with 18 months for a transitional period, with the aim of moving towards 12 months over time.
 - a) *The transitional period could align with HNTAS metering policy, where heat networks will be required to make changes to systems and processes to meet the updated rules.*
 - b) *By aligning these, it should reduce administrative costs and simplify processes for heat networks.*
 - c) *Once metering is installed, networks will be obligated under wider conditions around billing to limit scenarios where back-billing may occur.*

Introduction

Our principal objective is to protect the interests of existing and future communal heat network consumers. We want to make sure all consumers receive the standard of service expected given that energy is an essential service. We understand there may have been instances of heat networks sending bills to consumers for unbilled heat (via the heat network) consumed over 12 months before the bill was received. These bills could be the result of incorrect (often estimated) billing by suppliers and this can cause financial and psychological stress for many domestic and microbusiness consumers. We think this falls short of the standard consumers expect to receive. Consumer organisations and the Ombudsman say that catch-up bills (or back-bills) are one of the main problems that consumers face. We think it is unacceptable that consumers receive these back-bills through no fault of their own. Consumers should rightfully expect their supplier to bill them in an accurate and timely manner.

Our general approach is to rely more on enforceable principles in our regulation of suppliers to allow for innovation and flexibility to the benefit of consumers. However, we have been clear that, where appropriate, we will use prescriptive rules to achieve positive consumer outcomes. Back-billing protections are such an example. Ideally consumers should receive timely and accurate bills, but when suppliers do back-bill, we expect them to meet certain minimum standards.

We are looking to introduce into the heat network authorisation conditions, mandatory rules on back-billing. This seeks to prevent suppliers from back-billing domestic and microbusiness consumers for energy consumed more than 12 months prior to the date of the bill (if we can unbundle the heat charge), subject to certain exceptions, including where the consumer has been obstructive or manifestly unreasonable. This will protect consumers from the shock of back-bills and strongly incentivise suppliers to engage with consumers to get meter readings. The new authorisation conditions will apply to all meter types and payment methods. This rule also aligns with the back-billing rules for the gas and electricity market.

Adequate billing is the responsibility of suppliers. Heat networks will have the same general duty to ensure that consumers are provided with accurate information. It should incentivise suppliers to improve their billing accuracy and encourage them to prevent situations where they would be forced to not charge for unbilled consumption. Without a mandatory limit, suppliers are not incentivised to be efficient in the way they deal with bills, which leads to poor consumer outcomes.

This obligation will incentivise suppliers to further improve their billing accuracy so that suppliers have commercial and regulatory incentives to bill as accurately as possible.

Evidence from Heat Trust and other schemes

The Heat Trust's voluntary code sets a back-billing limit to 12 months. So, we know a number of networks already have a back-billing limit of 12 months and will be able to adjust to changes to back-billing. We have been using the Heat Trust's scheme as a basis for our regulatory rules, so any changes we make to the back-billing limit are reasonable and an existing industry standard.

To join the Green Heat Network Fund⁷¹ scheme, networks have to sign up to the Heat Trust's rules. Meaning more heat networks will be moving to the 12 month back-billing limit.

Evidence from the Gas and Electricity Back-billing consultation

In 2007, domestic energy suppliers active at that time signed up to a voluntary commitment to not back-bill for energy used more than 12 months previously, if the supplier was at fault for not sending a bill or billing incorrectly. Many suppliers had signed up to, or followed, a voluntary agreement not to back-bill customers past 12 months. In March 2018, Ofgem announced its decision⁷² to protect consumers from back-bills by banning suppliers from issuing customers with back-bills for energy used more than 12 months prior to the date of the bill.

The Standard Licence Condition 21BA places restrictions on back-billing. The condition prevents suppliers from back-billing domestic and microbusiness consumers for energy

⁷¹ <https://assets.publishing.service.gov.uk/media/66215d89be5f81890e757d55/green-heat-network-fund-guidance-for-applicants.pdf>

⁷² See here for more information on the back-billing decision for Gas and Electricity: <https://www.ofgem.gov.uk/publications/decision-modification-electricity-and-gas-supply-licences-introduce-rules-backbilling-improve-customer-outcomes>

consumed more than 12 months prior to the date of the bill. The aim of limiting back-billing to 12 months for the sector is to protect consumers from the potential shock of back-bills and incentivise suppliers to engage with consumers to deliver accurate billing.

In gas and electricity, the back-billing limit incentivises suppliers to ensure systems and processes are in place to make sure consumers are billed within 12 months; reducing the likely amount of required write-offs. The 12-month limit in this sector acts as a backstop and as an incentive for suppliers to provide accurate bills to their customers. It emphasises Ofgem's expectations for suppliers to provide accurate information to consumers.

We want to align with the back-billing limits in gas and electricity so that all consumers are being treated fairly.

Payment types

Suppliers are not allowed to try to recover charges older than 12 months when they have previously not taken any action to do so. They can recover older charges if they are following up a previous compliant request for payment.

Our decision to consult on back-billing for heat networks

Our preference if we were able to unbundle the individual heat charge is to prevent suppliers from back-billing customers for consumption older than 12 months, subject to certain exceptions including where the customer's behaviour has been obstructive or manifestly unreasonable.

We want suppliers to get billing right, as this is an essential part of customer service, but when they do not, we want to have in place protections to safeguard against consumers suffering detriment from back-bills.

Annex 3: Fair pricing framework

Table 7: Fair pricing framework

Customer objective	Principles	What the principle means /expectations which could be underpinned by rules and guidance	Customer outcomes
Heat networks charge fair and not disproportionate prices to customers	Price reflectivity	Prices should be reflective of underlying cost of the network and consumption levels of consumers; and recover costs efficiently. For example, we expect networks to implement metering for accurate consumption readings.	<p>The overall customer outcome is that customers:</p> <ul style="list-style-type: none"> • Pay reasonable and fair prices for their energy. • Can understand the charges and are confident they are fair, for example, by comparison to other sources of energy or comparable networks. • Will keep paying fair prices in future through appropriate investment in the networks and industry development.
	Cost efficiency	<p>Underlying costs should be efficient while providing an appropriate quality of service. We expect networks to take steps to create cost efficiencies and implement technical efficiencies.</p> <p>Heat networks should strive to improve efficiency of network operation and costs, For example, through competitive fuel procurement and outsourcing contracts, cost and technical efficiencies, and restricted cost passthrough.</p> <p>Heat networks should be incentivised to make choices based on long-term efficiencies. Networks should not overlook larger scale investments such as technical efficiency and decarbonisation improvements to cut short-term costs and ensure there is sufficient financing to cover such improvements.</p>	
	Affordability	Prices should have regard to affordability for consumers. For example, networks' profit should take affordability into account.	

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		Heat networks should strive to maximise consumer benefit in their decisions.	
	Corporate risk	Consumers should be protected from taking on a disproportionate level of corporate risk, such as improper recovery of significant initial capital costs in the development phase, or improper recovery of capital expenditures recovered from sinking funds that can cause temporal mismatch between consumers who are paying and consumers who are benefitting from the improvements.	
	Industry growth	Pricing should not discredit the growth of the heat network sector given its importance to net-zero goals. Heat network consumers should not be unduly disadvantaged compared to other consumers on alternative heat sources such as gas boilers or heat pumps.	
	Regulatory control	The organisation(s) subject to regulation must have oversight or control over regulatory outcomes even when management is outsourced. For example, through supply chain visibility and common goals, ensuring responsible parties can manage operational costs and tariff design, and tendering criteria for contracting out.	
	Price transparency	Heat networks should communicate their prices to customers in a way that is accessible and easy to understand.	

Annex 4: Guaranteed Standards of Performance compensation levels

Table 8: Compensation level breakdown

Guaranteed Standard	Gas ^{73, 74}	Electricity ⁷⁵	Heat Trust ⁷⁶	Ofwat (Regulator of the water sector in England and Wales) ⁷⁷
Making appointments	Yes (suppliers only) £30 (supply only)	Yes (suppliers and networks) £30 (supply – domestic only) (distribution: domestic and non-domestic)	No	Yes £20 (domestic and non-domestic)
Keeping appointments	Yes (suppliers only) £30 (supply only)	Yes £30 (supply – domestic only) (distribution: domestic and non-domestic)	No	Yes £20 (domestic and non-domestic)

⁷³ https://www.ofgem.gov.uk/sites/default/files/docs/2020/07/draft_determinations_-_gd_sector_0.pdf Gas distribution compensation amounts

⁷⁴ https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.ofgem.gov.uk%2Fsites%2Fdefault%2Ffiles%2F2024-03%2FReliability%2520GSOPs%2520Future%2520Payment%25202024_25%2520v1.0.xlsx&wdOrigin=BROWSELINK

https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.ofgem.gov.uk%2Fsites%2Fdefault%2Ffiles%2F2024-03%2FReliability%2520GSOPs%2520Future%2520Payment%25202024_25%2520v1.0.xlsx&wdOrigin=BROWSELINK Gas and electricity reliability compensation amounts

⁷⁵ <https://www.legislation.gov.uk/ukxi/2015/699/body/made>

⁷⁶ <https://heattrust.org/images/docs/Scheme-Rules-Jul24.pdf> Heat Trust indexed compensation amounts

⁷⁷ <https://www.ofwat.gov.uk/households/supply-and-standards/standards-of-service/> Ofwat compensation amounts

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Notice of interruptions	Yes (7 days) £40 (domestic); £100 (non-domestic)	Yes (2 days) £35 (domestic), £75 (non-domestic)	Yes (2 days) ⁷⁸	Yes (2 days) £20 (domestic); £50 (non-domestic)
Priority service for customers in vulnerable circumstances	Yes (alternative heating and cooking within 4 or 8 hours for PSR customers; for larger and longer interruptions: access to hot meals for PSR customers and hot water for medically dependent customers) £50 per day up to a cap of £500 (domestic only)	No ⁷⁹	Yes, Alternative heating within 12 hours for 'PSR' customers. £35	No ⁸⁰
Restoration of supply within certain timeframe	Yes (24 hours) £60 (domestic); £100 (non-domestic). Same payment every 24 hours the interruption continues. No cap	Yes (12 hours, unless large interruption. Specific standard around bad weather). Between £95 (Domestic) and £180 (non-domestic) in normal weather conditions. £40 for every 12 hours not restored.	Yes (24 hours for unplanned interruption; 5 days for planned interruption) Planned interruption: £45 per day	Yes (12 hours, unless large interruption: 48 hours) £20 (domestic); £50 (non-domestic) – then £10 (dom) and £25 (non-dom) for each subsequent day

⁷⁸ Not providing enough notice is not linked to a payment, but will in effect mean the interruption is treated as an unplanned interruption (which needs to be resolved within 48 hours to prevent a guaranteed payment)

⁷⁹ Note there are additional obligations in this area, just not guaranteed standards, such as advance notice and priority support: <https://www.ofgem.gov.uk/getting-extra-help-priority-services-register>

⁸⁰ Note there are additional obligations in this area, just not guaranteed standards – such as more notice of interruptions: <https://www.ofwat.gov.uk/households/customer-assistance/special-assistance/>

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		<p>Between 24-48 hours depending on severity of weather conditions. £85 (domestic and non-domestic) depending on weather conditions and severity of outage.</p> <p>£40 for every 12 hours not restored. (£2000 cap)</p>	<p>Unplanned interruption: £45 per day (£725 cap)</p>	
Guaranteed Standard	Gas ^{81, 82}	Electricity ⁸³	Heat Trust ⁸⁴	Ofwat (Regulator of the water sector in England and Wales) ⁸⁵

⁸¹ https://www.ofgem.gov.uk/sites/default/files/docs/2020/07/draft_determinations_-_gd_sector_0.pdf Gas distribution compensation amounts

⁸² https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.ofgem.gov.uk%2Fsites%2Fdefault%2Ffiles%2F2024-03%2FReliability%2520GSOPs%2520Future%2520Payment%25202024_25%2520v1.0.xlsx&wdOrigin=BROWSELINK

https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.ofgem.gov.uk%2Fsites%2Fdefault%2Ffiles%2F2024-03%2FReliability%2520GSOPs%2520Future%2520Payment%25202024_25%2520v1.0.xlsx&wdOrigin=BROWSELINK Gas and electricity reliability compensation amounts

⁸³ <https://www.legislation.gov.uk/uksi/2015/699/body/made>

⁸⁴ <https://heattrust.org/images/docs/Scheme-Rules-Jul24.pdf> Heat Trust indexed compensation amounts

⁸⁵ <https://www.ofwat.gov.uk/households/supply-and-standards/standards-of-service/> Ofwat compensation amounts

Glossary

Term/Acronym	Explanation
AMI	Advanced meter infrastructure
AMR	Automatic meter reading
CHP	Combined Heat and Power
CMA	Competition and Markets Authority
CSCP	Customer Supply Continuity Plan.
Communal Heat Network	A type of heat network in which heating, cooling or hot water is supplied only to a single building divided into separate premises or persons in those premises.
CVS	Consumer Vulnerability Strategy
DBT	Department for Business and Trade
DESNZ	Department for Energy Security and Net Zero
District Heat Network (DHN)	A type of heat network in which heating, cooling or hot water is supplied to two or more buildings or persons in those buildings.
ESCO	Energy Service Company
ESO	Electricity System Operator
FCA	Financial Conduct Authority
G&E	Gas and electricity
GHNF	Green Heat Network Fund

GSOP	Guaranteed Standards of Performance
Heat Network	A network that, by distributing a liquid or a gas, enables the transfer of thermal energy for the purpose of supplying heating, cooling or hot water to a building or persons in that building (and includes any appliance the main purpose of which is to heat or cool the liquid or gas).
HNCOS	Heat Network Consumer and Operator Survey
HNES	Heat Network Efficiency Scheme - A government scheme to provide grants for existing heat networks and communal heating systems to improve their efficiency.
HNMBR	Heat Network (Metering & Billing) Regulation, which came into force initially in 2014, is to drive energy efficiency and reduce carbon emissions from heating. The energy efficiency is achieved through the installation of metering devices and billing based on consumption.
Heat Network Operator	An organisation that is responsible for the day-to-day operation and maintenance of a heat network and its infrastructure.
Heat Network Supplier	An organisation that is responsible for the supply of heating, cooling or hot water through a heat network often via contractual terms to end consumers.
HNTAS	Heat Network Technical Assurance Scheme. This will introduce technical requirements for existing heat networks, which will be a legal obligation for the heat network operator.
Heat Trust	An independent, not-for-profit consumer advocacy organisation for heat networks in Great Britain.
LTA	Landlord and Tenants Act
MHCLG	Ministry of Housing, Communities and Local Government:
Microbusiness	A microbusiness will be defined as a business that meets either of the following two criteria: (1) it consumes less than 247,000 kWh of heat per year; or

	(2) it has fewer than 10 full-time employees or an annual turnover of less than €2 million.
NTS	National Trading Standards:
Ofgem	Office of Gas and Electricity Markets. Independent regulator governed by the Gas and Electricity Markets Authority (GEMA).
Ofwat	The Water Services Regulation Authority
PPM	Pre-Payment Meter
PSR	Priority Services Register, which is a free support service that makes sure extra help is available to energy customer in vulnerable situations.
SAR	Special Administration Regime
SGL	Shared Ground Loop. Where 2 or more properties are heated by individual ground source heat pumps connected to it.
SLC	Supply Licensing Condition.
SME	Small-to-Medium Enterprise: Any organisation larger than a microbusiness that has fewer than 250 employees and a turnover of less than €50 million.
SoC	Standards of Conduct
SoLR	Supplier of Last Resort
Step-In	Arrangements for the eventuality of heat network failure, with a focus on ensuring continued supply to consumers.
TCLC	Transmission Constraint Licence Condition
kWh	Kilowatt hour(s)

This consultation is available from: <https://www.gov.uk/government/consultations/heat-networks-regulation-implementing-consumer-protections>

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