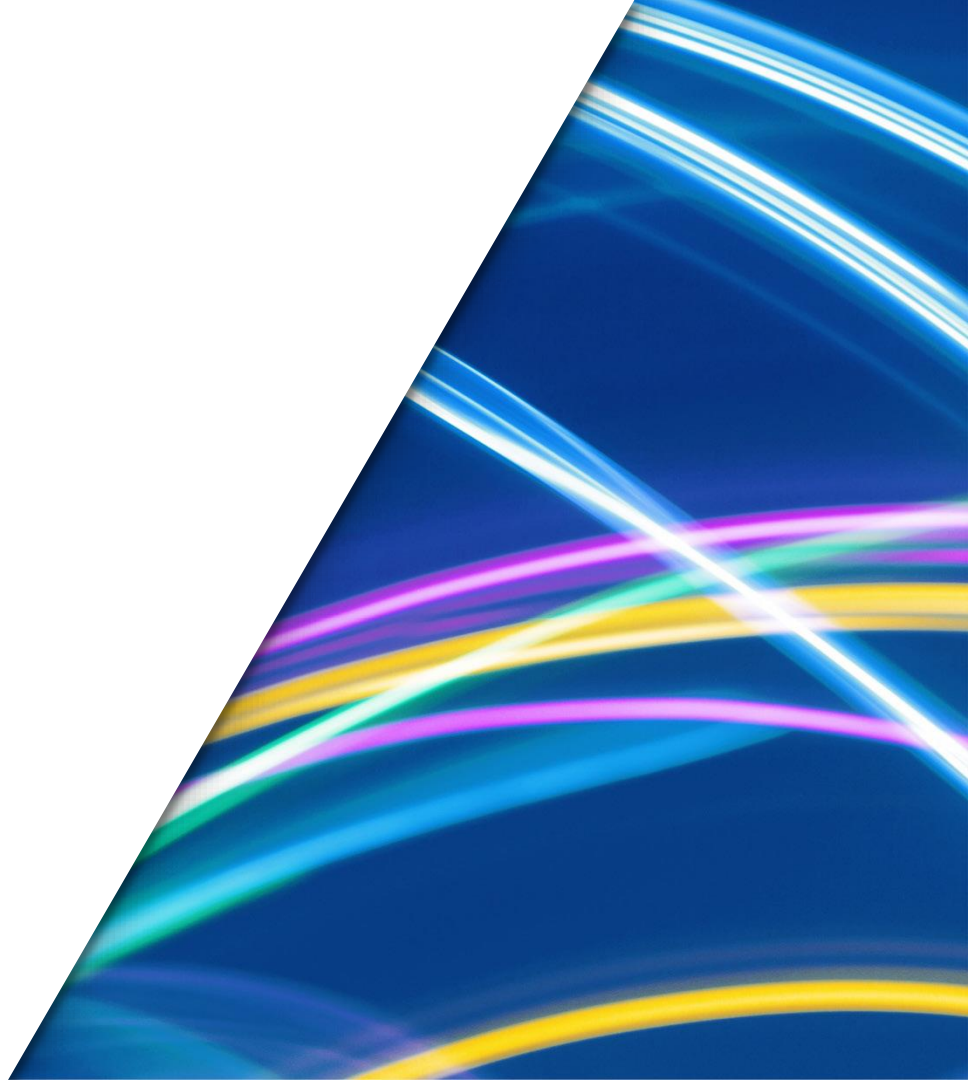


SHARPE PRITCHARD

Regulating Heat: In the Future



What Has Changed?

- The UK Government has introduced a new regulatory framework for district heat networks in England and Wales.
- Why? Two main drivers:
 - Heat networks are essential for achieving the UK's 2050 net zero target.
 - The Competition and Markets Authority 2018 market study recommended stronger regulation, technical standards and improved consumer protection.

How will the Market be Regulated?

- **Energy Act 2023:** creates the statutory framework for heat network regulation in England and Wales.
 - Appoints GEMA (statutory authority) and Ofgem as heat networks regulator.
- **Heat Networks (Market Framework) (Great Britain) Regulations 2025:** sets out the regulations for both district and communal heat networks.
- **Heat Network (Metering and Billing) Regulations 2014:** sets out various regulations for metering and billing of heat networks.
- **LATEST UPDATE: General Authorisation Conditions:** Provides the regulatory obligations for authorised persons carrying out regulated activities.

General Authorisation Conditions

Regulated Activities

- Two regulated activities:
 - operating a relevant heat network; and
 - supplying heating, cooling or hot water to customers.
- An entity may be an operator, a supplier, or both, but engaging in *either* activity requires authorisation.
- Real world complexity.

General Authorisation Conditions

Fair Pricing (Section A, Condition 6)

- Creates a standing duty on any authorised person who sets or influences heat network prices to ensure all price elements are fair and not disproportionate.
- Principles-based rule, read alongside Ofgem's fair pricing and cost-allocation guidance.
- Draft guidance - six principles: cost reflectivity, cost efficiency, fair returns, affordability, regulatory control and transparency.
- The fairness principle will be applied on a case-by-case basis. This will take into account location specific considerations for individual heat networks.

General Authorisation Conditions

Cost Allocation (Section A, Condition 7)

- Authorised entities must ensure that charges imposed are structured, and are attributable to costs, in a way that is consistent with the outcome of charges being fair and not disproportionate.
- Applies to every authorised entity that sets or influences the structure of charges.
- No single approach mandated – entities must justify and document their chosen method.

General Authorisation Conditions

Operational Arrangements and Material Assets (Section A, Condition 12)

- An authorised person must organise its business so that if it stops carrying on a regulated activity, a successor can step in and run that activity efficiently and effectively.
- Includes in the case of insolvency, revocation, transfer of an authorisation, or any other cessation.
- All Material Assets must be kept in a state where they can be legally transferred to a successor.
- Does not apply to Local Authorities or an Excepted Company (social housing provider).

General Authorisation Conditions

Supplier Standards of Conduct (Section B, Condition 1)

- The Supplier must achieve the Consumer Objective: be fair, honest, transparent, appropriate, and professional.
- Information: complete, accurate, in plain language, fit the recipient and not create a material imbalance.
- Customer service: easy to contract, prompt courteous, transparent
- Vulnerable customers: identify, support, apply standards appropriately.
- Communication: proactive on maintenance, outages, service changes, engage on long-term decisions.
- Cooperation: work with other authorised persons, resolve complaints fairly.

General Authorisation Conditions

Supplier Standards of Conduct (Section B, Condition 2)

- Supplier must offer and provide a supply, what exceptions can be relied on and what must be given to a Relevant Consumer.
- General obligation on Supplier to offer a Relevant Supply Contract following a request. This obligation does not apply where heat is supplied through a Relevant Lease (which may be recovered as a service charge where Relevant Lease permits it).
- Suppliers must provide consumers with key information, including charges, performance indicators, complaints procedures, dispute rights, and environmental details.
- Deemed Contracts – either by conduct or by Statute - must be flexible, carry no fixed terms or termination fees, and automatically transition to full Supply Contracts.
- Existing arrangements must be updated to meet these rules, with areas like performance metrics, lease interfaces, and data-sharing processes still requiring guidance.

General Authorisation Conditions

Contract Changes Information (Section B, Condition 3)

- Supplier must give each customer at least 31 days' notice before any disadvantageous change to the contract or any price increase.
- Supplier may not raise a customer's price more than once in any six-month period in the charging year.
- Notice requirements.
- Applies to every authorised person that acts as a Supplier.

General Authorisation Conditions

Billing and Price Transparency (Section B, Condition 6)

- Wherever meters are installed, bills must be clear, accurate and consumption-based.
- Estimated bills are only allowed where actual readings can't reasonably be obtained.
- Relevant Leases.
- Billing information must be clear, complete, and include usage, prices, support and energy tips.

General Authorisation Conditions

Vulnerable Customer Protections (Section B, Conditions 8 - 11)

- **Priority Services:** Priority Services Register and provide free, tailored support to households (Condition 8).
- **Payments & Deposits:** Take deposits only when reasonable, offer help for payment difficulties, treat disconnection as a last resort (Condition 9).
- **Prepayment Meters:** Give clear guidance, ensure safe use, check welfare, obtain consent, and handle debt fairly (Condition 10).
- **Self-Disconnection:** Monitor usage and credit, provide emergency support and prevent supply interruptions (Condition 11).

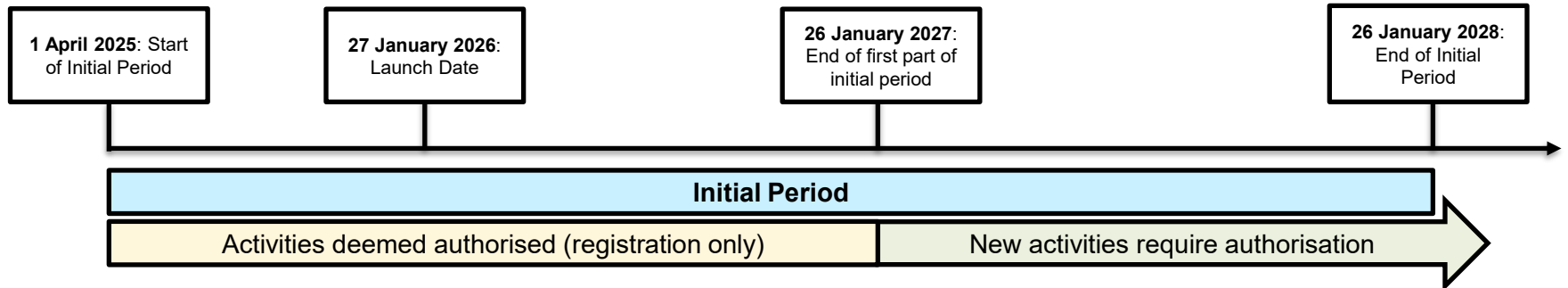
General Authorisation Conditions

Operator Standards of Conduct (Section C, Condition 1)

- Operators must ensure all consumers and occupants are treated fairly.
- Operators must act fairly, honestly, transparently, and professionally.
- Give information and co-operate with any other authorised person.
- Put in place enough people, skills, systems and processes so that co-operation works in real time.
- Help investigate and resolve complaints efficiently.

Aging Heat Networks – How do I Comply?

- Ofgem will formally begin regulating heat networks on **27 January 2026**.
- From the Launch Date, Operators and Suppliers have one year to register with Ofgem, via an online system.
- Registration must detail regulated activities, locations, involved parties and customers.
- Special rules.



How to Prepare?

Operators

- Collate key information: ownership, governance, finances, contracts, customer profiles and billing.
- For complex networks: clarify who will file what, ensure consistent data, and set up data-sharing agreements.
- Establish systems to keep information current.
- Appoint a leader in multi-party networks.

Suppliers

- Collate key information: ownership, governance, finances, contracts, customer profiles and billing.
- For complex networks: clarify who will file what, ensure consistent data, and set up data-sharing agreements.
- Establish systems to keep information current.
- Appoint a leader in multi-party networks.
- Confirm operator's registration timeline to avoid delays.

Customers

- No preparation needed.
- Once registered, Customers will be able to identify the relevant authorised supplier and operator on a public list.

If you have any questions, please get in touch:

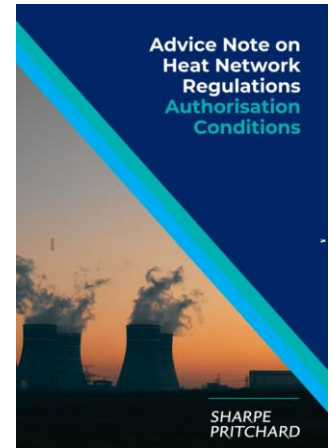
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