EXPLANATORY MEMORANDUM TO

THE HEAT NETWORKS (MARKET FRAMEWORK) (GREAT BRITAIN) (AMENDMENT) REGULATIONS 2025

2025 No. XXXX

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department for Energy Security and Net Zero and is laid before Parliament by Command of His Majesty.

1.2 This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Declaration

2.1 Mr Martin McCluskey, the Minister for Energy Consumers at the Department for Energy Security and Net Zero confirms that this Explanatory Memorandum meets the required standard.

2.2 Ludo Tolu, Deputy Director for Heat Networks Policy at the Department for Energy Security and Net Zero confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Thomas Kavanagh-Rose at the Department for Energy Security and Net Zero (DESNZ), telephone: 07843 825963 or email: heatnetworks@energysecurity.gov.uk, can be contacted with any queries regarding this Instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This Instrument makes amendments to the Heat Networks (Market Framework) (Great Britain) Regulations 2025. Its objectives are to:

- Expand on the authorisation regime set out in Part 3 of the original regulations, adding additional subject matter to the scope of authorisation conditions which are the set of specific obligations and requirements that apply to entities operating heat networks under the regulatory regime. It defines air conditioning systems in contrast to communal heat networks, in order to apply an exclusion of the former from the scope of heat networks regulation.
- Introduce requirements on supply to premises, requiring authorised persons (the company or body who will hold the authorisation and can be both those who operate and supply the heat network) to ensure that households consuming heat without a heat supply agreement are subject to a ‘deemed contract’.
- Provide for the establishment of a Special Administration Regime for “protected heat network companies” (as defined).
- Additional amendments also extend the requirement on authorised persons to be members of the Energy Ombudsman scheme in relation to newly-defined

categories of small businesses and microbusinesses under Part 2 of the Consumers, Estate Agents and Redress Act 2007.

- Finally, this Instrument provides for the partial revocation of the Heat Network (Metering and Billing) Regulations 2014 (HNMB Regulations), to avoid duplicative obligations on authorised persons. See section 5.4 and 5.5 for further detail.

Where does the legislation extend to, and apply?

4.2 The extent of this Instrument (that is, the jurisdiction(s) which this Instrument forms part of the law of) are England and Wales, and Scotland.

4.3 The territorial application of this Instrument (that is, where this Instrument produces a practical effect) is England, Scotland and Wales.

5. Policy Context

What is being done and why?

5.1 Heat networks are a form of decentralised energy distribution, where heating, cooling or hot water are circulated from central sources of generation to multiple points of use. This can include domestic dwellings, public and commercial buildings.

Heat networks are currently largely unregulated, despite being an essential utility. The only legislation that applies specifically to heat networks is the HNMB Regulations a piece of assimilated law (it originally implemented elements of an EU Directive) that relates solely to meter installation and consumption-based billing.

5.2 This means that heat network customers have significantly fewer rights and protections compared to other utility services. A report carried out by the Competition and Markets Authority in 2018 found that the existing market was an effective monopoly. Although it did not find evidence of widespread consumer detriment, it identified a high risk of consumer exploitation as the market grows.

The HNMF Regulations were made in March 2025 and provisions that are not already in effect will come into force from 27 January 2026. Chapter 1 of Part 8 of the Energy Act 2023 (together with Schedule 18) and the HNMF Regulations created the foundation of a regulatory framework for heat networks which is similar to what exists for gas and electricity.

5.3 This Instrument builds on the HNMF Regulations, introducing regulation on the following subjects:

- Special Administration Regime: this Instrument includes plans to protect consumers if a heat network becomes insolvent. A Special Administration Regime (SAR) will seek to ensure that networks continue running and customers do not experience interruptions to their supply of heating and hot water, in the event of a heat network operator or supplier insolvency. Additional financial resilience arrangements will form part of Ofgem's upcoming authorisation conditions.
- Supply to Premises: this Instrument amends the HNMF Regulations to extend the scope of authorisation conditions to include conditions that oblige heat suppliers to make an offer of supply to consumers connected to their networks and conditions relating to suppliers' conduct in the event of a consumer's non-payment of charges.

- Deemed Contracts: this Instrument obliges heat suppliers to have a deemed contract scheme in place, so that in the event that a consumer has not entered into a supply contract, both the consumer and the supplier are protected by the terms of a deemed contract instead. The detail of the terms that deemed contracts must include will be set out in the authorisation conditions and not in this Instrument.
- Pricing Investigations: this Instrument gives Ofgem power to set out the methodology to be used in determining whether charges are "disproportionate", which can be used when conducting pricing investigations.
- Partial Revocation of HNMB Regulations: this Instrument amends part of the HNMB Regulations. Details provided in sections 5.4 & 5.5.

What was the previous policy, how is this different?

5.4 Due to the minimal regulation of the sector currently, this Instrument largely creates new policy rather than amending previous policy. It makes the following amendments to the HNMB Regulations:

- Regulation 3 'Duty to notify', and regulation 9 'Billing' will be revoked from 27 January 2026. This avoids duplication with the authorisation conditions from January 2026.
- Regulation 4 'Duty to install meters' will be partially revoked from 27 January 2026 to remove the requirement for heat networks to complete a cost effectiveness assessment. This is to avoid heat networks from incurring costs to meet an obligation which will be phased out in subsequent legislation required to deliver Heat Networks Technical Standards.
- Regulation 6 'Duty to install heat cost allocators, thermostatic radiator valves and hot water meters' will be revoked because equipment installed under this obligation has been proven to be inaccurate and error-prone. These accuracy issues mean the use of this equipment as a substitute for metering is incompatible with upcoming industry standards and so should not be installed to avoid installation and subsequent retrofit costs. New Regulation 8A provides that a heat supplier previously under an obligation to install such equipment is no longer under that obligation.

5.5 The other regulations contained in the HNMB Regulations will remain in place. It is expected that they will be further amended or revoked in subsequent legislation required to deliver Heat Networks Technical Standards.

6. Legislative and Legal Context

How has the law changed?

6.1 Functionally this Instrument does not make substantial changes to the original HNMF Regulations, in how the authorisation regime and associated regulatory powers function. Additions to the scope of authorisation conditions expand the range of regulated activities that can be governed by those but do not change the procedure for setting them.

6.2 Amendments to the HNMB Regulations change the law by reducing the scope of obligations and continuing obligations to heat suppliers as defined in regulation 2 of those Regulations. This is to transition the application of those requirements to the main regulatory regime, rather than to remove those requirements from law.

The amendments made by regulation 11 (which inserts a new Part 7A into the HNMF Regulations) applies existing insolvency law relating to Special Administration

Regimes in the energy sector to protected heat network companies, with modifications.

Why was this approach taken to change the law?

6.3 This Instrument implements Part 8 of the Energy Act 2023. The approach taken is driven by the structure of that Act and the policy considerations set out.

7. Consultation

Summary of consultation outcome and methodology

7.1 This Instrument includes policies that have been set out in 4 consultations published by the former department for Business, Energy and Industrial Strategy (BEIS), and the Department for Energy Security and Net Zero (DESNZ) & Ofgem. These consultations all sought views from consumer groups, heat network industry bodies (such as developers) and local government. Details of these consultations are set out below:

Heat Networks: Building a Market Framework

7.2 Published by BEIS on 6 February 2020, this consultation set out our initial proposals for regulation, including the regulatory regime and scope of regulation. Our response was published on 29 December 2021. The consultation summary is available at www.gov.uk/government/consultations/heat-networks-building-a-market-framework.

Heat Networks Regulation: Consumer Protection

7.3 Published by DESNZ on 4 August 2023, this consultation informed the design of authorisation conditions and definitions of regulated activity. Our response was published on 4 December 2023. The consultation summary is available at www.gov.uk/government/consultations/heat-networks-regulation-consumer-protection.

7.4 Several respondents to this consultation requested further information on the status of air conditioning systems under heat networks regulation. In response, DESNZ and Ofgem agreed that buildings with air-conditioned systems relying on local compressors, purely ducted air or variable refrigerant volume/flow (VRV/VRF) will not be considered heat networks and therefore will be out of scope of regulation as long as they are not also heated or cooled by a heat network. This decision is reflected in this Instrument's definition and exclusion of air conditioning systems from Ofgem's heat networks authorisation regime. This Instrument does not define air conditioning systems by technology types, as was stated in the response to this consultation, in order to reflect changing technology used in air conditioning systems and to ensure the longevity of the exclusion.

Questions 52-56 of this consultation asked respondents about dwelling-level metering for heat networks, and for feedback on aspects of the HNMB Regulations. Several respondents reported that the Cost-Effectiveness Test used in the HNMB Regulations was unfit for purpose, and that Heat Cost Allocators were unsuitable for accurate consumption tracking; as a result, these aspects of the HNMB Regulations are to be revoked in this Instrument.

Heat Networks Regulation: Implementing Consumer Protections

7.5 Published jointly by DESNZ & Ofgem on 7 November 2024, this consultation included additional proposals relating to authorisation conditions, debt recovery and

'Step-in' insolvency prevention and management methods. Our response was published in August 2025. The consultation summary is available at www.gov.uk/government/consultations/heat-networks-regulation-implementing-consumer-protections.
Based on consultation responses and further stakeholder engagement, this Instrument will introduce definitions for 'micro-business' and 'small business' heat network consumers. The consultation included a number of proposals for a regulatory backstop to the authorisation conditions, to seek to ensure that heat network consumers will continue to be supplied in the event of operator insolvency. There was support from the majority of respondents that a Special Administration Regime (SAR) should be introduced alongside the financial monitoring and resilience requirements that will form part of Ofgem's authorisation conditions. A SAR will protect heat network consumers by allowing the administrator to continue operating the heat network, or provide an alternative source of heating and hot water to consumers, in the event of an operator or supplier insolvency.

Heat Networks Regulation: Authorisation and Regulatory Oversight

7.6 Published by Ofgem on 8 November 2024, this consultation included proposals on Ofgem's approach to monitoring, audit, compliance, and enforcement of authorisation conditions. The response was published in August 2025. The consultation summary is available at www.ofgem.gov.uk/consultation/heat-networks-regulation-authorisation-and-regulatory-oversight.

Devolved Administrations

7.7 In accordance with section 220 of the Energy Act 2023, the Secretary of State gave notice to the Scottish Government of the intention to make this Instrument, describing the provision within Scottish devolved competence and giving 28 days to make representations. The response raised no issues with the Instrument. There is ongoing productive engagement with Scottish administration. Statutory consultation requirements in relation to the Welsh Government were not engaged because the Instrument does not include provision within Welsh devolved competence.

8. Applicable Guidance

8.1 Guidance on complying with heat network regulations will be published before this Instrument comes into force.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this Instrument because the regulations contained have been assessed and deemed to be de minimis – that is the measures are expected to have an estimated annual net direct cost to business (EANDCB) of below +£10 million.

9.2 A full Impact Assessment for the HNMF Regulations on the cost of business, charities and the public sector is available alongside the regulations on https://www.legislation.gov.uk/uksi/2025/269/impacts. The de minimis process has been used instead of the full impact assessment process, in line with the department's guidance. The policy is not deemed to be politically sensitive, and analysis shows that the regulation impacts fall within the de minimis threshold.

9.3 The proposed regulation aligns heat network oversight with existing gas and electricity sector rules, following recommendations from the Competition and Markets Authority and extensive industry consultation, making it neither novel nor politically sensitive.

9.4 We have estimated an EANDCB of £0, which is significantly below the threshold of £10m. The NPSV is estimated to be -£18,500 and the Equivalent Annual Net Direct Costs to Households is estimated as £0 as the benefits to customers of better security of heat supply through step in measures could not be monetised. Overall, when considering the non-monetised benefits to heat network operators from supply to premises regulations and partial revocation of HNMBR and the benefits to consumers through continuation of heat from the SAR, the regulation is expected to have a net positive impact.

Impact on businesses, charities and voluntary bodies

9.5 There is no significant impact on business, and no impact on charities or voluntary bodies because this Instrument adds very few direct obligations to authorised persons.

The main direct obligation set by this Instrument relates to deemed contracts. Requiring the creation of a deemed contract scheme will not have significant administrative impacts on those authorised persons. An argument can be made that maintaining such a scheme would be administratively beneficial, as it ensures unregistered customers can be consistently charged for their heat consumption.

9.6 These regulations also extend the requirement on authorised persons to be members of the Energy Ombudsman Scheme in relation to complaints from newly defined categories of small and micro-businesses (see amendments to regulation 56 of the HNMF Regulations). However, whilst we expect the costs to remain well below the DM threshold, a lack of data and the reactive nature of the costs due to the scheme relying on redress to be sought means that it is difficult to quantify these costs to an accurate degree at this stage.

9.7 Businesses, including small and micro, connected to a heat network will benefit from the protection and standards that the regulation enforces.

The impact on the public sector is slightly negative, due to costs associated with implementing any future heat network administration under the Special Administration Regime. The cost of a heat network administration is not significant, and use of such an administration is considered a final option. However, this does represent a potential cost to government finances if there is a heat network administration.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is as follows: Ofgem and the Department will use data collected through the authorisations regime to develop understanding of the market and monitor the effectiveness of regulation.

10.2 The original HNMF Regulations (the original regulations) contain a review requirement. Additional measures introduced in this legislation will be incorporated into this review process.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 Most of the provisions of this Instrument come into force on the day after it is made. These largely expand the scope of authorisation conditions that may be determined by Ofgem and provide for a Special Administration Regime, and do not impose direct requirements on authorised persons.

11.2 Where direct requirements are imposed on authorised persons – to make a scheme to determine the terms and conditions of a deemed contract (see new regulation 27A of the HNMF Regulations) and to extend the requirement on authorised persons to be members of the Energy Ombudsman Scheme in relation to complaints from newly-defined categories of small and micro-businesses (see amendments to regulation 56 of the HNMF Regulations), the requirements do not come into force until 27 January 2026.

12. European Convention on Human Rights

12.1 The Minister for Energy Consumers has made the following statement regarding Human Rights:

"In my view the provisions of the Heat Networks (Market Framework) (Great Britain) (Amendment) Regulations 2025 are compatible with the Convention rights."

13. The Relevant European Union Acts

This Instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").