EXPLANATORY MEMORANDUM TO

THE HEAT NETWORKS (MARKET FRAMEWORK) (GREAT BRITAIN) (AMENDMENT) (NO. 2) REGULATIONS 2026

2026 No. 10

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 Martin McCluskey, 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 and Sam Massey, joint Heads of Heat Network Policy for heat network regulation, at the Department for Energy Security and Net Zero, confirm that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Thomas Kavanagh-Rose at the Department for Energy Security and Net Zero can be contacted by email at the following address with any queries regarding the instrument: heatnetworks@energysecurity.gov.uk. Alternatively, the department can be contacted by telephone: 07843 825963.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This Instrument makes an amendment to regulation 56 of the Heat Networks (Market Framework) (Great Britain) Regulations 2025 (the "2025 Regulations"), which applies Part 2 of the Consumers, Estate Agents and Redress Act 2007 with modifications. Regulation 56(7) requires those holding a heat network authorisation to be members of a redress scheme in relation to complaints from domestic consumers, micro-businesses and small businesses. The instrument corrects errors in the definitions of "small business" and "micro-business" inserted by the Heat Networks (Market Framework) (Great Britain) (Amendment) Regulations 2026 (the "Amending Regulations").

Where does the legislation extend to, and apply?

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

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

5. Policy Context

What is being done and why?

5.1 The Energy Ombudsman's redress scheme applies to domestic consumers and non-domestic small and microbusinesses in gas and electricity markets. Heat Network regulation seeks to align the application of protections to the same types of consumers on a heat network.

5.2 While the policy was in development, Ofgem launched a consultation on protections for non-domestic consumers in gas and electricity markets, which included extending the scope of the Energy Ombudsman scheme to small businesses. When this proposal was implemented, the Department and Ofgem decided to apply this scope extension to heat network markets. Regulation 10 of the Amending Regulations sought to do this.

5.3 However, an error in the Amending Regulations introduced an accidental divergence from the policy intention, in that the substituted definition states that a "micro-business" means (1) a business that consumes less than 247,000 kilowatt hours of heat per year; (2) a business that has fewer than 10 full-time equivalent employees; or (3) a business that has either an annual turnover or balance sheet total of £2million or less. The definition we sought to align with was that a micro-business means either (1) a business that consumes less than 247,000 kilowatt hours of heat per year or (2) a business that has fewer than 10 full-time equivalent employees and an annual turnover or balance sheet total of £2million or less. This difference in wording has the effect of expanding the definition of micro-businesses beyond the policy intent.

5.4 The instrument also corrects the definition of "small business". The effect of the amendment is that a business is a "small business" if it meets the consumption threshold alone (that is to say, if the business consumes less than 420,000 kilowatt hours of heat per year), without also having to satisfy annual turnover or balance sheet limits.

5.5 The error in the definition of "micro-business" was discovered after the Amending Regulations, which were subject to the affirmative procedure, had been laid in draft before Parliament but before they had been made. In order to ensure that the Amending Regulations were in force by 27 January 2026, the decision was taken to make the Amending Regulations and then correct the 2025 Regulations, rather than withdrawing and re-laying a corrected draft.

What was the previous policy, how is this different?

5.6 This amendment seeks to correct legislation to align with the existing policy, rather than create new policy. As regulation 56(7) of the 2025 Regulations is comes into force on 27 January, there is expected to be limited difference.

6. Legislative and Legal Context

How has the law changed?

6.1 This instrument clarifies the types of business that will be able to benefit from the Energy Ombudsman Redress Scheme in relation to consumer complaints arising from the supply of heat by means of heat networks. This Instrument does not make any other changes to the 2025 Regulations.

Why was this approach taken to change the law?

6.2 The requirement in regulation 56(7) of the 2025 Regulations applies equally in respect of micro-businesses and small businesses. As the new definitions are now aligned in structure, with only the consumption and turnover, etc. limits differing, a single definition could have been used to encompass both categories. However, two separate definitions have been used, as Ofgem's authorisation conditions for the new regulatory regime require these terms to be defined in legislation in order to allow authorisation conditions to apply to different segments of the heat network market - for example back billing rules apply to domestic and micro-business consumers. The new definition of "small business" excludes "micro-business", to enable this distinction to be made.

7. Consultation

Summary of consultation outcome and methodology

7.1 An open consultation was published on 07 November 2024, which included proposals to update the scope of consumer redress and the definition of small and micro-businesses. The consultation and response is available here: The consultation summary is available at www.gov.uk/government/consultations/heat-networks-regulation-implementing-consumer-protections.

7.2 We have also consulted with Ofgem about the corrections needed to bring the definitions of small and micro-businesses into alignment with gas and electricity markets.

7.3 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 the Amending Regulations, describing the provision within Scottish devolved competence. The response raised no issues with the Amending Regulations.

7.4 A further notice was given to the Scottish Government of the intention to make this instrument and giving 28 days to make representations. The Scottish Government responded to this notice confirming their agreement to the draft regulations.

8. Applicable Guidance

8.1 Ofgem will publish guidance about regulation before the authorisation regime set out by the 2025 Regulations commences on 27 January 2026.

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 of the low level of impact per business. A De Minimis Impact Assessment was undertaken for the Amending Regulations, since the equivalent annual net direct cost to business is less than £10m. The analysis undertaken there is reflective of the impacts of this regulation.

Impact on businesses, charities and voluntary bodies

9.2 There is no significant impact on businesses, charities or the voluntary sector because this instrument makes a minor change on the obligation on authorised persons to be a

member of the Energy Ombudsman Scheme. Whilst we expect the costs to remain well below the DM threshold, a lack of data means that it is difficult to quantify these costs to an accurate degree.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The 2025 Regulations contain a statutory review clause. The amendments made by 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 This instrument corrects errors in the 2025 Regulations inserted by the Amending Regulations. The Department will accordingly apply the free issue procedure.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 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”).