

Heat Networks Regulation: authorisation conditions and guidance on measures to mitigate the risk and impact of financial failure

Citizens Advice response



September 2025

We can all face problems that seem complicated or intimidating. At Citizens Advice we believe no one should have to face these problems without good quality, independent advice. We give people the knowledge and the confidence they need to find their way forward - whoever they are, and whatever their problem.

We provide support in approximately 2,500 locations across England and Wales with over 18,000 volunteers and 8,650 staff.

Through our advocacy work we aim to improve the policies and practices that affect people's lives. No one else sees so many people with so many different kinds of problems, and that gives us a unique insight into the challenges people are facing today.

As the statutory consumer watchdog for the energy and post industries we have an important role to play in shining a spotlight on the problems consumers encounter, providing solutions to these problems and ensuring their voices are heard when important decisions are made about the future of these essential markets.

As part of our new role as the consumer watchdog for heat network consumers, we'll apply our expertise and insights to highlight the issues consumers face and ensure their voices are heard as the sector develops.

Summary

Overall, Citizens Advice agrees with the proposals set out in this consultation. We agree that the current level of heat network failure is very low. Where failure does occur, we also agree that the majority of heat networks should be able to ensure interim or step-in measures in a timely manner. Where this isn't possible, intervention in the form of a Special Administration Regime (SAR) will be appropriate.

We understand that Ofgem plan to consult on the details of a SAR, and that you are open to developing the conditions outlined in this consultation [further](#). Related to the authorisation conditions discussed in this consultation, there are 3 key areas to highlight.

Firstly, ensuring compliance with the proposed Authorisation Conditions will depend on effective monitoring and enforcement. Once the registration deadline passes in 2027, Ofgem will have fuller oversight of the market. However, until then monitoring compliance will be difficult. Until greater market oversight is achieved, there is a risk that an actual failure could occur that Ofgem is unaware of. Even after registration, monitoring such a big market with so many operators will be a challenge.

Ofgem should have an interim plan for a) monitoring compliance and/or progress with the new Authorisation Conditions, and b) monitoring the overall heat network market for potential failures. The regulator must ensure that registered heat networks are monitored effectively, and that efforts are made to identify non-registered heat networks as soon as possible.

Secondly, the proposals in this consultation, and the timeline for further consultation, rest on the assumption that the number of heat network failures will remain low. However, it's important to consider that the risk of supplier and/or operator failure could change as the market matures. Ofgem have confirmed their intention to keep aspects of this consultation under review, to understand whether further obligations need to be developed in the future. The regulator should be prepared to act quickly to develop new

obligations and protections if the risk to consumers from heat network failure increases significantly.

Thirdly, while we agree with the decision to exclude consumers on heat networks run by registered providers of social housing, we are concerned that where regulations do apply, providers may not recognise this. This is a particular risk where the registered provider uses a separate supplier or third party to provide some or all of the registered activities. Ofgem must work with relevant Government departments to provide clear guidance on which entities are responsible for the activities covered in this consultation in the event that the separate supplier or third party fails.

Consultation response:

Q1. Do you agree with our assessment of the risks to continuity of supply where operators face financial failure in the sector? Please explain your answer.

Overall, Citizens Advice agrees with Ofgem's assessment of the risks to continuity of supply where the operator faces financial failure.

We agree that the level of heat network failure is currently low. The prevalence of existing step-in arrangements, good practice and commercial incentives should ensure that replacement or interim operators are appointed in a timely manner. Where replacement operators cannot be found, the SAR backstop should be sufficient to ensure the continuation of essential processes.

However, Ofgem should closely monitor the overall risk of failure in the market. Some heat network models may become more at risk of failure than others, or the overall risk of failure could increase as more complex models enter the market. For example, private developers choosing heat networks for their commercial or domestic sites are likely to operate with higher levels of financial risk than Local Authority run projects. Ofgem should be prepared to introduce more prescriptive protections if, for example, some types of heat network

become less commercially attractive, or if step-in arrangements haven't been sourced.

One risk relates specifically to the concessionary model. Under this model, a developer may commission an ESCO to undertake both the supplier and operator functions of a heat network. This creates a risk whereby the operator cannot take on the role of interim supplier, should the supplier fail.

Ofgem does pick up on this risk in the section on continuity arrangements (e.g. p. 25). The consultation notes that the overarching requirement on an authorised entity means that there *should* be arrangements in place to support the transfer of all authorised activities to a successful organisation - no matter if the successor organisation hasn't been identified yet (pp. 25-25). In addition, they note that it is likely in such models that the developer will be incentivised to ensure continuity and will be able to secure a new or interim operator.

However, considering the changing market landscape, we encourage Ofgem to review this position as more and larger heat networks enter the market. As the sector grows and develops, concessionary models of heat networks may become more common. Increasing numbers of consumers increases the risks associated with failure. It may become more practical for Ofgem to mandate step in arrangements - even for specific models - rather than increasing their reliance on a SAR, which could be more costly to energy consumers more widely.

Q2. Are there any other models which we have not explored which merit assessment of the risks to continuity of supply in the case of financial failure? Please explain your answer.

We broadly agree with Ofgem's decision to exclude Local or Housing Authority-run heat networks from the proposed Authorisation Conditions. It is correct that there are existing financial obligations and regulatory provisions that will ensure the financial viability of social housing providers in the event of financial difficulty, and so the risks of failure are not present in the same way.

However, it is not yet clear whether the housing regulations will result in the same outcomes for consumers in the event of a heat network financial failure as

the proposed Authorisation Conditions. In addition, the complex intersection between heat network and housing regulations means that roles and responsibilities can be unclear - particularly for consumers.

Regardless of the heat network model, it is essential that consumers are:

- Protected from unnecessary risk to continuous supply;
- Clear as to who their heat network supplier is; and
- Clear as to who is responsible for ensuring continuity of supply.

Ofgem and DESNZ should work closely with MGCLG to ensure that all heat network consumers receive the same level of protection, regardless of the regulations that apply.

Q3. Are there other segments of the heat network sector which have clear continuity of customer supply arrangements in the event of a market exit which we have not considered? Please explain your answer.

While there are regulations in place for housing providers which will ensure heat networks remain operational during periods of financial difficulty, there is uncertainty as to whether these regulations contain enough detail to minimise other risks associated with financial failure.

For example, the proposed guidance on continuity arrangements outlines a number of specific assets that must be transferred effectively in the event of a change of supplier/ operator. These assets include heat-network specific data such as the Priority Services Register and billing/ account information.

It is not clear whether housing regulations would provide for the same level of protection in the event of financial difficulty, particularly where the Local/ Housing Authority is the supplier and operator. For example, a heat network run by a Local Authority, while unable to 'fail', could still become unviable for the authority. This is particularly the case with older heat networks. In these instances, consumer rights and assets must still be protected in any transition arrangement.

Working with the relevant Government departments where appropriate, Ofgem should provide clear guidance on what is expected of relevant heat networks in situations where different regulations may apply to different entities. Ofgem and the Government should also review whether consumer outcomes differ depending on which set of regulations apply. Further action may be needed to prevent a '2-tier' system from emerging, should the existing housing regulations not provide enough protection in the event of a heat network failure.

Q4. Do you agree that our financial resilience provisions should apply where registered providers are using separate entities to carry out regulated heat network activity? This can include subsidiaries that are not regulated by a social housing regulator, like energy supply companies or special purpose vehicles.

Citizens Advice strongly agrees that financial resilience provisions should apply where registered providers of social housing (hereinafter referred to as registered providers) are using separate entities to carry out regulated heat network activity, especially in instances where a registered provider uses an ESCO or SPV.

Applying financial resilience provisions to these companies will not only ensure continuity of supply while another ESCO is found, but that essential consumer data and assets are protected. This will ensure a smooth transition for consumers.

Q5. Do you agree that self-supply and industrial networks should be out of scope of the financial resilience requirements? Please explain your answer.

Not answered, as industrial and self-supply heat networks are outside of Citizens Advice's remit.

Q6. Do you agree with the policy intent and Authorisation Condition 'availability of resources and internal capability'? Please explain your answer.

We agree with the policy intent and Authorisation Condition 'availability of resources and internal capability'. The Authorisation Condition itself is an appropriate way to ensure that authorised persons act in such a way as to secure resources to carry out the supply or operation of the network. The actions outlined in the Authorisation Condition will significantly reduce the risk to consumers in the event that a heat network gets into financial difficulty.

We also agree that the requirement to engage annually to validate financial health is appropriate. This will ensure there is sufficient oversight whilst allowing essential flexibility on the specific resources monitored.

Ofgem intends to consult at a later date on the entry requirements for new heat networks, including what they should be able to demonstrate in terms of access to resources and financial health. We agree with this proposal. Considering the likelihood that larger heat networks - with more complex ownership structures - are to become more common, it may become appropriate for Ofgem to introduce specific thresholds or conditions that heat networks have to demonstrate their ability to meet.

Q7. Do you agree with the policy intent and Authorisation Condition 'material assets'? Please explain your answer.

Citizens Advice agrees with Ofgem's overall rationale and intent that an authorised entity "should have sufficient control over material assets to ensure the smooth transfer of authorisation to a successor if required."

We agree with the definition of sufficient control utilised by Ofgem. It is essential that an authorised entity has either "direct ownership" or "legally enforceable rights" over material assets. Not only does this ensure a smooth transfer of authorisation, but this will ensure that no essential activities fall out of scope of these Authorisation Conditions.

We also agree with the stipulations set out in the proposed text of the material assets Authorisation Condition. In particular, the requirement for sufficient control over material assets and a register of material assets will be essential to

ensure a smooth transition between authorised persons and suppliers as necessary.

Overall, the definition of material assets outlined by Ofgem is sufficient. However, we are aware that some heat network developers, ESCOs and other providers maintain 'sinking funds'. These sinking funds are made up of service charge contributions from residents, and are meant to be benchmarked for major maintenance costs - including those associated with their heat network. Ofgem should make sure that their definition of material assets explicitly includes such sinking funds. It is essential that customer capital be safeguarded in the event of a heat network failure, and that it is not used to cover creditor costs.

Finally, it is reasonable to expect that all heat network suppliers - even those that are LA/ HA owned - maintain a register of material assets, including their condition and function. Ensuring that all heat networks are clear on these expectations will help prevent a 2-tier system of consumer protections emerging.

Q8. Do you agree with the approach to financial monitoring and the regular reporting requirements? Please explain your answer.

Overall, we agree that Ofgem's proposed Authorisation Condition 'availability of resources and internal capability' and accompanying guidance, are the right approach to financial monitoring and reporting requirements. We also agree that the requirements listed under the 'financial data points' descriptions are adequate and proportionate.

While they may be out of scope of this consultation, there are additional areas of monitoring/ reporting that Ofgem should consider, to help manage financial risk.

We note that Ofgem won't require heat networks covered by registered providers to provide regular financial monitoring data. However, as with the management of material assets, it would be good practice for Ofgem to have at least some oversight of this data. In particular, Ofgem should receive regular

information on social landlord's fuel procurement strategies, in order to maintain a good understanding of pricing in the sector.

Some heat networks will face additional maintenance and upgrade costs in the near future. Some heat networks will need to factor these costs into their financial planning and risk assessments. Ofgem should anticipate how these costs could impact financial stability.

It is not clear from the accompanying guidance whether contracts for third parties carrying out heat network activities are to be provided alongside the other data requested as part of Ofgem's regular reporting. Where a supplier or operator engages a third party to undertake part or all of an authorised activity, the costs and nature of these activities should be reported on. This will provide essential market information and increase transparency.

Finally, the "total liabilities" that heat networks will need to report on refer to the company's own debts, rather than consumer debt. However, levels of bad consumer debt will be essential for monitoring the overall financial health of a heat network, as there are no debt socialisation mechanisms to help spread these costs. Ofgem should consider monitoring consumer debt levels distinct from total liabilities.

Q9. Do you have feedback on the proposed guidance outlined in Appendix 2 that would improve its use for your organisation?

Not answered.

Q10. Do you have feedback on the proposed guidance outlined in Appendix 3 that would improve its use for your organisation?

Not answered.

Q11. Do you agree with the policy intent and Authorisation Condition 'continuity arrangements'? Please explain your answer.

Yes, the Condition will ensure that heat network consumers benefit from a supply continuity plan - with the exception of those where the authorised person is a Local Authority or an excepted company. Where the Condition does apply, the proposed minimum requirements for the plans' content are sufficient.

There are some instances where a heat networks' use of third party metering and billing agents may mean that important continuity requirements don't apply, even where the agent holds essential consumer information. We highlight where this risk may occur in question 13 below.

Q12. Do you agree with the proposal for operators to carry on the supply of heating, cooling or hot water if the supplier ceases to? Are you aware of any examples where this could not be feasible?

Generally, this proposal would cause a problem where the supplier and operator are the same entity. This is most likely to occur in the following scenarios:

- **Some larger private developers appoint an ESCO to act as both operator and supplier, and the ESCO fails.** These models are becoming more common, especially for mixed-use urban regeneration projects and in build-to-rent schemes. In these circumstances, the developer would likely have some kind of step-in arrangement in place to ensure the heat network continued to operate, but this might not provide the same level of consumer protection as a continuity arrangement.
- **Smaller communal heat networks where the operator and supplier are the same entity, and the entity fails.** As in the example above, it's likely that the continuity of heat network operation would be provided for in some way, but this might not be the same level provided by the continuity arrangement.

However, we recognise that the risk of these scenarios occurring is currently low. In addition, the overarching provision of the condition requires that the authorised entity maintains continuity arrangements. The responsible parties

should therefore ensure that continuity arrangements are in place, even in the instances outlined above.

We therefore agree with this proposal. However, Ofgem should monitor the market to understand whether situations are commonly occurring in which it is not feasible for the operator to carry on supply if the supplier fails.

Q13. Do you agree with the proposed contents and breakdown of the plan? Please explain your answer.

Overall, we agree with the policy intent and content of the proposed continuity arrangements and the continuity plan requirements. The minimum requirements outlined by Ofgem should ensure that the transference of data in these key areas is at least planned for.

In the mains gas and electricity market, when an energy supplier fails, it is the mismanagement of essential consumer data that has the potential to bring about the most harm. For example, failure to transfer billing data; debt balances and PSR information from supplier to supplier could lead to a consumer missing out on support. The key areas listed by Ofgem should ensure that this essential information is transferred.

Third parties:

We agree with the proposals outlined in paragraph 7.44 in Appendix 4. These specify that, where a local authority or registered provider operates a heat network but has a separate supplier, they will be in scope of section 3 “continuity obligations for networks with a separate supplier.” This will ensure that more heat network consumers are covered by these essential protections.

However, many heat networks utilise non-authorised entities to carry out authorised activities, such as billing and metering agents. These third parties will hold much of the data listed under the minimum requirements.

The draft Authorisation Condition no. 2 Supplier Standards of Conduct is clear that the authorised person must ensure that their Representatives achieve the

standards and objectives outlined in the Authorisation Conditions.¹ The same line of responsibility follows here, and Ofgem should make this clear in the guidance.

Ofgem should ensure that the proposed Authorisation Conditions outlined in this document also apply to third parties undertaking activities on behalf of the authorised entity.

Q14. Do you have feedback on the proposed guidance outlined in Appendix 4 that would improve its use for your organisation?

Further Interventions:

Overall, Citizens Advice agrees with the level of intervention proposed by Ofgem. However, as the sector grows, there may be an increasing need for a more “centrally managed arrangement” to secure the continued operation of some heat networks at risk of insolvency.

¹ DESNZ, [Heat Networks regulation: implementing consumer protections](#), November 2024, p. 6.

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