



**Report**

Prepared for Shareenergy

**in relation to**

**Community Enterprises in the context of the evolving regulatory  
framework for district heat networks**

October 2025

Legally privileged & confidential

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## Scope of Report and Disclaimer

### 1 Scope and Liability

- 1.1 Shareenergy Co-operative Limited (“**you**”/ “**Shareenergy**”) wish to understand how the undertaking of certain district heating activities by community enterprises (which could be a co-operative, a Community Benefit Society (CBS) or another relevant community owned enterprise) would be treated under the evolving regulatory framework for district heat networks (the “**Project**”).
- 1.2 Lux Nova Partners (“**LNP**” / “**we**”) have been instructed by you to produce a report in accordance with and subject to the terms of the retainer agreed between LNP and Shareenergy on 3<sup>rd</sup> December 2024 and the Terms of Reference set out under Annex A.
- 1.3 This Report is solely for your benefit, in connection with the Project and for no other purpose. It is not to be submitted to any other person without our prior written consent and may not be relied upon by any other person for any purpose whatsoever.
- 1.4 The report is currently high level, reflecting our understanding of the current regulatory framework. We have set out below how the evolving framework on regulation of district heat networks currently addresses the questions posed, however this report is not intended to be exhaustive and is dealing with the regulations which have been published at the date of this report. The position is still evolving and there will be further secondary legislation published throughout 2025 and beyond. Responses may therefore need to be updated as regulations are published, and positions are clarified.
- 1.5 Our liability under this Report is limited as per the terms of our engagement with you, to £3,000,000. No-one else should rely on this report and, to the maximum amount allowed by law, we exclude any liability to anyone else who does.

### 2 The community models and questions posed.

- 2.1 Two ownership models are under consideration:
  - 2.1.1 **Heat Entrepreneurship Model:** a community enterprise owns heat and power generating equipment which includes a wind turbine, solar panels (optional), heat pumps and back up gas boilers and contracts to supply heat into a heat network. The heat network (pipework) and heat interface units inside a customer property will be owned, operated, maintained, and insured by a local authority or a private entity (probably in the form of some kind of joint venture). The community enterprise will sell excess electricity produced by the wind turbine and solar panels through a Power Purchase Agreement (**PPA**) or another form of market mechanism.
  - 2.1.2 **100% Community Owned Model:** a community enterprise owns heat and power generating equipment as well as the heat network (pipework) itself. There may need to be some kind of joint venture between the community enterprise and a local authority / private entity for ownership of the heat network, but only where this is “necessary” (under the evolving regulatory framework), rather than where it was just “market standard”.
- 2.2 We have been asked by Shareenergy to address the following issues in relation to both models:
  - 2.2.1 **Section 1: Development activities:** Who would be responsible for digging up any roads (when not a utility) - who would carry out this work and what are the legal implications for the community enterprise? (See paragraphs 4-5).
  - 2.2.2 **Section 2: Operation activities:**
    - (a) What are the legal implications for the community enterprise in light of the evolving regulatory framework (in particular compliance with the regulatory rules), in relation to (i) selling heat to consumers (see paragraphs 12 - 14); and (ii) metering and administration activity (see paragraphs 15 - 17); and

- (b) What are the implications of failure to deliver heat or power in accordance with the terms of any customer supply agreement? (see paragraphs 18 – 19)
- (c) Is the most sensible route only ever employing a regulated organisation to do the "selling" on behalf of the community enterprise, or can the community enterprise become authorised themselves? Is that practical? (see paragraphs 20 – 21)

2.2.3 **Section 3: Ownership issues:**

- (a) What are the implications if a community enterprise owns a district heat network on public land and (i) a burst pipe damages other neighbouring properties or public property; or (ii) a local authority carries out work and damages the community enterprise's pipework? (see paragraph 22)
- (b) What are the implications if a community enterprise installs infrastructure in a consumer's property and is denied access by a consumer when required for maintenance purposes or a consumer defaults on bill payments or damages the equipment? (see paragraph 23)

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For and on behalf of  
**Lux Nova Partners Limited**  
29th October 2025

### 3 Glossary

In this Report, unless the context otherwise requires, the following terms have the meaning explained below:

#### **Act – the Energy Act 2023**

**The Regulator – Office of Gas and Electricity Markets. Independent regulator governed by the Gas and Electricity Markets Authority (GEMA)**

**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**

**DESNZ – Department of Energy Security and Net Zero**

**ESCO – energy services company**

**HNBR – Heat Network (Metering and Billing) Regulation, which came into force initially in 2014, 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 (Market Framework) (Great Britain) Regulations 2025 – secondary legislation establishing the statutory framework for regulating heat networks across England, Scotland, and Wales. They are made under the Energy Act 2023.**

### **Section 1: Development activities**

***Who would be responsible for digging up any roads (when not a utility) – who would carry out this work and what are the legal implications for the community enterprise?***

### **4 Application to: Heat Entrepreneurship Model**

- 4.1 Under the heat entrepreneurship model, if the community enterprise is just supplying heat and does not own the network or has not been granted the concession to build, operate and maintain the DHN, it is unlikely that it will take on the responsibility of digging up any roads. It is more likely that the entity who is the owner of the network or the entity that has been granted the concession to build, operate and maintain the DHN would take on this responsibility.
- 4.2 A local authority has the power to construct, lay and maintain pipes and associated works for conveying heat. It may also contribute towards the cost incurred by another person in providing or maintaining such works, so the local authority may either undertake the works or contribute to the costs of the work by a third party.<sup>1</sup>
- 4.3 The Act provides that zone coordinators, who are responsible for overseeing district heat networks within designated zones, may decide who will design, construct, operate, and maintain these networks<sup>2</sup>. If the local authority, acts as a zone authority or a zone coordinator in a heat network zone, it would have the authority to manage and coordinate the necessary infrastructure works, including road excavation, to facilitate the connection to the district heat network.
- 4.4 The Act enables regulations to create heat network zones and appoint zone coordinators, but the necessary zoning regulations designating coordinators are not yet published or in force as at the date of this report.

### **5 Application to: 100% Community Owned Model**

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<sup>1</sup> Local Government (Miscellaneous Provisions) Act 1976 s 11(4)(b).

<sup>2</sup> Energy Act 2023 (2023 c 52) – 233(2)(a)(ii)- Delivery of district heat networks within zones.

- 5.1 With a 100% community owned model, it is more likely that the community enterprise will be responsible for digging up the roads.
- 5.2 Under the New Roads and Street Works Act 1991, operators must be a statutory undertaker or have equivalent rights granted under the Act or apply for a section 50 licence if they don't have statutory undertaker status. This process is often long and leads to higher costs and delays.
- 5.3 Schedule 18, Part 5 of the Act sets out regulations regarding the issuance of licences which grant rights relating to the installation and maintenance of heat networks. Such rights may include creation of easements or rights over land, a right to install and keep works and apparatus relating to a heat network in, under or over a street.<sup>3</sup>
- 5.4 This regulatory mechanism is designed to facilitate the development and maintenance of heat networks in England and Wales, to make the process more stream-lined and cost effective and more in line with rights enjoyed by statutory undertakers, albeit tailored to the heat network sector.
- 5.5 Whether the community owned model can obtain an installation and maintenance licence will depend on whether it can meet the criteria for authorisation and comply with such licence conditions. The Regulator needs to be satisfied before issuing an installation and maintenance licence to a person that *"the person is an appropriate person to hold such a licence."* In deciding this, the Regulator may consider *"such matters as may be specified"* and these may relate to *"the abilities or financial resources of the person applying for a licence or the nature of the business carried on by the person."*<sup>4</sup>
- 5.6 Failure to comply with relevant conditions or requirements could lead to enforcement action by the Regulator, revocation of the licence and penalties imposed on the community enterprise for breach.<sup>5</sup>
- 5.7 **Conclusion:** In summary, the responsibility for digging up roads and carrying out the work will depend on who owns the network or has been granted the concession to build, maintain and operate the network and on the specific contractual arrangements in place. If it is the community enterprise, it will need to consider whether it is able to obtain a licence from the Regulator pursuant to the Act and be able to fulfil any necessary conditions attaching to such licence. If it cannot obtain such a licence, it will need to apply for a section 50 licence which could be more costly and lead to delays.

## **Section 2: Operation activities: a summary of evolving regulatory framework**

### **6 Background**

- 6.1 As already mentioned above in the context of issuing licences under paragraph 5, the Act appoints the Regulator and provides for the introduction of an authorisation regime for heat networks and development of consumer protection requirements. While the Act sets out the overarching powers and principles for regulation, secondary legislation will set the specific standards and duties with which regulated entities will need to comply. The consumer protection requirements will be in secondary legislation and authorisation conditions which will include standards for fair prices and transparent information for consumers, a high quality of service, minimum standards, and carbon limits. The Regulator will be able to take enforcement action against regulated entities that breach requirements. In addition, the Act provides for establishing Step-In arrangements to protect consumers if their supplier goes out of business to ensure their heat supply is maintained.<sup>6</sup>
- 6.2 The Government is taking a phased approach to allow the market to prepare. From April 2025, the initial consumer advocacy, advice, and redress functions began under transitional provisions,

<sup>3</sup> Energy Act 2023 (2023 c52) Schedule 18, para 32 (3), Part 5 Heat Networks Regulation

<sup>4</sup> Energy Act 2023 Schedule 18, para 31 (2), (3) and (4) of Part 5 Heat Networks Regulation

<sup>5</sup> Energy Act 2023 Schedule 18, para 37 (2) of Part 5 Heat Networks Regulation

<sup>6</sup> Energy Act 2023 Schedule 18, paras 44 to 46 of Part 8 Step-in arrangements

with full consumer protections commencing 27 January 2026. Citizens Advice, Consumer Scotland, and the Energy Ombudsman have begun official advocacy and redress roles for heat network customers. Full market regulation is planned for January 2026 and in January 2027, Ofgem (as Regulator) has indicated in published guidance that it intends to carry out more complex regulatory activities such as pricing and standards of performance.

- 6.3 Under the proposals, all existing operational heat suppliers and heat network operators will be automatically authorised to continue operating subject to them meeting notification requirements set by the Regulator. New networks will have to apply for authorisation.<sup>7</sup>
- 6.4 Secondary legislation will continue to be developed, drawing on consultation responses to the Regulator. The Regulator will also be consulting on authorisation conditions and draft guidance on financial resilience and registration and consumer protection and fair pricing. The most recent response on consumer protections at the date of this report is the third joint DESNZ and Ofgem consultation which was published in August 2025.
- 6.5 There are a number of different milestones anticipated during 2025, 2026 and 2027, details of which can be found on the Regulator's website.<sup>8</sup>
- 6.6 An important point, raised during Government consultations, related to the definitions for heat supplier and heat network operator and the importance of entities being able to define their role clearly within the regulatory framework. It was recognised in the consumer protection Government response of April 2024 that while split responsibility between operator and supplier may not be common, the Regulator wants to retain the ability to authorise those activities separately. Control will be an important factor in understanding whether an entity is undertaking a regulated activity. The regulated operator is likely to be the entity that has significant control over the heat network assets, the ability to invest in the network and make decisions on repairs and maintenance. These factors influence outcomes for consumers such as network reliability, network efficiency, and future compliance with the Heat Networks Technical Assurance Scheme (HNTAS) rules. The Government response stated that *"it is therefore appropriate that regulatory responsibility sits with the controlling entity."* In the same way, those suppliers which have the heat supply contract with the customer, have the control to set the terms of that contract and significant influence over customer outcomes. Where functions are subcontracted like operations and maintenance or billing and metering, these should not constitute a delegation of regulatory responsibility. However, where there are long term concession arrangements such as an ESCO model, where control of assets is contracted out, the Regulator may decide through the authorisation conditions that it makes more sense for the ESCO to be designated by it as the appropriate regulated body. The authorisation conditions will define the roles of operator and supplier but it is not seen as necessary to formally define the roles of ESCOs, O&M contractors or other parties that may be involved in supply and operation as these may vary from case to case, and models may change in the future as they market evolves.<sup>9</sup>
- 6.7 Many of the comments from respondents to the Government consultation published by DESNZ and the Regulator on 8<sup>th</sup> November 2024 highlight the potential increased administrative burden and cost of regulation for the small or community led project segments in for example, billing information, frequency, and method.<sup>10</sup> The Government has said in its response that it will take that into account when publishing supporting guidance which may help alleviate those administrative pressures, but it is unclear currently what that looks like.<sup>11</sup>
- 6.8 Guaranteed standards of performance are still under consultation. This aspect needs to be carefully considered particularly where there are separate heat network operator and heat network supplier entities as it may not always be clear which entity is responsible for heat

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<sup>7</sup> Heat networks regulation: consumer protection - Government response April 2024 – authorising existing and new heat networks page 25

<sup>8</sup> <https://www.TheRegulator.gov.uk/energy-regulation/low-carbon/heat-networks/heat-networks-regulation-timeline>

<sup>9</sup> Heat networks regulation: consumer protection - Government response April 2024 – scope and define activities page 20

<sup>10</sup> Heat networks regulation: implementing consumer protections – Government response August 2025 page 94

<sup>11</sup> Heat networks regulation: consumer protection - Government response April 2024 page 29

disruption, and suppliers should not have to compensate for interruptions outside of their control. The Government has said in its consultation response dated August 2025 that the Regulator will work to finalise the proposals through further stakeholder engagement and a separate statutory instrument and that a future consultation will likely be accompanied by an impact assessment to inform final proposals on compensation.<sup>12</sup> It remains to be seen what impact there will be on community owned networks as the joint consultation published by DESNZ and the Regulator on 8<sup>th</sup> November 2024 raised a number of comments, including that regulation should allow for a de-minimis threshold for small scale projects such as community projects, below which regulation would not apply, to avoid setting barriers to development.<sup>13</sup>

## **7 Heat Networks (Market Framework) (Great Britain) Regulations 2025**

- 7.1 The Heat Networks (Market Framework) (Great Britain) Regulations 2025 (“**the Regulations 2025**”) came into force partly on 3<sup>rd</sup> March 2025, partly on 1<sup>st</sup> April 2025, and full regulatory powers and enforcement will come fully into force on 27<sup>th</sup> January 2026 and implements Part 8 of the Act.<sup>14</sup>
- 7.2 As well as enacting the authorisation regime and powers of enforcement, the Regulations 2025 also define the roles of other organisations within the regulatory framework e.g. Office for Product Safety and Standards on meter standards and Citizens Advice, Consumer Scotland, and the Energy Ombudsman on redress, which is not yet fully operational, but expected to ramp up through 2025. The authorisation regime and prescribed standards of performance set out in the Regulations 2025 are consistent with the consultation papers consulted on previously (August 2023 and December 2023 consultations and in more recent consultations).
- 7.3 The Regulations 2025 have introduced the following offences relevant to heat networks (though Ofgem’s power to impose penalties or redress orders only begins from 27 January 2026):
  - 7.3.1 carrying on a regulated activity without authorisation.
  - 7.3.2 failure to provide information requested by a lawfully issued notice.
  - 7.3.3 provision of deliberately misleading or inaccurate information.
  - 7.3.4 intentionally suppressing or altering documents required to be provided to the Regulator.
  - 7.3.5 obstruction of a person exercising a legal power of entry.
  - 7.3.6 impersonation of a person entitled to entry.<sup>15</sup>
- 7.4 The Regulations empower Ofgem to impose penalties consistent with those under the Gas and Electricity Acts (the greater of either: 10% of an authorised person’s turnover, or £1m<sup>16</sup> but with detailed thresholds and methodology to be confirmed in Ofgem’s penalty guidance) and the consumer advocacy and redress schemes, with provisions for complaints relating to disconnections carried across from the Consumers, Estate Agents and Redress Act 2007.

## **8 The new consumer protection regime**

- 8.1 The main objective of the Regulations 2025 is to protect heat network consumers, ensuring they receive a fair price, reliable supply of heat, and transparency of information. The Regulator will have powers to mandate price transparency, impose price structures, or cost allocation rules, investigate prices, and collect data to develop a comparison methodology.
- 8.2 Operational provisions relating to pricing and consumer standards are still being developed. Full consumer protections and regulatory oversight will come into force from January 2026 onwards and establish a regulatory structure relating to selling heat to consumers. Further secondary legislation will be introduced dealing with guaranteed standards of performance; pricing

<sup>12</sup> Heat networks regulation: implementing consumer protections – Government response August 2025 page 79

<sup>13</sup> Heat networks: implementing consumer protections - Government response – August 2025 page 20

<sup>14</sup> The Heat Networks (Market Framework) (Great Britain) Regulations 2025 – Explanatory memorandum.

<sup>15</sup> Part 8 of the Heat Networks (Market Framework) (Great Britain) Regulations 2025

<sup>16</sup> Paragraph 45 (3) of The Heat Networks (Market Framework) (Great Britain) Regulations 2025



protections; billing transparency etc. Guidance and codes of practice and licence-style conditions for authorised entities will be issued by the Regulator.

## 9 Application of the new regime

9.1 The regime will apply to anyone involved in a “regulated activity”<sup>17</sup>. The community enterprise under the heat entrepreneurship model and the 100% owned community model, where the community enterprise is either an ‘Operator’ and/or a ‘Supplier’, will need to apply to be authorised under the proposed new regime from 27 January 2027 and entities operating before 27 January 2026 are deemed authorised during the “Initial Period” (1 April 2025 to 26 January 2027) but must register or apply to Ofgem before the end of that period to continue operating lawfully.<sup>18</sup>

9.2 **A heat network operator** is defined in the Regulations 2025 as “a person operates a relevant heat network if the person controls the transfer on that network of thermal energy for the purposes of supplying heating, cooling or hot water.”<sup>19</sup> The operator will be the heat network asset owner or will have significant control over network infrastructure with the ability to invest and direct repairs and maintenance to support its continued operation. This could be the developer of the network or the owner of the building that is supplied with heat from the network.

9.3 **A heat network supplier** is defined in the Regulations 2025 as the person engaged in the regulated activity of: “supplying heating, cooling or hot water to heat network consumers by means of a relevant heat network.” The supplier will have a contractual relationship with heat network consumers through a heat supply contract (or equivalent agreement) or a deemed contract, for the supply of heating, cooling, or hot water to that consumer’s premises, and have control over the terms of that contract.

### 9.4 Application to: Heat Entrepreneurship Model

In the heat entrepreneurship model, the local authority/private entity is likely to be classed as the operator of the primary network (i.e. the part of the network from the energy centre to the residential building) or secondary network (inside the buildings) (if there are different operators on the same network) if it meets the definition of “operator” and the community enterprise the “supplier” if it meets the definition of supplier.

As a heat supplier, the community enterprise will need to be regulated, comply with the authorisation regime, and have the following responsibilities:

9.4.1 a contractual relationship with consumers, in the form of a heat supply contract or deemed contract.

9.4.2 putting arrangements in place with the Operator for continued supply in the case of failure or revocation of authorisation; and

9.4.3 responsibilities relating to billing/pricing, customer service, complaints and supporting vulnerable customers.<sup>20</sup>

### 9.5 Application to: 100% Community Owned Model

In the 100% community owned model, if the community enterprise is the owner of the network and meets the definition of “operator”, it will be both the operator and the “supplier” under the

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<sup>17</sup> “operating a relevant heat network and/or supplying heating, cooling or hot water to heat network consumers by means of a relevant heat network” (see Section 13 (1) of Part 3 of Heat Networks (Market Framework) (Great Britain) Regulations 2025)

<sup>18</sup> <https://www.ofgem.gov.uk/energy-regulation/low-carbon/heat-networks/heat-networks-regulation-timeline>

<sup>19</sup> Paragraph 13 (3) of Part 3 of the Heat Networks (Market Framework) (Great Britain) Regulations 2025

<sup>20</sup> The Heat Networks (Market Framework) (Great Britain) Regulations 2025 para 20 (1)- scope of authorisation conditions.

Regulations 2025. As both heat operator and supplier, the community enterprise (or whatever vehicle it establishes) will need to be regulated and comply with the authorisation regime.

9.5.1 As a supplier, it will have the responsibilities set out above at paragraphs 9.4.1 – 9.4.3.

9.5.2 As an operator, the following responsibilities will apply:

- (a) meeting the technical requirements under the Heat Network Technical Assurance Scheme (HNTAS).
- (b) ensuring a reliable supply of heat and procurement of fuel/ thermal energy source.
- (c) putting arrangements in place with another entity for the continued operation of the heat network in case of failure or revocation of authorisation.
- (d) other responsibilities relating to compliance measures, decarbonisation, notifying the Regulator of any material changes and acting as a contractual step-in entity for the Supplier.

## 10 Enforcement

The Regulations 2025 include a variety of enforcement powers available to the Regulator including orders, investigations, and imposing penalties. These are based on the existing framework in gas and electricity, but the Regulator has also considered the diverse nature of the heat network market, while looking to ensure that poor conduct is addressed and providing a deterrent. The Regulator is considering introducing ‘fixed penalties’ as part of its approach to ensuring compliance where there are breaches of lower order “clear cut” regulatory requirements and has consulted further on its proposed approach to using its enforcement powers, including how it investigates breaches and applies financial penalties or consumer redress orders in an Enforcement Guidelines and Penalties policy.<sup>21</sup>

## 11 Step In

Step-in and Special Administration mechanisms are provided for in the Regulations but the detailed secondary legislation setting these out has not yet been made. The Regulator put forward proposals for step-in arrangements and operator of last resort in its November 2024 consultation. The step-in arrangements are designed to ensure continuity of service if a heat network operator or supplier becomes insolvent or loses authorisation. There are proposals to introduce authorisation conditions around financial responsibility and risk management. Heat network operators and suppliers will need to maintain a bespoke Continuity Plan that sets out key information relating to the relevant heat network (including contacts, customer information, and details of key physical assets) and keep it updated on an annual basis.

The following protections are proposed: contractual step-in where heat networks will need to enter into contractual step-in arrangements with another authorised operator or supplier and the Special Administration Regime, a regulatory backstop which allows an administrator to protect essential services such as the continued supply of heat that might be impacted if normal insolvency processes were followed. The Special Administration Regime would be funded initially by HMG where needed, and following that, it may wish to recover any shortfall from the heat network sector. It is still unclear how that recovery of costs will work and the impact on customer tariffs.<sup>22</sup>

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<sup>21</sup><https://www.ofgem.gov.uk/consultation/heat-networks-regulation-enforcement-guidelines-and-penalty-policy> consultation August 2025

<sup>22</sup> Heat Networks regulation: implementing consumer protections consultation, a joint consultation by DESNZ and Ofgem, published on 8 November 2024 – Government response August 2025

- 11.1 **Application to: Heat Entrepreneurship Model:** In the heat entrepreneurship model where the community enterprise is likely to be a supplier and not an operator, the Regulator has stated that where networks have a separate operator and supplier and the supplier fails, the operator is the entity responsible for putting in place arrangements to ensure that customers receive an uninterrupted supply, until enduring arrangements are put in place.<sup>23</sup> However, the Regulator has confirmed that risks associated with financial failure in social housing and local authority operated heat networks can be managed within existing regulatory arrangements and that such heat networks will be carved out from the proposed step-in and financial monitoring provisions.<sup>24</sup>
- 11.2 **Application to: 100% Community Owned Model:** The community enterprise as a heat network operator will be subject to the step-in requirements. This will include complying with authorisation conditions on financial responsibility and control over material assets, financial reporting and monitoring, operations, and/or supply continuity plans. It will need to have plans in place to ensure that customers continue to be supplied.

### **Section 3: Operation activities: Selling heat to consumers.**

***What are the legal implications for the community enterprise in light of the evolving regulatory framework (in particular compliance with the regulatory rules), in relation to selling heat to consumers?***

## **12 The Regulatory regime**

The Regulations 2025 require heat network suppliers to be regulated. As previously stated under paragraph 8 above, full consumer protections and regulatory oversight will come into force from January 2026 onwards and establish a regulatory structure, including provisions relating to selling heat to consumers. Further secondary legislation will be introduced dealing with guaranteed standards of performance, pricing protections, and billing transparency.

## **13 Application to: Heat Entrepreneurship Model:**

- 13.1 As a heat supplier, if regulated, the community enterprise will need to ensure that consumers receive reliable and fairly priced heating services with more detail expected in future secondary legislation on pricing. It will need to adhere to measures for price regulation, quality of service, and consumer vulnerability protection. The Heat Network (Metering and Billing) Regulations 2014 mandate transparency in billing and pricing, requiring suppliers to provide clear information on charges and tariffs. The Regulator will oversee compliance and enforce the standards.<sup>25</sup>
- 13.2 If it fails to comply with an authorisation condition and a consumer is impacted or suffers damage, the community enterprise could be liable to pay compensation to the affected consumer under a consumer redress order. If it fails to pay the compensation, it could suffer a penalty imposed by the Regulator which can be as high as 10% of turnover or £1m, although it remains to be seen whether a different regime will apply to not-for-profit organisations or smaller entities like community-owned networks. Financial and administrative challenges for these entities and other smaller entities were raised as issues in the Government's response to the Regulator's consultation published in August 2025.<sup>26</sup>

## **14 Application to: 100% Community Owned Model:**

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<sup>23</sup> Heat Networks regulation: implementing consumer protections, published on 8 November 2024 – Government response – August 2025

<sup>24</sup> Heat Networks regulation: implementing consumer protections consultation, a joint consultation by DESNZ and The Regulator, published on 8 November 2024 – Government response August 2025 page 105

<sup>25</sup> The Heat Networks (Market Framework) (Great Britain) Regulations 2025 Part 4 paragraphs 28 to 47

<sup>26</sup> Heat Networks regulation: implementing consumer protections published by The Regulator and DESNZ on 8 November 2024 – Government response August 2025

As a network owner and operator and a supplier of heat, the requirements above will equally apply to the 100% Community Owned Model.

#### **Section 4: Operation activities: Metering and administration activity**

***What are the legal implications for the community enterprise in light of the evolving regulatory framework (in particular compliance with the regulatory rules), in relation to metering and administration activity?***

#### **15 The Regulatory regime**

- 15.1 Heat networks are currently subject to some limited regulation in the form of the Heat Network (Metering and Billing) Regulations 2014 (**HNMBR**) (as amended in 2015 and 2020), a piece of assimilated law (originally implementing elements of an EU Directive) relating solely to meter installation and consumption-based billing requirements.
- 15.2 The HNMBR came into force initially in 2014, to drive energy efficiency and reduce carbon emissions from heating. Energy efficiency is achieved through the installation of metering devices and billing based on consumption, which aims to decrease the use of energy and result in associated carbon emission savings. Metering also supports fair and transparent billing for customers on heat networks. In addition, the HNMBR have led to the creation of the first database of UK heat networks. Under the HNMBR, heat suppliers of heat networks must submit notifications for the heat networks they operate. They must, where required, install metering devices on those networks. Heat suppliers whose networks are fitted with metering devices must meet ongoing obligations including using these devices to bill customers based on their consumption of heating, cooling, or hot water.

#### **16 Application to: Heat Entrepreneurship Model**

- 16.1 The HNMBR place obligations on heat suppliers, defined as any person or organisation that supplies and charges for the supply of heating, cooling or hot water to customers through a heat network. In which case, the heat entrepreneurship model is likely to be subject to the HNMBR.
- 16.2 Heat suppliers with a new heat network must submit an initial notification to the Office for Product Safety and Standards (OPSS) on or before the day it becomes operational, meaning the day it first supplies heating, cooling, or hot water to customers.
- 16.3 After the initial notification, heat suppliers must submit a further notification within every four-year period thereafter, in respect of all networks that they operate. Where a new supplier has taken over responsibility for a heat network, it becomes the regulated entity under the HNMBR and must fulfil all the obligations, including notifications.
- 16.4 The amendments to the HNMBR in 2020 introduced building classes that require some heat suppliers with unmetered networks to install metering devices in the buildings they serve. All buildings that fall within the scope of the HNMBR must be classified according to one of three building classes: viable, open, and exempt (see Annex B for details). The classification determines the metering and billing obligations for heat suppliers and depends on factors such as the date of connection to the heat network, whether the building is new or has undergone major renovations, the type of heating or cooling system, and the nature of the premises (e.g., private dwellings, supported housing).
- 16.5 A cost-effectiveness assessment tool has been developed to support heat suppliers to assess whether it is cost-effective to install metering devices. The results of cost-effectiveness assessments must be reported in the notification template, and the cost-effectiveness assessment with any accompanying documents must be submitted to OPSS upon request.
- 16.6 Where cost-effectiveness assessments have established a duty to install metering devices, heat suppliers must carry out this installation work in line with the timelines stipulated in the legislation. The results of this work must be reported to OPSS.

- 16.7 Where metering devices are present on networks (regardless of the date of installation), heat suppliers must ensure these devices accurately record customers' consumption of heating, cooling, or hot water and that they remain in continuous operation.
- 16.8 Where applicable heat suppliers must use meter readings to bill to customers. Bills must be issued at least annually and be based on customers' consumption of heating, cooling, or hot water.
- 16.9 OPSS acts as the Secretary of State for the Department for Energy Security and Net Zero to enforce the HNMBR in the UK. This involves receiving and processing heat network notifications. Where relevant, it includes pursuing notification submissions and verifying that metering devices are installed, accurate and operating correctly, and that billing requirements are met.
- 16.10 If an offence is committed, any person found guilty is liable on summary conviction to a fine.<sup>27</sup>

## **17 Application to: 100% Community Owned Model**

As with the heat entrepreneurship model, any supply of heat will need to comply with the HNMBR and the provisions above which apply to the heat entrepreneurship model will apply equally to the 100% Community Owned Model.

## **Section 5: Operation activities: adherence to Customer Supply Agreements**

***What are the implications of failure to deliver heat or power in accordance with the terms of any Customer Supply Agreement?***

## **18 Regulatory regime**

The implications of failure to deliver heat or power in accordance with the terms of any Customer Supply Agreement will depend on the terms of the Customer Supply Agreement, but much of what has been set out in this report on the regulatory regime relating to consumer protection will apply to any regulated heat supplier delivering heat in accordance with a Customer Supply Agreement.

## **19 Application**

- 19.1 Any Customer Supply Agreement will need to provide for relevant protections for consumers as mandated by the regulatory framework. At the very least, we anticipate that such agreements will need to contain the following provisions:
  - 19.1.1 standards of conduct.
  - 19.1.2 fair pricing.
  - 19.1.3 quality of service; and
  - 19.1.4 guaranteed standards of performance.
- 19.2 A community enterprise undertaking a regulated supply will need to submit information as part of the authorisation regime and comply with notices and orders when they are issued. It will need to accept and act on findings from complaints made by customers and may incur financial penalties from failure to comply with these requirements.<sup>28</sup>
- 19.3 The community enterprise may incur additional costs and require additional resource in order to comply with the authorisation regime.<sup>29</sup>
- 19.4 The Regulator will have the powers to intervene where consumer prices appear to be disproportionate with heat networks with similar characteristics or if prices are significantly

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<sup>27</sup> The Heat Network (Metering and Billing) Regulations 2014

<sup>28</sup> The Heat Networks (Market Framework) (Great Britain) Regulations 2025 – paragraph 9.3 of Explanatory memorandum.

<sup>29</sup> The Heat Networks (Market Framework) (Great Britain) Regulations 2025 – paragraph 9.4 of Explanatory memorandum.

higher than consumers would expect to pay if served by an alternative and comparable heating system with effect from 2026 onwards when the regulations come into full force. The Regulations 2025 provide for this and<sup>30</sup> the community enterprise will need to ensure that it is operating a fair pricing regime.

## **Section 6: Operation activities: authorisation**

***Is the most sensible route only ever employing a regulated organisation to do the “selling” on behalf of the community enterprise, or can the community enterprise become authorised themselves? Is that practical?***

### **20 Regulatory regime**

- 20.1 From 1 April 2025, the prohibition on carrying on regulated activities (i.e. operate or supply heat from a heat network to heat network consumers, without authorisation) applies, but Ofgem’s full enforcement powers and authorisation conditions take effect from 27 January 2026.
- 20.2 Under both models the community enterprise will be “selling” heat and may own and operate a heat network and will therefore be a supplier and may be an operator. It will be conducting regulated activities and must be authorised.<sup>31</sup>
- 20.3 To be authorised, the community enterprise, will need to:
  - 20.3.1 apply to the Regulator;
  - 20.3.2 comply with the authorisation conditions once in force (from January 2026 onwards) including any price transparency requirements and price structures, provide data to the Regulator and customers with specific details about billing, and comply with certain guaranteed standards of performance which if breached may lead to payments of compensation to affected consumers.
- 20.4 The community enterprise will need to comply with the various authorisation conditions which the Regulator determines to be included in each heat network authorisation<sup>32</sup>. Examples of such conditions include price caps for supply to domestic consumers and compliance with technical standards.<sup>33</sup>
- 20.5 27<sup>th</sup> January 2026 is the “launch date” for enforcement of the licence conditions imposed by the Regulator and from that date, the Regulator will be able to impose significant penalties on suppliers and operators who breach authorisation conditions.
- 20.6 The regulatory burden remains with the operator or supplier and, even if another party carries out the required regulatory functions, any liability for non-compliance will still sit with the regulated entity. In its consultation response, the Government stated that, in some cases, long-term concession arrangements like the ESCO model, where control of assets is contracted out, may be sufficient in shifting the regulatory burden and it may make more sense for the ESCO to be the appropriate body to be regulated.<sup>34</sup>

### **21 Application of the new regime**

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<sup>30</sup> The Heat Networks (Market Framework) (Great Britain) Regulations 2025: paragraphs 18, 20, Part 4 and paragraph 56.

<sup>31</sup> The Heat Networks (Market Framework) (Great Britain) Regulations 2025 Part 3 paragraph 14

<sup>32</sup> The Heat Networks (Market Framework) (Great Britain) Regulations 2025 Part 3 paragraph 18

<sup>33</sup> The Heat Networks (Market Framework) (Great Britain) Regulations 2025 Part 3 paragraph 20

<sup>34</sup> The Heat networks regulation – consumer protection: Government response – scope and defined activity page 20

Whether it is practical to authorise the community enterprise to be the regulated entity under the Regulations 2025 will depend on whether it can meet the authorisation conditions, is robust enough financially, and has the technical capability and resourcing capability to meet all of the requirements under the statutory frameworks. As stated, there are serious consequences of an authorised person contravening an authorisation condition or a relevant requirement.<sup>35</sup> It may be more practical to set up an ESCO model to do the “selling” or “operating” on behalf of the community enterprise and shift the regulatory burden and have contracts in place for the ownership, operation maintenance and supply etc. Whichever route is chosen, the community enterprise will need to ensure that it has robust contractual arrangements in place with approved third parties of sufficient financial standing to ensure compliance with any authorisation conditions or otherwise.

## **Section 7: Ownership issues**

### **22 Damage**

***What are the implications/other issues if a community enterprise which owns a district heat network on public land and a burst pipe damages other neighbouring properties or public property or a local authority carries out work and damages the heat network pipes?***

- 22.1 If a community enterprise owns a district heat network on public land and is responsible for operating and maintaining the heat network and a burst pipe damages other neighbouring properties it will be the community enterprise which is responsible for the damage caused by the infrastructure failure. The community enterprise should have insurance in place to cover third party property damage, so claims can be made against the relevant insurance policy to pay for the repair of any damage.
- 22.2 If an ESCO is set up which has responsibility for operating and maintaining the network, it will be responsible for the damage caused and will be required to carry sufficient third-party liability insurance in place to cover such damage.
- 22.3 If a local authority carries out work and damages the heat network pipes, the community enterprise should be able to claim against the local authority, depending on the contractual arrangements in place or other applicable statutory provisions.
- 22.4 Responsibility is likely to also fall under general law of nuisance and landowner obligations which is not specifically addressed in this report or the Act and further specialist property/real estate advice may be required. However, operators of district heat networks are required to comply with certain maintenance obligations as part of their authorisation. Such obligations could encompass issues such as preventing or addressing burst pipes. These obligations will apply once authorisation conditions are fully in force (expected from January 2026).

### **23 Access**

***What are the implications/other issues where an entity installs infrastructure in a consumer's property and needs to access it for maintenance, but is denied access by a consumer or a consumer defaults on bill payments or damages the equipment?***

- 23.1 The implications where an entity installs infrastructure in a consumer's property and needs to access it for maintenance, but is denied access by a consumer or a consumer defaults on bill payments or damages equipment will be governed by the terms of any Customer Supply Agreement in place between the installer or heat supplier and the consumer.
- 23.2 Under most Customer Supply Agreements, the infrastructure will remain the property of the heat supplier or operator which may consist of the heat interface unit, meters, and network pipework. The heat supplier will be under an obligation to provide the heat supply in accordance with Good Industry Practice and all relevant laws and avoid any interruption to heat supply.

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<sup>35</sup> The Heat Network (Market Framework) (Great Britain) Regulations 2025 Part 4 paragraphs 28 to 47

There will be provisions governing rights of access for the heat supplier to provide maintenance and relief from any breaches or payments of compensation where it has not been able to gain access. There are normally obligations in the Customer Supply Agreements on the consumer not to interfere with or damage any meters of equipment belonging to the heat supplier.

- 23.3 For any regulated operator or supplier of heat, failure to maintain a relevant heat network or failure to ensure continuity of supply of heating, cooling, and hot water to heat network consumers could put them in breach of any authorisation conditions as well as the Customer Supply Agreement. Under the Regulations 2025, the Regulator must follow a certain procedure and if is satisfied that an authorised person is contravening or is likely to contravene an authorisation condition or a relevant requirement, it must (by provisional and final order) make such provision as may be required to secure compliance with that condition or requirement. However, the Regulator cannot make a final order where it is satisfied that an authorised person is using reasonable efforts to rectify the breach.<sup>36</sup> Denial of access by a consumer is unlikely to lead to enforcement action by the Regulator.
- 23.4 If a consumer defaults on a bill, there are protections in place through the application of Part 1 of the Consumers, Estate Agents, and Redress Act 2007 (subject to certain modifications applied by the Regulations 2025 for heat networks). A consumer will be able to complain if threatened with disconnection or, if following a disconnection, a refusal by the authorised person to reconnect or a failure in the facilities for payment for the supply of heating, cooling or hot water which results in a heat network consumer with a prepayment meter being unable to make a payment for the supply of heating, cooling or hot water.<sup>37</sup> Any entity providing heat to consumers will need to ensure that they comply with all regulatory requirements where consumers have defaulted on their bills.
- 23.5 We have not specifically dealt with the Landlord and Tenant Act 1985, section, 11, which provides that landlords must keep in repair and in proper working order the installations in a dwelling-house for space heating and hot water as this obligation only applies to domestic lettings, under a short lease, which we did not consider relevant to this report. However, if failure to maintain is due to denial of access, as above, we consider that it would be an adequate defence if reasonable efforts to gain access can be shown.

## **24 Conclusion**

- 24.1 The question posed as part of this report was whether it was practical for a community enterprise to be authorised as a heat supplier or a heat supplier and operator in light of the evolving regulatory regime. Many of the Government consultations have now closed and the first tranche of regulations has been published with more secondary legislation to follow. It is clear that community enterprises will need to have the financial, technical, administrative, and commercial resources to comply with the regulations and become authorised. The consequences of failing to comply could lead to large financial penalties. However, as some of the Government responses to the consultations have indicated, exceptions or carve-outs may be considered for not-for-profit or community-owned networks. What those are is as yet not clear.
- 24.2 Those involved in community enterprises will need to consider carefully whether they can comply or indeed whether it may be considered more practical to establish an alternative contractual and governance structure (for example outsourcing to an ESCO) that can take on the regulatory burden.
- 24.3 They will also need to keep track of anticipated further secondary legislation and guidance over the coming months.

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<sup>36</sup> Part 4, paragraph 28 (1) of the Heat Networks (Market Framework) (Great Britain) Regulations 2025.

<sup>37</sup> Section 13, Part 1 of Consumers, Estate Agents and Redress Act 2007 with modifications - paragraph 54 (2) of the Heat Network (Market Framework) (Great Britain) Regulations 2025.





## **ANNEX A: Terms of Reference**

1. This report is given subject to the terms of our letter of engagement.
2. This report is based on the intent and legal effect of the documentation, under English law in force at the date of this report.
3. We have not verified any matters of fact or any technical, design or engineering aspects. Nor have we reviewed any financial model or advised on any tax aspects of the proposed transaction.
4. We have not advised you on the content of any of the any property agreements or assisted you in any way in relation to their negotiation.
5. We have not advised you on the content of any of the works contracts or assisted you in any way in relation to their negotiation.
6. Where you have received advice from a number of advisers in connection with the matters covered in this report, in respect of which we could be potentially jointly or severally liable to you with any such other advisors, our liability will not be affected by any limitation of liability which you may agree with any other advisers.
7. This Report is addressed only to Shareenergy Co-operative Limited, on the understanding that:
  - a. no person other than Shareenergy Co-operative Limited may use or rely on this Report, its contents or any views expressed in it without our prior written consent; and
  - b. we accept no responsibility or duty of care or other liability in respect of this Report to any person other than Shareenergy Co-operative Limited.
8. Any obligations we incur in connection with this report are governed by the laws of England and the courts of England shall have exclusive jurisdiction in relation to any claim.

## **ANNEX B: Building Classes introduced by the Heat Network (Metering and Billing) (Amendment) Regulations 2020**

### **1. Viable Class:** This includes:

- Buildings connected to a district heating network on or after 27 November 2020, which are newly constructed or originally constructed for such connection.
- Existing buildings supplied by a district heating network that undergo major renovations to their technical services (e.g., heating, cooling, ventilation) on or after 27 November 2020.
- Buildings connected to communal heating on or after 1 September 2022, which are not in the open or exempt classes and are newly constructed or originally constructed for such connection.

### **2. Open Class:** This includes:

- Buildings connected to communal heating between 27 November 2020 and 1 September 2022, which are newly constructed or originally constructed for such connection.
- Buildings connected to communal heating on or after 1 September 2022, which are newly constructed or originally constructed for such connection and either:
  - Have more than one entry point for communal heating pipes into private dwellings or non-domestic premises, or
  - Include supported housing, alms-house accommodation, or purpose-built student accommodation.
  - Existing buildings not classified as viable or exempt<sup>38</sup>.

### **3. Exempt Class:** This includes:

- Buildings not consisting mainly of private dwellings, connected to communal heating on or after 27 November 2020, where heat is distributed by a system other than hot water or cooling is supplied using a transfer fluid other than water.
- Existing buildings not in the viable class, where heat is distributed by a system other than hot water or cooling is supplied using a transfer fluid other than water.
- Existing buildings not in the viable class, where more than 10% of private dwellings or non-domestic premises are subject to leasehold interests that prevent billing based on actual consumption unless the lease is varied, renewed, or ends.
- Existing buildings not in the viable class, where the building or part of it is supported housing, alms-house accommodation, or purpose-built student accommodation. However, such buildings are excluded from the exempt class if metres or other specified devices have been installed for all premises within the building<sup>39</sup>.

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<sup>38</sup> SI 2014/3120 Heat Network (Metering and Billing) Regulations 2014 (SI 2014/3120) - [2A], The Heat Network Metering and Billing Regulations—heat supplier and landlord obligations, SI 2020/1221 Heat Network (Metering and Billing) (Amendment) Regulations 2020 (SI 2020/1221) - 4 Insertion of regulation 2A > “2A Classes of building

<sup>39</sup> SI 2014/3120 Heat Network (Metering and Billing) Regulations 2014 (SI 2014/3120) - [2A], SI 2020/1221 Heat Network (Metering and Billing) (Amendment) Regulations 2020 (SI 2020/1221) - 4 Insertion of regulation 2A “2A Classes of building.