

## Consultation

# Heat network regulations: recovering Ofgem's costs

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Team: Heat networks

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We are consulting on our approach to recovering Ofgem's costs for heat networks regulation and the proposals that will facilitate this. We also expand our decision that, in the initial period that heat networks regulation is in place, Ofgem's heat networks regulatory costs will be recovered from gas and electricity licence fee payers. We would like to hear the views of people with an interest in heat networks and particularly welcome responses from:

- heat network operators
- heat network suppliers
- energy services companies
- housing providers
- consumer groups
- asset owners
- metering and billing agents
- trade associations

The proposals on recovering costs will also be of relevance to the gas and electricity sector, including network companies and supply licensees.

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We also welcome responses from other stakeholders with an interest in heat network regulation, and the general public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved.

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## **Executive summary**

Under the [Energy Act 2023](#) Ofgem is now the regulator for heat networks in England, Scotland, and Wales (Great Britain) with regulatory oversight formally commencing in January 2026. Heat networks are expected to play a crucial role in decarbonising heat in buildings and securing the UK’s energy independence through local, low carbon heat sources and reducing the cost of living through efficient, affordable heating in densely populated areas.

The aim of the new regulatory regime is to deliver good outcomes for heat networks customers. In particular, we want to ensure heat network customers are treated fairly, receive clear and transparent information about their heat supply, a reliable service and fair prices. In developing the detailed Authorisation Conditions underpinning these outcomes, we have introduced a framework that aims to be proportionate, cost effective and drives improvements in consumer outcomes, while delivering a stable regulatory framework which supports investment.

Ofgem’s regulatory costs will be recovered through the licence fees paid by certain gas and electricity licensees during the initial period, and at a later date, through fees that will apply to both gas and electricity licensees and heat network authorised persons. The government decided on this overarching blended approach to recovering Ofgem’s costs of Heat Networks regulation in 2022, following a consultation in 2021.<sup>1</sup>

To give effect to the government’s decision, this consultation sets out policy proposals on the detailed arrangements to underpin cost recovery of heat networks regulatory costs. In particular, we set out proposals on the following:

- on the detail of the blended approach for recovering the heat network regulatory cost from across heat network authorised persons and gas and electricity licensees,
- to impose a de minimis threshold
- the fee apportionment method
- fee incidence

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<sup>1</sup> [Consultation on Licence Fee Cost Recovery Principles - Jan 2024](#)

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- the frequency of payment collection

The policy proposals have been designed to streamline administrative process and reduce administrative burden, whilst balancing fair outcome and proportionate approach.

## 1. Introduction

### Background

- 1.1 Ofgem is now the regulator for heat networks, launching new consumer protection rules as it begins regulating the sector in Great Britain from January 2026. [The Energy Act 2023](#) provides Ofgem with the power to recover the regulatory costs associated with this new role.
- 1.2 There are currently over 14,000 heat networks in the UK, providing heating and hot water to approximately 480,000 consumers.<sup>2</sup>
- 1.3 Heat networks are expected to play a crucial role in decarbonising heat in buildings. They are also an important part of securing the UK’s energy independence through local, low carbon heat sources and reducing the cost of living through efficient, affordable heating in densely populated areas. In the [Heat networks regulation: implementing consumer protections consultation \(November 2024\)](#), government analysis shows that heat networks could provide about 20% of total heat by 2050. They currently provide about 3%.
- 1.4 Government estimated that the total annual cost of regulating the heat network market will be averaging around £12.2m per year over a 10-year appraisal period<sup>2</sup>. However, this is only an estimate, and the actual amount will depend on several factors and may change over time.

### Blended Approach

- 1.5 In [Recovering the costs of heat networks regulation: a consultation \(December 2021\)](#), the Department for Energy Security and Net Zero (DESNZ) proposed spreading the costs of heat network regulation across gas, electricity and heat network consumers, arguing that if the regulatory costs for heat networks were to fall solely on heat networks and therefore the final consumers of these heat networks, it would lead to an additional £10 or more per heat network

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<sup>2</sup> [Heat networks regulation – Consumer protection consultation impact assessment 2023 \(page 48\)](#)

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consumer bill per year. This would create risks to the competitiveness of the market and create issues of affordability for heat network consumers.

Alternatively, spreading the costs across heat network consumers and gas and electricity consumers would result in gas, electricity and heat network consumers paying an estimated £1.40 annually, which is an additional £0.10 per gas and electricity consumer per year to cover the cost of heat network regulations<sup>3</sup>. Analysis in the Impact Assessment (IA) done by DESNZ ([Heat networks regulation – Consumer protection consultation impact assessment \(August 2023\)](#)) estimated that the blended approach would result in gas, electricity and heat network consumers paying an estimated £1.78 regulatory cost annually, representing an increase of £0.18 per gas and electricity consumer per year to cover the cost of heat network regulations<sup>4</sup>.

1.6 Consultation responses to the proposed approach of spreading the cost of heat network regulation across gas, electricity and heat network consumers (henceforth referred to as the blended approach) were positive. Subsequently, based on the consultation responses and the analysis, DESNZ decided to use the blended approach to recover the heat network regulatory costs across heat network, gas and electricity consumers in the [Heat Networks: Cost recovery proposals - Government Response \(June 2022\)](#). This is to avoid putting an excessive financial burden on the heat network consumers that are relatively low in numbers by volume compared to the gas and electricity market, and to not disincentivise market growth and investment.

## Initial Period

1.7 In April 2023, Ofgem and DESNZ issued [a consultation on the Heat Networks regulatory framework](#), including a proposal on how to recover Ofgem’s costs, in the initial period when the new regulatory framework is introduced.

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<sup>3</sup> [Recovering the costs of heat networks regulation: a consultation](#)

<sup>4</sup> [Heat networks regulation – Consumer protection consultation impact assessment – August 2023 \(page 48\)](#)

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- 1.8 The initial period of heat networks regulation refers to the time at the start of the framework when existing networks must register with the regulator and certain consumer protections apply. This phase, previously consulted on as the "transition period", was renamed in 2024<sup>5</sup>.
- 1.9 We proposed in that period, that heat networks regulatory costs would be recovered from relevant gas and electricity licensees only, and not from heat networks, to minimise the impact on heat network customers and support growth of the sector. Stakeholders broadly supported not having a payback period, if funded by gas and electricity licensees, agreeing with the argument that it would prevent disproportionate financial burdens on heat network entities and avoid passing disproportionate costs onto consumers.
- 1.10 We previously considered responses to this proposal and set out in the [Response to consultation on licence fee cost recovery principles \(May 2024\)](#) our decision to proceed by recovering heat networks regulatory costs from gas and electricity licensees, in the initial period.
- 1.11 Following our previous decision, we will be collecting heat network regulatory fees solely from gas and electricity consumers until the end of the initial period. We confirmed in the [Heat Networks regulation: authorisation and regulatory oversight \(November 2024\)](#) that the initial period is from 1 April 2025 to 26 January 2028.
- 1.12 Once the initial period ends, we expect to have a level of more reliable data to calculate and collect fees from the relevant entity in an accurate and complete manner. Due to lack of reliable and accurate data, we are unable to collect fees from the heat network entities prior to the end of the initial period.

## What are we consulting on

- 1.13 Within [Heat networks regulation - consumer protection \(August 2023\)](#) we previously consulted on the approach to fee apportionment, imposing a

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<sup>5</sup> [Heat networks regulation: consumer protection - government response \(April 2024\)](#)

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minimum regulatory fee, regulatory fee payment frequency options, and de minimis exemption.

- 1.14 Introducing a minimum fee structure, similar to the £500 charge in gas and electricity, would not deliver clear benefits for heat network customers. A fee set too low offers limited administrative value, while a higher fee risks disproportionately impacting consumers on smaller networks. Following this, we have confirmed <sup>6</sup> that we will not be pursuing the policy of minimum regulatory fee but have committed to further develop the other policies.
- 1.15 In this document we are now further consulting on outstanding policy areas of the blended approach, including de minimis threshold, fee apportionment, fee incidence and payment frequency.

## Context and related publications

- 1.16 This consultation should be read in conjunction with the following:
  - the joint DESNZ-Ofgem consultation, [Recovering the costs of heat networks regulation: a consultation](#) – December 2021
  - the DESNZ government response, [Heat Networks: Cost recovery proposals - government response](#) – June 2022
  - the joint DESNZ-Ofgem consultation, [Heat networks regulation - consumer protection consultation](#) – August 2023
  - [Heat networks regulation – Consumer protection consultation impact assessment](#) – August 2023
  - the Ofgem consultation, [Consultation on Licence Fee Cost Recovery Principles](#) – January 2024
  - the joint DESNZ-Ofgem government response document, [Heat networks regulation: Consumer protection](#) – April 2024
  - the Ofgem consultation, [Response to consultation on licence fee cost recovery principles](#) – May 2024

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<sup>6</sup> [Heat networks regulation: consumer protection - government response](#) (April 2024)

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- the Ofgem consultation, [Heat networks regulation: authorisation and regulatory oversight](#) – November 2024
- the Ofgem consultation, [Heat Networks Authorisation and Regulatory Oversight](#) – August 2025

## **Consultation stages**

**Stage 1** Consultation open: 17 February 2026

**Stage 2** Consultation closes (awaiting decision). Deadline for responses: 02 April 2026

**Stage 3** Consultation outcome (decision or policy statement): 25 May 2026

## **How to respond**

We want to hear from anyone interested in this consultation. Please send your response to the person or team named on the front page of this document.

We have asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

We will publish non-confidential responses on our website.

## **Your response, data, and confidentiality**

You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information. For example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations, or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will contact you to discuss which parts of the information in your response should be kept confidential and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the United Kingdom's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions

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and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.

If you wish to respond confidentially, we will keep your response confidential, but we will publish the number, but not the names, of confidential responses we receive. We will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

## **How to track the progress of a consultation**

1. Find the web page for the call for input you would like to receive updates on.
2. Click ‘Get emails about this page’, enter your email address and click ‘Submit’.
3. You will receive an email to notify you when it has changed status.

A consultation has three stages: ‘Open’, ‘Closed (awaiting decision)’, and ‘Closed (with decision)’.

## 2. De minimis

### Section summary

A cost recovery de minimis is a threshold related to the size of a heat network<sup>7</sup>, whereby smaller heat networks below the threshold will be exempt from paying regulatory costs. Such de minimis threshold has the advantage of streamlining administrative process, reducing funding uncertainty whilst minimising financial impact on the wider market for heat networks. The blended approach of spreading the heat network regulatory costs among heat networks and a relatively large amount of gas and electricity consumers minimises the financial impact of any threshold on the heat networks that are above the threshold paying the regulatory fee.

We plan on keeping the de minimis threshold under review to ensure minimum financial impact and that mitigations for disengagement are still effective. This balanced approach supports regulatory efficiency, protects consumers, and encourages sector-wide engagement, especially from smaller operators who may otherwise face disproportionate compliance costs.

### Consultation questions

- Q1. Do you agree, partially agree or disagree with our approach to implementing a de minimis threshold? Please explain your answer.
- Q2. Are there any other factors, benefits or risks to the options we have outlined for implementing de minimis?

## Background

- 2.1 In the [Heat network consumer protection consultation \(October 2023\)](#), we proposed to impose a de minimis threshold exempting heat networks below a certain threshold from paying regulatory costs to Ofgem.
- 2.2 In response to the proposal of a de minimis threshold in [Heat networks regulation: consumer protection - government response \(April 2024\)](#), most respondents noted the benefit of streamlining policy and acknowledged the subsequent reduction of administrative burden.

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<sup>7</sup> Size will be determined by choice of apportionment method

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2.3 We continue to believe that introducing a de minimis threshold remains the most proportionate and effective approach.

## De minimis considerations

2.4 We set out our assessment of the benefits and risks related to de minimis policy in the table below:

**Table 1: De minimis benefits and risks**

Approach	Threshold based size	All heat networks to pay fee
<b>Benefits</b>	<ul style="list-style-type: none"><li>• Reduces administrative costs of engaging large number of heat networks in the market</li><li>• Minimum impact on larger heat networks above the threshold.</li><li>• Reduces funding uncertainty and potential non-compliance costs</li></ul>	<ul style="list-style-type: none"><li>• Higher levels of engagement from smaller heat networks</li><li>• A fairer option relative to imposing any level of de minimis threshold</li></ul>
<b>Risks</b>	<ul style="list-style-type: none"><li>• Issues of fairness, especially if smaller heat networks form a significant part of Ofgem’s regulatory activities</li><li>• Risk of disengagement from smaller networks</li></ul>	<ul style="list-style-type: none"><li>• Increases administrative burden on Ofgem</li><li>• Increases funding uncertainty for Ofgem</li></ul>
<b>Mitigations</b>	<ul style="list-style-type: none"><li>• Ensure engagement with smaller networks through stakeholder engagement, and monitoring and compliance activities</li><li>• Ensure that the increase in burden of regulatory costs on final consumers above the threshold is limited.</li></ul>	<ul style="list-style-type: none"><li>• Digital tool can help minimise the administrative burden with increased use of automation to streamline the process to a limited extent.</li><li>• Compliance actions will be needed to minimise impact on funding uncertainty.</li></ul>

2.5 Based on our previous analysis of Office for Product Safety and Standards (OPSS) data collected in 2022, a de minimis threshold of 100 consumers for an authorised person leads to an increase of 0.06 pence per customer annually (please refer to Appendix 1 for the analysis and the assumptions used). When interpreting this result, it is important to note the data used is incomplete and likely suffers from sampling bias. However, we expect financial impact of any de minimis threshold are likely to be limited due to the relatively large number of gas and electricity consumers over which the costs are being spread, relative to the number of heat network consumers.

## **Proposed approach**

2.6 We are currently only consulting on our proposal to implement a threshold, which will be calculated post-initial period once we have obtained reliable data regarding the heat network market.

2.7 Our proposal is to proceed with the proposed approach to de minimis, with the threshold being kept under regular review to ensure that the benefits of the de minimis outweighs the risks, and that mitigations remain effective.

### 3. Fee Apportionment

#### **Section summary**

Fee apportionment refers to the method by which regulatory costs are distributed across the heat network market. We propose apportioning the fee based on the number of consumers served by each heat network supplier. This approach reflects the established practice in the gas and electricity market and offers a proportionate, transparent and administratively efficient means of cost recovery. We are also proposing that non-domestic consumers, will be treated as a single unit for fee apportionment purposes.

We recognise that this approach may not fully capture the nuances of consumption behaviour or network scale. However, it provides a practical starting point that minimises administrative burden and supports proportionality in the early years of regulation. We may keep this methodology under review as more data becomes available, and our understanding of regulatory burden drivers improves.

#### **Consultation questions**

- Q3. Do you agree, partially agree or disagree with our approach to fee apportionment? Please explain your answer.
- Q4. Do you agree, partially agree or disagree with our approach to non-domestic consumers?
- Q5. Are there any other factors, benefits or risks to the options we have outlined for implementing fee apportionment?

### **Background**

- 3.1 In the [Heat networks regulation - consumer protection \(August 2023\)](#) consultation, we have explored different approaches including apportioning the fees based on consumer numbers, consumer types including domestic and non-domestic, total heat consumption or generation, and a hybrid approach. We proposed to use customer numbers due to alignment with gas and electricity approach, data reliability and transparency in calculation method.
- 3.2 Majority of respondents who commented on the approach agreed with our proposed method of fee apportionment.

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3.3 Stakeholder feedback from previous consultations broadly supported this proposal, citing its simplicity, consistency with existing energy markets, and the availability of reliable data. Whilst we acknowledge the diversity of the heat network market, including variations in consumer types, ownership structures, and consumption patterns, there is currently insufficient data to support more complex methodologies based on heat consumption or generation.

3.4 In this consultation, we are consulting further on the detailed policy approach of fee apportionment, expand on how we will calculate the fee and finalise our proposed policy position.

## Options

3.5 We have set out our options for fee apportionment in the table below:

**Table 2: Fee Apportionment options**

<b>Approach</b>	<b>Per customer</b>	<b>Tiered by customer type</b>	<b>Total heat network consumption / heat generated</b>
<b>Benefits</b>	<ul style="list-style-type: none"><li>• Simple calculation and transparent</li><li>• Most reliable data compared to heat network consumption/heat generated</li><li>• Consistent with gas and electricity</li><li>• No need to discriminate between customer type</li></ul>	<ul style="list-style-type: none"><li>• Most accurately reflects different customer types</li><li>• More reliable data compared to heat network consumption/heat generated</li><li>• Regarded as fairer than per customer</li></ul>	<ul style="list-style-type: none"><li>• Most accurately reflects the size of heat networks</li><li>• No need to discriminate between customer type</li><li>• May be regarded as most fair</li></ul>

<b>Risks</b>	<ul style="list-style-type: none"> <li>• Does not account for different consumption levels of different customer types</li> <li>• May be regarded as unfair</li> </ul>	<ul style="list-style-type: none"> <li>• May be regarded as unfair relative to heat consumption</li> <li>• Complex calculation required – less transparency</li> </ul>	<ul style="list-style-type: none"> <li>• Requires accurate data on heat network consumption, which may present difficulty in unmetered buildings.</li> <li>• Complex calculation required – less transparency</li> <li>• Requires time to determine typical consumption values</li> </ul>
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3.6 At present, there is insufficient reliable data to support the use of alternative apportionment methodologies, such as those based on boiler capacity or heat consumption on a consistent and equitable basis.

3.7 Consumption is also more variable over a period of time and therefore it becomes increasingly difficult to be able to accurately calculate. Geographical nuances may also mean that heat generation is too complex to consider.

## **Proposed Approach**

3.8 Overall, to ensure we can make robust calculations of the required fees based on available data, we propose to calculate fees on a per consumer basis.

3.9 The data on customer numbers will be available more readily and is expected to be more reliable relative to other approaches for cost apportionment when we start collecting the data, at least in the initial years.

3.10 Given our proposed approach of using customer numbers to apportion the regulatory fee, we also propose to treat non-domestic consumers as a single

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customer category for the purposes of fee apportionment. We have no evidence yet indicating that non-domestic customers would drive different regulatory costs than domestic customers and hence have decided to count non-domestic customers the same way as domestic customers when determining the fee, proposing to treat them as one unit. We may keep this proposal under review once we obtain more reliable information on non-domestic consumers and the link to compliance activities.

## 4. Fee Incidence

### Section summary

Fee incidence refers to which entity will pay fees. We propose that these fees be paid by entities that supply heat directly to final consumers. This approach is consistent with the proposed fee apportionment methodology based on consumer numbers.

We acknowledge some comments around fairness, particularly in relation to district networks supplying communal systems, which may not have to pay regulatory costs with our proposed approach. As regulatory costs are ultimately borne by end consumers, the allocation of regulatory fee, whether passed through on the district networks or smaller communal systems should, in principle, have a neutral impact on consumers.

We will continue to assess our policy as the regime develops, ensuring that the approach remains aligned with regulatory objectives and stakeholder expectations.

### Consultation questions

- Q6. Do you agree, partially agree or disagree with our recommended approach to fee incidence? Please explain your answer.
- Q7. Are there any other factors, benefits or risks to the options we have outlined for implementing the proposed fee incidence policy?

## Background

- 4.1 We have previously consulted on the policy of fee incidence, which refers to the entity that will pay fees.
- 4.2 Stakeholders have broadly supported this proposal, recognising its practicality and the benefits of accurate data collection. By focusing cost recovery on those with direct consumer relationships, this method avoids duplication and ensures that fees are levied on entities subject to the core consumer protection provisions of the regulatory framework.
- 4.3 Within the heat network supply chain, we are able to levy regulatory costs either to the operators (a person that controls the transfer of thermal energy on a heat network for the purposes of supplying heating) or to the suppliers (heat networks that provide heat to the end consumer).

## Options

4.4 We set out our options related to fee incidence below:

**Table 3: Fee Incidence options**

Approach	Supplier	Operator	All heat networks <sup>8</sup>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>Preferred approach if apportionment is based on customer number due to data availability</li> <li>Covers all final consumers in the market</li> <li>Low burden option</li> </ul>	<ul style="list-style-type: none"> <li>Preferred approach if apportionment is based on energy generation/consumption due to data availability</li> <li>Covers all energy generated in the market</li> <li>Low burden option</li> </ul>	<ul style="list-style-type: none"> <li>May be seen as fairer since all heat networks will be regulated and will have to pay</li> <li>Covers all final consumers and energy generated</li> </ul>
<b>Risks</b>	<ul style="list-style-type: none"> <li>Data may not be available if fee apportionment is based on energy generation/consumption</li> </ul>	<ul style="list-style-type: none"> <li>Data may not be available if fee apportionment is based on consumer numbers</li> </ul>	<ul style="list-style-type: none"> <li>Risk of duplication and improper fee apportionment</li> <li>Most burdensome for Ofgem in terms of administrative costs</li> </ul>

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<sup>8</sup> All heat network suppliers and operators subject to any de minimis level that we may introduce at a later date

## **Proposed Approach**

- 4.5 To remain consistent with our proposed fee apportionment method, we propose that fees be collected from heat network entities that directly serve final consumers within the supply chain.
- 4.6 This option is considered to present a lower level of risk, primarily due to enhanced reliability and accessibility of data. Additionally, it is expected to mitigate the potential for duplication in reporting, thereby supporting more accurate and consistent outcomes.
- 4.7 We acknowledge that some stakeholders may perceive it as unfair that district heating networks supplying communal systems are not required to contribute to the regulatory cost recovery mechanism, particularly when compared to networks serving final consumers directly. As regulatory costs are ultimately borne by end consumers, the allocation of regulatory fee, whether passed through on the district networks or smaller communal systems should, in principle, have a neutral impact on consumers.
- 4.8 We may review the policy in the future if there are changes to our approach to fee apportionment.

## 5. Payment Frequency

### Section summary

Payment frequency refers to how often regulatory fees are collected from heat network entities. We propose that fees be collected bi-annually (twice yearly). This approach is aligned with the process in gas and electricity market. The use of a blended approach requires the billing process across all three markets of gas, electricity and heat networks to be aligned in terms of payment frequency to allow accurate calculation of the regulatory costs per customer across the three markets, and to ensure accurate collection of the regulatory costs that have been incurred for the financial year.

Stakeholder feedback from previous consultations has generally supported annual and bi-annual payments, recognising the benefits of reduced administrative complexity and consistency with existing practices in the gas and electricity sectors. While some respondents noted that more frequent payment options could support affordability for smaller networks, this concern is expected to be mitigated by the application of a de minimis threshold, cross-subsidisation from gas and electricity consumers and the proposed use of consumer numbers as fee apportionment method.

### Consultation questions

- Q8. Do you agree, partially agree or disagree with our approach to the options for payment frequency? Please explain your answer.
- Q9. Are there any other factors, benefits or risks to the options we have outlined for implementing the proposed payment frequency?

## Background

- 5.1 In the [Heat networks regulation: consumer protection - government response \(April 2024\)](#), we said that most respondents proposed annual payment options by default, with some respondents noting that more frequent payment option may help lower the burden on smaller heat networks.
- 5.2 Within that consultation we also committed that we would look further into implementing annual payments as the default option, with smaller heat networks having the option of requesting a more frequent payment option.

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5.3 We note that in the gas and electricity market, the licence fee is payable in two instalments with the process detailed in [Licence fee cost recovery principles proposed changes \(January 2024\)](#).

## Options

5.4 We set out the options in the table below:

**Table 4: Payment frequency options**

<b>Approach</b>	<b>Annual only</b>	<b>Provide bi-annual or quarterly option</b>
<b>Benefits</b>	<ul style="list-style-type: none"><li>• Simplifies the collection process and minimises administrative burden</li></ul>	<ul style="list-style-type: none"><li>• More options for the smaller heat networks</li><li>• Follows the gas and electricity approach and simplifies the calculation process</li></ul>
<b>Risks</b>	<ul style="list-style-type: none"><li>• May be a financial burden on smaller heat networks.</li><li>• Deviates from the gas and electricity process - will result in a more complicated calculation process</li></ul>	<ul style="list-style-type: none"><li>• Higher administrative burden</li></ul>
<b>Mitigations</b>	<ul style="list-style-type: none"><li>• De minimis, if implemented, will reduce or eliminate the financial burden on the smallest heat networks that are likely to be the ones burdened by annual payment of the regulatory cost</li></ul>	<ul style="list-style-type: none"><li>• Digital tool will help with administrative burden</li></ul>

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- 5.5 The blended approach of cost recovery involves dividing the regulatory costs of gas, electricity and HN regulation across consumers from the three markets. In the gas and electricity market, the licence fee is payable in two tranches.
- 5.6 The use of a blended approach means that any changes to the calculation for the regulatory cost of either gas, electricity or heat network markets within the financial year will have to be recovered from gas and electricity licensees and heat network entities in the same financial year. Therefore, the heat network regulatory cost payment frequency must be aligned with the current gas and electricity process.
- 5.7 We consider that our proposal of apportioning fees based on consumer numbers is expected to reduce the relative burden on smaller heat networks, ensuring a more proportionate approach to cost recovery. Based on the analysis done in [Heat networks regulation – Consumer protection consultation impact assessment \(August 2023\)](#), DESNZ estimated an average charge of £1.78 per consumer per year.
- 5.8 Additionally, our proposal of de minimis is expected to reduce or eliminate the payment burden on the smaller heat networks.

## **Proposed Approach**

- 5.9 We propose that fees follow the gas and electricity market and be collected on a bi-annual basis. The [Licence fee cost recovery principles \(May 2024\)](#) lays out how fees are collected bi-annually in gas and electricity. We propose to follow a similar approach. Payment frequency of regulatory costs across gas, electricity and heat networks must be aligned to allow for cross-subsidisation of the regulatory costs across the three markets through the blended approach.
- 5.10 This frequency is considered proportionate and administratively efficient, particularly when viewed alongside mitigation that we are proposing such the potential application of a de minimis threshold and the use of digital tool.

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These combined measures are expected to significantly reduce the financial burden on smaller heat networks.

5.11 However, even without an option of de minimis DESNZ estimated the regulatory fee to be £1.78 <sup>9</sup> based on the impact assessment from 2023. Although this is only an estimate and the actual amount will depend on a number of factors and may change overtime, given the scale of the cost based on this analysis, we believe it will not be burdensome for heat network entities to be paying the cost bi-annually as our proposed fee apportionment methods are based on some proxy of size, either through consumer numbers or heat generation/consumption.

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<sup>9</sup> [Heat networks regulation – Consumer protection consultation impact assessment \(August 2023\)](#)

## Appendix 1 – De minimis threshold sensitivity analysis

### Data and Assumptions

- A1.1 This analysis uses the assumption that the fee apportionment method used is customer numbers. This is done to simplify the illustrative model.
- A1.2 To conduct the sensitivity analysis of different de minimis thresholds, we relied on the OPSS data collected in 2022. This dataset is likely to be incomplete and likely to suffer from systematic sampling bias, leading to inaccurate calculations. However, the dataset is useful to illustrate the steps of the analysis we propose and to illustrate the minimum impact of various de minimis threshold due to the presence of large numbers of gas and electricity consumers.

### Analysis

- A1.3 In the table below, provided scenario analysis to show the impact on heat networks and gas and electricity consumers at various de minimis levels.
- A1.4 The analysis looks at the impact of different threshold levels of 10, 25, 50 and 100 on the shortfall in recovered costs and the additional costs shared by heat network consumers only, and heat networks and gas and electricity consumers combined.
- A1.5 To calculate the shortfall in recovered costs, we first divided the total heat network regulatory cost divided by heat network, gas and electricity consumer as per the blended approach to arrive at a value per person. We then multiplied the regulatory fee per consumer by the total number of heat network consumers served by the heat networks under the threshold to calculate the shortfall in recovered costs.
- A1.6 The number of entities affected shows the number of heat networks in the dataset that falls below the threshold of customer numbers. These are the heat network entities that are exempt from paying regulatory fee.
- A1.7 To calculate the additional cost per heat network customer, we took the shortfall in recovered costs and divided it by the number of consumers that are served by the heat networks that are above the threshold.
- A1.8 To calculate the additional cost per heat network customer when the shortfall is spread across heat network, electricity and gas consumers, we took the shortfall

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in recovered costs and divided it by the number of consumers in heat networks above the threshold combined with gas and electricity customers.

A1.9 As can be seen from the analysis, the presence of large number of gas and electricity customers lead to a very small increase in the regulatory fee per customer when de minimis thresholds are imposed. This is reflected by the difference in increase in the regulatory fee when we compare the additional cost divided by heat network customers only (between 1 and 6 pence), and when divided by heat network customers combined with gas and electricity (between 0.01 and 0.06 pence)

Analysis		10 consumers	25 consumers	50 consumers	100 consumers
	shortfall in recovered costs (£)	4,228	10,083	19,373	30,628
	no. entities below threshold	621	900	1084	1199
	total no. entities	1540	1540	1540	1540
Shared with heat network only	additional cost per heat network customer (£)	0.01	0.02	0.04	0.06
Shared with electricity and gas	Additional cost per customer (£)	0.0001	0.0002	0.0004	0.0006

## Appendix 2 - Privacy policy

### Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

#### **1. The identity of the controller and contact details of our Data Protection Officer**

The Gas and Electricity Markets Authority is the controller, (for ease of reference, “Ofgem”). The Data Protection Officer can be contacted at [dpo@ofgem.gov.uk](mailto:dpo@ofgem.gov.uk)

#### **2. Why we are collecting your personal data**

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

#### **3. Our legal basis for processing your personal data**

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

#### **4. With whom we will be sharing your personal data**

Information: Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data, then make this clear. Be as specific as possible.

#### **5. For how long we will keep your personal data, or criteria used to determine the retention period.**

Your personal data will be held for (be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time e.g. ‘six months after the project is closed’)

#### **6. Your rights**

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data

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- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3<sup>rd</sup> parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

**7. Your personal data will not be sent overseas** (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use “the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this”.

**8. Your personal data will not be used for any automated decision making.**

**9. Your personal data will be stored in a secure government IT system.** (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

**10. More information** For more information on how Ofgem processes your data, click on the link to our “[ofgem privacy promise](#)”.

## Send us your feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this consultation. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk).