Making a positive difference for energy consumers

Heat networks regulation: recovering Ofgem's costs consultation decision

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In February 2026, we published the Heat Networks Regulation: Recovering Ofgem's costs consultation. We consulted on policies around how to implement the decision that government took on cost recovery in 2022 . This decision document summarises the responses to our consultation and outlines our decision on the policy areas outlined in the consultation document. Our response in this document confirms our proposed policies on the de-minimis, fee incidence, fee apportionment and payment frequency approach.

Following this, we will be further consulting in 2027 on the draft authorisation condition that imposes obligations on (some or all) authorised persons in the heat network sector to pay regulatory fees to Ofgem, and the draft cost recovery principles that detail the list of costs and methodology based on the policy approaches that are confirmed in this consultation decision document.

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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 having formally commenced in January 2026. Heat network regulation is intended to protect consumers and ensure that heat networks deliver reliable, efficient, and affordable heating services while supporting the transition to a low-carbon energy system. 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.

Ofgem's regulatory costs for the regulation of the heat network sector will be recovered through the licence fees paid by certain gas and electricity licensees at least until the end of the initial period, and at a later date, through fees that will apply to both gas and electricity licensees and heat network authorised persons. Collection of regulatory fees from heat networks will happen after the end of the initial period (January 2028) at the earliest. The government decided on this overarching blended approach to recovering Ofgem's costs of Heat Networks regulation in 2022, following a consultation in 2021. The power to recover costs incurred by GEMA (Gas and Electricity Markets Authority) when carrying out the functions of the Heat Network regulator from gas and electricity licensees is set out in section 222 of the Energy Act 2023. The power to recover costs from heat networks is set out in Regulation 20 (1j) of the Heat Networks Market Framework (GB) Regulations 2025.

To give effect to the government decision, we consulted on policy proposals on the detailed arrangements to underpin cost recovery of heat networks regulatory costs in February 2026. In particular, we set out proposals on the following:

- to impose a de-minimis threshold, where heat network organisations with customer numbers below the threshold would be exempt from paying regulatory fees to Ofgem,
- the fee apportionment method, where we proposed to apportion the fee by customer numbers,
- fee incidence, where we proposed that the regulatory fees are collected from suppliers, and
- the frequency of payment collection, where we proposed that we collect regulatory fee from suppliers twice a year.

While some respondents raised issues in relation to the government's previous decision to enable recovery of costs from heat networks, most responses were broadly supportive of Ofgem's policy proposals in the four areas outlined above. Therefore, we will be going ahead with the recommendation of imposing a de minimis threshold (the

level of which will be determined in the future after we have obtained reliable registration data), fee apportionment method of using customer numbers, fee incidence on the heat network suppliers, and payment frequency of bi-annual (twice a year). We note that broader issues raised in relation to the government's 2022 decision on heat network regulatory cost recovery are outside the scope of our consultation, which was focused on how to implement that decision.

We also received comments and questions around the timing of when cost recovery for heat networks authorised persons would start. One comment argued that given the delays in zoning and HNTAS and the "full confirmation on all aspects of Ofgem consumer protection regulation", therefore 2028 is not the right time for a blended approach; it should start when all aspects of heat network market framework are fully embedded.

Ofgem's regulatory regime for heat networks has commenced in January 2026. The process of recovering Ofgem's regulatory costs from heat networks sector would start in April 2028 at the earliest to ensure sufficient reliable data to be used in the process.

1. Introduction

Context

1.1 In January 2026, Ofgem launched the heat network regulatory framework, as it began regulating the sector in Great Britain. The power to recover costs incurred by GEMA when carrying out the functions of the heat network regulator from gas and electricity licensees is set out in section 222 of the Energy Act 2023. The power to recover costs from heat networks is set out in Regulation 20 of the Heat Networks (Market Framework) (GB) Regulations 2025.

1.2 The Department for Energy Security and Net Zero (DESNZ) estimated that heat networks could provide about 20% of total heat by 2050. They currently provide about 3%. 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. However, this is only an estimate, and the actual amount will depend on several factors and may change over time.

1.3 In Recovering the costs of heat networks regulation: a consultation (December 2021), DESNZ (then the Department for Business, Energy and Industrial Strategy) proposed spreading the costs of heat network regulation across gas, electricity and heat network consumers. Subsequently, based on the consultation responses and the analysis, DESNZ decided to use the approach outlined above (henceforth referred to as 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).

1.4 In February 2026, to give effect to the 2022 government decision, we consulted on the cost recovery policies of de-minimis, fee apportionment, payment frequency and fee incidence. In this document we outline the consultation response analysis and Ofgem's decision.

Our decision-making process

1.5 We received 17 responses to our consultation, of which eight responses were from energy network operators, three from local authorities, two from trade associations, and one each from an asset owner, a metering and billing agent, a local community, and a combined authority. We asked stakeholders to provide answers to the four policy areas and considered all views presented. Whilst not every single response we received for each individual question has been outlined in our summaries, we have considered and noted all responses during our analysis and response development. We have aimed, where possible and appropriate, to keep summaries succinct, catering to the readability and conciseness of the document. We have considered responses to the consultation and provided our response under individual question sub-headings. Due to rounding, the percentages of responses in the tables may not add to 100%.

2. Cost recovery proposals

Question analysis

Q1. Do you agree, partially agree or disagree with our approach to implementing a de minimis threshold?

Question 1	Response	Percentage
Agree	2	12%
Partially agree	10	59%
Disagree	3	17%
Not Answered	2	12%
Comments	10	N/A

Agree or Partially agree

12 respondents either agreed or partially agreed with the proposal for a de-minimis threshold.

Five respondents stated that they would want to better understand the practicality and real world application of the threshold, including having more clarity around costs and potential impacts on administrative resourcing. In similar comments, four respondents stated that they would want to better understand how the de-minimis threshold methodology was determined, with some raising concerns around limited data and wanting further clarity on the threshold before confirming full agreement.

Four respondents raised concerns around the threshold causing increased regulatory burden on smaller heat network and resourcing costs.

Two respondents raised concerns that any threshold could create incentives to stay below the threshold to avoid regulatory costs

Four respondents raised concerns with the perceived fairness of the threshold, highlighting the risk that if the threshold is set too high or too low consumers or suppliers may perceive the regime as unfair or inconsistent.

Four respondents stated that Ofgem needs to keep the de-minimis threshold under regular review.

Respondents generally recognised the current data limitations, and suggested that as the sector develops and more data is available, the threshold should be reviewed regularly. One respondent called for Ofgem to consider introducing interim safeguards, until the de-minimis threshold is formally established.

Finally, one respondent raised the issue of interactions with leases, saying that regulatory costs passed to leaseholders or tenants should be reasonable and proportionate to encourage alignment with lease contracts and enable smooth cost recovery in the leasehold sector.

Disagree

Three respondents disagreed with the de-minimis threshold proposal. They raised concerns around fairness of the threshold.

One respondent disagreed with the detail given on what level the de-minimis would be set, and did not think there was enough evidence to support a customer numbers approach to a de-minimis. They said there was limited evidence that a heat network that is small in terms of customer numbers but with a high heat capacity, has a different regulatory cost to one with a high number of customers but smaller heat capacity.

Ofgem Response

We will proceed with the recommendation of establishing a de-minimis threshold, as we continue to consider this to be a pragmatic and proportionate approach. The threshold value of the de minimis threshold will be determined once we have sufficient data from registration. The de-minimis threshold will be calculated at organisational level, not heat network asset level.

Methodology

On requests for further clarity on the methodology, we will be consulting on the cost recovery principles methodology in the future, where we will provide the overall blended approach methodology in detail, which includes the role of de-minimis in the calculation.

Fairness

Fairness is one of the factors that we will consider when calculating the de-minimis threshold, alongside potential impacts on investment, proportionality of the approach, and impact on the individual consumers.

Q2a. Do you agree, partially agree or disagree with our approach to fee apportionment?

Question 2	Response	Percentage
Agree	4	23%
Partially agree	7	41%
Disagree	3	18%
Not Answered	3	18%
Comments	16	N/A

Agree or Partially agree

11 respondents agreed or partially agreed with the proposed approach to fee apportionment.

Three of these respondents questioned the methodology behind the proposed fee apportionment approach, wanting more clarity to better understand the reasoning for it.

Respondents who agreed with the approach generally approved aligning with gas and electricity approach of using customer numbers. One local authority raised that as they have to treat residents the same, a customer type approach could be seen as unfair, and that a consumption approach would need HNTAS alignment. One local authority favoured a mixed approach that considers the complex regulatory burden of operating different networks, and that fee apportionment should reflect different ownership and operating models and financial flexibility.

Finally, two respondents wanted further clarity on how fee apportionment would apply for non-profit models, and heat networks that are served by bulk-supply.

Disagree

Three respondents disagreed with the proposal on fee apportionment.

One respondent called for Ofgem to review the fee apportionment approach as the sector develops, to maintain oversight of the regulatory costs so they remain proportionate. Another respondent called for the approach to align with existing terms in leases.

Finally, one respondent asked for further clarity on whether fee apportionment is set for live customer accounts on just the number of connections, regardless of if a unit is occupied.

Comments only

Two respondents did not answer the question, but left comments. One raised that the current proposal to apportion fees on a per consumer basis does not fully reflect the complex reality of individual heat networks. The other raised that the proposal lacked clarity and would be hard for financial planning. They suggested developing a new methodology once more data is available.

Ofgem Response

We will proceed with using live customer numbers as a method of fee apportionment, with live being defined as active customer accounts. The live customer numbers used will be based on a cut-off date that aligns with the cut-off date within Ofgem's gas and electricity licence fee cost recovery process. We decided to do so due to reliability of data on customer numbers, simplifying calculation complexity, increasing transparency and aligning with the cost recovery process in gas and electricity.

Methodology

On further clarity for methodology, we will be consulting on the cost recovery principles methodology in the future, where we will provide the overall blended approach methodology in detail.

Alternative proposals

It is not proportionate to have different methods of fee apportionment reflecting different models in the market. The resulting complexity of the approach would reduce accuracy and transparency, increase administrative and modelling costs due to complexity, and does not reflect a proportionate approach to cost recovery.

Cost-Pass Through

The government confirmed their decision to introduce the blended approach of recovering consumer advocacy and Ofgem's regulatory costs for all three sectors, including heat networks, from consumers across the three sectors equally in their response document published in 2022. When designing our approach to give effect to government's decision, proportionality and administrative costs have been and will continue to be considered.

Q2b. Do you agree, partially agree or disagree with our approach to non-domestic consumers?

Question 3	Response	Percentage
Agree	4	24%
Partially agree	4	24%
Disagree	4	24%
Not Answered	5	29%
Comments	10	N/A

Agree or partially agree

Combined, eight respondents either agreed or partially agreed with the proposed approach to non-domestic consumers. Respondents who agreed with the approach to fee apportionment for non-domestic consumers raised that it aligns with current gas and electricity practices.

Two respondents mentioned Ofgem monitoring the resource burden on non-domestics so that the fee apportionment approach remains appropriate for that sector.

Disagree

One respondent raised that the fee apportionment approach does not account for the demand and service requirements that non-domestic customers, particularly those with more complicated heating and cooling requirements have on a heat network.

Another respondent mentioned that during the interim period where monitoring data will be submitted to Ofgem, further consideration could be given to apportionment on capacity.

One respondent raised interactions with leases, explaining that any fee apportionment should align with the lease contracts to ensure fair and efficient recovery as non-domestic consumers in the leasehold sector in mixed use residential apartment blocks are subject to the terms of existing lease contracts. They also raised that non-domestic consumers generally pay a greater proportion of the service charge costs and thus called for any fee apportionment to align with the terms in existing lease contracts in order to ensure fair and efficient recovery.

Ofgem Response

We will proceed with the policy proposal of treating non-domestic consumers as one consumer for the purposes of cost recovery. We have no evidence yet indicating that non-domestic customers would drive different regulatory costs than domestic customers. We can review this approach in the future if we have additional evidence on what the factors driving regulatory costs linked to non-domestic consumers are.

Alternative Methods

On the issues of accounting for demand and service requirements, we do not have any evidence that heat demand is a driver of regulatory activities and therefore would account for a higher proportion of regulatory costs. Treating them as one unit regardless of heat demand is an appropriate and proportionate way of accounting non-domestic consumers for cost recovery until evidence emerges that may indicate otherwise.

On the apportionment based on capacity, it would result in a complex methodology due to differing apportionment method compared to gas and electricity resulting in reduced transparency, more room for judgement or human error, and increased costs due to complexity that will result in a cost recovery method that is not proportionate.

Interaction with leases

On interaction with lease obligations, we currently do not have enough evidence of a relationship between non-domestic consumers' proportion of service charge costs with the drivers of Ofgem's regulatory costs. Moreover, the diversity and complexity of lease arrangements makes it impractical for such consideration to be included for the purpose of cost recovery mechanism.

Q3. Do you agree, partially agree or disagree with our recommended approach to fee incidence?

Question 4	Response	Percentage
Agree	5	29%
Partially agree	7	41%
Disagree	2	12%

Not Answered	3	18%
Comments	14	N/A

Agree or Partially agree

12 respondents partially agreed or agreed with the proposed approach to fee incidence, where Ofgem collects the regulatory fee from heat network suppliers.

One respondent who agreed with the proposal, approved staying consistent with the approach used in gas and electricity but wanted more information on regulating how costs will be passed down to consumers.

Four respondents who partially agreed or agreed raised concerns around increases in costs passed to consumers. One local authority also mentioned that the fee incidence approach needs to reflect the wide range of ownership models that exists in local authority and public-sector.

Another agreeing respondent wanted Ofgem to commit to providing operators with adequate advance notice of any proposed changes, with a full consultation process undertaken before any amendments are made, so support business planning.

Finally, one respondent called out the interactions with leasehold sector saying that any proposal to charge fees to entities that supply heat to final consumers, which will be borne directly by leaseholders or their tenants, should be reasonable and proportionate to ensure that cost recovery stays in alignment with existing leases and contracts.

Disagree

Two respondents disagreed with the approach. One respondent called for more consideration to be given to the fee incidence being spread across all heat networks, to better enable costs to be socialised across the supply chain.

Ofgem Response

We will proceed with the recommendation of collecting the regulatory fees from heat network suppliers due to data availability and simplified process to avoid double counting. The definition of suppliers can be found in the Heat Networks registration guidance.

Alternative Approaches

Spreading fees across all heat networks would result in some consumers paying once and others paying twice, depending on whether they are part of a communal that is receiving heat from a district or generating heat itself. Additionally, it would cause further issues in the calculation methodology, introducing complexities due to double counting.

Different fee incidence across the market to reflect ownership model is not recommended, as it will introduce complexity in the approach that would reduce accuracy, transparency, increase in costs, and is not a proportionate approach to cost recovery.

Advance Notice

On the advance notice issue of proposed changes, we will be following the method in gas and electricity as outlined in the gas and electricity cost recovery principles. Further information on the process will be outlined in the future consultation on heat network cost recovery principles.

Q4. Do you agree, partially agree or disagree with our approach to the options for payment frequency?

Question 4	Response	Percentage
Agree	4	23%
Partially agree	9	53%
Disagree	1	6%
Not Answered	3	18%
Comments	14	N/A

Combined, 13 respondents partially agreed or agreed with the proposed approach to payment frequency. Only one respondent disagreed and did not provide comments related to the question.

Agree or Partially agree

Five respondents agreed with the bi-annual approach to align with gas and electricity, and two local authorities, who partially agreed, preferred having an annual approach instead.

Two respondents called for more clarity and detail on the methodology behind the bi-annual approach. Specifically, they called for more clarity on the process on cut-off for confirming customer numbers, the method by which fees will be paid, and more detail on who specifically will be paying the fees.

One respondent called for Ofgem to develop a digital, streamlined payment process for regulatory fee collection to reduce administrative burden.

One respondent called out interactions with managing agents and leaseholders saying that to ensure managing agents can properly budget to collect regulatory fees from leaseholders, it would be helpful for Ofgem to publish its regulatory fees and for those fees to be fixed so these consumers have greater certainty.

Ofgem Response

We propose to proceed with the bi-annual frequency of payment collection. This is in alignment with the process through which Ofgem recovers regulatory and advocacy bodies costs in the gas and electricity sector. We propose to align the process to reduce modelling complexity, increase transparency, and ensure alignment with the policy intent of the blended approach.

Clarity for methodology

The methodology will be further clarified in the future cost recovery principles and Authorisation Condition consultation. The cost recovery principles guidance consultation sets out the methodology in detail that specifies the fee incidence, payment frequency and fee apportionment methodology that considers any de-minimis threshold that is set.

Streamlined payment process

We accept the comments on the having a streamlined payment process. We aim to use the digital tool assisting in the collection of the fees to ensure a streamlined payment process. Further details on the options of payment methods will be communicated in future publications.

Publication of fee information and fixed fees

Fixed fees would not be possible as the fees depend on the annual Ofgem budget across the three sectors. However, following the gas and electricity process, information on budgeting and fees would be released in a timely manner to the heat networks who are obliged to pay the regulatory fee.

Other Comments

In addition to the responses to the four policy areas, we have received comments that are related to the cost recovery approach mechanism but are not specific to the policy questions asked. We have grouped those comments in the section below and provided our response.

Comments on blended approach and existing regulatory cost contribution

Three stakeholders raised the issue of the blended approach in general, arguing that heat networks are consumers of sizeable volumes of gas and electricity and already contribute to regulatory costs via these charges, and that additional cost recovery is "punitive" for heat networks.

One stakeholder raised the concern that heat networks regulation being subsidised by electricity and gas customers would serve as a precedent to include further non-electricity network costs within electricity network charges in the future.

Ofgem Response

The general approach to recovering Ofgem's heat network regulatory costs and heat network consumer advocacy costs was previously consulted on by the government in 2021. Following this consultation, the government confirmed their decision to introduce this approach in their response document published in 2022.

The government took the decision of introducing the cost recovery regime that would spread the regulatory costs and consumer advocacy costs evenly across consumers in the three sectors of gas, electricity and heat networks. The scope of the consultation in February 2026, and therefore this response document, is limited to how Ofgem would give effect to the government's decision taken in 2022.

Concerns on timing

One respondent argued that given the delays in zoning and HNTAS and the "full confirmation on all aspects of Ofgem consumer protection regulation", 2028 is not the right time for a blended approach; it should start when all aspects of heat network market framework are fully embedded.

Another respondent argued that there is lack of clarity post-2028 on how fees will be divided between the consumers of the three markets, and may deter investments due to difficulties in financial planning. They urge Ofgem to publish a clear framework of market

maturity criteria that must be met before heat network operators are required to bear a greater share of regulatory costs, and to commit to a phased transition with sufficient notice to allow operators to plan accordingly.

Ofgem Response

The process of recovering Ofgem's regulatory costs from heat networks sector would start in April 2028 at the earliest to ensure sufficient reliable data to be used in the process. Ofgem's regulatory regime for heat networks has commenced in January 2026.

Concern on network charges

One stakeholder raised objection to heat network regulatory costs being presented as network charges in Ofgem bill breakdown or analysis, further arguing that non-electricity network charges must be separately presented.

Ofgem Response

Ofgem's bill breakdown and analysis are not within scope of this cost recovery consultation. On Ofgem bill breakdown and analysis, we aim to follow a similar level of information as is currently done in gas and electricity. For reference as to the level of information presented in the gas and electricity licence fee invoices, refer to Appendix 2 of the Licence fee cost recovery principles. We may keep the level of information presented under review.

Clarity on scope

With regards to cost recovery policy, industrial heat networks, self-supply and shared ground loops (SGL) are excluded from the scope of cost recovery policies, balancing proportionality, regulatory scope and financial impact on consumers. This will be reflected in the future draft of the relevant authorisation condition. This is our initial position and we may review this in the future depending on the development of the sector.

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 decision. 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.