

Consultation

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

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Response deadline:	Friday 19 September 2025
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This consultation follows [Heat networks regulation: implementing consumer protections - GOV.UK](#) (referred to as 'the 2024 joint consultation') published by the Department for Energy Security and Net Zero (DESNZ) and Ofgem on 7 November 2024. Pages 68-80 of the 2024 joint consultation outlined proposals for 'Step-in: measures to mitigate the risk and impact of heat network failure.' The responses to this consultation have been analysed and the government response was published on 8 August 2025. We have gathered more feedback to better understand the responses and how the proposals could be applied across the heat networks sector.

Following this work, we are now seeking views on draft authorisation conditions which would support the obligations we propose to introduce. In parallel, DESNZ is bringing forward legislation for a Special Administration Regime which would act as a regulatory backstop if industry-led measures proved insufficient to protect consumers from the risks of losing heat supply. In this consultation we are also providing draft guidance for the sector on our expectations based on the requirements in authorisation conditions and financial monitoring.

Consultation – Heat networks regulation: authorisation conditions and guidance on measures to mitigate the risk and impact of financial failure

Consultation reference: Authorisation conditions and guidance on measures to mitigate the risk and impact of financial failure.

Audiences: The consultation will be of interest to the heat network industry, including:

- consumer advocacy groups
- industry trade associations
- energy supply companies
- local authorities
- housing associations
- managing agents, property management companies, and developers
- landlords
- building owners
- heat network consumers

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

Territorial extent:

Great Britain

How to respond

This consultation is open until Friday 18 September 2025.

You can give us your views by:

- completing [our online survey on Citizen Space](#).
- sending your response to heatnetworksregulation@ofgem.gov.uk

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly

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mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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1. Introduction and summary

- 1.1 The shared ambition of DESNZ and Ofgem is to ensure that in the event of heat network insolvency, or if a heat network operator or supplier needs to leave the market due to financial stress, authorised persons make arrangements to ensure that customers are protected and have a continued source of heating and hot water. We are now taking forward obligations to ensure that heat networks are adequately managing the risk and impact of failure, while DESNZ are putting in place a Special Administration Regime as an ultimate backstop.
- 1.2 Studies into heat network failure are limited, although surveys of the sector have shown that contractual arrangements between interested parties to ensure continuity of supply in certain circumstances are in place for some existing heat networks. In particular, the DESNZ '[Heat Network Consumer and Operator Survey 2022](#)' in 2022 found that 72% of operators who responded reported having no relevant contractual arrangements, though 53% reported some non-contractual arrangements would be made in the event of them leaving the market (see page 62 of linked document). Recent engagement with stakeholders has suggested that financial failure of heat networks is rare, and we have not found any examples of where customers have lost supply following financial failure. However, the sector is expected to change and expand significantly over the coming years, and with change and expansion the risk of failure could increase. The introduction of regulation will allow us to gather sector wide data, including financial monitoring, which will enable us to understand the risk of failure further as the sector develops. We will use this information to consider whether further interventions are justified and required.
- 1.3 It is estimated that there are currently some 14,000 heat networks in the sector, ranging from communal networks with a small number of customers, to large-scale district projects serving large numbers of customers. There are many different contractual structures in place for the delivery and operation of these heat networks. Whilst there are common features across heat networks, the variety in the sector means that very few heat networks are exactly the same. Accordingly, each heat network has its own risk profile, and measures taken by heat networks to mitigate their own assessment of the risk of financial failure vary.

What are we consulting on

- 1.4 Following two joint consultations with DESNZ in 2023 ([Heat networks regulation: consumer protection - GOV.UK](#)) and 2024 ([Heat networks regulation:](#)

- [implementing consumer protections - GOV.UK](#)), we have identified the initial set of obligations we propose to introduce for heat networks, to ensure they are managing the risk of financial failure and managing their assets responsibly.
- 1.5 DESNZ has also decided that a Special Administration Regime (SAR) should be put in place, and we have identified some further work we will do to explore whether further intervention is required as the sector changes and grows.
- 1.6 We are seeking views on the draft authorisation conditions and draft guidance to support the sector in understanding our expectations.
- 1.7 In this consultation we do not discuss in detail the options we considered but have decided not to progress at this time, and this is covered in more detail in the government response (<https://www.gov.uk/government/consultations/heat-networks-regulation-implementing-consumer-protections>). In summary, we are not taking forward requirements that all authorised parties must have contractual arrangements in place for another provider to “step-in” if they face financial failure, or to provide for a Last Resort Direction arrangement where Ofgem can direct another provider to do so. These measures were considered disproportionate in view of the burden they would place upon some heat networks, and there were significant implementation challenges in relation to a Last Resort Direction including the speed at which this could be put into effect, and the costs associated with doing so.
- 1.8 We have deliberately moved away from describing the proposals in this consultation using the language of “step-in”. The authorisation conditions focus on authorised parties managing their resources in a financially responsible way, and having arrangements in place to facilitate the orderly transfer of activity to another provider through a commercial arrangement if they need to exit the market. While there will be a SAR in place as an ultimate backstop, and we describe these arrangements more fully in chapter 6, these are not the focus of this consultation and will be given effect to through a DESNZ led Statutory Instrument which will be laid in the autumn. The following section describes what each chapter covers.

Section 1: Risks of failure and models in the sector

- 1.9 Through analysis of the 2024 joint consultation responses and engagement with stakeholders across the sector, we have considered the risk of financial failure of heat networks in different scenarios across a range of delivery models.

Stakeholders have consistently told us that the risk is low given existing protections and commercial incentives for other entities to assume the delivery of authorised activity in the event of financial failure. This section explores these issues.

Section 2: Scope

- 1.10 As set out in the joint 2024 consultation and response, there are existing obligations on providers in the registered social housing sector, including financial monitoring and reporting to the relevant housing regulator, and regulatory tools to manage failures. We concluded that also applying financial resilience obligations through heat network regulation would lead to unnecessary duplication should those bodies also be subject to financial monitoring under the proposed heat networks financial resilience framework. Local councils are unable to enter into insolvency and are subject to other arrangements which place obligations on them in relation to their financial resilience and we therefore propose that our full financial resilience provisions will also not apply to heat networks where local authorities are the authorised entity. We also set out our thinking about mixed tenure models and more complex models of housing and energy arrangements such as Special Purpose Vehicles and Energy Supply Companies, and our proposal that all financial resilience provisions should apply in these cases.

Section 3: Financial resilience

- 1.11 There was broad support for introducing measures to promote financial responsibility and our proposed indicators for financial monitoring. In this consultation we seek views on draft authorisation conditions on 'Availability of Resources and Internal Capability' and 'Material Assets'. We have further developed the information we will request as part of our regular data reporting cycle and have provided guidance on how authorised persons should provide it.

Section 4: Continuity arrangements

- 1.12 There was broad support for introducing requirements on relevant authorised entities holding a continuity plan and we intend to proceed with requirements to have these arrangements in place. The requirements of the plan are outlined

within the authorisation condition entitled 'Continuity Arrangements' and are described within guidance.

Section 5: Special Administration Regime

- 1.13 There was broad support for introducing a Special Administration Regime in the 2024 joint consultation, and DESNZ are taking forward work to introduce the necessary provisions through secondary legislation. We describe this regime, and also how it would be funded if needed.

Section 6: Further interventions

- 1.14 This consultation outlines the measures that we consider appropriate to protect consumers from the impact of the financial failure of heat networks when the regulatory framework is introduced. Following the 2024 joint consultation and stakeholder engagement, we consider these measures proportionate to the current failure risks across the sector. We will continue to monitor the risk of financial failure for different models of heat network as it adjusts to regulation, and as the sector develops and expands. It may be necessary in the future to consider the introduction of additional measures if there is evidence of increased risk of financial failure in the sector. We seek views from stakeholders on whether they consider further measures should be developed and introduced.

Context and related publications

- 1.15 We have consulted on the approach in joint consultations with DESNZ in 2024 and 2023. Following the [2024 government response](#), this consultation provides the draft authorisation conditions and accompanying guidance on these obligations which will be introduced from January 2026.

Consultation stages

- 1.16 We will publish a response to this consultation, and final versions of the authorisation conditions ahead of regulatory commencement in January 2026.

How to respond

- 1.17 We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.
- 1.18 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 1.19 We will publish non-confidential responses on responses on our website at <https://consult.ofgem.gov.uk/>.

Your response, your data and confidentiality

- 1.20 You can ask us to keep your response, or parts of your response, confidential. We'll 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.
- 1.21 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'll get in touch with 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.
- 1.22 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 UK'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 and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 5.
- 1.23 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't 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.

General feedback

1.24 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Choose the notify me button and enter your email address into the pop-up window and submit.

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Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

2. Risks of failure and models in the sector

Section summary

In this chapter, we share our assessment of the risks to continued supply in the case of failure of the authorised entity in common heat network delivery models. By understanding the common features of different types of delivery model, we have sought to assess how financial failure might be addressed in different scenarios, through commercial outcomes and incentives for other entities with an interest in the continuity of the heat network. This has also allowed us to understand where gaps exist which may hamper commercial outcomes, and where regulatory intervention might still be required.

Questions

- Q1. Do you agree with our assessment of the risks to continuity of supply where operators face financial failure in the sector? Please explain your answer.
- Q2. Are there any other models which we have not explored which merit assessment of the risks to continuity of supply in case of financial failure? Please explain your answer.

Introduction

- 2.1 Some of the most common commercial delivery models for heat networks are outlined below, with an assessment of how the financial failure of entities involved might be managed to safeguard continued operation.

Concessionary model

- 2.2 A concessionary arrangement is any scenario under which a contracted heat network operator takes the operational risk under contract with a site developer. In this model we expect the Energy Supply Companies (ESCo) to be the authorised operator.
- 2.3 An example of this model would be a scenario in which a developer or local authority selects an 'energy partner' to build and operate the energy centre for a district heat network.
- 2.4 In such cases, it is common for the developer to secure 'step-in rights' in case of operator failure. We consider that in this scenario, the developer will be driven by commercial forces and incentivised to ensure continuity by seeking a new operator.

- 2.5 Similarly, if the heat network operator in a concessionary model is partly or wholly owned by the developer, the developer will be incentivised to ensure continuity and will commonly have controls under the contractual agreement for dealing with failure of the operator.

Developer led and owned

- 2.6 In developer led and owned models, the heat network is directly owned and operated by the developer of the wider site. These can be both large-scale developments and residential communal heat networks also typically follow this delivery mode.
- 2.7 Examples of this model include district heat networks where the site developer builds and operates the heat network, and communal heat networks in owner-managed buildings.
- 2.8 If a developer becomes insolvent in this scenario, there would likely be sufficient commercial incentive for an interim operator or administrator to continue operation and supply, since this would be important to securing a long-term commercial outcome. However, we consider that a regulatory backstop in the form of a Special Administration Regime (SAR) may still be needed in this circumstance.
- 2.9 In the event of insolvency of a residential communal heat network operator, we expect that the heat network would not be considered in isolation given the range of other utilities and services needed for the building to continue to be habitable. We consider that there would be sufficient commercial incentive in this scenario for an alternative operator to be found, or for leaseholders to assume greater control of the building management.

Merchant model

- 2.10 In a merchant model, a heat network operator takes full operational and revenue risk without the oversight of a developer or sponsor. A merchant model is likely to come about when a heat network operator speculatively takes the opportunity to develop a heat network for a district, securing customers as the network is developed and expanded.
- 2.11 An example of this model would be an ESCo building a heat network in an area where they consider that they can attract customers from existing and new

properties to connect to the new network through offering improved cost effectiveness for the supply of heating and hot water.

- 2.12 In the event of insolvency or financial stress of a heat network in this scenario, there is unlikely to be another entity ready to step in to continue the regulated activity. If a commercial sale cannot be achieved through market engagement, protection of customers via a SAR may be required.
- 2.13 We understand this is the common delivery model used within zones, although they can also be developer led and owned. Where a zone operator faces financial failure, another operator may purchase the network along with zone rights and responsibilities, or the zone assignment process may be re-run. We expect the Zone Coordinator or Central Authority would act to ensure zone delivery and customer supply remains in place.

Disaggregated model

- 2.14 There is significant variety of commercial models across the heat network sector. Some existing heat networks are effectively disaggregated, with different entities owning and operating different parts of the network, with supply often being carried out by a further separate entity.
- 2.15 An example of a disaggregated heat network model would be where two or more entities own and manage different parts of the heat network, such as in a 'PipeCo' arrangement where the 'PipeCo' owns and manages the heat distribution network, but one or more other entities own and manage the means of heat generation, and are undertaking the regulated activity of operation.
- 2.16 This interdependency may provide some commercial incentive for one entity to assume the obligations and activities of another in the event of their financial failure, but we consider that statutory protection of customers through a SAR could be required in some circumstances.
- 2.17 From January 2027, under the requirements of authorisation applications, we expect new heat networks will have one authorised operator per heat network and as such, we do not expect this model to be prevalent except in a small number of existing networks.

Summary, next steps and good practice

- 2.18 Stakeholders' views have consistently been that the risk of financial failure is low across the heat network sector, due to the range of existing protections and

commercial incentives for them to be managed sustainably and for operation to continue.

- 2.19 We have seen very limited examples of financial failure in the sector, and in the examples provided to us, another entity has “stepped in” to ensure that customers continued to be supplied. We have also seen a small number of examples of public sector intervention having been made to avoid heat network insolvencies. We will continue to gather data and evidence of the risk of failure as the sector develops.
- 2.20 Given the limited support from stakeholders for mandated contractual step-in across the sector, we do not intend to proceed with a universal requirement for contractual step-in. However, we have identified that in larger scale developments, it is common for building owners, developers or funders to secure contractual ‘step-in’ rights to ensure that heat network concessions on their developments can continue to be operated in the event that their contracted heat network delivery partner needs to exit the market due to financial stress or insolvency. We consider these kinds of contractual arrangements to be good practice to manage the risk of heat network failure and expect that they will continue to be put in place where appropriate to mitigate risk. We also expect that heat networks and parties who are contracting with a heat network should consider putting such arrangements in place to manage risks of financial failure resulting in loss of supply. We want to see the sector building on existing practice, where stakeholders with an interest and incentive to step in to support the continued operation of networks, do so.

3. Scope

Section summary

As set out in the 2024 consultation and response, we are continuing to propose that the majority of our financial resilience provisions (including SAR) would not apply where the authorised party is a registered provider (RP) of social housing or a local authority.

There are existing financial obligations on registered providers of social housing, and regulatory provisions exist to ensure the financial viability of social housing providers, which would include the heat network where the authorised heat network is also in scope of the housing regulatory regime. Where these networks have a separate supplier which is not a registered provider of social housing or local authority, we are proposing that they would be expected to comply with the provision that in the event of supplier failure, the operator of that network would be expected to take on the role of supplier, or ensure another supplier takes on the authorised activity.

We consider existing protections are not as strong in privately operated networks. Whilst there are obligations on landlords under the Landlord and Tenant Act (1985), this only extends to the installation of heating and hot water and not the provision of heating and hot water itself. In Scotland, the Housing (Scotland) Act 2006 sets out the duties placed on private landlords by the Repairing Standard which provides for the installation of heating and hot water. Reliance on these protections for the continuation of heating and hot water in the event of a regulated heat network entering insolvency may rely on tenants organising and applying to the courts which could prove expensive and slow.

Where entities are using Energy Supply Companies (ESCOs) or Special Purpose Vehicles (SPVs) to carry out a regulated heat network activity, we propose that our financial resilience provisions would apply. We are seeking views on this proposed approach.

Questions

- Q3. Are there other segments of the heat network sector which have clear continuity of customer supply arrangements in the event of a market exit which we have not considered? Please explain your answer.
- Q4. Do you agree that our financial resilience provisions should apply where registered providers are using separate entities to carry out regulated heat network activity? This can include subsidiaries that are not regulated by a social housing regulator, like energy supply companies or special purpose vehicles.
- Q5. Do you agree that self-supply and industrial networks should be out of scope of the financial resilience requirements? Please explain your answer.

Scope of financial resilience provisions

- 3.1 Of the estimated 14,000 existing heat networks which will be covered by the scope of regulation, it is estimated around 60% are in social housing.
- 3.2 The aim of the financial resilience provisions is to ensure continuity of supply to heat network customers in the event of the authorised entity operating or supplying on the heat network entering insolvency.
- 3.3 In the 2024 joint consultation we proposed that these provisions should not apply to two types of authorised entity:
- registered providers of social housing who are registered with either The Regulator of Social Housing for England, the Scottish Social Housing Regulator, or the Welsh Social Housing Regulator
 - local authorities
- 3.4 The rationale for this is that there are already existing provisions in these sectors which mitigate the risk of an interruption in continuity of supply where the entity faces financial difficulties.
- 3.5 We recognise there are existing obligations on providers in the registered social housing space in terms of financial monitoring and reporting, and established arrangements to intervene if the entity is at risk of financial failure. Including these parties in scope of the heat network measures would lead to unnecessary regulation and duplication. We also consider it would be in the best interests of consumers for any intervention, including an administration regime, to take place at the organisational level rather than seeking to separate out the heat network assets from the general housing assets, and therefore this is best led by the relevant social housing regulator.
- 3.6 A number of respondents to the 2024 joint consultation queried which provisions this approach would apply to. We wish to make it clear that this would only apply to the provisions consulted on within this consultation. Registered social landlords and local authorities who either supply or operate heat networks in Great Britain will be required to comply with other relevant heat network authorisation conditions including consumer protection measures.
- 3.7 We also wish to be clear that when referring to the failure of heat networks in registered providers of social housing and local authorities we are referring to insolvency or financial failure impacting the ongoing provision of heat to consumers. We are not referring to the ability of the registered provider of social

housing or local authority to meet other housing standards or maintenance requirements as these sit outside the remit of Ofgem's heat network regulation.

Social housing- existing arrangements

- 3.8 Social housing providers are already subject to significant regulation and monitoring under existing social housing regulation. Across England, Scotland and Wales the respective regulators have a series of standards against which social housing providers are assessed which include governance, consumer standards and economic standards.
- 3.9 The social housing sector is subject to robust regulation, and has a strong track record of performance. In England and Wales, there is a Housing Administration Regime in place set out under the Housing and Planning Act 2016. In Scotland, these powers are set out in the Housing (Scotland) Act 2010. Where major failures have occurred, housing regulators have intervened to protect tenants, secured creditors and public money using their regulatory and enforcement powers. Across Great Britain, there are moratorium arrangements which are triggered by an insolvency event to create a period of time to seek a solution which protects social housing assets and the interests of tenants.
- 3.10 Guidance on how the Regulator of Social Housing approaches the regulation of social landlords can be found on their web page: [How we regulate - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/how-we-regulate-social-housing)
- 3.11 We are proposing that where a heat network operated by a local authority or social housing provider has a separate supplier, in the event of supplier insolvency, they will have to put in place arrangements to either take over the supply activity directly or secure another supplier to do so.
- 3.12 We recognise that some social housing providers offer mixed tenure housing, e.g. including homes for affordable rent and shared ownership. As we are focused on the overall financial health of the housing provider, we expect where the heat network is operated by the failing entity, this would be an integral part of any intervention as the ongoing provision of heating and hot water will be vital to the commercial value of the entity and meeting ongoing statutory obligations.

Local authority operated networks – existing arrangements

- 3.13 Where local authorities face financial stress and are not able to publish a budget which meets their statutory obligations, in England a Section 114 notice can be

issued. Local authorities in England fall under the Ministry of Housing, Communities and Local Government in England, and the Scottish and Welsh Governments respectively. Once a Section 114 notice is published, local authorities are unable to make new spending commitments and must meet within 21 days to discuss what to do next. They may take action such as reducing spending or seeking permission to use capital funds for service spending which may result in the selling of assets or property. They may also be subject to Government intervention. We understand a similar approach would be taken to a local authority being unable to balance their budget in Scotland or Wales. These actions are designed to prevent local authorities from insolvency.

- 3.14 It is our understanding that during this time, the expectation is that where the landlord either operating or supplying the heat network is the local authority, the provisions in the Landlord and Tenant Act 1985 or the Housing (Scotland) Act 2006 would continue to apply. The requirement to provide statutory services including “housing services” would therefore include compliance with this provision.
- 3.15 We are therefore maintaining our proposal that where local authorities are the authorised person, the majority of our financial resilience authorisation conditions and the SAR for heat networks would not apply. As with social housing providers, we expect that where a separate supplier enters insolvency, the local authority operator would make arrangements to continue the supply activity.

Other heat network sectors

- 3.16 A number of respondents to the 2024 consultation highlighted other sectors where there were some mitigations in the event of insolvency to ensure continued supply, however these mitigations lack a formal statutory or regulatory footing. While we have identified a number of reasons why the risk of losing supply in private housing has been low, these commercial forces and legal obligations under the Landlord and Tenant Act, or the Housing (Scotland) Act 2006 are not comparable to the regulatory frameworks that protect consumers in social housing and local authorities. They can also rely on tenants having to navigate legal processes to provide the safeguards which can be challenging.

- 3.17 A number of respondents also raised mixed models of housing and energy provision, and we have sought further advice in this area. We are proposing that where organisations are established to provide heat network services as distinct entities from their parent organisation, these would remain in the scope of our financial resilience provisions. This includes Special Purpose Vehicles and Energy Supply Companies, even if their parent organisation is a local council or a social housing provider.

Non-domestic, self-supply and industrial networks

- 3.18 We are proposing that heat networks defined as self-supply networks as well as industrial networks will not be scope of the authorisation conditions on financial resilience consulted on here. This means networks that are supplying exclusively industrial customers, or meet the definition of self-supply. In industrial networks we expect that insolvency of the heat network will be covered by contractual arrangements and would expect these risks to be managed in this context. In self-supply, it is for the operator of the network, who is also the customer, to manage the risks to continuity of supply.
- 3.19 As such, we do not consider it proportionate to extend the financial resilience and monitoring requirements to these types of networks. We also would not expect government to seek to put a Special Administration Regime in place if these types of networks did face insolvency.
- 3.20 We seek views on this position. All other domestic and non-domestic networks will be in scope of these requirements, except, as discussed earlier in this chapter, those social housing and local authority heat networks, where our financial resilience provisions would not apply.

4. Financial resilience

Section summary

The aim of our financial resilience obligations is to ensure that the heat networks are acting responsibly and proactively managing their finances to mitigate the risk of financial failure. Those operating and supplying heat networks are providing an essential service to customers, with monopoly power, and it is essential that authorised entities actively manage their finances and are set up in a way to support the orderly transfer of their network and authorisation to another party if this was required.

In the 2024 joint consultation we proposed to introduce authorisation conditions on a 'Financial Responsibility Principle and Availability of Resources' and on 'Control over Material Assets' and we have developed these proposals further and provide draft conditions for feedback. We also proposed to introduce financial monitoring questions that would provide a high-level indication of an authorised entity's financial health.

Questions

- Q6. Do you agree with the policy intent and authorisation condition 'Availability of Resources and Internal Capability? Please explain your answer.
- Q7. Do you agree with the policy intent and authorisation condition 'Material Assets? Please explain your answer.
- Q8. Do you agree with the approach to financial monitoring and the regular reporting requirements? Please explain your answer.
- Q9. Do you have feedback on the proposed guidance outlined in Appendix 2 that would improve its use for your organisation?
- Q10. Do you have feedback on the proposed guidance outlined in Appendix 3 that would improve its use for your organisation?

Introduction – proposed authorisation conditions

- 4.1 We are proposing an authorisation condition on Availability of Resource and Internal Capability (AoRIC) to ensure authorised entities are acting responsibly and managing their finances to minimise risks to consumers. The obligation will apply to operators and suppliers, though compliance with the condition will vary to reflect the different responsibilities of the authorised activities.
- 4.2 In this consultation we have produced a first version of draft guidance to provide further details on how we expect authorisation conditions on financial resilience to be met. Feedback from the previous consultation indicated agreement for

- implementing financial oversight of the sector but stakeholders said they would benefit from guidance on meeting regulatory requirements.
- 4.3 Guidance will include information on the principles around how we expect the authorised entity to act, and also outline the data we will require as part of our financial oversight of the sector.
- 4.4 The guidance will also outline what financial data must be submitted to Ofgem on an ongoing basis. Financial monitoring data will help Ofgem to identify any suppliers and operators at risk of financial failure, though we expect that this should be notified to Ofgem directly. Information requirements will include financial data that would be included within annual audited accounts, however we are not requiring the audited accounts themselves to be provided on a routine basis. We may request further financial information through an audit, or where concerns are raised and we consider we need to engage further. Financial data provided as part of our financial monitoring supervision will be treated securely and in line with the legal requirements of how we treat confidential information.

Availability of Resource and Internal Capability - rationale

- 4.5 The Availability of Resource and Internal Capability (AoRIC) authorisation condition will act as an overarching obligation to ensure authorised entities act in a financially responsible manner that is appropriate for business specific risks. Due to the essential role heating and cooling plays for consumers we are proposing to have an authorisation condition to ensure authorised persons are acting in such a way to secure they have the resources to continue carrying out supply or operation of the network.
- 4.6 We expect heat networks to engage with us annually to validate their financial health through the financial monitoring data points in Appendix 2. We will also expect heat networks to notify us if they experience financial distress in line with the Open and Cooperative authorisation condition.
- 4.7 This is a high-level principle, and the resources that heat networks require will vary depending on the scale of the network. We will provide guidance to support this but expect this is an assessment that networks should undertake as part of their prudent financial and resource management.
- 4.8 This condition draws on the requirements on gas and electricity network companies, where they are providing infrastructure which provides an essential

service for customers, and which we consider has strong parallels to heat networks.

- 4.9 As specified in the condition, we want to ensure minimal disruption to the service in the event of a successor authorised entity taking over. This includes notifying Ofgem immediately if the authorised person does not believe it has the resource available to continue carrying out the regulated activity.
- 4.10 We will keep under review whether we need to further develop this obligation and will consult at a later date on the entry (authorisation) requirements for new heat networks, including what they should be able to demonstrate in terms of their access to resources and financial health.

Control over material assets - rationale

- 4.11 The material assets of a heat network would also need to be transferred to a successor authorised entity to ensure continuity of supply to customers. We propose a similar requirement to the gas and electricity supply market of authorised entities having sufficient control over those material assets to consequently ensure the smooth transfer of the authorisation to a successor if required.
- 4.12 We are using the term Sufficient Control within the condition to define the level of control we expect authorised entities to have over their material assets. "Sufficient Control" means having either direct ownership or legally enforceable rights so that the authorised person can legally rely on them and enjoy the benefit of them.
- 4.13 We will keep under review whether we need to further develop this obligation and will consult later on the entry (authorisation) requirements for new heat networks, including what they should be able to demonstrate in terms of their access to resources and financial health.
- 4.14 Draft guidance for the AoRIC and 'Material assets' condition will be provided in Appendix 2 and 3 respectively.

5. Continuity arrangements

Section summary

As stated in the 2024 joint consultation government response, we are intending to require relevant authorised persons to have a continuity plan in place. This plan would support the orderly transfer of the heat network authorisation to a successor and would contain details on the methodology for gathering outlined information for this process.

We are proposing to introduce an authorisation condition on 'Continuity arrangements', that alongside guidance will outline the necessary requirements. Due to the diversity of the sector we do not expect a one size fits all approach and expect plans to vary in scale. Where suppliers and operators of a heat network are separate, we would expect separate plans to be available for each role.

The draft guidance supplements the requirements outlined in the authorisation condition and is intended to further clarify the contents of a plan such as how other business-related plans the authorised person holds may be integrated.

Questions

- Q11. Do you agree with the policy intent and authorisation condition, 'Continuity arrangements'? Please explain your answer.
- Q12. Do you agree with the proposal for operators to carry on the supply of heating, cooling or hot water if the supplier ceases to? Are you aware of any examples where this would not be feasible?
- Q13. Do you agree with the proposed contents and breakdown of the plan? Please explain your answer.
- Q14. Do you have feedback on the proposed guidance outlined in Appendix 4 that would improve its use for your organisation?

Policy intention

- 5.1 The operation and supply of a heat network delivers an essential service to customers, and we expect authorised entities to have arrangements in place to support the transfer of activity to a successor organisation if required, to minimise risks of customers losing supply. We propose that heat networks have continuity arrangements in place to support the transfer of activity if required.
- 5.2 This includes the maintenance of a continuity plan that would track the information and assets to be transferred. It would enable a timely transfer of responsibilities to ensure that consumers do not experience a disruption in

heating or cooling supply. Requirements to be met will depend on whether the authorised person holds the role of supplier, operator or both.

- 5.3 This proposal builds on existing good practice within the sector, with networks having arrangements in place such as Disaster Recovery Plans, and Business Continuity Plans. Some of these practices will be adopted in the continuity plan, and networks will be able to cross-refer to existing material.
- 5.4 Stakeholders were broadly supportive of this proposal in response to the 2024 joint consultation, with many requesting further information on what should be included in the plans. We provide further detail in the draft guidance in Appendix 4, confirming the contents that were set out in that consultation, with the exception of contractual step-in which we are no longer mandating. We address how contractual step-in alongside other data and arrangements may be included as part of best practice procedures.

Continuity arrangements – authorisation conditions

- 5.5 We are proposing the introduction of a continuity arrangements authorisation condition to ensure the relevant authorised persons have a plan in place to support the transfer assets and key data in the event of insolvency or a commercial transaction which results in the transfer of their authorisation.
- 5.6 The condition will also obligate the authorised persons to keep the plan up to date. The condition also includes a summary of the information we will require to be contained within a continuity plan.
- 5.7 The condition will also outline requirements for both the operator and supplier to ensure arrangements are in place in the event where they are separate entities. These obligations address the operator or a third party carrying out the supply in the event the supplier ceases to.

6. Special Administration Regime

Section summary

A Special Administration Regime (SAR) provides a framework for an insolvency practitioner to continue the supply of an essential service as a key duty alongside their obligations to creditors. It ensures that heating and hot water is continued and resources within the existing company are utilised to support this, supported where necessary with government funding. There are powers in the Energy Act to recover any taxpayer funding at the end of a Special Administration from the heat networks sector, and also from the gas and electricity sector, if this is considered necessary to manage the burden. The SAR is being introduced through secondary legislation in the autumn, and as such we do not ask any specific questions in this consultation, but provide further explanation of how the regime would be used.

Introduction to a Special Administration Regime

- 6.1 A Special Administration is a bespoke insolvency process that differs from standard administration under the Insolvency Act 1986 in that it is designed to address sector-specific risks and public interest concerns.
- 6.2 The regime is designed to protect customers and ensure continued provision of heating and hot water, rather than just creditors or shareholders.
- 6.3 There was broad support for introducing a Special Administration in the 2024 joint consultation, and DESNZ are taking forward work to introduce the necessary provisions through Statutory Instruments.
- 6.4 It is intended to be a backstop where commercial outcomes have been exhausted or failed to secure the continued operation of a heat network and where there is a risk that customers will lose a critical supply without government intervention.

Legal framework and approach

- 6.5 A Special Administration provides a legal framework for the insolvency process which allows for:
 - The administrator to fulfil specific objectives that go beyond a standard administration process, namely protecting a critical service or supply;
 - The rescue of the heat network as a going concern and/or the transfer of whole or parts to another provider as appropriate.

- 6.6 The powers to create a heat network SAR were granted in the Energy Act 2023. It is expected that the objectives of a heat network SAR will be to:
- secure supply of heating, cooling and hot water at the lowest possible cost
 - ensure the heat network continues to be maintained and developed; and
 - make it unnecessary for the SAR to remain in force; and this might be achieved by:
 - rescuing the company as a going concern;
 - transferring the heat network as a going concern; or
 - providing for customers to be supplied by an alternative means
- 6.7 The Secretary of State will have powers to apply to the Court and seek to put in place a SAR. Ofgem will also be able to apply to the Court with the consent of the Secretary of State.

When a Special Administration Regime may be used

- 6.8 The intention is that the SAR will be used in instances of insolvency in order to effectively manage the customer supply of heating and hot water until a new authorised party is found.
- 6.9 It should be noted that the SAR will only be used in cases of insolvency where commercial solutions cannot readily be found, and not to rescue networks which, for example, have been inadequately or improperly maintained or in cases of catastrophic technical failure. While it is possible that these, and other circumstances, could ultimately result in insolvency, the SAR is not a measure to prevent insolvency and will not be used in this way. Heat networks will be required to conform to standards of maintenance which DESNZ will consult on later this year though the heat networks technical assurance scheme (HNTAS).

Restrictions on entering insolvency

- 6.10 The SAR framework will also place restrictions on all authorised parties from entering an insolvency procedure until 14 days after service of notice on GEMA and the Secretary of State, unless GEMA and the Secretary of State waives this constraint. This is to allow GEMA and the Secretary of State time to consider if it is necessary to apply to Court for a SAR Order.

- 6.11 If the authorised party, and the proposed administrator, can demonstrate that customers will continue to be supplied, it may be appropriate to allow the company to enter normal insolvency proceedings.

Funding a Special Administration and recovery of costs

- 6.12 The Secretary of State may, subject to HM Treasury consent, decide to provide financial support to a company in energy supply company administration.
- 6.13 The Secretary of State will also have powers to direct the recovery from the wider heat networks sector of any shortfall in repaying costs incurred by the Secretary of State at the end of a Special Administration, and the gas and electricity sector. Any decision to use these powers will be based on an assessment of the following
- the level of shortfall costs, and whether any or all of these should be recovered from consumers, or met by taxpayers
 - an analysis of the impacts of recovering from heat networks, or extending to share a proportion from gas and electricity customers
 - the length of time which these costs should be recovered over
- 6.14 The Energy Act 2023 provides powers for these costs to be recovered via such a Direction from gas and electricity network licensees, replicating similar provisions for an energy company supply SAR. We intend to replicate these provisions to recover costs from authorised heat network parties, once a cost recovery mechanism is in place to facilitate this.
- 6.15 There will be further consultation on these proposed arrangements at a future stage.

7. Further interventions

Section summary

This chapter explains our approach to the future monitoring of the sector once regulation has come into force, and outlines possible further interventions which could be developed and introduced if evidence suggests that the risk or incidence of financial failure justifies it. This chapter also outlines potential funding mechanisms for those additional interventions if these were to be developed.

- 7.1 We do not consider that there is currently sufficient evidence of risk of financial failure of heat networks to warrant the introduction of some of the measures proposed in the 2024 joint consultation. In particular, the joint consultation had outlined the following.
- a proposal that heat network operators be required to have in place, on an ongoing basis, a contractual arrangement with an entity to continue the authorised activity, which could be triggered in the event there was an imminent risk of insolvency
 - a 'Last Resort Direction' process whereby Ofgem could appoint a new entity to continue the authorised activity where commercial solutions to financial failure had been exhausted
- 7.2 There was some support for these measures, but many stakeholders agreed with, and reinforced our assessment that for many heat networks, the obligations that these measures would place on them would be onerous, time-consuming and burdensome to put in place and maintain. Given the lack of evidence of risk of financial failure across the sector, we consider that it would be disproportionate at this time to put these measures in place. We also recognise the legal and administrative challenges to putting in place a Last Resort Direction process in the timescales that would be required in financial distress situations.
- 7.3 We are mindful that some stakeholders have indicated support for a centrally managed arrangement to intervene and secure the continued operation of heat networks in cases where authorised entities are at risk of insolvency, and we will continue to assess the need for such measures as the sector grows and matures, and as we gain evidence and understanding of how the sector reacts to the requirements associated with regulation. Such arrangements would require funding from the heat networks sector.

- 7.4 Proceeding with an approach that neither requires heat networks to have contractual step-in arrangements, nor provides for Ofgem to nominate and appoint a replacement authorised entity an operator or supplier for a heat network entering insolvency, does potentially leave a regulatory gap between our proposed financial responsibility and monitoring requirements, and the SAR backstop, in cases of insolvency for which commercial solutions cannot be found.
- 7.5 We want heat networks to learn from and build on existing practice within the sector that provides effective mitigation against consumers losing access to heating and hot water, by incentivising authorised entities to step in and support the continued operation of networks. We will continue to work with the sector to explore ways to promote and share such best practice.

Possible future measures

- 7.6 Respondents to the 2024 joint consultation provided a number of ideas for mechanisms to ensure heat network continuity, including suggestions such as:
- a central, managed and funded service to assess and take on the operation of smaller heat networks which may not be able to make their own arrangements for continuity in the event of financial failure
 - a registry of pre-authorised replacement operators with capacity to step in when needed, supported by a dedicated fund to which all heat network operators would contribute
 - Ofgem taking the right to replace an operator from such a register of pre-authorised operators
 - a 'special measures' arrangement where heat networks in distress could be supported and advised by a central service, with a view to avoiding insolvency leading to a disorderly exit from the market
 - a database of alternative heat network operators who could be contacted to 'step in' and either bid for or be appointed by Ofgem to operate a heat network which is threatened by insolvency
- 7.7 Support schemes such as these, whether industry-led or managed to some degree by Ofgem, would require a funding source to set up and run. The cost of

these schemes would need to be carefully analysed to adequately fund the costs of any insolvencies, together with costs associated with managing the scheme and meeting the costs of entities agreeing to take on regulated activity.

7.8 Possible funding mechanisms include:

- a levy paid by all authorised entities, or a scheme for those entities without their own contractual step-in arrangements in place, possibly paid into on a sliding scale, based on the number of customers of each member heat network
- requiring authorised entities to ensure that, in the event of their insolvency, they have sufficient insurance arrangements in place to fund the continuation of their authorised activities during the transition phase to another entity
- requiring authorised entities to hold or ring-fence sufficient funds to support the continuation of their authorised activities for a specified period of time, to enable the transition to another entity

7.9 We remain mindful of the likely complexity of the transfer of assets involved in the operation of a heat network passing from one entity to another, irrespective of the mechanism employed to manage this. Such transitions could in practice take several months to arrange and complete, involving a significant familiarisation stage for the incoming entity and potentially the agreement of compensation arrangements.

7.10 We will monitor the sector as regulation comes into force, and continue to engage with stakeholders to understand whether our assessment of the risk of insolvency across different parts of the sector is accurate, and identify if the risk of insolvency and risk to continuity of supply is increasing. This will allow us to assess the need to develop and introduce any further potential measures, together with an appropriate funding mechanism.

Appendices

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Appendix 1 - Draft authorisation conditions

We are seeking views on whether the draft authorisation conditions reflect the policy intent of our policy proposals. In this appendix, we have included the draft authorisation conditions which are relevant to this document.

The draft authorisation conditions in this appendix do not reflect all the obligations that will form part of the regulatory framework as we have previously consulted on additional authorisation conditions prior to this consultation.

The conditions in this appendix contains a short summary above the relevant terms, detailing the intended objectives of the condition. The draft condition number is only for reference in this document, the order and numbering of the conditions will be finalised as they are further developed.

Condition Title: Availability of Resources and Internal Capability

Condition Number: [1]

Introduction to condition

This condition sets out the requirement of the authorised person to maintain at all times sufficient resources and internal capability, systems and processes to deliver its regulated activities and related obligations, and an obligation to notify the Authority where such resources might not be available.

Proposed text of condition

- 1 The authorised person must at all times:
 - 1.1 act in a manner calculated to secure that it has available to it such resources, including management and financial resources, personnel, fixed and moveable assets, rights, licences, consents and facilities, on such terms and with all such rights; and
 - 1.2 have and maintain robust internal capability, systems and processes, to ensure that it is at all times able to (i) properly and efficiently carry on each regulated activity that it is authorised (or treated as authorised) to carry on; (ii) comply in all respects with its legal and regulatory obligations, including under the authorisation conditions; and (iii) identify likely risks of harm to heat network consumers and to mitigate any such risks.
 - 2 The authorised person must notify the Authority immediately if its directors (or appropriate senior management representatives) do not (or should not) have a reasonable expectation that the authorised person will have available to it the resources (on the terms and with the rights), and the internal capability, systems and processes, in each case referred to in this authorisation condition.
 - 3 Where the directors of the authorised person (or appropriate senior management representatives) do not (or should not) have a reasonable expectation that the authorised person will have available to it the resources (on the terms and with the rights), and the internal capability, systems and processes, in each case referred to in this authorisation condition, the authorised person must not make any payment or loan or transfer any asset (except where that payment, loan or transfer is essential to the carrying on of the authorised person's regulated activities) if doing so would create a significant risk of heat network consumers being detrimentally affected.
 - 4 This authorisation condition shall not apply where the authorised person:
 - 4.1.1 is a Local Authority or an excepted company; or
 - 4.1.2 carries on regulated activities only in relation to relevant heat networks that are either Industrial Supply Networks or Self-Supply Networks, and where the authorised person carries on one or more regulated activities in relation to Industrial Heat Networks or Self-Supply Networks in addition to carrying on one or more regulated activities in relation to any other relevant heat network(s), this authorisation condition shall be construed as if it related only to the authorised
-

person's activities in relation to relevant heat networks that are neither Industrial Heat Networks nor Self-Supply Networks.

Condition Title: Material Assets

Condition Number: [2]

Introduction to condition

This authorisation condition contains a series of obligations on authorised persons in relation to the Material Assets that they rely on to provide the regulated activities. The overall intent is to ensure that the Material Assets are always available to the person who is authorised to carry on the relevant activity for the benefit of the consumers.

Proposed text of condition

Material Assets to be capable of legal transfer

- 1 Subject to paragraph 2 and any Permitted Security Interests, the authorised person must ensure that at all times all Material Assets are capable of legal transfer to any successor to the authorised person in relation to the applicable regulated activity, including in circumstances in which there is a transfer or revocation of the authorisation, without either:
 - 1.1 any requirement for consent, approval or agreement from or by a third party; or
 - 1.2 the successor being unreasonably disadvantaged or subject to materially different terms.
- 2 Where a third party's consent, approval or agreement must be obtained to enable the legal transfer of a Material Asset to a successor to the authorised person, the authorised person will be treated as complying with paragraph 1 if such third party is legally obliged to provide its consent, approval or agreement subject only to conditions that are reasonable in all the circumstances of the case.

Restriction on security over Material Assets

- 3 The authorised person must ensure that there is no mortgage, pledge, lien, security interest or other charge or encumbrance or other agreement having the same economic effect over the Material Assets (a "**Security Interest**") except where it is a Permitted Security Interest.

Requirement for Sufficient Control over Material Assets

- 4 The authorised person must ensure that it has at all times Sufficient Control over its Material Assets.

No disposal of Material Assets

- 5 The authorised person must not liquidate, sell or otherwise dispose of any Material Assets if doing so would create a significant risk of heat network consumers being detrimentally affected.

Register of Material Assets

- 6 The authorised person must create and maintain a register of all Material Assets which shall, as a minimum, include appropriate, accurate and readily accessible information about the Material Assets including, in respect of physical assets, their condition and function (as applicable). The authorised person shall provide the Material Asset register to the Authority at any time upon request.

Application of this authorisation condition

- 7 This authorisation condition shall not apply where the authorised person:
- (a) is a Local Authority or an excepted company; or
 - (b) carries on regulated activities only in relation to relevant heat networks that are either Industrial Supply Networks or Self-Supply Networks,
- and where the authorised person carries on one or more regulated activities in relation to Industrial Heat Networks or Self-Supply Networks in addition to carrying on one or more regulated activities in relation to any other relevant heat network, this authorisation condition shall be construed as if it related only to Material Assets that relate to relevant heat networks that are neither Industrial Heat Networks nor Self-Supply Networks.

Condition Title: Continuity arrangements

Condition Number: [3]

Introduction to condition

This condition imposes certain continuity obligations on authorised persons, including an obligation to have in place a continuity plan setting out the authorised person's plan for safeguarding the continuity of each of its regulated activities in the event that it ceases to carry on any such activity; an obligation to take all reasonable steps to ensure continuity in the event of an authorisation revocation or transfer or cessation of activities; and, in the case of networks with separate operators and suppliers, an obligation on the operator to take over the supply function in the event of the authorised supplier ceasing to carry it on.

Proposed text of condition Continuity Plan

1. The authorised person must ensure that it has prepared and has in place, at all times after the first part of the initial period has ended, a continuity plan, which sets out the authorised person's strategy for safeguarding the continuity of each regulated activity that it is authorised (or treated as authorised) to carry on in the event that it ceases to carry on any such activity (the "**Continuity Plan**").
 2. The authorised person must ensure that the information provided in the Continuity Plan is accurate and is prepared with due skill and care.
 3. The authorised person must ensure that the information contained in its Continuity Plan is maintained and kept-up-to date at all times.
 4. The Continuity Plan must be provided to the Authority (by the means requested by the Authority) at such times as the Authority may request.
 5. The Continuity Plan must include all information in relation to each applicable regulated activity that a successor to the authorised person in relation to that activity would reasonably require in order to carry on the activity efficiently and effectively in accordance with its regulatory obligations, including information on:
 - 5.1. key service providers and staff;
 - 5.2. Consumers;
 - 5.3. management structures; and
 - 5.4. Material Assets.
 6. The requirement for the information described in paragraph 5 to be included in the Continuity Plan will be satisfied if the Continuity Plan provides details of other documents or records (including electronic records) where that information can be readily obtained and those documents or records are either maintained by the authorised person itself or are available to the authorised person at all times under a legal or contractual right.
 7. The Continuity Plan must also set out:
 - 7.1. the authorised person's expectations of the process by which a successor to the authorised person would take over the carrying on of each regulated activity, including details of any arrangements in place for contractual step-in or pursuant to paragraph 9; and
-

- 7.2. how the authorised person has complied with the requirements of authorisation condition (Material Assets).

Continuity on transfer or revocation or ceasing to trade

8. Where the authorised person consents to a transfer of the authorisation (in whole or in part) under regulation 24 of the Regulations, seeks the revocation of the authorisation (in whole or in part) under paragraph [21.1.1(a)] of authorisation condition (Revocation), is given notice of revocation (in whole or in part) under authorisation condition (Revocation), or otherwise intends to cease carrying on a regulated activity, the authorised person must take all reasonable steps:
- 8.1. to ensure continuity of the regulated activity for each heat network consumer following the transfer, revocation or cessation, as applicable, on terms that are the same as or as similar as possible to the terms in place immediately before the transfer, revocation or cessation is to have effect; and
 - 8.2. to minimise the risk of disruption and detriment to heat network consumers.
9. The authorised person is not required to comply with paragraph 8 if the Authority specifies that the authorised person is relieved of its obligation to do so.

Continuity obligations for networks with a separate supplier

10. In the event that a supplier ceases to supply heating, cooling or hot water to heat network consumers by means of a relevant heat network, where the authorised person operates that relevant heat network, the authorised person must either carry on the supply that has been so ceased itself or ensure that a third party does so.
11. Where authorised person supplies heating, cooling or hot water to heat network consumers by means of a relevant heat network but does not operate that relevant heat network, the authorised person must use all reasonable endeavours to ensure that an operator of the relevant heat network is able to fulfil its obligations under paragraph 10, including by putting in place appropriate arrangements and plans in advance.
12. Where in accordance with regulation 13(4)(b), the authorised person and one or more other authorised persons each operates a relevant part of a relevant heat network, paragraph 10 shall apply to the authorised person in relation to that relevant heat network only if the authorised person is the Nominated Operator for that relevant heat network.

Application of authorisation condition

13. Paragraphs [1] to [9] of this authorisation condition shall not apply where the authorised person:

13.1 is a Local Authority or an excepted company; or

13.2 carries on regulated activities only in relation to relevant heat networks that are either Industrial Supply Networks or Self-Supply Networks,

and where the authorised person carries on one or more regulated activities in relation to Industrial Heat Networks or Self-Supply Networks in addition to carrying on one or more regulated activities in relation to any other relevant heat network, this authorisation condition shall be construed as if it related only to regulated activities that

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relate to relevant heat networks that are neither Industrial Heat Networks nor Self-Supply Networks.

Condition Title: Definitions

Condition Number: [4]

Introduction to condition

The terms set out below will be added to the Definitions condition, as set out in the [relevant consultation response], when the full set of authorisation conditions is in final form.

Proposed text of condition Continuity Plan

"Local Authority" means either a Local Authority (England and Wales) and/or a Local Authority (Scotland) as the context so requires.

"Local Authority (England and Wales)" has the meaning given to 'Local Authority' in s1 of the Local Government Act 2000.

Local Authority (Scotland) means a council constituted under s2 of the Local Government etc. (Scotland Act) 1994.

"Material Assets" means all assets, contracts or arrangements used or needed by the authorised person to deliver each regulated activity that it is authorised (or treated as authorised) to carry on and comply in all respects with its legal and regulatory obligations, including under the authorisation conditions (including all plant, equipment, material spares, infrastructure, premises, IP arrangements and supply contracts).

"Nominated Operator" has the meaning given to the term, "nominated operator", in [AC Nominated Operator]

"Permitted Security Interest" means a Security Interest which:

- (a) was in effect at the launch date;
- (b) arises as a matter of law;
- (c) is of a type that the Authority specifies is permitted under this authorisation condition or that the Authority has consented to being in place; or
- (d) was conferred as a condition of the provision of finance to the authorised person on arm's length terms.

"Sufficient Control" means, in relation to Material Assets, having either direct ownership or other legally enforceable rights over them so that the authorised person can legally rely on them and enjoy the benefit of them.

We also note that the term **"excepted company"** is intended to be used in the Regulations (and hence does not need to be separately defined in the authorisation conditions) once they are amended to cover the following persons:

- (i) a private registered provider of social housing;

- (ii) a body registered as a social landlord under Part 1 of the Housing Act 1996;
- (iii) a body registered in the register maintained under section 20(1) of the Housing (Scotland) Act 2010.

Appendix 2 – Draft guidance on Availability of Resource and Internal Capability authorisation condition

Scope

- 7.11 This guidance applies to authorised persons in their compliance with authorisation condition – Availability of Resource and Internal Capability. Where a local authority or registered provider operate or supply a heat network they will not be in scope of this condition.
- 7.12 This guidance should be read alongside the 'Availability of Resource and Internal Capability' authorisation condition.

What is the authorisation condition

- 7.13 The Availability of Resource and Internal Capability (AoRIC) authorisation condition acts as an overarching obligation to ensure authorised persons act in a responsible manner that is appropriate for their business specific risks. This means they properly manage risk, have robust internal capabilities, and are able to withstand severe but plausible financial stress.
- 7.14 In support of the financial resilience of the sector, we want authorised persons to manage financial risk, and adopt responsible financial management approaches that recognise the essential service they provide and customers rely upon. This includes holding sufficient financial resource to meet reasonably anticipated liabilities as they fall due, so that they are resilient enough to withstand future shocks. This also includes maintaining robust internal capability, systems and processes to fulfil their role in the regulated activity.
- 7.15 Our overarching objective is to protect current and future consumers by having in place a resilient heat network sector. This will ensure that consumers and authorised persons can have confidence in the heat network sector as it continues to grow.

Expectation of authorisation entities

- 7.16 Under the AoRIC, all authorised suppliers and operators are required to secure such resource so that they are able to meet their reasonably anticipated financial liabilities as they fall due on an ongoing basis.

- 7.17 It is the responsibility of an authorised person to determine what resource they may need to be able to meet their reasonably anticipated financial liabilities as they fall due, including in times of severe but plausible financial stresses and in light of its specific business strategy and risks.
- 7.18 Each authorised entity should consider what risks could impact its resource needs considering plausible stress. It is the responsibility of the authorised person to clearly identify all relevant risks to its operation. We expect the relevant risks that apply to vary between the different business models operating in the sector.
- 7.19 We will collect on an annual basis, a range of financial monitoring data to identify any significant financial risk to the authorised parties.
- 7.20 If Ofgem identifies concerns, and seeks further engagement, we may request other information from the authorised entity, including details of the authorised person's own assessment of their financial resource levels.

Reporting requirements

- 7.21 As set out in the AoRIC, the condition includes requirements on the relevant authorised entities in scope to report to Ofgem how they are meeting requirements for ongoing financial resilience. This includes, but is not limited to, the financial monitoring requirements stipulated below. Authorised entities are required to notify Ofgem immediately, if they do not have a reasonable expectation that they continue to be compliant with this condition, and are at risk of insolvency.
- 7.22 The organisations that are not in scope of the authorisation conditions, are not required to meet the below reporting requirements. We would still require authorised persons to engage with us about changes to their authorised networks or activities, or transfer to a successor.
- 7.23 Ofgem will collect financial monitoring data at registration and on a going basis thereafter as part of the regular monitoring framework. This will involve annual data submissions to Ofgem.
- 7.24 We are aware of the impact on the sector of coming into compliance with the relevant rules. We will ask for additional information only if it is necessary and proportionate.

- 7.25 To ensure that the information we are asking for is as relevant as possible and can adapt to changing market conditions, additional information requests may be required should we consider it necessary.
- 7.26 We will also be asking for data to be reported in line with the financial year of authorised entities. As part of our reporting data will include information found in audited accounts. To ensure this data is available we intend to align the reporting deadline for financial data with an authorised party's financial year end.
- 7.27 Authorised entities must respond in full to any information requests made under the Provision of Information and Reasoned Comments authorisation condition or using other information gathering powers, in the timeframe and form set out in the request or any related guidance. If they are unable to respond to a specific question, they should provide a clear explanation why.

Financial Monitoring data

- 7.28 Relevant authorised parties will be required to report the following data below. Financial monitoring data will be reported as a 'yes'/'no' or a numerical figure in £ on an annual basis in line with their financial year.
- 7.29 Where we reference the authorised entity in the below list, this means the organisation, company or individual that is authorised. This information is not asked per heat network and is not asking for financial data of the heat network. Instead, the authorised party should provide the information at the organisational level.
- 7.30 For the full breakdown of how to submit the financial monitoring data please refer to the data points chapter of the Monitoring guidance.
- 7.31 Under part 62 of the [Heat Network Market Framework Instrument 2025](#) providing false information is an offence and may constitute a breach of authorisation.

Financial data point descriptions

Does the authorised entity reasonably expect to have sufficient finance and resources available to carry on its regulated heat network activity for the next 12 months?

In order to provide an indication of the organisation's confidence in its financial health, we are seeking a response from the authorised entity on their financial and resource position. Once the organisation has completed its financial year and has time to assure the data in its accounts or after assessing its financial position, this response should provide assurance that it expects to have sufficient resource to continue carrying out regulated activity.

What was the authorised entity's net profit or loss for the most recent financial year?

This figure is the profit or loss after tax, with loss being provided as negative figure, for the financial year. We would expect this figure to be the same as what is submitted to other relevant regulatory bodies as part of the organisation's accounts.

What was the authorised entity's total income for the previous financial year?

This figure is the profit or loss after tax, with loss being provided as negative figure, for the financial year. We would expect this figure to be the same as what is submitted to other relevant regulatory bodies as part of the organisation's accounts.

What was the authorised entity's total income for the previous financial year?

The earnings the organisation received, or receivable as reported the previous financial year.

What were the authorised entity's total running costs for the previous financial year?

The ongoing expenses/costs incurred by the organisation as reported from the previous financial year.

What is the total value of liquid assets that authorised entity controls or has unrestricted access to?

Liquid assets are financial assets that an authorised entity has available to quickly meet its obligations. This includes cash, reserves or money received as part of a government backed loan scheme. In this instance 'Control' and 'unrestricted access' means the organisation can access these assets without external input from their parent company

or other organisations. The figure would be reported as it was on the final day of the financial year. If the organisation has no access to liquid assets, it should be reported as a zero return.

Did authorised entity's assets exceed its liabilities at the end of the most recent financial year?

Taking the value of the assets, liquid assets and fixed assets that the authorised entity owns and controls. This would be compared to the total amount of liabilities, debts or obligations, that the authorised entity owes.

Does authorised entity hedge their gas, electricity, biomass or other fuel input requirements? How many months ahead does authorised entity hedge their gas or electricity requirements? What percentage volume of authorised entity's costs are hedged?

A hedging strategy is where an organisation purchases electricity, gas or fuel for delivery on a future date to protect itself from short-term price fluctuations on the cost of wholesale gas or electricity. The number of months would be the number of months' worth of fuel purchased ahead at the time of providing that data. The fuel costs that have been hedged should then be calculated as a percentage of the entity's total costs for the financial year. Having a hedging strategy is not a requirement for authorised parties but is considered good practice for financial resilience.

How the financial monitoring sources are used

- 7.32 We will use the financial monitoring data to understand the financial resilience of the sector and identify any significant risks across the sector. We will also use this information to consider if any further interventions are required as the sector develops and grows.
- 7.33 At an individual authorised entity level, if significant risks are identified, we may issue bespoke data requests, or commission an audit to understand the situation better and the party's compliance with the AoRIC or other relevant conditions. As set out above, it is the responsibility of the authorised entity to determine how to meet their financial liabilities and to identify and manage risk, in light of its specific business strategy and risks.

- 7.34 An organisation's financial circumstances may change over time. To adhere to the AoRIC, we expect all authorised persons to be open and transparent with us on an ongoing basis. We therefore expect to be notified where authorised persons identify current or potential future financial difficulties that are not included in the list of financial questions or in the event of sudden change to the financial position.
- 7.35 As stated in the AoRIC authorisation condition the appropriate senior representatives of the authorised entity must notify us if they do not have a reasonable expectation that they will have the resources, internal capability or systems and processes to continue carrying out the regulated activity. This notification should be made through the digital service if available, or in writing to Ofgem if it is not for any reason.
- 7.36 Our enforcement guidelines will set out the approach we take to enforcing all authorisation conditions against authorised entities, including the Availability of Resource and Internal Capability authorisation condition.

Appendix 3 – Draft guidance on Material Assets authorisation condition

Scope

- 7.37 This guidance applies to authorised persons in their compliance with authorisation condition – Material assets. Where a local authority or registered provider operate or supply a heat network, they will not be in scope of this condition.
- 7.38 This guidance should be read alongside the 'Material assets' authorisation condition.

Requirements

- 7.39 The objective of the 'Material Assets' authorisation condition is to ensure that an authorised entity is able to effectively serve each of its customers and effectively track its assets. This would help mitigate risks in the event of assets being transferred to a successor entity taking over regulated activity.
- 7.40 The requirement to maintain robust capability, systems and processes means that a regulated entity must either own or have Sufficient Control over all the operations used or needed to run their heat network. Sufficient Control means that a regulated entity has legally enforceable rights or direct ownership over the material assets it requires to operate its business, so that it can rely on those assets legally and enjoy the benefit of them. Authorised persons cannot efficiently and effectively serve their customers or identify and mitigate risks to those customers where they have insufficient control over their operational capacity.
- 7.41 To achieve this, the 'Material Assets' authorisation condition requires that an authorised person must have Sufficient Control over all of its assets necessary for undertaking regulatory activity. 'Material Assets' means all assets, contracts or arrangements used or needed by the authorised person to deliver the Specified Activity and meet its authorisation conditions (including, but not limited to, all plant, equipment, material spares, infrastructure, premises, IP arrangements and supply contracts).
- 7.42 We expect information on the assets to be included as part of continuity plans. The material assets register can be contained within the same document as the

continuity plan or may be a separate document that the continuity plan would provide signposting to.

- 7.43 Where maintenance information is contained within a Disaster Recovery Plan (DCP), we would expect the Material Asset register to signpost to the relevant document. If the Authority requires a continuity plan to be provided to assess compliance with the authorisation condition, then we could also expect that any documents signposted within the document including the Material Asset register are also provided.

Appendix 4 – Draft guidance on continuity arrangements authorisation condition

Scope

- 7.44 This guidance applies to authorised persons in their compliance with authorisation condition – Continuity arrangements. Where a local authority or registered provider operate a heat network but have a separate supplier, they will be in scope of section 3 of this condition, requiring them to make alternative arrangements if the separate supplier fails.
- 7.45 This guidance should be read alongside the 'Continuity arrangements' authorisation condition, as well as other authorisation conditions that fall under the required content of the continuity plan.
- 7.46 The requirements outlined in the guidance document are considered as a minimum standard. Authorised persons may go beyond the minimum standard set out in this guidance. The guidance provides an indication of how we expect continuity plans to be structured. However, given the diversity of the sector we expect the scale of each continuity plan to reflect the regulated activity the authorised person is undertaking.

What is a continuity plan?

- 7.47 A continuity plan ensures authorised entities have arrangements, supported by documentation, to transfer critical data and assets to a successor if they are no longer able to continue carrying out the role of supplier or operator of a heat network. This may be in the event insolvency but would also support transfers as a result of a commercial transaction, which we expect to be the outcome where a party needs to exit the authorised activity. The continuity plan does not tackle quality of service issues such as temporary interruptions to the supply of heating or cooling to customers.

Continuity plan intention

- 7.48 The continuity plan outlines key information on an organisation and its relevant heat networks. In each key area of the plan we expect the detail to vary between organisations to reflect the characteristics of the heat networks that

they are responsible for. The plans should be developed at the organisational level, with details relevant to individual networks included where necessary.

- 7.49 A key part of the requirements of the continuity plan is to signpost to relevant documents and detail the methodology and process for gathering the information. We want to avoid organisations duplicating the information if it is already provided in another document. This may include information which organisations already detail within existing Business Continuity Plans and Disaster Recovery Plans.
- 7.50 We note that an authorised person will be undertaking regulated activity as a supplier, operator or both roles. If a single entity is undertaking both the role of supplier and operator, we recommend that all information is provided in a single continuity plan.
- 7.51 If an entity is only undertaking the role of supplier or operator they would only need to produce a Supplier Continuity Plan or Operator Continuity Plan which contains the relevant information.
- 7.52 The continuity plan may require to be provided to the Authority as part of a bespoke request for information, should we consider this appropriate. We expect that plans will be digital.

Continuity plan minimum requirements

- 7.53 Below we have outlined the minimum requirements for each key area in the continuity plan. We will highlight whether the section would be required in a supplier's continuity plan or an operator's continuity plan where these activities are undertaken by different organisations.

- 7.54 Table 1: Continuity plan key requirements

Continuity plan key area	Supplier requirement	Operator requirement
Details of key staff	Yes	Yes
Details of arrangements with third party service providers	Yes	Yes
Details of the platform used to store data relevant to the Continuity Plan	Yes	Yes

Details of how data sets are kept up to date	Yes	Yes
Details of methodologies for handing over information and customer data	Yes	Yes
Details of key contractual assets	Yes	Yes
Billing service information	Yes	No
Priority Service Register (PSR)	Yes	No
Customer numbers	Yes	No
Customer payment information	Yes	No
The methodology used to gather customer heat supply debt information including number of customers in debt and the value of debt	Yes	No
The methodology to gather customer account balances	Yes	No
Details of the key physical assets	No	Yes

Required by the supplier and operator

Key contacts

- 7.55 **Details of key staff.** These are persons with significant control or Significant Managerial Responsibility or Influence (SMRI). This could include Directors, Heads of Teams, Senior Officers or other internal people who make decisions that could materially impact the organisation. Details would, at the minimum cover names, roles and contact information such as an email address.
- 7.56 **Details of arrangements with third party service providers.** This would detail the contact details of persons at service providers the authorised entity enlists. Information would at the minimum cover the key contacts name, their role and the method to contact them. The document should also detail what the

service that the key contact's organisation provides and are enlisted for. This could include metering, billing, maintenance etc.

Continuity plan data, storage and transfer:

- 7.57 **Details of the platform used to store data relevant to the continuity plan.** This could be a SharePoint location for instance.
- 7.58 **Details of how data sets are kept up to date.** A summary describing how often the organisation reviews the relevant data sets included within the continuity plan.
- 7.59 **Details of methodologies for handing over information and customer data.** A description of how the data which has gathered would be shared with the successor entity. Detail should include the platform information would be provided on such as a secure SharePoint document.

Details of key contractual assets:

- 7.60 **Details of key contractual assets.** This would be a list of the key contractual assets which the authorised entity owns, examples provided below for each authorised activity.
- 7.61 **Supplier continuity plan:** The details of any key contracts the supplier maintains with customers on the heat network or external suppliers or contractors that help undertake the regulated activity. This could include contracts that involve selling heating and cooling to a separate heat network.
- 7.62 **Operator continuity plan:** The details of any key contracts the operator maintains with customers on the heat network or external suppliers or contractors that help undertake the regulated activity.

Required by the supplier

Supplier information

- 7.63 **Billing service information.** A summarised description of the authorised persons billing practice. This should also include how they would make available a summary of balance information available for either Ofgem or the successor.

- 7.64 **Priority Service Register (PSR).** Signposting to the PSR document which should include a breakdown of vulnerable customers.
- 7.65 **Customer numbers.** A breakdown of the total number of customers the supplier maintains, including both domestic and non-domestic customers.
- 7.66 **Customer payment information.** This would be a basic breakdown of the number of domestic customers on each type of payment method. This would only need to cover the payment methods utilised by the supplier. It could include direct debits, pre-payment, cash or cheque etc.

Customer account information

- 7.67 **The methodology used to gather customer heat supply debt information including number of customers in debt and the value of heat supply debt.** The description should include the names of systems used to pull together the data that would be transferred to a successor.
- 7.68 **The methodology to gather customer account balances.** Detail should include the names of systems used to pull together the data that would be transferred to a successor.

Required by the operator

Details of key physical assets

- 7.69 **Details of the key physical assets:** we expect the continuity plan to signpost how to access the Material Assets Register. For information on what is expected to be included in a Material Asset Register please see the control over assets and material assets guidance.

Best practice

- 7.70 The following areas are not considered minimum requirements, but we recommend they are in place, or undertaken if it is relevant to the organisation and if it has the capacity to do so.
- 7.71 **Contractual step-in arrangements.** If an organisation has contractual step-in arrangements in place the details of these arrangements including the contact details for the provider and key elements of the contract should be outlined

within the plan. This could be included in both a supplier's continuity plan as well as an operator's continuity plan.

- 7.72 **Data security / cybersecurity.** Given the reliance on digital systems, both a supplier and operator's plan could detail data security measures governing the plan, and cyber security measure that are in place. It should also detail steps to recover data and system after a cyber incident.
- 7.73 **Version control.** Tracking within the document when significant changes have been made to the plan including the date of the update, the person making the amendment or signing it off as well as detail on what was changed.
- 7.74 **Stress testing.** If an authorised entity has the capacity to, they should test their plan in its ability to meet the authorisation condition and the requirements for each of the key areas. Do the process outlined provide enough detail for a successor to carry out. Are there any blockers that may result in a delay in sharing necessary information when running the process.

Reporting and assessment

- 7.75 We will require an annual confirmation that the continuity plan is in place and kept up to date. We may also ask to see a copy of the plan as part of an audit, or as part of compliance engagement or other request for information. Such a request may cover the continuity plan as well as any external documents that referenced or signposted within the document.
- 7.76 Under part 62 of the [Heat Network Market Framework Instrument 2025](#) providing false information is an offence and may constitute a breach of authorisation.

Continuity obligations for networks with a separate supplier

- 7.77 We intend to proceed with proposals around arrangements where heat networks have a separate operator and supplier. If the supplier fails, the operator is obligated to ensure customers receive uninterrupted supply, until enduring arrangements are put in place.
- 7.78 In practice this will mean that the operator of that heat network will be required to ensure that the supply activity is continued, either by taking on the activity themselves, or by finding a replacement entity to deliver the supply function.

- 7.79 During the first part of the Initial Period, up until January 2027, if an operator is required to secure an alternative supplier, the new party will be subject to registration, rather than the application process. We recognise that from January 2027, the authorisation regime should support operators who need to undertake these duties, and are exploring what steps would be needed to enable authorisation to be transferred to the new party, or the existing operator.
- 7.80 We are aware that in some existing heat network models there are multiple operators undertaking regulated activity. We expect operators to work together so that one of the operators takes on this role, or they identify a replacement supplier in the event of the supplier failing. We will align these requirements with the authorisation condition on multiple operators once confirmed.

Appendix 5 – Privacy notice on consultations

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

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

(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
- 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 3rd 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](#)”.