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Residential landlords – are you ready for heat network regulation?

The vast majority of the UK's heat and cooling network operators and suppliers will have a legal obligation to comply with minimum consumer protection standards that were introduced on 27th January 2026.

This won't just impact energy companies - residential property developers, owners and landlords could inadvertently find themselves classed as an "operator" or "supplier" and so now is the time to check how the regulations may apply to any premises containing a heat or cooling network.

This paper focuses on what such organisations need to do make sure that they're compliant. It is part of a suite of papers designed to help the sector navigate the regulatory changes, which is continually updated as legislation and consultation responses are published. Latest versions of the suite can be found here.

What do the regulations cover?

The overarching aim of the regulation is consumer protection, achieved through a "fair" approach to supply terms, pricing, customer service and communication. Our "**Heat Network Regulation**" summarises the key elements.

Both operators and suppliers will need to fully understand the Standards of Conduct and other minimum requirements set out in the regulatory Authorisation Conditions. This will include checking and updating contracts, creating and updating policies, and putting in place new governance and processes.

Could my organisation be an operator or supplier?

- An "operator" is the entity that controls the transfer of heat through, and has control over, the network. "Control" may include ownership of the infrastructure or the decision-making power over its operation, maintenance and upgrade.
- A "supplier" is the entity that has the obligation to supply heat to the customer via a Customer Supply Agreement or lease.

There may be more than one operator across a network. For example, if a building or development is connected to a wider network and a landlord receives a bulk heat supply which it then on-supplies to its tenants, the landlord could be the operator for its stretch of the network.

Can the regulatory responsibility be outsourced?

Yes, a third party can be the regulated operator and supplier in place of the landowner, so long as they meet the above tests.

If a landowner has appointed an energy services company (ESCO) to take the risk in the network and supply heat to customers, it is likely that the ESCO will be both the regulated operator and supplier.

If a landowner has appointed an operation and maintenance contractor on a "fee for services" basis which doesn't pass operational risk to the service provider, then the landowner will remain the regulated operator.

The regulated supplier is easier to establish, as it will be whomever owes the customer the supply obligation under a Customer Supply Agreement or lease.

What action can be taken now?

All heat networks in existence before 27 January 2027 will automatically be authorised without having to go through the application process. However, if your organisation is an operator or supplier, there are some proactive steps that should be taken as soon as possible.

1. Register with the Energy Ombudsman – the Heat Network Redress Scheme is already in place and provides a complaints process for current domestic and microbusiness customers. All existing suppliers are obliged to register with the Energy Ombudsman, which can be done here.

2. Risk register – get the attention of your organisation's board of directors by requesting that regulatory compliance, consequences of failures and internal resourcing requirements/costs are included on the company's risk register.

Action to be taken if operator and supplier roles have been passed to an ESCO:

1. **Due diligence** - the Freeths team can support in establishing:

- whether the ESCO has responsibility for the entire network or whether this is split with your organisation and/or third parties
- which contracts are in place with your organisation and the ESCO (usually a Concession Agreement or a Connection Agreement) and with your tenants (Customer Supply Agreements) and whether:
    - they need to be updating in order to comply
    - updates trigger a change in law or variation machanism
    - potential cost apportionment of following such processes

2. **Take a proactive approach** in order to get ahead of the game and engage in discussions with the ESCO early, as it will be a busy time for them!

3. **Future proof** any contracts that are currently being procured negotiated. The Freeths team can help by reviewing tender documents and contract drafts to flag any areas of non-compliance and how they may impact the risk profile of the project.

Action to be taken if the operator supplier and regulatory roles have not been passed:

1. **Assign a nominated person** - the Authorisation Conditions require suppliers and operators to appoint a person with "significant managerial responsibility and influence" who will make decisions about the management of the regulated activities. Robust processes, systems and governance must be put in place to ensure that such individual is fit and proper to carry out the role.

2. **Service contracts** – where a service provider (metering, billing or maintenance etc) has been appointed on a "fee for services" basis and doesn't take risk in the performance of the system or the cost of activities falling outside its scope, the landowner will remain the regulatory supplier and/or operator.

   It will therefore be imperative that the service provider's scope of services is reviewed in order to ensure it covers all of the landowner's regulatory requirements. This will likely trigger contractual variation processes, which may result in increased service fees. The Freeths team can support the contract review and renegotiation.

3. **Supply terms** – for each site, establish whether Customer Supply Agreements or leases constitute the supply terms with customers. The Freeths team can support in reviewing these to work out whether they meet the Authorisation Condition requirements.

   Suppliers of existing schemes will have a transition period to update existing supply terms but will have to act in accordance with the Authorisation Conditions in the meantime.

4. **Unbundling of heat charges** – where the cost of heat and related services are charged via a lease or tenancy agreement, for now, they can continue to be included as part of service charge or rent without being separately identified, where the network falls within the scope of the Landlord and Tenant Act 1985. The Freeths team can support this analysis. Domestic heat suppliers for all other types of network will need to "unbundle" heat costs from other charges.

5. **Billing information** – if heat charges are billed separately from other costs, the Authorisation Conditions require mandatory billing information to be given to customers. Current billing systems need to be reviewed for compliance and updated where necessary.

6. **Complaints** - each supplier and operator will have to have a Complaints Handling Procedure in place and communicated to customers, which may mean that one needs to be created. The Authorisation Conditions outline what the procedure should contain. In addition, each supplier and operator must have sufficient and suitably qualified staff to manage complaints promptly and fairly.

7. **Availability of resources** - each operator and supplier (except for local authorities, industrial networks and self-suppliers) will have to ensure that it has sufficient resources, including financial resources, to ensure that it can meet its regulatory obligations and anticipated liabilities as they fall due.

8. **Identify customers in a vulnerable situation** - each supplier will need to maintain a Priority Services Register and take steps to identify which customers are vulnerable. Suppliers will have to offer appropriate priority services to all such customers free of charge. Specific standards will apply and are sprinkled throughout the Authorisation Conditions, such as limitations around disconnection of supplies.

9. **Start collating data** - from 27 January 2026, Ofgem intends to enforce quarterly data reporting on customer protection and annual reporting on financial health. A data collection and storage procedure should be set up and landowners should review the data that will be shared for any potential data protection issues.

Understand the cost of compliance

Preparing for regulation and carrying out the administrative activities in order to comply may well involve additional cost. As an organisation, decisions need to be made as to how that cost is covered and whether it can be passed to heat customers.

Existing contracts for operation, maintenance, metering or billing services, may contain change in law provisions which require one party to take the cost of regulatory compliance. The Freeths team can help review the change in law provisions in services contracts to ascertain how costs should be apportioned.

If your preference is for costs to be passed to customers, we can support your review of cost recovery provisions in tenant leases or Customer Supply Agreements.

Registration

Ofgem is due to launch the registration portal in the spring of 2026. All existing suppliers and operators will have to register before 26 January 2027. The registration obligations mainly fall to the operator of the network and a single operator will have to be nominated, where there is more than one across the network.

Consequences of not complying

Ofgem's enforcement guidelines and penalty policy will apply from 27 January 2026 and will include the ability to issue consumer redress orders where the Authorisation Conditions have been breached. Ofgem may also impose a financial penalty as a deterrent, the maximum being the greater of £1 million or 10% of the authorised supplier or operator's turnover, depending on the severity of the breach. Where circumstances amount to criminal liability, Ofgem will have the power to investigate and prosecute.

Despite the variety of enforcement tools available, Ofgem have gone to lengths to reassure the market that its first priority will be working collaboratively in supporting operators and suppliers to achieve compliance. Enforcement action would only be a last resort reserved for instances of significant customer detriment.

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Our specialist heat networks lawyers have extensive experience of advising on over 50 projects and our clients include property developers, landlords, ESCOs, local authorities and registered providers.

Please reach out to the heat networks team below if you have any queries. Further commentary on the heat network regulations can be found here.

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