

# Guidance

## Heat networks regulation: financial resilience

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This document sets out guidance for heat network operators and suppliers on their obligations as laid out in the three authorisation conditions related to financial resilience: ‘Availability of Resources and Financial Responsibility Principle’, ‘Operational Arrangements and Material Assets’ and ‘Continuity Arrangements’. It also explains the scope of these obligations for heat networks in different parts of the sector, provides suggestions on best practice and provides guidance related to the planned introduction of a special administration regime (SAR).

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## Contents

<b>1. Introduction.....</b>	<b>4</b>
Consultations that have informed the guidance .....	5
Authorisation conditions .....	5
Further guidance.....	6
<b>2. Scope .....</b>	<b>7</b>
Applicability of financial resilience authorisation conditions .....	7
Registered providers of social housing (RPs) and local authorities .....	7
<b>3. Availability of Resources and Financial Responsibility Principle.....</b>	<b>9</b>
Scope .....	9
What is the authorisation condition? .....	9
Expectation of authorised entities .....	9
Reporting requirements.....	10
Financial Monitoring data .....	11
<b>4. Operational Arrangements and Material Assets .....</b>	<b>14</b>
Scope .....	14
Requirements.....	14
Arrangements to support a transfer of the regulated activity .....	15
Restrictions on Security including disposals .....	16
Material Asset register.....	17
Purpose of the Material Asset register .....	17
Content of Material Asset register .....	18
<b>5. Continuity Arrangements.....</b>	<b>20</b>
Scope .....	20
What is a continuity plan?.....	20
Continuity plan minimum requirements .....	21
Reporting and assessment .....	25
Continuity on transfer or revocation or ceasing to trade. ....	26
Continuity obligations for networks with a separate supplier.....	26
<b>6. Best practice in mitigating the risk of financial failure. ....</b>	<b>28</b>
Contractual step-in.....	28
<b>7. Special Administration Regime (SAR) .....</b>	<b>30</b>
Introduction .....	30
Legal framework and approach .....	30
When a Special Administration regime may be used .....	31
Restrictions on entering insolvency .....	31
Funding a Special Administration and recovery of costs.....	31
<b>Appendix 1 – Financial resilience hierarchy .....</b>	<b>33</b>
<b>Send us your feedback .....</b>	<b>34</b>

## 1. Introduction

- 1.1. Heat networks are delivering an essential service that customers rely on. We are introducing financial resilience obligations which aim to ensure that heat networks are managing their finances and assets responsibly both to mitigate the risk of financial failure occurring and to ensure that customers can be confident that they will remain on supply even if their heat network faces financial failure. This financial resilience guidance, together with the wider heat networks regulatory proposals seeks to balance good consumer outcomes with market growth through investment.
- 1.2. There are existing protections and commercial incentives in place which have protected customers from loss of supply in cases of financial distress to date.
- 1.3. The new obligations require that networks have certain arrangements in place to support an orderly transition to a new provider if they fail, and to ensure that they treat customers fairly during any transition.
- 1.4. The introduction of regulation will allow us to gather sector wide data, including financial monitoring, which will enable us to better understand the risk of failure as the sector develops. We will use this information to consider whether further interventions are justified and required.
- 1.5. In extreme cases, if there is a risk to consumers' supply due to financial failure, the government is putting in place a Special Administration Regime (SAR) which would protect customers until the company can be rescued or the heat network transferred to another provider.
- 1.6. This document provides guidance for heat networks to support the implementation of these new obligations, and should be read alongside the authorisation conditions themselves.
- 1.7. Our primary focus, at the point of regulatory commencement, will be to provide guidance aimed at supporting the sector into compliance with the new regulations. We will take a principle-based, outcomes focused approach when considering any intervention or engagement. We will consider whether it is appropriate to intervene, and our Heat Network enforcement guidelines will be applied only where other interventions have not been successful or where necessary due to the nature of the non-compliance and the impact on consumers.

## Consultations that have informed the guidance

- 1.8. These consultations have informed the development of this guidance.
- 1.9. [Heat networks regulation: implementing consumer protections](#) (referred to as ‘the 2024 joint consultation’) jointly 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 government response was published on 8 August 2025.
- 1.10. [Heat networks regulation: authorisation conditions and guidance on measures to mitigate the risk and impact of financial failure](#) which was open from 8 August 2025 to 19 September 2025, the response to which was published on 3 November 2025. This consultation outlined measures to ensure authorised persons make arrangements to ensure that customers are protected in the event of heat network financial stress. We also received responses to the consultation on the consolidated set of authorisation conditions ([Heat networks regulation: authorisation conditions](#)) which included areas where stakeholders requested further guidance which we have sought to address in this edition of guidance.

## Authorisation conditions

- 1.11. We are introducing the following three authorisation conditions:
- 1.12. **Availability of Resources and Financial Responsibility Principle** - This condition sets out the requirement on the authorised person to act in a responsible manner to secure a number of objectives, including that it maintains at all times sufficient resources to deliver its regulated activities and related obligations, and an obligation to notify Ofgem where such resources might not be available.
- 1.13. **Operational Arrangements and Material Assets** - This condition contains an obligation on each authorised person to act in a responsible manner to secure that its operational arrangements safeguard the continuity of each regulated activity in an effective and efficient manner that minimises the risk of consumer detriment. This is described as the ‘continuity objective’. This is followed by a series of principle-based obligations on authorised persons in relation to having legally enforceable interests or rights over Material Assets, ensuring that such interests or rights are capable of transfer, and restricting the creation of security and disposals in certain circumstances. The principle-based approach recognises the range of different models that exist in the sector. The overall intent

is to ensure that the Material Assets are available to the person who is authorised to carry on the relevant activity for the benefit of the consumers.

**1.14. Continuity Arrangements** - This condition imposes an obligation to have in place a Continuity Plan setting out the authorised person's strategy for safeguarding the continuity of each of its regulated activities in the event that it ceases to carry on any such activity. It also includes an obligation to take all reasonable steps to ensure continuity in the event of an authorisation revocation or transfer; and, in the case of networks with separate operators and suppliers, an obligation on the operator to ensure the supply function continues in the event of the authorised supplier ceasing to carry it on.

1.15. This guidance should be read alongside the [relevant authorisation conditions](#).

## **Further guidance**

1.16. This document contains guidance for authorised persons on their obligations under these authorisation conditions. In addition, this document provides guidance on the following:

1.17. **Scope** – The extent to which each of the financial resilience authorisation conditions apply to operators and suppliers of different types of heat network, in different parts of the sector.

1.18. **Best practice in mitigating the risk of financial failure** – Whilst we have not introduced obligations on heat network operators or suppliers to put in place specific commercial arrangements to mitigate the risk or impact of financial failure, we expect existing best practice in the sector to be followed and developed as far as possible. We will continue to work with operators and suppliers to share best practice and to encourage them to consider how they may best mitigate against failure. This section outlines some existing arrangements which we know are currently employed by heat network operators and suppliers to provide this mitigation.

1.19. **Special Administration Regime (SAR)** - DESNZ are bringing forward legislation to introduce a SAR as a regulatory backstop to ensure continued operation of a heat network following the financial failure of an operator where a commercial solution is not found. This section provides high-level detail on this, including the circumstances in which it may be used, and how any required funding would be arranged.

## 2. Scope

### **Applicability of financial resilience authorisation conditions**

- 2.1. All heat network operators and suppliers across Great Britain must comply with the financial resilience authorisation conditions, except in the circumstances outlined in this section.
- 2.2. Organisations undertaking regulated heat network activity should review the operator and supplier definitions and registration guidance on [Ofgem's heat networks publications page](#) in conjunction with this guidance, to identify and understand how the financial resilience authorisation conditions will apply to them.

### **Registered providers of social housing (RPs) and local authorities**

- 2.3. 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 person is also in scope of the housing regulatory regime. We concluded that 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 if this was necessary, 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.
- 2.4. There are also existing arrangements to manage financial distress and prevent insolvency in local authorities. In these circumstances, where local authorities face financial stress, there remains a requirement to provide statutory services.
- 2.5. Heat networks which are operated by RPs or local authorities are therefore not required to comply with the majority of the financial resilience authorisation conditions. We consider that the existing financial obligations and regulatory provisions are sufficient to ensure the financial viability of social housing providers, which mitigates against the financial failure of heat networks where they are covered by the housing regulatory regime, or the statutory arrangements covering local authorities.
- 2.6. Where these networks have a separate supplier which is not an RP or a local authority, if the supplier fails, the operator of that network is required to ensure continued supply, either by assuming the role of supplier, or ensuring that another supplier takes on the authorised activity.
- 2.7. Where organisations are established by social housing providers to provide heat network services as distinct entities from their parent organisation, these remain

in the scope of our financial resilience provisions. Energy Supply Companies (ESCOs) or Special Purpose Vehicles (SPVs) established by social housing providers to carry out a regulated heat network activity therefore must comply with the financial resilience provisions.

- 2.8. **It should be noted that RPs and local authorities who either supply or operate heat networks in Great Britain are required to comply with other relevant heat network authorisation conditions, including consumer protection measures.**

## **Other residential heat networks**

- 2.9. We consider that existing protections are not as comprehensive in other residential heat networks. 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.
- 2.10. Other privately operated heat networks serving residential customers must therefore comply with the provisions of the authorisation conditions on financial resilience.

## **Non domestic, self-supply and industrial heat networks**

- 2.11. Heat networks that meet the definition of a Self-Supply Network are not required to comply with the financial resilience authorisation conditions (the definition can be found in the Definitions AC). In Self-Supply networks, because the operator is also the customer, it will be for them to manage the risks to continuity of supply.
- 2.12. Heat networks that supply purely industrial customers are not required to comply with the financial resilience authorisation conditions. In Industrial Networks (definition included in Definitions AC) we expect that any insolvency of a heat network would be covered by contractual arrangements and expect that these risks will be managed in this context.



### 3. Availability of Resources and Financial Responsibility Principle

#### Scope

- 3.1. This guidance applies to authorised persons in their compliance with authorisation condition ‘A13 Availability of Resources and Financial Responsibility Principle (AoRFRP)’.

#### What is the authorisation condition?

- 3.2. The AoRFRP 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 appropriate resources (whether internal or financial), and are able to withstand severe but plausible financial stress.
- 3.3. 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.
- 3.4. Our overarching objective is to protect current and future consumers by supporting 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 authorised entities

- 3.5. Under the AoRFRP, all authorised suppliers and operators are required to act in a responsible manner that is calculated to secure necessary resources and that they are able to meet their reasonably anticipated financial liabilities as they fall due.
- 3.6. It is the responsibility of an authorised person to determine what resource they may need to be able to meet these reasonably anticipated financial liabilities, including in times of severe but plausible financial stresses.
- 3.7. Each authorised person should also consider what risks could impact its needs for financial resource and clearly identify these risks and how to mitigate them. We expect the relevant risks that apply to vary between the different business models operating in the sector, and according to their specific business strategy. Risks will also vary depending on whether the authorised person is a supplier or an operator, or both.

## **Guidance** Heat networks regulation: financial resilience

- 3.8. We will collect a range of financial monitoring data on an annual basis, including confirmation from authorised persons that they have resources in place to continue for the next 12 months.
- 3.9. If this reporting highlights risks, we may seek further engagement, and request other information, including details of the authorised person's own assessment of their financial resource levels.
- 3.10. Authorised persons are required to notify Ofgem immediately if they do not have a reasonable expectation that they can continue to be compliant with this condition and are at risk of insolvency. In this event, authorised persons must not make any payment or loan or transfer (or otherwise dispose of) any assets if that would create a significant risk of them not being able to carry on running the heat network and/or meeting their legal and regulatory obligations.
- 3.11. It is important that authorised persons notify Ofgem in this circumstance so that we can understand the steps that they intend to take to protect customers, including where they are seeking to transfer the regulated activity to another party, through commercial arrangements, contractual provisions, or through statutory provisions within housing arrangements. If there is a risk that the authorised person will enter an insolvency process, we will also want to understand how supply will be continued, and how risks of consumer detriment will be mitigated. This would also allow us to engage with government if it may be necessary to consider an application for a Special Administration Order.
- 3.12. Where a supplier collects funds from customers for maintenance, repair or replacement of the heat network, this must remain available for the purpose for which it has been collected. Where a heat network is sold or transferred, we expect that any such amounts should remain available to a successor, though we have not been prescriptive about how this should happen.

## **Reporting requirements**

- 3.13. We will collect financial monitoring data at registration, and on an ongoing basis thereafter as part of the regular data reporting framework. This will involve annual data submissions to Ofgem.
- 3.14. 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.
- 3.15. As the financial year start and end dates may vary between organisations, the point in time that financial data is prepared will also vary. To ensure that the latest data can be submitted, instead of providing financial resilience data at a fixed point in time, suppliers and operators will provide data in the next quarter following the end of their financial year.

## **Guidance** Heat networks regulation: financial resilience

- 3.16. For example, if your financial year ends between 1 January and 31 March, quarter 4, you would be required to submit financial resilience data by 31 July.
- 3.17. Organisations that are not in scope of the authorisation conditions, are not required to meet the financial resilience reporting requirements. We still require authorised persons to engage with us about changes to their authorised networks or activities, or transfer to a successor.
- 3.18. Authorised persons must respond in full to any information requests made under the 'Provision of Information to the Authority' authorisation condition or under other information gathering powers, in the timeframe and form set out in the request or any related guidance.

## **Financial Monitoring data**

- 3.19. Authorised persons will be required to report the data points set out in the 'Financial data point descriptions' below. Financial monitoring data will be reported on an annual basis in line with their financial year.
- 3.20. Where we refer to the authorised person 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.
- 3.21. For the full breakdown of how to submit the financial monitoring data please refer to the data points chapter of the regular data reporting guidance.
- 3.22. Under regulation 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 person 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 their financial health, we are seeking a response from the authorised person on their financial and resource position. Once the organisation has completed its financial year and has had 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 on the relevant regulated activity. If an organisation does not believe they have sufficient resource to continue at any point throughout the year they should

contact Ofgem in line with the 'Availability of Resource and Financial Responsibility Principle' authorisation condition.

**What was the authorised person'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 that submitted to other relevant regulatory bodies as part of the organisation's accounts, not the individual heat network.

**What was the authorised person'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 person'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 person controls or has unrestricted access to?**

Liquid assets are financial assets that an authorised person 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 stood 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 the authorised person's assets exceed its liabilities at the end of the most recent financial year?**

This is the difference between the value of the assets, liquid assets and fixed assets that the authorised person owns and controls and total amount of liabilities, debts or obligations, that the authorised entity owes.

**Does authorised person hedge their gas, electricity, biomass or other fuel input requirements? If yes please provide a description of the strategy including, how many months ahead you hedge gas or electricity requirements, and what percentage volume of 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 or other input fuel. A hedging strategy is not mandatory but is an important part of risk management.

If you have a hedging strategy, a description of how the entity hedges and the number of months' worth of fuel purchased ahead at the time of providing that data should be provided. Where hedging is done through a business energy contract, this should be explained in the response. The fair pricing guidance also covers hedging and our expectations around managing risks more broadly than financial resilience.

### **How the financial monitoring sources are used**

- 3.23. 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.
- 3.24. At an individual authorised person 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 AoRFRP or other relevant conditions. 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.
- 3.25. An organisation's financial circumstances may change over time. To adhere to the AoRFRP, we expect all authorised persons to be open and transparent with Ofgem 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.
- 3.26. As stated in the AoRFRP authorisation condition the authorised person must notify us if its directors (or appropriate senior representatives) do not (or should not) have a reasonable expectation that they will have the resources to continue carrying out the regulated activity or will not be able to meet reasonably anticipated liabilities as they fall due. This notification should be made through the digital service if available, or in writing to Ofgem.

## 4. Operational Arrangements and Material Assets

### Scope

- 4.1. This guidance applies to authorised persons in their compliance with the authorisation condition – ‘A12 Operational Arrangements and Material Assets’.

### Requirements

- 4.2. At the core of this AC is a continuity objective, which articulates the aim of this requirement. Authorised persons’ operational arrangements, including in relation to their Material Assets, should safeguard the continuity of the regulated activities, including if they stop carrying on the activity, due to transfer, revocation, or insolvency. This would allow a successor, including an administrator, to continue the authorised activity, if required. The authorised party should act in a responsible manner to minimise the risk of disruption or detriment to consumers if a successor is taking over the authorised activity.
- 4.3. To support this core objective, the authorisation condition contains three principle-based requirements and one more prescriptive requirement in relation to the creation and maintenance of a Material Asset register. The principle-based requirements are for authorised persons:
- 4.3.1. to own, or have legally enforceable rights, over the Material Assets they rely on to deliver the regulated activity, and meet their ongoing obligations;
  - 4.3.2. to secure that such ownership interests or rights are capable of transfer; and
  - 4.3.3. not to create security over or dispose of such interests/rights where doing so would create an undue risk of the continuity objective not being met.
- 4.4. This is a principles-based approach to recognise the diversity of the sector, while ensuring that arrangements are such that a successor authorised person could continue to operate or supply a heat network if required.
- 4.5. In a number of places, the requirements are for the authorised person to conduct themselves in a responsible manner that is calculated to secure the relevant outcome. This is to accommodate circumstances where the authorised person may not have the opportunity to negotiate additional rights, or where arrangements in statute may conflict with such a prescriptive approach. There is a clear obligation on authorised persons to conduct themselves in a responsible manner calculated to meet the continuity objective. In most situations, we see the existence of appropriate legally enforceable rights over Material Assets as a prerequisite to achieving the continuity objective and avoiding consumer detriment in the event that an authorised person fails.

## **Arrangements to support a transfer of the regulated activity**

- 4.6. The continuity objective, and the requirement for legally enforceable rights over Material Assets should support any transfer to a successor authorised party or the ability of an insolvency practitioner to run a failed company. For example, if the authorised party entered insolvency, an administrator would be able to access and rely on these assets and interests to continue to serve customers. We recognise that in some cases, it is the relevant interest in the material asset which is essential to the continuity objective, and this is reflected in the requirement. This reflects situations where, due to the nature of the authorised person and the arrangements for the relevant heat network, the “relevant interests” could be statutory or contractual rights as well as ownership interests.
- 4.7. The requirement for assets/interests to be capable of transfer should help ensure that a commercial transaction can take place in the event of an authorised person being at risk of failure. There should not be a requirement for consent, approval or agreement from a third party except where this arises from legislation, and a successor should not be unreasonably disadvantaged or subject to materially different terms. This should be considered within the wider context of continuing to meet the regulatory obligations and the risk of the continuity objective not being met. Interests and assets that are typically personal to the authorised person (such as financing arrangements) are unlikely to need to be capable of transfer in order for a successor to be able to deliver the regulatory obligations and therefore would not be caught by this requirement. This is in contrast to an asset that is necessary for operating the network, which any incoming authorised person would not readily be able to replace without incurring significant costs.
- 4.8. Similarly, where the third-party rights are governance rights held by an employer under a typical ESCO concession agreement and are intended to ensure that the authorised person carries on its functions appropriately, our expectation would be that any inability of the authorised person to transfer its rights/interests without consent from the employer would not create an undue risk of the continuity objective not being met.
- 4.9. There are a number of exceptions to this requirement, namely
- Where a third party is legally required to provide their consent, approval or agreement subject only to conditions that are reasonable in all the circumstances of the case in the context of the continuity objective;
  - Where the authorised person considers that any interest or asset not being capable of legal transfer would not risk the continuity objective being met; and
  - Where the relevant interest is of a type that is not legally capable of transfer.

## **Restrictions on Security including disposals**

- 4.10. We recognise that heat network funding arrangements will commonly include security over assets or shares (either through debt or equity) and that this structure is important for attracting investment in the sector. This AC therefore does not prohibit third parties holding security over any assets and the restrictions on the creation of security and disposals in paragraph 12.6 are not intended to introduce additional risk to investors or lenders. However, we are seeking to ensure that any security arrangements put in place do not directly or indirectly impact on continuity of supply of heat to consumers.
- 4.11. In order to comply with paragraph 12.6, we would expect an authorised person to consider carefully both (i) the circumstances in which the security is being put in place; and (ii) the terms attached to the arrangements pursuant to which the security is being put in place, to assess whether the security creates an undue risk of the continuity objective not being met. Where project finance is used, in order to mitigate risks, we would generally expect the arrangements to be set up in a way that would give funders the ability to transfer the heat network as a going concern.
- 4.12. In residential freehold settings, we recognise that step-in and suspension arrangements may not be commercially feasible, and that significant comfort in relation to continuity of supply can be taken from legislation covering the housing sector, for example from provisions that restrict the ability of a landlord to disconnect tenants from services such as heat, and from provisions that give tenants the right to manage their building in certain circumstances or that enable a Tribunal Appointed Manager to be appointed. However, we would still expect authorised persons to consider the structure of any security created carefully. For example, in a residential freehold setting, there could be a greater risk to the continuity objective if the building and the heat network are subject to separate security arrangements or vice versa, as such an arrangement could result in a landlord or Tribunal Appointed Manager not having control of the heat network assets.
- 4.13. In summary, this condition allows for a normal commercial loan, including a mortgage, to be taken by an authorised person which has a charge over the assets, but it must be set up in a way that minimises the risk of assets not being available in the event that the authorised person fails.
- 4.14. There are also restrictions on creating or disposing of relevant interests to support the overall continuity objective. For example, where an authorised person sells, or seeks to leverage the value of a relevant interest for their own benefit and this creates a risk to consumers, this would be in conflict with this requirement.
- 4.15. This obligation relates to relevant interests, rather than the asset itself. For example, where an ESCO holds a lease of a network or has a contractual right to



use the network, the obligations in paragraphs 12.3 and 12.6 of the AC attach to these rights rather than the ownership interest in the land and buildings.

- 4.16. The restriction on disposals and the creation of security interests only applies where the disposal or security would, having regard to the circumstances involved (i.e. financial distress) or the terms of the arrangements, create an undue risk of the continuity objective not being met. In addition, the AC refers to the authorised person not creating security interests or allowing them to be created. This means that security interests that already exist at regulatory commencement or that arise as a result of the operation of law such that their creation is outside the control of the authorised person would not be within the ambit of this condition. However, on a refinancing involving the creation of new security interests, the new security interests would come within the ambit of this condition and the authorised person would be expected to consider carefully whether the security interests would create an undue risk of the continuity objective not being met.

## **Material Asset register**

- 4.17. ‘Material Assets’ means such assets, contracts or arrangements used or needed by the authorised person to carry on each regulated activity that it is authorised to carry on and/or to comply in all respects with its legal and regulatory obligations, including under the authorisation conditions.
- 4.18. We expect information on the assets to be included as part of continuity plans. The Material Asset 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.
- 4.19. Where maintenance information is contained within a Disaster Recovery Plan (DRP), we would expect the Material Asset register to signpost to the relevant document. If we require 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.

## **Purpose of the Material Asset register**

- 4.20. Authorised persons are required, from the end of the first part of the initial period, to create and maintain a register of all Material Assets (as defined in the Definitions of the Authorisation Condition). The requirement for this authorisation condition to commence only after the end of the first part of the initial period is to provide authorised persons sufficient time to review and develop a Material Asset register that complies with this authorisation condition.
- 4.21. The purpose of this requirement is to ensure that the Material Assets used or needed to carry on the regulated activities are identified by the authorised person and are readily identifiable by a successor or insolvency practitioner. In the event

that any authorised person ceases to carry on any regulated activity, the Material Asset register will be a critical document to be provided to a successor authorised person to allow them to carry on the regulated activity. To meet this requirement authorised persons must include not just a register of tangible Material Assets (plant, equipment, spares etc.) but also non-tangible / contractual arrangements in place (such as supply contracts).

## **Content of Material Asset register**

4.22. We expect that experienced and competent authorised persons would require a register of up-to-date information on Material Assets to efficiently deliver a regulated activity. We therefore consider that this requirement reflects existing best practice in the sector enabling authorised persons to deliver efficient maintenance systems and providing on-going visibility of its asset base and operational arrangements.

4.23. We recognise that differences will exist in the businesses of authorised persons and that the scope, detail and content of each Material Asset register may reflect these differences. We are therefore not prescribing the format for Material Asset registers. However, this guidance provides further information to support authorised persons when developing their Material Asset registers.

4.24. We anticipate that the Material Asset register would differentiate between tangible and non-tangible Material Assets. In addition, the Material Asset register should provide, as a minimum, a summary of how the Material Asset register has been compiled and the approach of the authorised person to auditing, reviewing and updating the Material Asset register.

4.25. For tangible Material Assets, we would expect that the register would clearly set out:

- Asset name (including model or reference)
- Location/position of Asset
- Asset type/category (building, mechanical, system etc)
- Description of Asset (by attributes/capability/use)
- Condition of Asset (repairs and updates)

4.26. For non-tangible Material Assets, we would expect that the Material Asset register would clearly set out:

- Detail of agreed provisions
- Service to which contractual arrangement relates
- Counterparty to the contract (including notification details of key personnel)
- Term of contract (including any rights of extension)
- Location of contractual arrangements (e.g. link to document in any document management system etc)

## **Maintenance of Material Asset register**

- 4.27. Authorised persons are required to maintain their Material Asset register and ensure all information is up to date.
- 4.28. The obligation to maintain the Material Asset register includes the requirement to ensure that the Material Asset register is periodically reviewed and updated to reflect any changes in the Material Assets. We consider that the frequency for authorised persons to audit, review and up-date the Material Asset register will be dependent on the nature of the heat network (including its size and regularity of changes to the network) and frequency of changes to assets.
- 4.29. In addition to undertaking periodic reviews, authorised persons should ensure the Material Asset register is promptly updated where major capital work is undertaken on the heat network or any Material Asset repair or replacement is carried out that would significantly alter the information in the register.

## 5. Continuity Arrangements

### Scope

- 5.1. This guidance applies to authorised persons in their compliance with authorisation condition 'A14 – Continuity Arrangements'. Where a local authority or registered provider operate a heat network but have a separate supplier, they will be in scope of the third part of this condition, requiring them to make alternative arrangements if the separate supplier fails. They are not in scope of the other provisions. Industrial and self-supply heat networks are out of scope
- 5.2. 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.
- 5.3. We recognise that differences will exist in the organisations of authorised persons and that the scope, detail and content of each continuity plan may reflect these differences. We are therefore not prescribing the precise format for the continuity plan, however, we have set out what we expect to be the main constituent parts which can be used as a template.

### What is a continuity plan?

- 5.4. A continuity plan ensures authorised entities have a strategy, supported by documentation, to transfer critical data and assets to a successor if they are no longer able to continue the role of supplier or operator of a heat network. This may be in the event of 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. It could also be used when contractual step-in rights are being exercised, or in housing situations if a freeholder or Tribunal Appointed Manager was taking over the authorised activity.
- 5.5. The continuity plan does not seek to address quality of service issues such as temporary interruptions to the supply of heating or cooling to customers.

### Purpose of the continuity plan

- 5.6. The purpose of this requirement is to ensure that the authorised person has a pre-existing written plan in place detailing the step-by-step procedures to be taken and actions to be implemented to ensure the continuity of regulated activities in the event that an authorised person ceases to carry out such activity.
- 5.7. The continuity plan outlines key information on an organisation and its relevant heat networks. In each key area of the continuity plan we expect the detail to vary between organisations to reflect the characteristics of the heat networks that they are responsible for. Continuity plans should be developed at the

organisational level, with details relevant to individual networks included where necessary.

5.8. 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.

5.9. 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.

5.10. 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.

5.11. The continuity plan will not be routinely required to be provided to Ofgem, but we may request it as part of a bespoke request for information, should we consider this appropriate.

## Continuity plan minimum requirements

5.12. Below we have outlined the minimum requirements for each key area in the continuity plan. This sets out whether the section is required in a supplier's continuity plan or an operator's continuity plan where these activities are undertaken by different organisations.

**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

## **Guidance** Heat networks regulation: financial resilience

<b>Continuity plan key area</b>	<b>Supplier requirement</b>	<b>Operator requirement</b>
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 both the supplier and operator:**

#### **Key contacts**

- 5.13. **Details of key staff.** This will include persons with significant control or Significant Managerial Responsibility or Influence (SMRI). This should include Directors, Heads of Teams, Senior Officers or other internal people who make decisions that could materially impact the organisation. Details should, at the minimum, cover names, roles and responsibilities, and contact information such as an email address.
- 5.14. **Details of arrangements with third party service providers.** This should detail the contact details of persons at service providers the authorised entity uses. 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 used for. This includes metering, billing, maintenance etc.

#### **Continuity Plan data, storage and transfer**

- 5.15. **Details of the platform used to store data relevant to the continuity plan.** This is a description of where the continuity plan is held internally. If it is a digital copy this information would be the online digital folder, location and who has access to the document.

- 5.16. **Details of how data sets are kept up to date.** A summary describing how often the organisation reviews the relevant data sets that are included within the continuity plan.
- 5.17. **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 online digital folder.

**Details of key contractual assets**

- 5.18. **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.
- 5.19. **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.
- 5.20. **Fuel procurement:** the relevant continuity plan should include details of the approach to fuel procurement.

**Required by the supplier:**

- 5.21. **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. Where charges are bundled with rent, the necessary information that a successor would require should be included.
- 5.22. **Priority Service Register (PSR).** Signposting to the PSR document which should include a breakdown of vulnerable customers.
- 5.23. **Customer numbers.** A breakdown of the total number of customers the supplier maintains, including both domestic and non-domestic customers.
- 5.24. **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**

- 5.25. **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.
- 5.26. **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.
- 5.27. Where charges are bundled with rent, the necessary information that a successor would require should be included.

### **Required by the operator:**

#### **Details of key physical assets**

- 5.28. **Details of the key physical assets:** we expect the continuity plan to signpost how to access the Material Asset register. For information on what is expected to be included in a Material Asset register please see the Operational Arrangement and Material Assets guidance in section 4.

#### **Continuity plan best practice**

- 5.29. The following areas are not considered minimum requirements, but we recommend they are in place or undertaken if it is relevant to the authorised person and if it has the capacity to do so.
- 5.30. **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 continuity plan. This could be included in both a supplier's continuity plan as well as an operator's continuity plan.
- 5.31. **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.
- 5.32. **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.
- 5.33. **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. For examples:



## **Guidance** Heat networks regulation: financial resilience

- does the process outlined provide enough detail for a successor to carry on the authorised activity?
- are there any blockers that may result in a delay in sharing necessary information when running the process?

**Additional technical information.** Technical information of the heat network could include:

- The address of the energy centre
- Asset type and manufacturer
- In service date
- Construction type (new, retrofit, extension)
- Energy source and service provided
- Technical spec of assets, including drawings, diagrams or description of equipment/connections
- Operating and maintenance procedures
- Technical or maintenance logs
- Description of any bespoke modifications
- A link to a Disaster Recovery Plan, safety protocols

**Insurance Information.** Details of agreements with insurance providers, the names of the providers and the services they provide.

## **Reporting and assessment**

5.34. We 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 continuity 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 are referenced or signposted within the document.

5.35. Authorised persons are required, from the end of the first part of the initial period, to have in place a continuity plan. The requirement for this will commence only after the end of the first part of the initial period to provide authorised persons sufficient time to review and develop a continuity plan that complies with the authorisation condition.

5.36. Under regulation 62 of the [Heat Network Market Framework Instrument 2025](#) providing false information is an offence and may constitute a breach of authorisation.

## **Continuity on transfer or revocation or ceasing to trade.**

- 5.37. We recognise there are a number of scenarios where an authorised party may seek to stop being the authorised person and transfer the regulated activity to another party. This may be as a result of a commercial decision and following negotiations, at the end of a concession arrangement, or in cases where responsibility in residential settings is being transferred to another party.
- 5.38. This may be due to financial distress, but we expect that an authorised party would identify this and take steps to ensure a managed transition to another party. During the initial period, where deemed authorisation is in place, the new authorised person will be able to assume this role and be required to register with Ofgem.
- 5.39. After the initial period has ended and arrangements are in place for transfers of authorisation (which have not been consulted on at the time of writing) we expect that these arrangements will be followed to transfer this regulatory responsibility.
- 5.40. Where a regulated party is requesting revocation of their authorisation, we will seek evidence that they have taken steps to minimise the risk of disruption and detriment to consumers. They should also ensure that the regulated activity continues on terms that are the same or as similar as possible to the terms in place immediately before the transfer or revocation of the authorisation. We recognise there may be scenarios where the heat network is being replaced by an alternative heating system.

## **Continuity obligations for networks with a separate supplier**

- 5.41. Where heat networks have a separate operator and supplier, and the supplier fails, the operator is obligated to ensure customers receive uninterrupted supply, until enduring arrangements are put in place.
- 5.42. In practice this means that the operator of such a 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.
- 5.43. 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 when the initial period ends, 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. This will be consulted on as part of the authorisation application arrangements.
- 5.44. We are aware that in some existing heat network models there are multiple operators undertaking regulated activity. We expect operators to work together so

**Guidance** Heat networks regulation: financial resilience

that one of the operators takes on this role, or they identify a replacement supplier in the event of the supplier failing.

## 6. Best practice in mitigating the risk of financial failure.

### **Contractual step-in**

- 6.1. The authorisation conditions do not include any obligation on the authorised person to have in place contractual obligations whereby, in the event the authorised person ceases to carry out the regulated activity, a successor authorised person (for example a developer, local authority, funder, guarantor) would be contractually required to step-in to deliver the authorised activity.
- 6.2. We are aware that contractual arrangements exist in certain delivery models in the heat network sector whereby the rights of a party to step-in and deliver activities in place of a heat network operator or supplier are pre-defined within the relevant contractual arrangements. As an example, where a developer of an estate or a project lets a concession agreement with an energy service company (ESCO) the developer may seek to include rights under the concession contract to allow the developer (either itself or through a third party) to take over the activities of the ESCO in the event of ESCO failure. This contractual right is driven by the commercial incentive of the developer to ensure that buildings and consumers within the estate are not adversely impacted by any failure of an ESCO to supply heat.
- 6.3. Under a contractual step-in arrangement in the event of certain triggers (for example insolvency, performance failure) the entity stepping-in would receive notification and within a timeframe would determine whether or not to step-in and take on the rights and obligations of the authorised person. The commercial impact of these step-in arrangements will be negotiated between the relevant parties and agreements on risk allocation during any step-in process will likely be heavily project specific.
- 6.4. We understand that these commercial step-in arrangements will vary project to project. However, we consider this contractual approach to service continuity to be best practice for certain delivery models, providing an effective and proactive form of mitigation against the risk of authorised person failure in these projects.
- 6.5. Although we do not consider it appropriate to mandate such contractual arrangements across all heat networks, we are supportive of authorised persons developing suitable mitigation arrangements (like contractual step-in rights) which provide a pre-agreed process for continuity of service. We expect that, in considering mitigation measures such as contractual step-in rights, in relation to the failure of an authorised person, the authorised person should:
- be proactive in considering the mitigation measures that might be put in place
  - be clear in relation to recording the processes needed to implement any mitigation measure

**Guidance** Heat networks regulation: financial resilience

- reflect and, where appropriate, build on best practice in the sector in relation to such mitigation measures
- be mindful of their regulatory obligations to treat customers fairly and ensure any such arrangements are designed with consumer protection at the forefront.

## 7. Special Administration Regime (SAR)

### Introduction

- 7.1. A Special Administration Regime (SAR) is a government-backed backstop arrangement. It provides a framework for an insolvency practitioner (who is appointed as the administrator) to continue the supply of an essential service as a key duty alongside their obligations to creditors. In the case of heat networks, the SAR ensures that the supply of heating, cooling, or hot water is continued and resources within the existing company are utilised to achieve this, supported where necessary with government funding.
- 7.2. 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. The heat network SAR is designed to protect customers rather than just creditors or shareholders, and to ensure continued provision of heating, cooling or hot water.
- 7.3. A Special Administration provides a legal framework for the insolvency process which allows for:
- The administrator to fulfil specific objectives that replace those of a standard administration process, namely continuing a critical service or supply
  - The rescue of the heat network as a going concern and/or the transfer as a whole or parts to another provider as appropriate.
- 7.4. Where funding is required to support a Special Administration, the Secretary of State may agree to provide grants, loans, indemnities, or guarantees. If at the end of a Special Administration there is a shortfall in repaying any such financial support provided by the Secretary of State, there are powers in the Energy Act 2023 to recover any taxpayer funding from the heat networks sector, and also from the gas and electricity sector if this is considered necessary to spread the costs further.

### Legal framework and approach

- 7.5. DESNZ will introduce the necessary provisions through secondary legislation early in 2026. The SAR will 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.
- 7.6. The powers to create a heat network SAR were granted in the Energy Act 2023. The objectives of a heat network SAR will be to secure supply of heating, cooling and hot water at the lowest possible cost; to ensure the heat network continues to be maintained and developed; and to make it unnecessary for the Special Administration to remain in force.

7.7. The objectives of a heat network Special Administration may 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.

7.8. The Secretary of State will have powers to apply to the Court and seek to put in place a Special Administration. 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**

7.9. The SAR may 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.

7.10. It should be noted that the decision to apply for SAR is a matter for government and SAR will only be used in cases of insolvency where commercial solutions cannot readily be found. SAR will not be used 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 through the Heat Networks Technical Assurance Scheme.

## **Restrictions on entering insolvency**

7.11. The SAR framework will also place restrictions on all authorised parties from entering an insolvency procedure until 14 days after service of notice on the Gas and Electricity Markets Authority (GEMA) and the Secretary of State, unless both GEMA and the Secretary of State waive this constraint. This is to allow GEMA and the Secretary of State time to consider if it is necessary to apply to the Court for a SAR Order.

7.12. 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**

7.13. The Secretary of State may, subject to HM Treasury consent, decide to provide financial support to a company in Special Administration.

7.14. The Secretary of State will also have powers to direct the recovery from the wider heat networks, and gas and electricity sectors, of any shortfall in repaying financial support provided by the Secretary of State at the end of a Special Administration. Any decision to use these powers will be based on an assessment of the following:

**Guidance** Heat networks regulation: financial resilience

- 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; and
- the length of time over which these costs should be recovered

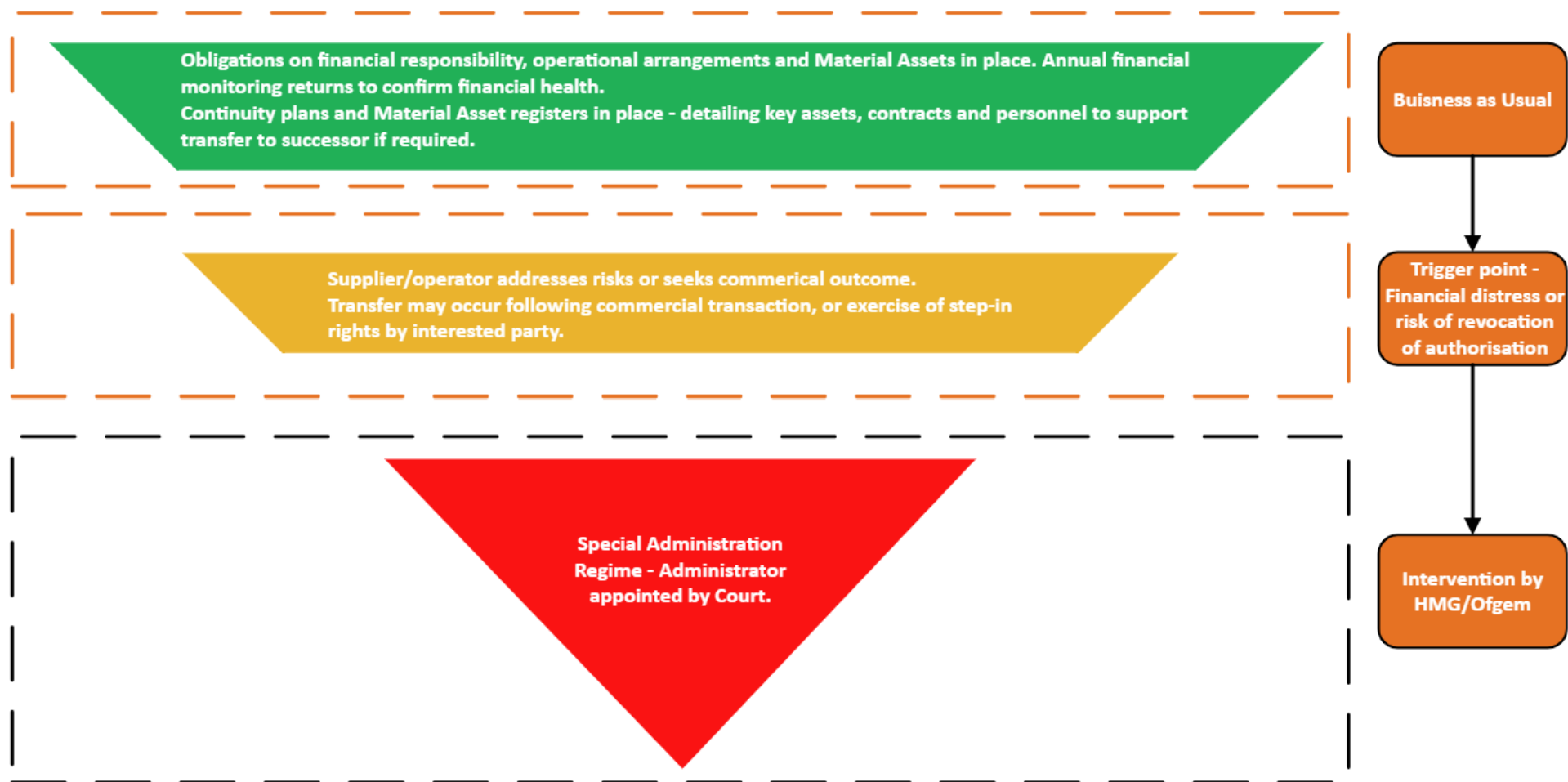
7.15. The Energy Act 2023 provides powers for these costs to be recovered via such a direction from gas and electricity network licensees, replicating similar provisions for an energy supply company SAR. We intend to replicate these provisions to recover costs from authorised heat network parties, once a cost recovery mechanism is in place to facilitate this.

7.16. There will be further consultation on the proposed arrangements for cost recovery at a future stage.



## Appendix 1 – Financial resilience hierarchy

Figure 1: Financial resilience hierarchy



## Send us your feedback

We are keen to receive your feedback about this guidance. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this guidance?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Do you have any further comments?

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