HEAT NETWORK COMPLIANCE · WHITE PAPER SERIES

Who Pays for the Pipe

Condition A7, and why cost allocation is a decision about people, not accounts

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Executive summary

Cost allocation looks like an accounting exercise: decide which costs are fixed, which are variable, put them in the right column. Every one of those decisions determines which residents pay for what. Move a cost from the unit rate into the standing charge and you have shifted it from residents with high metered consumption onto residents with low metered consumption — which, on a communal system, is not the same thing as shifting it from the residents who received the most heat onto those who received the least. Recover capital from today's residents and you have decided that they, rather than the people who connect in five years' time, will pay for the network those future residents will use. Spread a portfolio cost across networks by customer numbers rather than by energy output and you have moved money between estates.

None of these choices announces itself. All of them are cost allocation, and Condition A7 is about all of them.

A7 asks a harder question than it appears to. Ofgem's guidance sets out where costs should generally sit — and then, in the same document, requires operators to weigh those defaults against the impact on the consumers who will bear them. The two pull in opposite directions more often than not. **Following the guidance's default allocations without visibly weighing consumer impact is unlikely to be enough to demonstrate compliance with A7. It answers half the question.**

Three papers, two conditions

Conditions A6 and A7 sit next to each other and are often read as a single pricing obligation. They approach the problem differently, and they are evidenced with different documents.

A6 is principally about whether the price is fair. It is one sentence of duty, with everything else delegated to Ofgem's guidance and tested against a set of principles and a fairness test. The evidence that answers it is a pricing strategy you can defend.

A7 is principally about how the charge was built. Charges must be structured, and attributable to costs, in a way consistent with the outcome of charges being fair and not disproportionate. It is a question about construction — which costs sit in which charge, and therefore which residents pay them. The most practical evidence for it is a cost stack you can take apart — not a document either condition names, but the readiest way to show the duty was properly performed.

That is explanatory shorthand rather than a clean legal boundary. The two conditions overlap, and A7's own wording ties the structure of charges back to the fairness of the outcome.

This paper is about A7. A companion paper, **No Number to Hit**, takes A6: the six pricing principles, the cost efficiency and procurement expectations, direct accountability for outsourced parties, the treatment of heat charges bundled into rent or service charges, and the fairness test in full.

Some material belongs to more than one. Benchmarking is the clearest case. It is A6 machinery and is treated fully in **No Number to Hit**; this paper addresses only the consequences of the proposed methodology for allocation between tariff components and between consumer groups.

A note on scope. The examples in this series are predominantly residential and space-heating led. A6 and A7 apply more broadly, to Charges imposed on Applicable Consumers in relation to the supply of heating, cooling and hot water, and to domestic and non-domestic consumers alike, subject to the conditions' express exclusions. Where this paper states a legal duty it refers to the authorised person; where it describes a practical situation it may say operator, supplier or landlord.

A7 does not operate alone. A reasoned allocation cannot make lawful a charge prohibited elsewhere. Condition B6 controls actual-consumption billing and restricts when a separate charge may be made for a bill. Leases and housing legislation determine whether some service charge costs are recoverable at all. And the framework permits cost recovery and a fair return without requiring every cost to be passed through: absorb, defer, phase or recover is the full set of choices.

What A7 asks

One sentence. Charges must be structured, and attributable to costs, in a way consistent with the outcome of charges being fair and not disproportionate.[1]

A7 is also wider than it looks. It is not confined to the standing charge and the unit rate: the defined term "Charge" covers any charge for or in relation to the supply of heating, cooling or hot water, expressly including the standing charge, the unit rate, and any reasonable and proper disconnection, reconnection, abortive call-out and debt-processing charges.[2] Each ancillary charge needs its own cost attribution and fairness rationale, and should not be left out of the A7 analysis.

A7 is not principally a test of the headline price level. It examines how charges are assembled and attributed — while still requiring the result to be consistent with a fair and not disproportionate outcome. The construction and the outcome are tied together in the same sentence.

The guidance built under it is explicit that it is not a rulebook. It offers minimum expectations and examples of best practice rather than prescriptive rules, its list of costs is not exhaustive, and where an operator departs from it the operator is expected to be able to justify the departure against the pricing principles.[3] Almost every allocation statement in it is phrased as something the operator "should consider".

That phrasing is the point, and the rest of this paper follows from it.

The three axes

Cost allocation happens along three axes at once. Only the first is usually recognised as one.

Between charges. Standing charge or unit rate — the familiar axis, and the one with the sharpest distributional consequence.

Between people. Across a consumer base at a point in time — across tenures, across a portfolio of networks, between the heat business and everything else the organisation does, and, inside a single building, between dwellings whose meters do not add up to the heat that was delivered.

Across time. Between the residents living on the network now and the ones who will live on it later. Sinking funds, capital recovery profiles and growing district networks are all allocation decisions taken on this axis, and they are the least visible of the three.

Where the costs go

The guidance works through the main cost categories. Consolidated, the picture looks like this.

Illustrative default treatment suggested by the guidance. Every line is something the operator "should consider", not an accounting classification imposed by the framework, and all of it remains subject to consumer impact and the wider pricing principles. The final row is different in kind, and is discussed later in this paper.

Cost	Metered networks	Unmetered networks
Fuel and other consumption-driven costs	Unit rate	Allocated by a proxy for consumption
Administration, customer service, billing	Given as examples of fixed costs — standing charge	Equal per dwelling
Fixed elements of bad debt	Standing charge	Apportioned equally across dwellings
Depreciation	Standing charge where appropriate, as a transparent and proportionate simplification	Standing charge equivalent
Capital cost recovery	Standing charge	Equally across the base, not by a consumption proxy
Connection charges	Standing charge is the recommended approach, until fully recovered	Standing charge equivalent
Heat losses	*No loss-specific treatment prescribed*	*No loss-specific treatment prescribed*
Penalties, compensation and redress	Presumed unfair and disproportionate under A7.2; guidance identifies no exceptional circumstances	Same treatment

Four things follow from the table.[4]

The default is a fat standing charge. Look down the metered column. Administration, fixed bad debt, depreciation, capital and connection costs all point the same way. Follow the guidance's defaults and you build a network with a substantial fixed charge and a comparatively lean unit rate.[5]

A fat standing charge takes the largest proportion of a low-consumption bill. A resident whose meter reads very little pays the same standing charge as one whose meter reads a great deal, so the fixed element takes the biggest proportionate bite out of the smallest bills. Whether that is regressive in the household sense depends on who those residents are.

But be careful with the word "low". On a communal system a low dwelling-meter reading is not proof that the dwelling received little heat overall. A flat wrapped in warm risers, or sitting above a plant room, is receiving heat that no dwelling meter records — which is the subject of the companion paper **The Heat the Meters Do Not See**.

And the guidance knows it. Immediately after setting out the cost-reflectivity default for tariff structure, it asks operators to weigh that default against consumer impact — naming the impact on a customer base which may include vulnerable customers with high energy usage.[6]

So the framework hands you a default that disadvantages consumers with low metered consumption and then names high users as the group to protect. The guidance is declining to make a distributional choice on your behalf, because the right answer depends on who lives on your network.

Sidebar — billing costs have their own rules

The table above puts administration, customer service and billing costs in the standing charge. That is the general A7 treatment, and Condition B6 sits on top of it.

Ordinarily an authorised person must not make a specific charge to a consumer for providing a bill or billing information, other than for additional copies. In a building occupied by more than one relevant consumer there is an exception: the authorised person's own costs of providing bills and billing information may be passed on provided no profit is made, or where the task has been assigned to a third party, the reasonable costs of providing them may be passed on. Where the Charges are Service Charges, B6.23 and B6.24 disapply those provisions to that extent.[7]

A7 determines whether and how an underlying cost is fairly attributed. It does not disapply B6's specific rules on when a separate charge may be made.

Sidebar — one axis this paper does not follow

On a communal system the heat delivered into a building does not equal the sum of the dwelling meters. The difference contains several physically different things: avoidable distribution loss, incidental warmth to common parts and to the dwellings the pipework passes through, keep-warm operation at the heat interface unit, meter tolerances, timing differences and measurement boundaries that do not line up.

How the cost of all that should be shared between dwellings is a genuine A7 question, and a large one. It is also a subject with its own comparative law, its own technical disputes and its own hard British constraint — where Supply Meters are installed, Ofgem's billing condition requires bills to be accurate and based on actual consumption, so nothing in A7 permits an operator to rescale a consumer's meter reading.[8]

That subject is taken up in the companion paper **The Heat the Meters Do Not See**, which calls it *unrecorded* heat to keep it distinct from an unmetered network. This paper covers the axes that do not depend on it.

Sidebar — depreciation, and why it lands in the standing charge

Ofgem does not prescribe an accounting method. Any depreciation method under UK GAAP or IFRS is accepted.[9]

On method, straight-line is identified as the most transparent. Declining balance and sum-of-the-years'-digits depreciate heavily early in an asset's life, which may not suit heat network investment. Units of production requires estimating lifetime energy output, which makes its cost reflectivity hard to evaluate.[10]

On placement, a purely cost-reflective approach would split each asset's depreciation between fixed and variable components. Ofgem says that would create unnecessary complexity for limited consumer benefit, and suggests operators consider depreciating through the standing charge instead, where appropriate, to make the allocation as transparent as possible.[11]

That is transparency chosen over precision, by the regulator, in writing — a useful precedent when you need to justify a simplification of your own.

The unmetered problem

Where there are no meters there is no consumption to be reflective of, so the guidance substitutes a proxy: the area of the dwelling, or the number of bedrooms, with standing charges applied at the same cost per dwelling.[12]

Both proxies are rough, and they distribute differently. Floor area tracks heat demand reasonably well and penalises a single occupant in a large flat. Bedroom count tracks occupancy and penalises a family in a small one. Neither is right. Each is a distributional choice presented as a technical one.

The guidance adds a second requirement that constrains the choice — the proxy should be one consumers can easily and accurately understand.[13] A proxy nobody can follow fails the transparency principle even if it is the most accurate available.

Partial measurement is a different problem again. A thermal energy meter at the dwelling or heat interface unit boundary records the energy crossing that point and nothing outside it. That question is taken up in **The Heat the Meters Do Not See**.

Capital and debt behave differently again on an unmetered network. Both are apportioned equally, and capital specifically should not be recovered using any approximation of consumption.[14] So an unmetered network flattens the fixed burden across dwellings — simple, defensible, and regressive in the same way a fat standing charge is.

Costs that arrive from outside the network

Not every cost originates on the network it is charged to.

Where costs are incurred at portfolio level, across several heat networks, they should be apportioned by some proxy of activity — customer numbers, or energy generation — and the proxy should correlate significantly with the activity that incurs the cost.[15] The choice matters. Customer numbers move cost toward dense residential estates; energy generation moves it toward the networks consuming the resource.

Where costs are incurred across business units — the guidance's own example is a single person managing billing for both heat and rent — they should be apportioned by a proxy of time spent.[16] This is the least visible allocation decision in the whole exercise. If that person's cost is charged wholly to heat, heat consumers are paying for the landlord's rent function, and no line on any bill will say so.

Cross-subsidisation between groups is not prohibited. The guidance declines to restrict it directly, but expects that no individual or group ends up facing disproportionate prices as a result, and expects the operator to be able to give a clear and reasoned justification for the approach it has taken.[17]

Where changing your apportionment method would itself cause a significant price shock, that is a recognised reason to move gradually — the guidance expects balance between cost reflectivity and consumer impact rather than an abrupt correction.[18]

The cost of being regulated

Authorisation brought costs with it. Registration, written policies, contract and billing changes, metering work, redress scheme membership, systems and staff time — and, in due course, a regulatory fee. Ofgem's own costs are being recovered in the initial period through the licence fees paid by certain gas and electricity licensees, with a later transition, under the government's 2022 blended decision, to fees applying to both those licensees and heat network authorised persons. Ofgem consulted on the detailed arrangements — a de minimis threshold, the apportionment method, fee incidence and collection frequency — in a consultation published on 17 February 2026 and closed on 2 April 2026.[19]

A6 and A7 do not, in principle, prohibit the recovery of efficiently incurred compliance costs through consumer charges. Whether a particular cost is legally recoverable, and where it may sit, still depends on the supply contract or lease, applicable housing law, the specific authorisation conditions including B6, proper attribution to the relevant network or consumer group, and whether the result is fair and not disproportionate.

The one prescriptive rule concerns penalties, compensation and redress. Ofgem's stated reasoning is that those costs arise where the network has failed to reach the standard expected of it, so consumers should not carry them. **A7.2 distinguishes ordinary compliance expenditure from specified payments resulting from regulatory or service failure.** The latter — regulatory penalties, consumer redress amounts and specified compensation — are presumed unfair and disproportionate. Other internal remediation costs remain subject to the ordinary cost efficiency, cost reflectivity and consumer impact assessment.

That places compliance spending on the recoverable side of the line, but not unconditionally. It still has to be efficiently incurred, which brings the cost efficiency expectations into play — including the expectation that outsourced services are periodically market-tested and that the decision to outsource and the choice of provider can be justified. It still has to be allocated cost-reflectively, to the right charge and to the consumers who give rise to it. And it still has to be weighed for consumer impact.

Two practical points follow.

Timing is an allocation decision. Much of this spend is one-off or step-change rather than recurring. Recovering a year of authorisation work inside a single year's charges produces a spike, and the guidance expects operators to plan ahead and minimise the likelihood and impact of unusually high bills, and treats a significant price effect as a reason to phase a change rather than impose it at once.

Remediation is not the same as compliance. Payments falling within A7.2 — regulatory penalties, consumer redress order amounts and specified compensation for failing to meet service standards — are presumed unfair and disproportionate. Internal remediation spending does not automatically fall within that presumption: the administrative cost of a rebilling exercise or of replacing a defective process is not a relevant payment. But recovering from consumers a cost caused by an avoidable failure is a different proposition from recovering the cost of doing the job properly, and it is considerably harder to justify against cost efficiency, cost reflectivity and consumer impact.

Respondents to the fair pricing consultation proposed that compliance costs — carbon taxation, decarbonisation investment obligations, and regulatory costs from HNTAS, Health and Safety Executive inspection regimes and local authority planning agreements — should count as cost drivers in benchmarking.[20] Whether they do will turn on Ofgem's stated criterion: a cost driver should be outside the network's control once operational, and should drive costs rather than prices. Externally imposed costs may be more likely to satisfy that criterion, provided they drive the network's costs and remain outside the authorised person's operational control.

Allocation across time

The people disadvantaged on the third axis have either not moved in yet or moved out years ago, which is why it goes unexamined.

Ofgem names two failures directly. Improper recovery of significant initial capital costs during the development phase. And improper recovery of capital expenditure from sinking funds — with the worked example of current tenants benefiting from a fund paid for by previous tenants who never benefited themselves.[21]

For district networks it goes further. Recovering upfront capital from early users may leave them bearing a disproportionate share and effectively subsidising the network for everyone who connects later, so operators should account for changes in customer numbers over time as more buildings connect.[22]

That is a live obligation on any growing network. A capital recovery profile set when the network had two buildings on it, still running unchanged with eleven, is allocating across time in a way the guidance has specifically identified as a problem.

How the regulator will see your allocation

Benchmarking is a principal screening mechanism, not the only route by which pricing and allocation can be examined — but it is the one whose design has been published, and its design has a specific consequence for allocation.

Ofgem intends to define heat prices in two ways, both focused on the total effective price facing consumers: **average heat price per consumer**, and **heat price for consumers at certain usage levels**, with Typical Domestic Consumption Values under consideration for adaptation to the heat network market.[23] The choice of total annual cost is deliberate — it allows a two-part network tariff to be compared with the single-rate charge many heat pump consumers pay.[24]

That has an important implication. **Rebalancing between standing charge and unit rate does not, on its own, move your position on the headline measure.** Holding total expected revenue and the benchmark consumption assumption constant, moving £100 between unit-rate recovery and standing-charge recovery does not change the resulting total annual cost at that consumption level. It is not a way to look cheaper.

What it does change is who pays, and Ofgem is alive to that. Respondents warned that high standing charges and unusual tariff structures could be obscured by an average-cost definition, with disproportionate impact on low-usage consumers, and that legacy networks could bury unavoidable fixed costs in standing charges. Ofgem accepted that the average cost per consumer may mask unusual tariff structures, but considers the definition more relevant where data is limited, such as on unmetered networks. It agreed that additional comparison of standing charges would be useful, and intends to start with total effective cost to keep the models manageable while exploring element-level comparison as data becomes more standardised.[25]

So the distributional effect of a heavy standing charge may be masked by the headline total-cost measure — the charge itself is not invisible, but its consequences for different consumers can be — while the second definition, once usage levels are examined, is designed to reveal them. On Ofgem's stated intention that visibility increases over time.

The other thing to understand is which of your circumstances will be allowed to explain a high price. Ofgem's stated criterion is that cost drivers should be exogenous — outside the network's control once it is operational — and should drive costs rather than prices directly.[26] Network age and location are more likely to satisfy that criterion. Continuing operating decisions, to the extent they remain within the operator's control, are less likely to. That criterion decides whether your cost profile reads as an explanation or an admission.

The detailed benchmarking methodology is not yet finalised or operational, and Ofgem intends to publish a high-level methodology through a future consultation.[27] Condition A7 itself has applied since 27 January 2026. The direction of travel is published, and it rewards operators who can already explain their allocation.

Sidebar — the three benchmarks

Ofgem intends to adopt three benchmarking approaches together, because they compare prices in three different dimensions and complement one another as a screen:[28]

- **own past price benchmark** — your prices against your own history;
- **external benchmark** — your prices against a technology counterfactual;
- **comparator benchmark** — your prices against networks with similar characteristics.

Only the external benchmark uses a counterfactual, and there are currently two. A gas boiler benchmark applies to networks using gas as an input fuel, with blended-fuel networks taken into account. For low-carbon networks Ofgem is developing a low-carbon counterfactual, using an individual air source heat pump as the example. It is **not** currently proposing separate counterfactuals for retrofit and new-build networks, though those characteristics would be considered when assessing a network against all three models. Direct electric and oil counterfactuals were requested by respondents and declined at this stage.[29]

Two qualifications work in the operator's favour. Ofgem states that a network will not automatically be judged as pricing disproportionately on benchmarking results alone, or on any single approach in isolation. And when a price is flagged, the stated intention is to seek further information to understand the reasons — which may mean suggestions and opportunities for improvement before any further action or investigation is considered.[30]

The price promise answers a different question

Some networks do not set prices against their costs at all. They set them against a counterfactual — for example what the resident would have paid on an individual gas boiler — and call the result a price promise, or cost avoidance. Ofgem acknowledges the practice in exactly those terms and does not prohibit it.[31]

The permission carries a condition. The model is not precluded **provided it delivers prices that are fair and not disproportionate**, the fairness test will explore whether it does according to the principles, and comparator benchmarking will test the network against technically similar networks regardless of the pricing methodology applied.[32] A price promise buys no exemption from assessment. It is a permitted method of setting a level, assessed on the same terms as any other.

A level is all it is, and everything else in this paper concerns construction. A promise pegged to a gas boiler says nothing about whether fixed costs sit in the standing charge, whether depreciation runs over a defensible horizon, whether early residents are carrying capital that later ones will benefit from, whether losses are recovered from the people least able to influence them, or whether the heat business is absorbing the landlord's billing costs. An operator can honour a price promise to the penny, every year, and have made none of the decisions A7 is asking about.

How A6 treats a price promise — and why the principle it is measured against is cost-reflectivity — is taken up in **No Number to Hit**.

Keep the promise if it sells homes. Build the cost stack underneath it anyway, because the promise is the proposition and the stack is the evidence.

Sidebar — where this paper's sources come from

This paper cites Ofgem's September 2025 consultation response alongside the January 2026 guidance, because that is where the guidance sends the reader.

Condition A6.2 provides that the fair pricing condition is to be interpreted in accordance with guidance published by the Authority, and that guidance twice directs the reader to chapter 3 of the response document for the detail of the benchmarking approach.[33]

The cost allocation chapter goes further than signposting. Its list of disproportionate corporate risk practices comes from the earlier consultation, as does part of its cost-efficiency expectation and its statement on repayment plans.[34]

That does not make every word of the response binding. But an operator relying only on the forty-four pages published on 13 January 2026 will not have read all of the published material Ofgem directs readers to for the detailed benchmarking approach.

One prescriptive rule and three strong anti-double-charging expectations

Almost all of the above is a matter of weighing principles and being able to explain the result. Four statements are not — though they do not all carry the same legal weight, and the distinction matters.

The rule. Condition A7.2 creates a presumption: charges attributable to penalties, redress and specified compensation are presumed unfair and disproportionate, except in exceptional circumstances set out in the guidance. The guidance identifies none. It describes this as its one prescriptive rule at this stage — guaranteed standards of performance payments, compensation, fines, penalties and other redress provided to consumers must not be passed through to customers — reasoning that such costs arise from the network failing to reach the standard expected of it. It reaches failures within the control of the operator's outsourcers and contractors as well as its own.[35] It is not limited to regulatory penalties: the condition catches any specified amount payable, under contract or under regulation, as compensation for failing to meet a specified service standard, which includes standards an operator has committed to voluntarily.[36]

The three prohibitions. Connection charges already recovered — through a one-off charge, through housing costs, or otherwise — should not then be added to heating bills. Connection charges fully recovered from freehold occupants should not be re-recovered from leaseholders. And connection charges recovered through the standing charge should not remain in the standing charge once recovery is complete. Each is described as double charging.[37]

These sit in the guidance rather than in the condition, so they are expectations rather than a statutory presumption, and the guidance does contemplate deviation from its connection charge material where accompanied by valid reasoning that gives regard to the other principles.[38] The register is markedly harder than the surrounding text: not weigh this against consumer impact, but that the result *would constitute double charging*. That is a conclusion rather than a consideration, and double recovery would be very difficult to defend.

The third is the one to worry about, because it is an allocation failure across time. The guidance recommends putting connection costs into the standing charge in the first place.[39] Nothing in that arrangement announces the moment recovery finishes. A standing charge inherited through a change of operator, carrying a capital element fully recovered before anyone now working on the network arrived, is the predictable result of following the guidance and then not revisiting it.

Four error patterns

Allocation by inheritance. The split between standing charge and unit rate was set by someone else, at another organisation, for reasons nobody recorded. It is now a compliance position that cannot be explained.

The default taken as the answer. Fixed costs to the standing charge, done. The guidance's defaults are the starting point of the A7 exercise, not the end of it — the consumer impact weighing is the other half, and it has to leave a trace.

Allocation blind to time. Capital recovery profiles, sinking funds and connection cost recovery running on settings chosen when the network was a different size.

The promise as proof. A price promise offered as the answer to a question about construction.

What to do

Decompose the standing charge. Every component, what it recovers, when recovery began, what remains outstanding. Nothing else in this paper is actionable without it. Where historical depreciation records are thin, the guidance accepts estimation of the depreciation base on best available information.[40] That concession is specific to depreciation — an estimate used for any other capital or connection component should be identified as an estimate and justified on its own terms.

Establish the end date on every capital and connection element. Then check whether it has already passed.

Decide the proxy for an unmetered network, and record why. Floor area and bedroom count distribute differently and both are defensible; neither is neutral, and the choice needs to be one consumers can follow.

Hold evidence about who lives on your network. No formal demographic study is required, but consumer-profile evidence — the proportion of small households, of high users, of consumers in vulnerable situations — is a strong way of demonstrating that consumer impact was considered when the standing charge and unit rate split was set.

Check what the heat business is carrying for the rest of the organisation. Shared staff, shared systems, shared overhead — apportioned by time or activity, or absorbed by heat consumers by default.

Model the time axis on any growing network. If more buildings will connect, today's residents should not be carrying tomorrow's share.

Write down the reasoning, including the trade-offs you rejected. The framework repeatedly asks operators to be able to justify their approach. A justification that exists only in someone's head is not one.

What this means

For residents, the standing charge is the part of the bill they cannot change by using less heat. How much of the network's cost sits inside it is one of the most consequential decisions an operator makes about them, and it is one they will never see taken.

For operators, the likeliest risk is not disagreement with your allocation but inability to explain how you arrived at it.

A note on shelf life

This guidance is expressly iterative, and Ofgem has said it intends to keep developing it as pricing protections are phased in.[41] The penalties and redress section states that it will be updated once Ofgem's enforcement guidelines and penalty policy are finalised. Those documents were published on 20 February 2026, although the fair pricing and cost allocation guidance as currently published still retains the earlier wording.[42] The benchmarking tools described here are still being built.

This paper states the position as at September 2026, against the guidance published on 13 January 2026.

Where to go next

- The **A7 cost allocation policy template** in the Policy Generator, which structures the reasoning the framework expects you to be able to produce.
- The **Tariff Calculator** at tariff.heatnetworkcompliance.co.uk, free to use, which separates standing charge and unit rate components and lets you model loss recovery either way — so the decomposition above is a piece of work rather than an archaeology project.
- The **Compliance Assessment**, if you want your actual allocation tested rather than your intentions.
- **No Number to Hit**, the companion paper on Condition A6 and whether the price itself is fair.
- **The Heat the Meters Do Not See**, on the gap between a building's bulk meter and its dwelling meters.

Footnotes

1. Authorisation Condition A7.1, Appendix 2 to Ofgem's decision *Heat networks regulation: authorisation conditions*, 13 January 2026. A7 does not apply to authorised persons carrying on regulated activities only in relation to industrial or self-supply networks, and where those sit alongside other networks the condition is read as not applying to that part of the business (A7.6, A7.7). The condition binds authorised persons, which includes suppliers as well as operators.

2. The definition of "Charge" in Appendix 2 to the 13 January 2026 decision.

3. *Heat networks fair pricing and cost allocation guidance*, 13 January 2026, paragraphs 1.14, 1.15, 2.2, 2.4, 2.5 and 2.7. The framework applies to operators and suppliers alike, each responsible for contracted service providers acting on their behalf (1.17, 1.18).

4. Table rows drawn from guidance paragraphs 2.29–2.31 (tariff structure), 2.63–2.64 (bad debt), 2.45 (depreciation), 2.75–2.76 (capital) and 2.92 (connection charges), and from Condition A7.2 for the final row. The guidance does not present these as an exhaustive classification of costs (2.4, 2.5).

5. A fixed charge need not be a flat charge. Slovak heat pricing, for example, sets the fixed component per kilowatt of a "regulated capacity" that is itself calculated as the heat actually delivered to that point in a reference year divided by a set number of hours, and redistributes fixed costs across delivery points after year end in proportion to heat actually delivered — so the fixed element remains tied to volume. ÚRSO Decree No. 312/2022 Coll., §6(2), §6(4) and §4(17). That mechanism operates between networks and buildings, not between dwellings within a building.

6. Guidance, paragraph 2.34. Paragraph 2.33 permits differential charging where dwellings genuinely require different capital expenditure.

7. Authorisation Conditions B6.7 and B6.8, and B6.23 and B6.24, which disapply B6.7 and B6.8 to the extent the Bill or Billing Information relates to Service Charges.

8. Authorisation Condition B6.2 (Bills and Billing Information must be accurate and based on actual consumption where Supply Meters are installed), B6.4 (at least one actual rather than estimated bill each year) and B6.6 (exceptions where compliance is not reasonably practicable in all the circumstances, and for supported housing, almshouse accommodation, purpose-built student accommodation and certain pre-27 November 2020 leases). Where the Charges to which the Bill relates are Service Charges, Part Two applies: B6.20 substitutes "at least once per Service Charge period" for the annual requirement, and B6.21 replaces the general exception with a technically possible and economically justified test, treated as satisfied where the estimated reasonable cost of billing does not exceed £100 per Relevant Consumer per calendar year, subject to the same accommodation and pre-27 November 2020 lease carve-outs; B6.22 lists the costs to be counted. On the metering legislation: regulation 9 (billing) of the Heat Network (Metering and Billing) Regulations 2014 was omitted for England, Wales and Scotland from 27 January 2026 by SI 2026/7, along with regulation 3 and regulation 6; regulations 5 and 7, on requirements relating to meters and their replacement, survive. The 2014 Regulations continue to apply in Northern Ireland.

9. Guidance, paragraph 2.40.

10. Guidance, paragraphs 2.46–2.48. Paragraph 2.48 accepts a shorter horizon than full asset life where the operator expects to move to a different technology sooner.

11. Guidance, paragraph 2.45.

12. Guidance, paragraph 2.30. Paragraph 2.31 addresses shared ground loops, where a flat fee that does not vary with consumption should still accurately reflect the costs incurred.

13. Guidance, paragraphs 2.35–2.36.

14. Guidance, paragraphs 2.64 and 2.76.

15. Guidance, paragraph 2.18.

16. Guidance, paragraph 2.19.

17. Guidance, paragraph 2.25, read with paragraph 1.57.

18. Guidance, paragraph 2.24.

19. Ofgem, *Heat network regulations: recovering Ofgem's costs*, consultation published 17 February 2026, closed 2 April 2026, giving effect to the government's 2022 decision on a blended cost recovery approach. At the time of writing Ofgem had not published its decision; the position should be checked before relying on it.

20. 2025 fair pricing response, chapter 3, respondent submissions on compliance costs as cost drivers.

21. Guidance, paragraph 2.72, drawing on the 2025 fair pricing consultation.

22. Guidance, paragraph 2.73.

23. 2025 fair pricing response, chapter 3, Ofgem response on price definitions.

24. 2025 fair pricing response, chapter 3, Ofgem response on heat pump characteristics and tariff structure.

25. 2025 fair pricing response, chapter 3, respondent submissions on unusual tariff structures and price comparison, and Ofgem's response on price definitions.

26. 2025 fair pricing response, chapter 3, Ofgem response on feasibility.

27. 2025 fair pricing response, chapter 3, Ofgem response on omission of elements.

28. 2025 fair pricing response, chapter 3, Ofgem response on comparator benchmarking.

29. 2025 fair pricing response, chapter 3, Ofgem responses on external benchmarking and on heat pump characteristics.

30. 2025 fair pricing response, chapter 3, Ofgem responses on comparator benchmarking and on omission of elements.

31. Guidance, paragraph 1.33 and Table 2 (market segmentation).

32. Guidance, Table 2, price promise row.

33. Guidance, paragraphs 1.67 and 1.73; a further cross-reference at 1.64 points to chapter 5 of the response document.

34. Guidance, paragraphs 2.72, 2.61 and 2.58.

35. Guidance, section summary to chapter 2 and paragraphs 2.80–2.82.

36. Condition A7.2, and in particular A7.2.3 — any specified amount payable by an authorised person, whether pursuant to contract or regulation, as compensation for a failure to meet specified service standards or service levels, including amounts payable under regulations made under paragraph 58 of Schedule 18 to the Energy Act 2023.

37. Guidance, paragraphs 2.93, 2.94 and 2.95.

38. Guidance, paragraph 2.97.

39. Guidance, paragraph 2.92. Paragraph 2.90 adds that connection charges to new consumers should be no less than the incremental cost of connection under a purely cost-reflective approach, balanced against consumer impact and corporate risk.

40. Guidance, paragraph 2.49.

41. Guidance, paragraph 1.12.

42. Guidance, paragraph 2.78. Ofgem published the final *Heat Networks Enforcement Guidelines* and the *Heat Networks Statement of Policy With Respect To Financial Penalties and Consumer Redress* on 20 February 2026.

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The distinction between the fixed cost of a network and a flat charge to a dwelling, and the question of heat delivered but not recorded at dwelling meters, were both prompted by Marko Cosic. That second question is taken up in the companion paper **The Heat the Meters Do Not See**. The analysis, and any errors in it, are the author's.

Sources

- Ofgem, *Heat networks regulation: authorisation conditions* — decision and Appendix 2, 13 January 2026.
- Ofgem, *Heat networks fair pricing and cost allocation guidance*, 13 January 2026.
- Ofgem, *Response to consultation on heat networks regulation: fair pricing protections*, 29 September 2025.
- The Heat Networks (Market Framework) (Great Britain) Regulations 2025, SI 2025/269.

- Energy Act 2023, Schedule 18.
- The Heat Network (Metering and Billing) Regulations 2014, as amended.
- ÚRSO Decree No. 312/2022 Coll. (Slovak Republic), establishing price regulation in thermal energy, as amended.

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