HEAT NETWORK COMPLIANCE

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# The Exit Right That Opens Onto Nowhere

*Condition B3, disadvantageous changes, and what consumer protection really means on a monopoly network*

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## Executive Summary

Ofgem's Authorisation Conditions give heat network consumers a right that looks familiar from gas and electricity: if the supplier unilaterally changes the contract to their disadvantage, or raises the price within B3's scope, the consumer can end the contract. Condition B3 requires at least 31 days' notice of the change, and the notice must tell the consumer they can leave.

In the retail energy market that right has teeth. A mistreated gas customer switches supplier in ten minutes. On a heat network there is one set of pipes, one operator, and no rival on the wire. The binding text itself acknowledges the practical problem: the notice must warn a departing consumer that alternative energy supplies at the development or premises may be subject to exclusions or other terms. The exit door is real. For many consumers, it opens onto nowhere.

It is easy for an operator to file B3 under contract hygiene: a notice template, a diary entry, done. That is a mistake. When exit is notional, B3 stops being about exit. It becomes a test of everything behind the notice. Is your change process disciplined? Would your pricing survive scrutiny under Conditions A6 and A7? And when the Energy Ombudsman — operating the approved redress scheme for heat network consumers since 1 April 2025 — asks to see the notice you served, will it stand up?

The conclusion of this paper is uncomfortable but useful. Whatever its design intent, B3's practical force is felt almost entirely by the operator: it is less an exit route for consumers than a stick, and an aggrieved consumer can pick it up in a complaint that ultimately lands before the Ombudsman. But a stick lands hardest on operators whose paperwork gives it something to hit. The first line of defence is unglamorous and entirely within your control: get every notice and every communication right, every time — and make sure the decision behind them can withstand scrutiny too.

The operators who will be caught out are not the ones who ignore consumer protection. They are the ones who assume a right nobody can exercise is a right nobody will test.

## 1. The right on paper

Condition B3 of the Authorisation Conditions (Appendix 2 to Ofgem's decision of 13 January 2026) governs contract changes information. Stripped of drafting, it does four things.

**First, it requires notice.** Before making a change that leaves the consumer worse off — a Disadvantageous Unilateral Variation — or before any increase in charges (including a reduction in a discount applied to a unit rate or standing charge), the supplier must give the consumer at least 31 days' notice. Not notice after the fact. Not a line buried in the next bill — B3.5 requires the notice to be provided separately from any other document, including a bill, statement of account or marketing material. A standalone regulatory notice, delivered on a demonstrable date.

**Second, it caps the frequency of increases.** Under B3.2, charges for a relevant consumer cannot be increased more than once in any six-month period during a relevant year. Whatever else B3 is, it is a discipline on how often a monopoly supplier can go back to the well.

**Third, it requires the notice to explain the way out.** Under B3.3.1 the notice must tell the consumer that they may end the supply contract within a period of no longer than 30 days. This is not optional content. A notice that announces a price rise but omits the required termination information does not comply with B3, and leaves the supplier exposed to complaint, redress and regulatory scrutiny.

**Fourth — and this is the remarkable part — it requires the notice to be honest about what leaving means.** B3.3.1 also requires the notice to explain the consequences of ending the contract, including possible exclusions or other terms relating to alternative energy supplies at the development or premises. Read that again. Ofgem has written into the prescribed notice an acknowledgement that the alternatives to staying may come with strings attached. The condition does not say consumers have no meaningful alternative — but it requires the supplier to warn them, in advance, about the ones they have.

And the notice must carry considerably more than these headline items. B3.3 also requires it to explain the change and its main reasons; the potential implications, including financial implications, if the consumer takes no action; when the change takes effect; the consumer's rights and available options; and VAT information, with charges displayed inclusive of VAT. It must be designed and timed to prompt an informed choice, and take account of vulnerability and, where appropriate, communication preferences. This is not a one-line letter. It is a prescribed disclosure document.

Two boundary points complete the picture.

**What counts as disadvantageous.** A Disadvantageous Unilateral Variation is a change to a contract made by the authorised person without consulting the consumer, which would put the consumer in a worse position than if the change had not been made. A change genuinely consulted on therefore sits outside the definition — though note that a price increase is caught independently by B3.1.2 and triggers the notice requirement regardless of any consultation. Operators should not read "consulting" as a loophole. The conditions do not define what consulting requires, but a communication merely announcing a decision already taken is unlikely, without more, to amount to meaningful consultation — and treating it as such invites exactly the challenge B3 exists to referee.

**The service charge carve-out.** B3 has one carve-out, at B3.6, and it is narrower than widely assumed. Where heat costs are recovered as Service Charges, two obligations fall away: the notice of a charge increase (B3.1.2) and the six-month frequency cap (B3.2). Those charges are governed instead by landlord and tenant law — including the 18-month limit on recovering costs under section 20B of the Landlord and Tenant Act 1985.

Everything else in B3 still applies. In particular, B3.1.1 survives: if a change amounts to a Disadvantageous Unilateral Variation, the notice obligation stands even where the consumer pays through service charges. And because B3.3 governs the content of any notice required under B3.1, that notice must still carry the full prescribed content — including the B3.3.1 termination information and the warning about alternative supplies. B3.6 removes two triggers; it does not water down the notice itself. An operator recovering through service charges is not excused from B3 — only from part of it. Confusing the two is one of the most common errors we see, on both sides of the housing boundary.

## 2. The market the right was written for

The termination-on-change right closely resembles the protections consumers know from the competitive gas and electricity retail markets, where it does real work. In retail energy the right is credible because the market behind it is competitive: the customer who receives an unwelcome variation notice can act on it the same afternoon. The threat of exit disciplines supplier behaviour. That is the whole design.

Heat networks are a different animal. The consumer is connected to one network, supplied by one entity, usually for the life of the building. There is no rival heat supplier on the pipe and no realistic prospect of one. The alternatives to staying are:

**Disconnect and self-supply.** Rip out the heat interface unit and install a gas boiler or electric heating — where the lease permits it, which it frequently does not; where the building's gas infrastructure exists, which in new-build heat network developments it typically does not; and at a capital cost that dwarfs any plausible saving.

**Disconnect and go without.** Sit in a cold flat. This is not a consumer protection outcome; it is the failure state the vulnerability provisions elsewhere in Section B exist to prevent.

**Move house.** The nuclear option, unavailable to most and disproportionate for all.

Ofgem knows this. The final decision records that respondents questioned the practical value of a termination right where switching is impossible, and the final guidance answers that the framework must accommodate the diversity of commercial arrangements across the sector, and that the conditions were drafted for those scenarios where termination and informed choices could be possible. In other words: the right is real where the market makes it real. On many monopoly networks, it will not be.

So on those networks the honest answer to "where are they going to go?" is: nowhere. The consumer who exercises the B3 termination right is still in the flat, still connected to the pipe, and still needs heat. Which raises the question operators should actually be asking — not "how do I draft the notice?" but "what happens the day after a consumer terminates and cannot leave?" On what terms would supply continue, if at all? The old terms? The new terms they just rejected? A deemed contract? Many operators have no ready answer, because it is easy to stop thinking at the notice template.

## 3. If exit is notional, what is B3 for?

Here is the reframe this paper exists to make. In a competitive market, the exit right *is* the protection. In a monopoly, the exit right is the tripwire — and the protection lives elsewhere.

A tripwire does not stop anyone by itself. Its job is to make an event impossible to miss, and to set everything else in motion. That is precisely what B3 does. The moment a supplier decides to make a Disadvantageous Unilateral Variation, B3 converts that decision into a documented regulatory notice, with prescribed content, a prescribed timetable, and a requirement to travel separately from the bill. The notice is the event nobody can later deny happened. And the wire is pulled either way: a served notice creates the record; a missing or defective one trips it harder, because now the record is the absence.

What the tripped wire sets in motion is the real protection — three mechanisms, none of which requires the consumer ever to walk through the exit door.

**B3 disciplines your change process.** The 31-day notice requirement, the mandatory content, the six-month cap on charge increases (outside service charges), the separate-document rule — together these force a monopoly supplier to slow down, document, and communicate before making consumers worse off. The consumer may not be able to leave, but the operator can no longer change the deal quietly, and — for charges within B3.1.2 — cannot change the price often. Every Disadvantageous Unilateral Variation within B3.1.1 now generates a documented regulatory notice, delivered on a demonstrable date — which is to say, evidence.

**B3 exposes your pricing to scrutiny.** Except to the extent that the relevant charges are Service Charges, every price increase triggers a notice and is subject to the six-month frequency restriction. Every notice invites the question: is this increase justified? On a monopoly network that question is answered not by the market but by Conditions A6 (fair pricing) and A7 (cost allocation). A consumer who cannot escape a price rise can still challenge it — and the B3 notice is the document that exposes the increase, explains the consumer's options, and provides the evidence on which a challenge may be based. Operators whose tariffs would not survive an A6 examination should understand that B3 is the mechanism by which that examination gets triggered.

**B3 feeds the redress machinery.** The Energy Ombudsman has operated the approved redress scheme for heat network consumers since 1 April 2025, and the Section B conditions — B3 among them — have applied since 27 January 2026. Under the Ombudsman's published Terms of Reference for heat network suppliers, awards are capped at £10,000 per complaint for domestic consumers and £20,000 for micro business and small business consumers. A consumer aggrieved by a contract change does not need to exit; they need to complain. And the notice — its date, its content, and the process behind the change — is the obvious evidence in any complaint about a disadvantageous variation or price increase. A defective notice, late or missing or silent on the required content, gives the complainant powerful evidence of a straightforward regulatory breach. This is the practical enforcement layer, operating now, long before many operators expect Ofgem to come knocking. (Readers of Paper 4 in this series will recognise the pattern: for many operators, the first serious test of compliance will come through an Ombudsman complaint, not an Ofgem investigation.)

Notice what all three mechanisms have in common: the exit right itself is never exercised. The tripwire works whether or not anyone leaves. It works on the operator's side of the wire, by changing what the operator must do before acting; and it works on the consumer's side, by handing them the document that makes a challenge possible. Seen this way, B3 is closer to the constitutional core of the regime than half the conditions that get more attention. It is the condition that converts "you can't leave" from a commercial comfort into a compliance burden.

## 4. The error pattern

Across the operators we work with, B3 failures cluster into four recognisable patterns.

**Pattern one: the silent change.** Terms are varied — a tariff structure altered, a standing charge introduced, a payment method withdrawn — with no notice at all, because nobody classified the change. The classification question ("is this an unconsulted change that puts the consumer in a worse position, or a charge increase within

B3.1.2?") was never asked, so the notice obligation was never triggered. When the complaint lands, there is no notice to produce.

**Pattern two: the defective notice.** A notice went out, but it announced the change and little else. No statement of the termination right or its window. No reasons. No implications of inaction. No warning about the consequences of leaving. Or it arrived folded into a bill, when B3.5 requires a separate document. The operator believes they complied; the document proves they did not.

**Pattern three: the housing conflation.** A social landlord or its managing agent recovers heat costs through service charges, assumes the leasehold regime displaces the Authorisation Conditions wholesale, and applies neither B3's notice discipline nor, in some cases, the section 20B time limits properly. The mirror error exists too: commercial operators applying B3's machinery to charges that are actually service charges, and getting the statutory framework wrong in the other direction. The B3.6 carve-out is narrow and precise; treating it as a general exemption is how operators end up non-compliant with two regimes at once.

> **In practice: where heat sits in the lease.** Heat networks in housing come in different contractual shapes, and B3 lands differently on each. Where the lease requires connection but a separate supply agreement governs the heat, that agreement can be varied — and terminated — in its own right: a Disadvantageous Unilateral Variation triggers the full B3 notice, but a tenant who terminates may remain physically connected, raising the question of whether and on what legal or contractual basis supply continues — including whether any deemed or successor arrangement applies. Where the supply obligation is a covenant of the lease itself, unilateral variation may be rare, and a genuinely consulted change falls outside the definition of a Disadvantageous Unilateral Variation, although the conditions do not define the standard that consultation must meet. But where a landlord does exercise a unilateral power over heating terms, the full B3 notice is still required — including termination information whose meaning, against a lease covenant a tenant cannot unilaterally end, the conditions leave unresolved. Our view: serve the compliant notice regardless, and document your analysis of what a purported termination would actually do under the lease.

**Pattern four: the day-after vacuum.** No documented position on what happens when a consumer terminates but remains connected. This is the gap that turns an awkward complaint into a very difficult one.

Each of these is cheap to fix now and expensive to defend later. A missing or defective notice can give a complainant powerful evidence of a straightforward regulatory breach; the cost of an adverse outcome is not just the award but the remedial direction, the management time, and — for changes applied across a whole network — the multiplication of one consumer's successful complaint across every household that received the same defective notice. A £30-a-month change applied to 400 dwellings on the back of a bad notice is not a £30 problem.

## 5. What operators should do

The work is not large, but it has to be done deliberately.

**Put a classification gate in front of every contract change.** Before any variation goes out, someone answers in writing: is this a contractual change made without consulting the consumer that would put them in a worse position, and is it a charge increase within B3.1.2? If either answer is yes, the B3 machinery engages, subject to the B3.6 service-charge carve-out. The gate is the control; without it, silent changes are inevitable.

**Rebuild the notice template against the binding text.** The notice must satisfy every element of B3.3 to B3.5: the change and its main reasons; the potential implications, including financial implications, if the consumer takes no action; when the change takes effect; the consumer's rights and available options; the termination right and its window; the consequences of termination, including possible exclusions or other terms relating to alternative energy supplies; and VAT information, with charges displayed inclusive of VAT. It must be designed and timed to support an informed choice, take account of vulnerability and relevant communication preferences, and be issued separately from any bill, statement of account or marketing material. Build it once, correctly, from Appendix 2 itself — not from a summary, including this one — and version-control it.

**Diary the 31 days and the six months.** The notice lands at least 31 days before the change takes effect — not 31 days before the next bill. A notice served late does not satisfy B3.1. And for charges within B3.1.2, increases come no more than once in any six-month period: a second increase inside the window is a breach regardless of how well it was notified, unless B3.6 applies because the relevant charges are Service Charges.

**Decide the day-after position.** Write down the legal and contractual basis on which supply would continue, if at all, where a consumer terminates but remains connected. Consider whether B2's deemed-contract provisions are engaged, rather than assuming they automatically apply. If the answer embarrasses you, fix it before a complainant finds it.

**Map the service charge boundary.** For every network, document which charges flow as service charges under the lease and which under the supply contract, and apply B3 and section 20B to the right sides of the line — remembering that the B3.6 exemption removes only B3.1.2 and B3.2, and only to the extent the charges are service charges.

**Pressure-test the pricing behind the notice.** If a B3 notice announcing an increase would not survive the follow-up question — "show me how this price is fair and how costs are allocated" — the problem is not the notice. It is the tariff. Fix it under A6 and A7 before the notice makes it visible.

## 6. Conclusion

On many monopoly heat networks, the B3 exit right is likely to be exercised rarely. Ofgem's own guidance recognises that termination and informed choices will be possible only in some of the diverse contractual arrangements found across the sector. But the condition's function does not depend on anyone leaving. It forces every disadvantageous change and every price increase within B3's scope into the open, on a prescribed timetable, in a prescribed and separately delivered document that the Energy Ombudsman — and eventually Ofgem — can hold against the operator who drafted it. The consumers it protects are not the ones who leave. They are the ones who stay, armed with a notice.

Operators have a choice about which side of that document they want to be on. The notice is either your evidence of a disciplined, defensible change process — or theirs, of the opposite.

## How Heat Network Compliance helps

If B3 is a stick, the defence is procedural: compliant notices and consumer communications, produced the same way every time, from templates built against the binding text. That is what the HNC Policy Generator does. It includes the B3 contract changes documentation alongside the full suite of Section A and Section B policies, all drafted against the final 13 January 2026 Authorisation Conditions — including the A6 Fair Pricing and A7 Cost Allocation policies that a B3 notice puts under scrutiny. The Tariff Calculator at tariff.heatnetworkcompliance.co.uk supports the cost-based tariff work behind a defensible price change. And the Compliance Assessment (£995 + VAT) tests your existing documentation — including your change notices — against the conditions in force since 27 January 2026, within a redress framework that has operated for heat network consumers since April 2025.

All available at **heatnetworkcompliance.co.uk**.

## Sources


- Ofgem, *Heat networks regulation: authorisation conditions decision* and Appendix 2 — General Authorisation Conditions (13 January 2026).
- Ofgem, *Heat networks regulation: consumer protection guidance* (January 2026).
- Energy Ombudsman, *Terms of Reference — Heat Network Suppliers*.
- Landlord and Tenant Act 1985, section 20B.
- Heat Networks (Market Framework) (Great Britain) Regulations 2025 (SI 2025/269).
- Energy Act 2023.


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*Disclaimer: This white paper is for information only. It does not constitute legal or regulatory advice. Heat network operators and suppliers should develop their compliance arrangements with reference to the current final Authorisation Conditions and Ofgem's published guidance, and where necessary with the support of suitably qualified legal or regulatory advisers. All regulatory references are to instruments and guidance current at the date of publication (July 2026).*


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