# The Bill You Left Too Late

Condition B7, service charges, obstruction, and the back-billing boundary that catches operators from both sides

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## Executive summary

For a commercial heat supplier, the back-billing rule looks simple: a charge recovery action generally cannot reach units of heating, cooling or hot water consumed more than 12 months before the action is taken. For charges recovered through a residential service charge, Condition B7 steps back entirely: B7.3 disapplies the 12-month prohibition where the charge is a Service Charge — a defined term anchored to section 18(1) of the Landlord and Tenant Act 1985. The protection does not disappear with it. It changes hands: a genuine service charge is governed by the leasehold regime, including section 20B's 18-month demand-or-notify rule.[1] Alongside both sits the exception at B7.2.3, which preserves recovery where the supplier was unable to act for the correct amount because of the consumer's obstructive or manifestly unreasonable behaviour.

Two regimes, one definitional boundary, and an error available on each side of it. Housing providers hear “service charge” and assume the label settles the matter — it does not: whether a charge is a Service Charge is a legal question answered by the lease and section 18(1), not by which invoice it appears on, and a heat charge recovered outside that machinery sits squarely inside B7.1's prohibition. Commercial operators hear “12 months” and assume it is universal — it is not, and the assumption writes off revenue that the leasehold framework, properly operated, may still preserve — subject, as ever, to the lease and the rest of service charge law. Both errors are live in the sector now, sometimes inside the same organisation on different developments.

The boundary is also about to see traffic. Government and Ofgem have adopted a staged approach to unbundling heat charges from rent and service charges. Networks currently operating within the Landlord and Tenant Act 1985 framework are not subject to an immediate universal requirement to unbundle — but Ofgem's final guidance anticipates that, as individual metering is introduced, suppliers should charge separately and unbundle heat from rent or service charges where this is possible and not prevented by the applicable lease or legal framework. The population falling within B7.3 may therefore change as metering, contractual arrangements and policy develop — and every change in a network's charging model is a reclassification event: its position against the back-billing regimes must be analysed afresh on the day the model changes.

The conclusion of this paper is that back-billing is not a question about the age of the bill. It is a classification question followed by a causation question followed by an evidence question: what kind of charge is this, why was it not billed sooner, and which clock is actually running? The defence is equally concrete: a portfolio map recording the legal route of every network's charges, a back-billing decision record completed before any historic demand goes out, an access-and-information log kept as a matter of routine, and a written back-billing policy that routes each network to its regime. Operators and landlords who cannot answer the three questions per network — not per organisation — are carrying a financial exposure that compounds monthly and only becomes visible when a resident, an auditor or the Energy Ombudsman asks first.

## 1. The twelve-month rule and what it is for

Condition B7 is Ofgem's back-billing protection, and it opens with a deliberately broad trigger. A charge recovery action is not just issuing a bill: B7.1 catches the authorised person or any Representative issuing a Bill to a Domestic or Microbusiness Consumer *or otherwise seeking to recover* charges for supplying them — expressly including recovery via a prepayment meter or via increased direct debits. Quietly ratcheting a direct debit to claw back an old undercharge is a charge recovery action; loading historic debt onto a prepayment meter is a charge recovery action. The prohibition then bites in two limbs: subject to the exceptions, recovery may only reach units of heating, cooling or hot water which could reasonably be considered to have been consumed within the 12 months preceding the date the action was taken, and, where applicable, other amounts accrued within that same window.

Two drafting details deserve attention. The clock runs from *consumption*, not from billing or supply — the “could reasonably be considered” qualifier acknowledging that on estimated or infrequently read meters, when units were consumed is itself a judgement. And the second limb sweeps in non-unit amounts — standing charges and other accrued sums — on the same 12-month footing.

The consumer protection logic is the one that has applied in gas and electricity for years: a household should not face a sudden demand for years of accumulated charges because the supplier failed to invoice, failed to use information it held, or failed to notice its own metering and billing errors. Understood properly, B7 is an allocation of consequences. When billing fails, someone absorbs the cost of the failure, and B7 says that beyond 12 months it is, by default, the supplier — unless an exception applies or the charge sits outside the condition altogether as a Service Charge. That makes it, in practical terms, a solvency rule for billing discipline. A £50-a-month undercharge left undetected for three years is not an £1,800 debtor; much of it may simply be unrecoverable. Run the same error across a 500-home network and a quiet billing defect becomes a six-figure write-off — £900,000 gross across the illustration above, of which the recoverable fraction depends entirely on the analysis this paper sets out. (The figures are illustrative, not drawn from a client case.)

For the consumer, B7 is protection against the shock bill. For the operator, it is a deadline that started running the day the billing went wrong — usually long before anyone knew it had.

## 2. The exceptions: obstruction and its siblings

B7.2 sets out the circumstances in which the prohibition does not apply. Two are structural housekeeping: charge recovery actions taken before the condition took effect (B7.2.1), and the continuation of steps to obtain payment for the same units — and, where applicable, the same amounts in respect of a Standing Charge or other type of Charge — where the original action complied with the 12-month rule and the consumer has not paid (B7.2.2). That second one matters operationally: a compliant recovery that turns into a long collections process is not re-caught by the passage of time. The debt was pursued in time; chasing it is not a new breach. A fourth limb (B7.2.4) reserves the Authority's power to specify further circumstances after consultation — a reminder that this list can grow.

The exception that matters most in practice is B7.2.3: the prohibition does not apply where the authorised person has been unable to take a charge recovery action for the correct amount due to the obstructive or manifestly unreasonable behaviour of the Domestic Consumer or Microbusiness Consumer.

Read the test carefully, because it is broader than the folklore version — but bounded. It is not limited to refused meter readings: conduct that prevented the supplier from establishing and pursuing the correct amount of heating, cooling or hot water units can engage it — refused access, withheld information the supplier reasonably needed, behaviour that manifestly frustrated correct billing. But the wording sets its own limits: the behaviour must actually be obstructive or manifestly unreasonable, it must have caused the failure to bill correctly, and it speaks to the *units*[2] — do not assume it revives every historic non-unit charge because access was refused once. The principle is fair on both sides. A supplier that held what it needed and failed to use it absorbs the consequence; a supplier genuinely prevented by the consumer's behaviour does not have to fund that behaviour.

But the words “obstructive” and “manifestly unreasonable” set a real threshold, and the line is entirely evidential. “We couldn't get a reading” — asserted two years later, with nothing behind it — does not establish the exception. What establishes it is a contemporaneous record: dated access requests, the methods used, appointments offered and refused, information requested and withheld, correspondence, escalation steps, and a note of what the consumer actually did or declined to do. Two residents in the same block can present identical arrears and occupy opposite legal positions — one behind genuinely obstructive, documented conduct, the other behind a supplier's unread inbox. The exception is not established by having been obstructed; it is established by being able to show, on contemporaneous evidence, that the obstruction happened and caused the failure to bill correctly. An access-and-information log costs minutes per case to maintain; its absence can cost the entire historic balance.

There is a resident-facing corollary that operators should take seriously rather than resent: the “manifestly unreasonable” threshold protects consumers from the exception being used as a retrospective excuse for ordinary billing failure. An operator reaching for B7.2.3 as a label for its own backlog should expect the Ombudsman to ask for the log — and to draw the obvious conclusion when there isn't one.

## 3. The service charge carve-out: categorical, but only as wide as the definition

For housing providers, the pivotal provision is B7.3, and in its final form it is short: where the authorised person or any Representative takes a charge recovery action against a

Domestic or Microbusiness Consumer[3] in relation to a Charge that is a Service Charge, paragraph 7.1 does not apply. No condition, no per-action test. Structurally this now mirrors the service charge carve-out in Condition B3 (Paper 6 in this series): a categorical disapplication for a defined category of charge.

The work is all being done by the defined term. A Service Charge, for these purposes, means a service charge within the meaning of section 18(1) of the Landlord and Tenant Act 1985, or any similar charge to which equivalent legal protections apply elsewhere in Great Britain. That definition is the entire boundary — and it is a boundary of law, not of labelling. Classification depends on the governing lease or tenancy agreement and the statutory definition, not the description used by the billing system. The statutory question is whether the amount payable varies or may vary according to the relevant costs: inside that machinery, the charge is a Service Charge; a genuinely fixed payment that cannot vary with costs may fall outside it.[4] Appearing on the service charge statement does not make a charge a Service Charge; the governing agreement does.

Why is Ofgem content to disapply its own back-billing protection categorically? Because a charge inside the definition is, by that very fact, inside a parallel protective regime. For residential service charges, section 20B of the LTA 1985 bars recovery of costs incurred more than 18 months before the demand, unless a compliant written notification was served within the window.[1] The consumer is protected by one clock or the other; what B7.3 avoids is running both at once. Two consequences follow. Missing the section 20B window is not a breach of B7.1 — it does not need to be, because the absence of a B7 breach does not make the sum recoverable: the landlord must still establish recoverability under the lease and the applicable landlord and tenant legislation, section 20B included. And on enforcement, a resident can rely on section 20B in correspondence and complaints, but questions of legal liability ultimately fall to the court or, where it has jurisdiction, the First-tier Tribunal[5] — and which ombudsman door is the right one depends on the nature of the complaint and the arrangements, a boundary examined in Paper 7 in this series.

> **Sidebar: the population inside the carve-out is going to move.** *Government and Ofgem have adopted a staged approach to unbundling heat charges from rent and service charges — charging heat separately so that consumers are not exposed to eviction or forfeiture for non-payment of what is really an energy bill. Networks currently operating within the Landlord and Tenant Act 1985 framework are not subject to an immediate universal requirement to unbundle, but they are not excluded from the direction of travel: Ofgem's final guidance anticipates that, as individual metering comes into effect, suppliers should charge separately and unbundle heat from rent or service charges where possible and not prevented by the lease or legal framework.[6] The population falling within B7.3 may therefore change as metering, contracts and policy develop.*

Nor is metering a lever most operators can simply decline to pull: the existing metering regulations already impose duties that differ by network and building type,[7] and metering policy is expected to develop further alongside HNTAS. Assess each scheme against the precise provisions — but for many currently unmetered schemes, the practical question will be when the trigger fires, not whether.

The hardest cases are rent-bundled schemes — heat inside the rent, with no discrete charge at all. Heat included within a genuinely fixed and indivisible rent will not ordinarily satisfy the section 18(1) definition merely because part of the rent economically reflects heating costs. That does not, however, automatically determine how B7 applies: whether a later demand constitutes recovery of an identifiable Charge for supplying heat will depend on the contractual arrangements, the way the amount is calculated and demanded, and the facts of the case. Rent-bundled schemes therefore require specific legal analysis rather than automatic allocation to either the 12-month or the 18-month regime — and when such a scheme unbundles onto a discrete metered charge, or restructures its recovery into a variable service charge, the move is a reclassification event: the three questions this paper turns on get fresh answers, and any historic balance straddling the change needs analysing on both sides of the migration date.

The tempting summary — supply agreement means 12 months, service charge means 18 — remains a useful orientation and a dangerous resting place, for three reasons. First, the clocks measure different things: B7.1 reaches back from the date the charge recovery action was taken against units consumed; section 20B runs forward from when the *cost was incurred* to when it is demanded or notified. They are different machines, and mapping a case from one to the other mid-analysis produces wrong answers in both directions. Second, section 20B has a proviso B7 does not — the written notification route that preserves recovery — an operational discipline heat billing teams inherited from housing law without necessarily knowing they had. Third, whether a charge is a Service Charge within section 18(1) is a legal question about the lease and the charge, not a labelling choice: a housing provider can genuinely sit on different sides of B7.3 on different developments, which means one generic back-billing policy is applying the wrong regime somewhere in the portfolio.

## 4. The error pattern

The failures we see cluster on both sides of the boundary.

**Pattern one: the housing over-read.** “It's billed through the service charge, so B7 doesn't apply to us.” The label is doing no legal work in that sentence. The carve-out is engaged by the section 18(1) definition, not by the billing route the finance system happens to use — and providers running the assumption tend to discover, mid-dispute, that some networks bill heat under supply agreements after all, that some charges never sat within the lease's service charge machinery, and that the 12-month prohibition has been quietly running against balances assumed safe. Meanwhile, on the genuine service charge side, the section 20B deadline is running: an out-of-time demand with no compliant notification fails under the leasehold regime itself — the tenant is simply not liable for that slice[1] — whatever B7 says.

**Pattern two: the commercial over-read.** "Domestic back-billing is capped at 12 months, always." Operators and their billing contractors write off historic balances on genuine service charge networks that the leasehold framework — properly operated, within the 18-month demand-or-notify window — may still preserve: a straightforward revenue loss caused by applying the more familiar regime to the less familiar structure, and one that only crystallises after the balance is conceded. The mirror oversight also exists within B7 itself: forgetting B7.2.2, and treating the continued pursuit of a debt that was recovered in time as though it were a fresh, out-of-time action.

**Pattern three: the retrospective obstruction claim.** The arrears review finds old balances; someone remembers access was difficult; "obstruction" appears in the recovery letter. B7.2.3 requires obstructive or manifestly unreasonable behaviour that left the supplier unable to act for the correct amount — a threshold, not a label. With no contemporaneous evidence, the exception fails, the recovery is challenged, and the operator has converted a quiet write-off into a contested one — with an Ombudsman finding attached.

**Pattern four: the sequence error.** The analysis starts in the middle: "does B7.2.3 save this?" — asked before anyone established whether the charge is even inside B7.1, or "is this over 12 months old?" — asked before anyone established which regime's clock applies. The right sequence is short and unforgiving: identify the consumer and the contractual route; determine whether the Charge is a Service Charge within section 18(1) — if it is, B7.1 does not apply and the section 20B machinery governs; if it is not, apply the 12-month prohibition; then, and only then, ask whether a B7.2 exception is engaged and what evidence proves it. Start at step three and every subsequent answer inherits the error.

## 5. What this costs, on both sides of the meter

For **residents**, the boundary errors are not abstract. The housing over-read produces demands for historic sums under a regime that does not permit them — shock bills, arrears entries, and in the worst cases debt-recovery activity against households who were entitled to the very protection the operator did not know applied. The obstruction misuse turns a supplier's own backlog into an accusation against the consumer. Both are exactly the complaint archetypes consumer redress exists for — though which door is the right one is itself part of the analysis: depending on the arrangements, the route may run to the Energy Ombudsman, the Housing Ombudsman, or ultimately the court or First-tier Tribunal (the jurisdictional boundary is the subject of Paper 7 in this series). Whichever the route, the complainant's case is straightforward: identify the charge, identify the regime, show the demand fell outside it.

For **operators and landlords**, the exposure compounds in silence. Every month a misclassified network runs, the recoverable fraction of its historic balances shifts — down, where the 12-month rule is running unnoticed; into jeopardy, where s20B's demand-or-notify window is closing without a notification. The gross numbers are rarely dramatic per household and routinely material per network. And the discovery event is almost never internal: it is a resident's challenge, an auditor's question, or an Ombudsman information request, each of which arrives after the position has hardened.

## 6. What operators and landlords should do

**Start with the lease or tenancy agreement, not the spreadsheet.** For every network, document the legal route by which heat charges reach each category of consumer: separate supply agreement, service charge within section 18(1) under the governing lease or tenancy agreement, or something that needs specific analysis. This is the same portfolio map that the service charge boundary in Condition B3 requires (see Paper 6 in this series); one exercise serves both conditions.

**Create a back-billing decision record.** Before any historic recovery goes out, someone answers in writing, in order: what is the contractual basis of this charge; is the Charge a Service Charge within section 18(1) LTA 1985 (or an equivalent-protection charge elsewhere in Great Britain); if it is, B7.1 does not apply — but does this recovery sit within section 20B's 18-month window, or is a written notification in place; if it is not a Service Charge, what period does B7.1 permit; why was the charge not billed sooner; is any B7.2 exception engaged; and, if B7.2.3 is relied on, where is the contemporaneous evidence of the obstructive or manifestly unreasonable behaviour. The record is the control — and it is also the defence exhibit if the recovery is later challenged. Re-run it from the first question whenever the charging model changes: unbundling, the arrival of individual metering, or any move between rent, service charge and supply-agreement recovery resets the classification, and balances straddling the change need answering under both regimes.

**Build the access-and-information log now.** Dated requests, methods, outcomes, escalations, information withheld. It is the entire difference between a B7.2.3 exception that works and one that fails, and it cannot be reconstructed later.

**Run the section 20B machinery as a deadline system.** On service charge networks: 18 months from cost incurred to demand, or a compliant written notification within the window.[8] Diary it per cost — and pin down the date each cost was legally incurred, rather than assuming it from the invoice date, payment date or accounting year-end.

**Check the contract terms, not just the process.** B7.4 and B7.5 require the terms of each Supply Contract entered into, made or varied after the launch date to comply with the condition, and prohibit enforcing or taking advantage of any incompatible term. A recovery process fixed in operations but contradicted by the contract's own wording is still a compliance failure waiting to be quoted back.

**Get the policies in place before the first demand.** A written back-billing policy that encodes the sequence in this paper — classification, regime, window, exceptions, evidence — turns the decision record from an ad hoc exercise into business as usual, and it is likely to be among the first documents a resident's representative, an auditor or an ombudsman asks to see. A recovery defended by a policy beats a recovery defended by a reconstruction. If your current policy pre-dates the final conditions of 13 January 2026, check it against Appendix 2 before relying on it.

**Do not run one policy across a mixed portfolio.** If different networks bill through different routes, the back-billing policy must say so and route each network to its regime. A single generic policy is not simplification; it is a guarantee that the policy is wrong somewhere.

## 7. Conclusion

The 12-month rule is not the whole of B7; the service charge carve-out is categorical but only as wide as a statutory definition, not a billing label; and obstruction is not a magic word that revives old debt. What connects the three is that each turns on facts the operator either recorded at the time or cannot now establish: the legal route of the charge, the position against the applicable clock, the behaviour that prevented correct billing.

The organisations most likely to get this wrong are not the careless ones. They are the ones asking one question — how old is the bill? — where the framework asks three: what is the charge, why is it late, and which clock is actually running. The good news is that all three are answerable in advance, cheaply, network by network. The bad news is that after the demand has gone out under the wrong regime, none of them is.

## How Heat Network Compliance helps

If back-billing risk is a classification problem, the defence is documentation that classifies before it demands. The HNC Policy Generator includes back-billing documentation built around Condition B7 — the 12-month restriction, its exceptions, and the service charge boundary into section 20B — alongside the billing and transparency policies the same disputes engage. The Compliance Assessment (£995 + VAT) tests billing and recovery documentation against the final Authorisation Conditions, and is particularly suited to mixed portfolios where different networks sit on different sides of the boundary.

All available at heatnetworkcompliance.co.uk.

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### Notes

1. Strictly, section 20B(1) LTA 1985 provides that the tenant is not liable to pay so much of the service charge as reflects relevant costs incurred more than 18 months before service of the demand. The saving in section 20B(2) requires written notification, within that 18-month window, that the relevant costs had been incurred *and* that the tenant would subsequently be required under the lease to contribute to them by payment of a service charge. Whether the restriction bites in a contested case is ultimately a matter for the court or tribunal.

2. B7.2.3 refers to inability to take a charge recovery action for “the correct amount of the units of heating, cooling or hot water”. It does not expressly extend to non-unit sums such as standing or administration charges; such amounts may follow from a corrected consumption calculation, but their revival is not spelt out in the condition.

3. The express inclusion of Microbusiness Consumers in B7.3 is likely to have limited application through the section 18(1) limb, which concerns tenants of dwellings; its significance may lie principally in mixed-use cases or in the equivalent-protection limb of the definition. The exact scope has not yet been tested.
4. Fixed on-account instalments within an ultimately variable service charge regime, reconciled against actual costs, are not outside the section 18(1) definition merely because the instalment amount is fixed during the year. The test is whether the amount payable varies or may vary according to the relevant costs.
5. Ofgem's billing guidance identifies the Housing Ombudsman, rather than the Energy Ombudsman, as the complaints body for Service Charge billing, and its consumer protection guidance signposts housing routes including LEASE and the First-tier Tribunal. Determinations of service charge payability and reasonableness in England commonly sit with the First-tier Tribunal. The boundary between the two ombudsman schemes is not yet fully settled.
6. The August 2025 government response excluded LTA 1985 arrangements from the initial unbundling condition. Ofgem's final consumer protection guidance (January 2026) goes further: when individual metering comes into effect for networks governed by sections 18–24 LTA 1985, Ofgem expects suppliers to charge separately and unbundle heat from service charges or rent where possible, and does not expect existing leases to be a barrier where installation and unbundling are technically feasible and aligned with HNTAS.
7. The Heat Network (Metering and Billing) Regulations 2014 (SI 2014/3120, as amended in 2020) distinguish between metering at the point of entry to buildings and individual final-customer metering, between district and communal networks, and between new and existing buildings, with technical feasibility and cost-effectiveness tests applying in specified cases. HNTAS metering requirements remain subject to future policy development.
8. The section 20B(2) notification must state both that the relevant costs have been incurred and that a contribution will subsequently be required under the lease. A compliant notice lifts the section 20B time bar only: recoverability still depends on the lease or tenancy agreement, section 19 reasonableness, any applicable consultation requirements and the other ordinary rules of service charge recovery.

## Sources


- Ofgem, *Heat networks regulation: authorisation conditions decision*, Appendix 2 — General Authorisation Conditions (13 January 2026), Condition B7 and the definition of Service Charge.
- Ofgem, *Heat networks regulation: consumer protection guidance — decision* (January 2026).
- Landlord and Tenant Act 1985, sections 18(1) and 20B (including the subsection (2) written notification proviso).
- Heat Network (Metering and Billing) Regulations 2014 (SI 2014/3120), as amended.
- Energy Ombudsman, *Terms of Reference — Heat Network Suppliers*.
- Heat Networks (Market Framework) (Great Britain) Regulations 2025 (SI 2025/269); Energy Act 2023.
- Ofgem/DESNZ, *Heat networks regulation: government response* on implementing consumer protections (August 2025) — unbundling of heat charges policy.

- Ofgem, *Heat networks compliance approach* (ofgem.gov.uk, January 2026) — on the differential application of back-billing and unbundling rules to housing providers under existing housing regulations.

*This paper is analysis and commentary, not legal advice. Readers should work from the canonical documents — in particular Appendix 2 to Ofgem's decision of 13 January 2026 and the Landlord and Tenant Act 1985 — when making compliance and recovery decisions.*