

Heat networks

Energy – UK – October 2026

A changing regulatory landscape

In brief

- Ofgem's heat-network regime largely took effect across Great Britain on 27 January 2026, introducing the initial authorisation conditions and consumer-protection framework. Existing operators and suppliers had deemed authorisation from 1 April 2025.
- The Green Heat Network Fund provides £195 million a year in capital grants for eligible projects in England and Wales until 2029/30. Scotland has separate funding and project-development support.
- The Energy Act 2023 enables heat-network zoning in England and the government has published its intended design, but implementing regulations are still in progress.
- The Department for Energy Security and Net Zero (DESNZ) plans to launch the Heat Network Technical Assurance Scheme from 2027, subject to final regulations, standards and implementation arrangements.
- Scotland is further ahead on statutory zoning, but not on developer rights. Local-authority review and zone-designation provisions are in force. Identification through a Local Heat and Energy Efficiency Strategy is not a formal designation, and designation does not itself prompt development.

The current landscape

Heat networks, also known as district or communal heating, supply heating, cooling and hot water from a central source to multiple buildings or homes through insulated pipes. They currently provide around 3% of the UK's heat, across a diverse sector that includes more than 14,000 networks according to Ofgem estimates, from small communal systems to major district schemes. The government estimates that they could provide around 20% of the UK's heat by 2050. Its 2024 market overview identified £60 billion to £80 billion of investment potential by 2050, although this is a sector level estimate rather than a committed investment programme.

The sector broadly splits between district networks, which connect multiple buildings such as hospitals, universities, and high-rise housing to a central energy centre, and smaller communal networks, typically serving flats within one building. Heat has historically come from gas combined heat and power, but the sector is moving towards lower-carbon sources including large-scale heat pumps and recovered industrial heat and water sources.

Activity is concentrated in dense towns and cities, where demand is high and buildings are close together. London is a particular focus, with schemes being developed to harness heat from the River Thames, while major heat-network developments are also progressing in Leeds, Sheffield and Bristol. Ownership remains uneven: commercial operators such as E.ON, Vattenfall, Vital Energi, SSE and Veolia are driving larger new schemes, but most existing networks are small, lack economies of scale and are owned by social landlords or local authorities. This fragmentation, alongside the sector's recent lack of specific regulation, has led to varied pricing, billing and service standards and limited customer redress. New regulation and funding are intended to address these weaknesses.

Regulation across Great Britain

The Energy Act 2023 and the Heat Networks (Market Framework) (Great Britain) Regulations 2025 establish the statutory market framework for England, Wales and Scotland. Northern Ireland is outside this. Operators and suppliers already carrying out regulated activities received automatic "deemed authorisation" from 1 April 2025, allowing them to continue operating during the transition.

Ofgem's principal authorisation conditions took effect on 27 January 2026. They cover matters including organisational conduct, heat-supply agreements, billing and price transparency, complaints, vulnerable customers, prepayment, disconnection, fair pricing, cost allocation, financial resilience and continuity of supply. Heat-network consumers can also use the Energy Ombudsman where an eligible complaint has not been resolved by the supplier.

Ofgem may obtain information, investigate suspected breaches, make enforcement orders, impose financial penalties and require consumer redress. Its heat-network enforcement guidelines and penalty policy were published on 20 February 2026. Where a landlord also supplies heat, heat-network obligations apply alongside relevant housing law.

Relevant operators and suppliers benefiting from deemed authorisation must register their regulated activities with Ofgem by 26 January 2027. Registration requires information about the organisation, ownership, regulated activities, financial resilience and consumer-protection arrangements. Ofgem has issued guidance for shared-ground-loop networks and networks involving more than one operator.

Funding and investment

England and Wales

The Green Heat Network Fund supports new low-carbon heat networks and the expansion, retrofit and decarbonisation of existing systems. Extended from England to Wales on 7 April 2026, the fund is backed by £195 million a year for projects across both nations for the rest of the decade. Round 12 closed at 11.59 pm on 25 September 2026, with funding available until 2029-30. Public, private and third-sector organisations may apply, but individuals, households and sole traders are not directly eligible.

The Heat Network Efficiency Scheme (HNES) provides separate support for underperforming existing networks. Revenue grants may cover up to 100% of eligible optimisation-study costs, while capital grants may meet up to, but not including, 50% of eligible improvement costs. The scheme runs to 31 March 2030, providing a route to diagnose faults, reduce heat losses and improve reliability. England is also developing a statutory zoning regime to accelerate network investment in suitable areas. This does not extend to Wales.

Scotland

Scotland's policy framework is led by the Heat Networks (Scotland) Act 2021, the Heat Networks Delivery Plan and its regular reviews. Statutory targets require combined heat supply from networks to reach 2.6 TWh by 2027, 6 TWh by 2030 and at least 7 TWh by 2035. The 2027 and 2030 figures were described by the Scottish Government as approximately 3% and 8% of the relevant non-electrical heat-demand baseline.

The Scottish Government's March 2026 review estimated that heat supplied through networks rose from 1.36 TWh in 2022 to 1.57 TWh in 2025, while emphasising significant limitations in available data. The figures should therefore be treated as best estimates rather than a precise measure of progress.

Scotland's Heat Network Fund provides co-funded capital support in the form of repayable assistance for the funding gap of a project. The support can be used for new low or zero-direct-emission district and communal systems, eligible network expansion and the replacement of polluting heat sources. Expressions of interest may be submitted throughout the year, subject to eligibility and budget availability. Awards are capped at 50% of eligible capital costs and successful projects must draw down funding by March 2030.

The Heat Network Support Unit supports project development through expert advice and pre-capital grants. Its core applicants are local authorities and other public-sector organisations; social-housing applications may be considered on a case-by-case basis, while other organisations are asked to contact the unit first. Published support includes up to 100% of a detailed feasibility study, capped at £50,000, and up to 50% match funding for an outline business case, capped at £75,000, subject to the scheme's conditions and funding availability.

Zoning

England

The Energy Act 2023 gives the government powers to introduce heat-network zoning in England. The Warm Homes Plan sets a policy target for networks to meet 7% of England's heat demand, equivalent to 27 TWh, by 2035. A National Zoning Model has been tested in 28 English towns and cities to identify places where networks are expected to offer a low-cost route to lower-carbon heat.

The government's January 2026 policy response proposes a national heat-network zoning authority and local zone coordination bodies. Local bodies would refine boundaries, consult, publish market prospectuses and run competitive processes to select zone developers. Selected developers could receive exclusive development and operation rights within defined delivery areas, subject to the final legislation and appointment terms.

The proposed regime would allow connection requirements to apply to specified categories of property. These include certain new buildings, existing communally heated buildings and existing non-domestic buildings with wet heating systems and an annual heat demand above 100 MWh. Individually heated homes would not be compelled to connect under the published proposal, and exemptions are proposed for qualifying low-carbon systems or technical incompatibility. Viable recoverable-heat sources could also be brought within the regime.

Scotland

Scotland's framework is established under the Heat Networks (Scotland) Act 2021. Supporting regulations and statutory guidance came into force on 30 May 2023. Each local authority must review its area to consider whether one or more locations are likely to be particularly suitable for a heat network. The review should normally be undertaken through the Local Heat and Energy Efficiency Strategy (LHEES), although other evidence may support it.

More than 300 potential zones have been identified through local strategies; they have a potential annual heat demand of around 15.9 TWh a year, equivalent to 23% of Scotland's non-electrical heat consumption. However, identification through an LHEES is not a statutory designation. After review, the authority must publish its assessment and decide whether to consider designation itself or refer it to Scottish Ministers. Any area taken forward then follows a separate statutory process, including consultation and publication of the decision. Designation does not itself appoint a developer, confer exclusivity, compel connection or grant rights over private land; those outcomes depend on separate legal mechanisms.

Scottish permits and land rights

Current position

Scottish statutory land powers are not currently available to heat-network developers through an operational installation and maintenance licensing regime. Part 6 of the 2021 Act contains a framework under which a qualifying licence holder could obtain powers relating to compulsory acquisition, wayleaves, surveys, access, maintenance and roadworks. Section 68 provides that a licence holder may, with Scottish Ministers' authorisation, compulsorily acquire land required for construction or operation, including an existing right or interest or creation of a new servitude.

Proposed licensing regime

The Scottish Government consulted between 13 March and 5 June 2026 on replacing the original mandatory licensing model with a future opt-in installation and maintenance licence. The proposal would allow organisations choosing to obtain a licence to access specified statutory infrastructure powers.

Until an applicable statutory route is in force and available, developers will generally need to secure sites, servitudes, wayleaves, access and construction rights through voluntary agreement, or work with a public or statutory body that possesses a relevant power under another legal regime.

Technical and building standards

Heat Network Technical Assurance Scheme (HNTAS)

The Energy Act 2023 provides powers for mandatory technical requirements across Great Britain. DESNZ plans to introduce these requirements through the Heat Network Technical Assurance Scheme, with a planned launch from 2027. The scheme is intended to apply to new and existing networks, from communal systems to large district networks. Existing networks would receive longer transition periods and initially more permissive performance thresholds, recognising the cost and practical difficulty of upgrading older systems and installing the metering and monitoring needed to demonstrate compliance. Certified networks would then report performance data to demonstrate continuing compliance.

Draft Heat Network Technical Standard TS1 was published on 18 November 2025. It builds on the voluntary CIBSE CP1 (2020) code, moving from best-practice guidance towards a formal standard and introducing further requirements across network design, installation, commissioning and operation. Draft HNTAS documents address matters including insulation, flow temperatures, metering, monitoring and evidence of performance. The final scheme design, performance thresholds and detailed implementation timetable had not yet been published.

Future Homes and Buildings Standards in England

The Future Homes and Buildings Standards were introduced in England through amendments to the Building Regulations laid on 24 March 2026. The principal requirements will take effect on 24 March 2027. For most building work, the previous standards may continue to apply where the relevant notice or building-control application is submitted before that date and work on the individual building begins before 24 March 2028. Separate commencement arrangements apply to specified higher-risk building work from 24 September 2027.

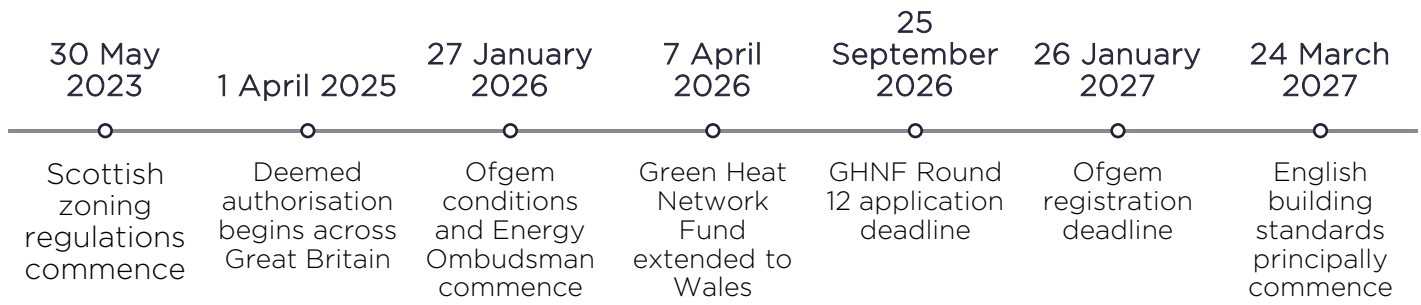
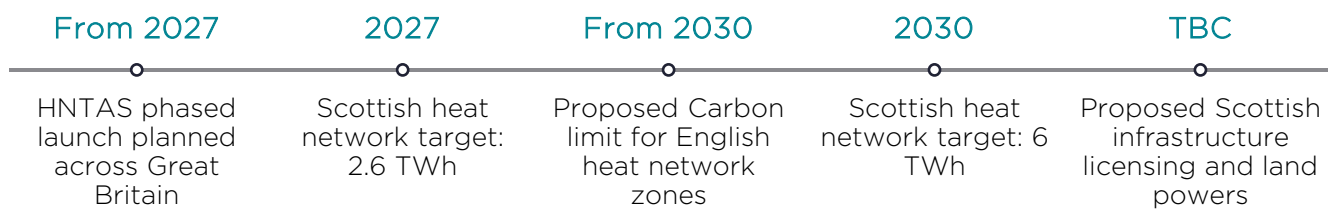
The standards raise energy-efficiency and low-carbon-heating requirements for new homes and non-domestic buildings. Updated Approved Document L sets compliance routes for buildings connected to new or existing heat networks: communal-network dwellings are assessed against a standardised low-carbon heat-network notional building, while district-network connections may use a revised "sleeving" route to show sufficient low-carbon heat is available. Any temporary heating before permanent connection must also be low carbon. Heat networks remain a recognised compliance route, but developers will need early, reliable evidence of network carbon performance and available low-carbon capacity.

Implications of change

The emerging framework creates both immediate compliance requirements and longer-term development opportunities that vary depending on whether a party operates an existing network, owns buildings or land, controls a potential heat source, or is planning a new development.

- Existing operators and suppliers: Confirm the legal entities carrying out operation and supply, map responsibilities across each network, prepare registration information and test compliance with Ofgem's authorisation conditions before 26 January 2027.
- Owners of underperforming networks: Assess metering, monitoring, heat loss, controls, billing and asset condition. Consider HNES in England and Wales and the relevant Scottish funding route, while recognising that grants are competitive and cannot substitute for a viable investment case.
- Developers and major heat users should assess whether buildings are compatible with the proposed network, whether sufficient low-carbon capacity will be available when required, and whether any grid constraints could affect delivery. Contracts should clearly allocate the risks of delay, underperformance or failure to connect. Heat-source owners: Recovered or renewable heat may create a revenue opportunity, but commercial value depends on dependable output, temperature, timing, distance to demand, backup arrangements and the allocation of performance and outage risk.
- Investors and operators: Regulation can improve confidence and consumer outcomes, but projects remain exposed to construction, demand, power-price, grid, performance, customer-affordability and counterparty risks. Due diligence should distinguish policy ambition from enacted and commenced obligations.

Regulatory timeline

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