

UK POLITICAL BACKGROUND

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NORDIC HEAT



THE **SMART** CITY
ALLIANCE

Eco-governance in Practice

Politics

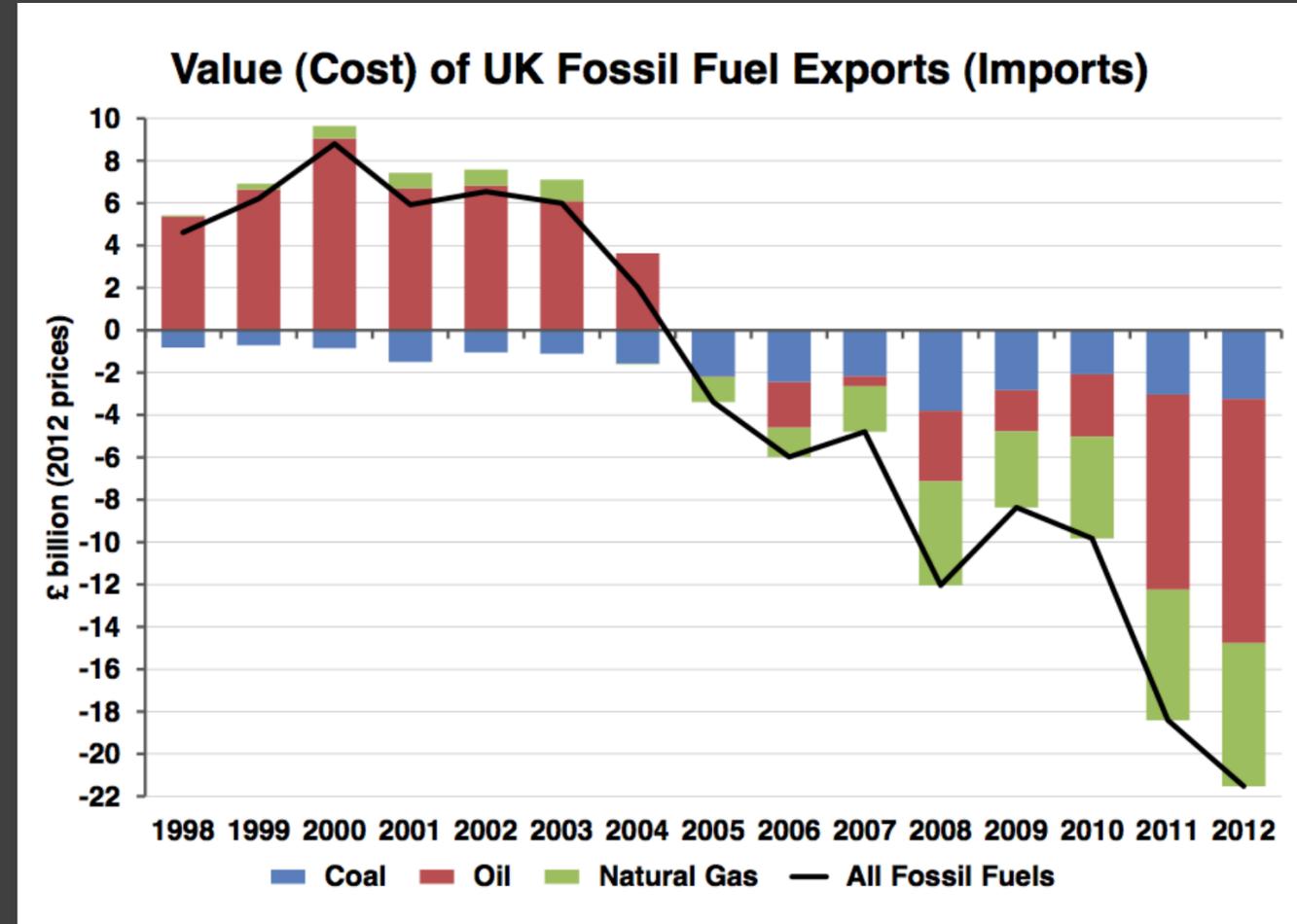
Worse economic prospects since the financial crisis for certain areas and groups

- Government "austerity" re benefits and local government budgets one of the causes of Brexit

Manufacturing good, financial services bad – energy intensive?

Investment in infrastructure good

Energy security / balance of trade



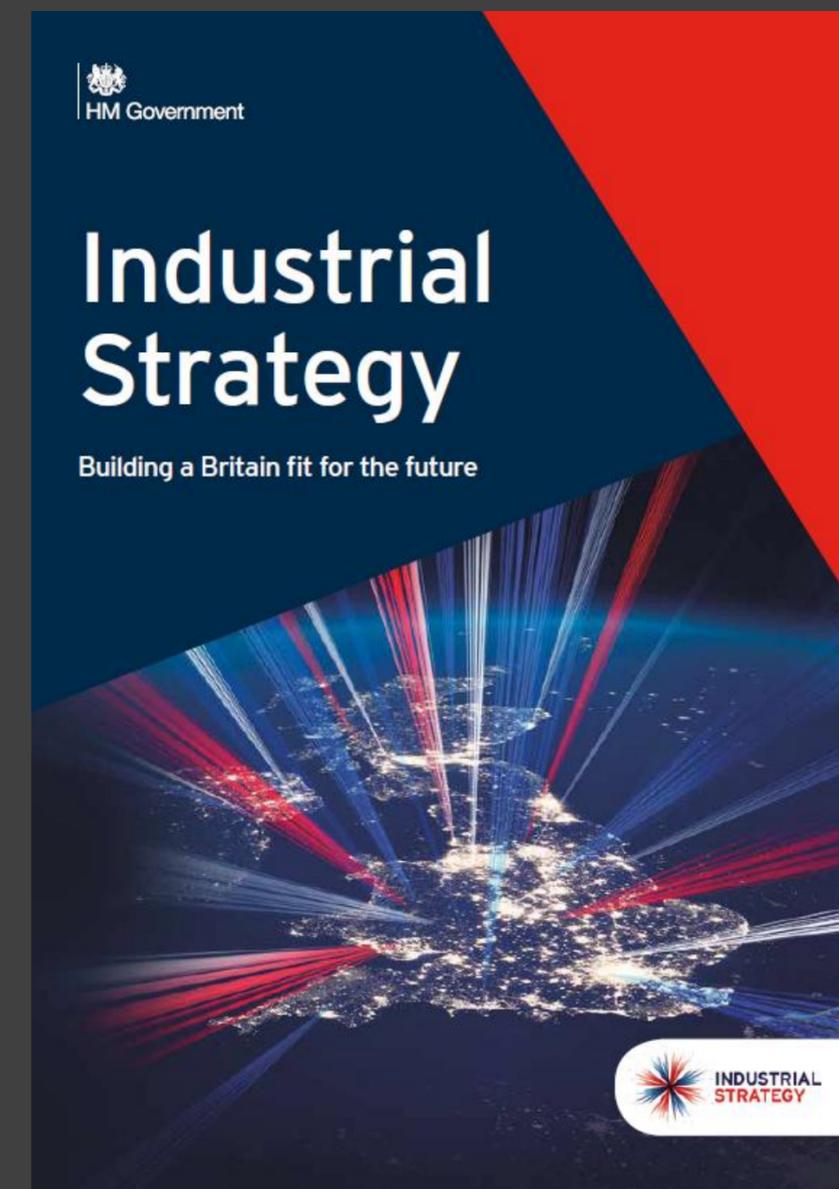
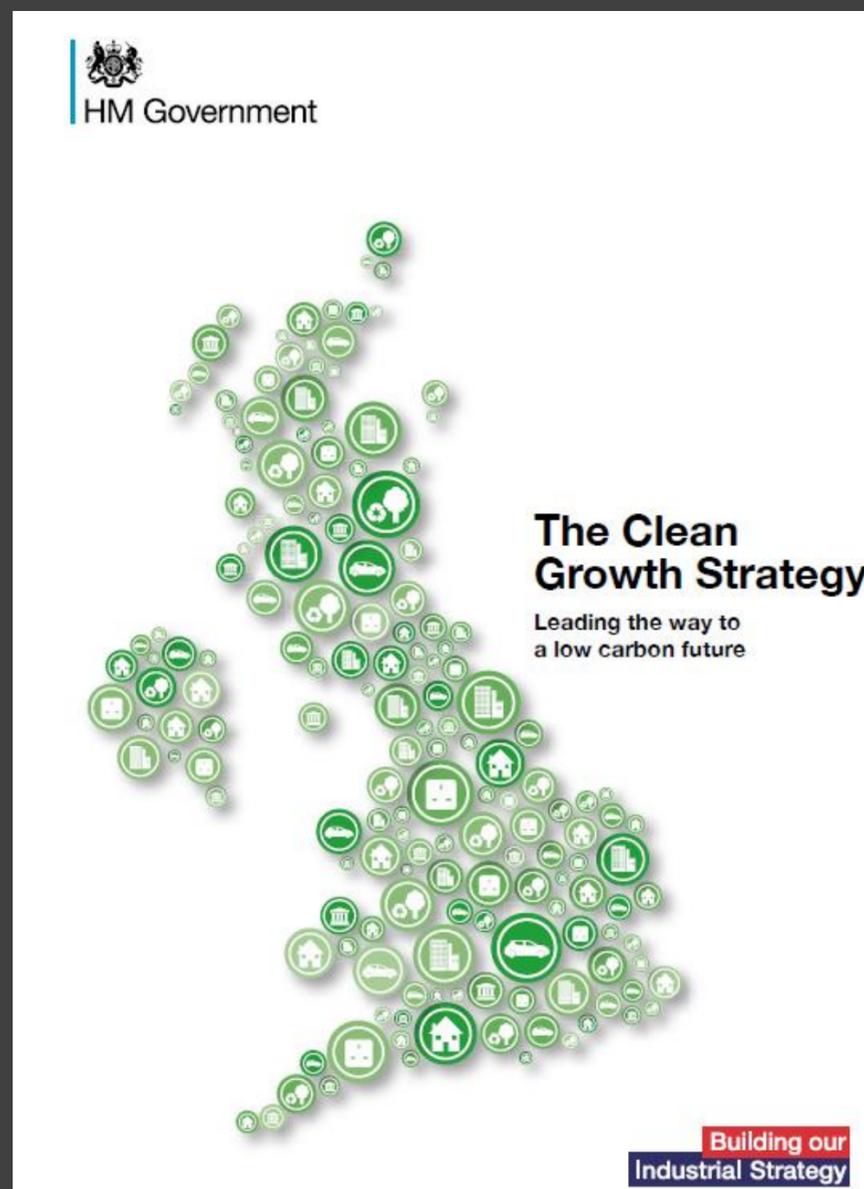
Policies

English “devolution” – local government and LEPS (local economic partnerships) encouraged to take initiative – very keen on local economic growth and local job creation

Place-based Industrial Strategy

The energy “**quadrilemma**” – need secure, affordable, clean energy, **and economic benefits**

- Electricity “done”, but intermittent sources need storage
- Heat is harder to decarbonise, but easier and cheaper to store



Clean Growth Strategy – scenarios range from minimum of 17% to 24% district heating by 2050

- 8 - 10% compound growth required

“Double bottom line” – providing energy, but also local economic development

- Gives value to “waste” heat – e.g. ceramics
- Shows “proactive” local government
- Income for local government

HNIP

- £320 million tender for programme manager, to be ready in the autumn
- See next slides...

		Pathway 1: Electricity	Pathway 2: Hydrogen	Pathway 3: Emissions removal
Non-industrial business and public sector	Emissions (MtCO ₂ e)	3	1	1
	Share of district heat use in heating (per cent)	17%	24%	18%
	Share of electricity use heating (per cent)	83%	13%	80%
	Share of hydrogen use in heating (per cent)	0%	56%	0%
Homes	Emissions (MtCO ₂ e)	8	6	19
	Share of district heat use in heating (per cent)	17%	17%	17%
	Share of electricity use in heating (per cent)	76%	14%	60%
	Share of hydrogen use in heating (per cent)	0%	62%	0%

From Table 10: Characteristics of the 2050 pathways in 2050, p.151, *The Clean Growth Strategy*, October 2017

HNIP aims and objectives

To help create a self-sustaining heat network market

Increasing the volume of strategic, optimised and low carbon heat networks that are built in the UK

Improving the quality of heat networks to meet local community and consumer needs

Building the capacity and capability of project sponsors and the supply chain in order to develop systems of the right type and quality

Investing £320m in heat networks to 2021

Pilot 2016-17

- £24m invested in nine projects (public sector only)

Main scheme

- Expect to launch in Autumn 2018
- Open to all applicant types (public, private, third sector)
- Will offer both grants and loans
- Run by a Delivery Partner (ITT deadline 4 June; final signature 31 July 2018)
- Ends March 2023; possible 2-year extension

Pilot statistics:

- £24m government investment
- £74m total capex
- £2m average grant; range £1m - £3.5m
- £4.25m average loan; range £3.5m - £5m

Expected overall impact on the market

- Fund over 100 projects
- Leverage £1bn private and local investment
- Unlock £16 - £22 billion investment
(estimate from IPPR 'Piping Hot' 2017)

High-level principles underpinning the evaluation parameters :

1. Projects must demonstrate financial viability
2. Projects must demonstrate sufficient economic and social benefit
3. Projects must demonstrate that they offer genuine carbon savings relative to a counterfactual scheme option
4. Projects must design a future-proofed offer to ensure that carbon savings can continue to be made during their expected lifetime

Will be evaluated on individual and relative basis

Eligibility criteria for **main scheme**

1. Heat source 75% CHP or 50% renewable energy or recovered heat or combination
2. Meets certain technical and customer standards
3. Only eligible costs are included
4. Network saves carbon and the heat price will not exceed the counterfactual
5. Evidence of a funding gap and of '**additionality**'

Projects scored on: carbon savings, volume of heat delivered, deliverability assessment.

Additionality means that project would not have gone ahead without Government funding.

Either:

1. (For new networks): The sponsor could not raise the capital, and/or the project IRR, not attractive enough to enable funding on the open market or through other available means alone.

or

2. (For existing or mandated networks): Funding requested for additional technical or commercial features where capital cost is a barrier or which are not required through planning obligations.

Eligible investment costs include:

- The building of new heat networks
- Development of existing heat networks including expansions, refurbishment or interconnection of existing networks
- Commercialisation phase and construction costs
- Works to access recoverable heat
- In England and/or Wales

Funding can be: grants, corporate loans (below market rate), or project loans (non-recourse, with grace period of up to 3 years for connection delay).

The Delivery Partner will have delegated authority within these parameters:

- Grants between £0 and £5 million;
- Loans between £25,000 and £10 million; and if a combination of grant and loan is awarded, the total must also not exceed a Gross Grant Equivalency of £5 million.
- HNIP awards must be less than 50% of the capital expenditure.
- Forecast investor returns subject to certain limits.
- Cannot provide an award where the Project Social Net Present Value plus its contribution towards the HNIP Portfolio Social Net Present Value is less than Zero.
- For Local Authority controlled projects where the capex exceeds £2.4m the project must be off the National accounts, e.g. through the use of an ESCO.
- No “novel or contentious” transactions.



Application process for **main scheme** to be agreed with Delivery Partner. Likely to be approximately:

1. Pre-application submitted
2. Pre-qualification assessment, including basic eligibility check
3. Full application submitted
4. Determination of investability for third party funds
5. Deliverability assessment, scoring against scheme objectives & ranking
6. Decision on funding by Investment Committee
7. Feedback to unsuccessful projects
8. Issue offer letters and draft funding agreements to successful projects

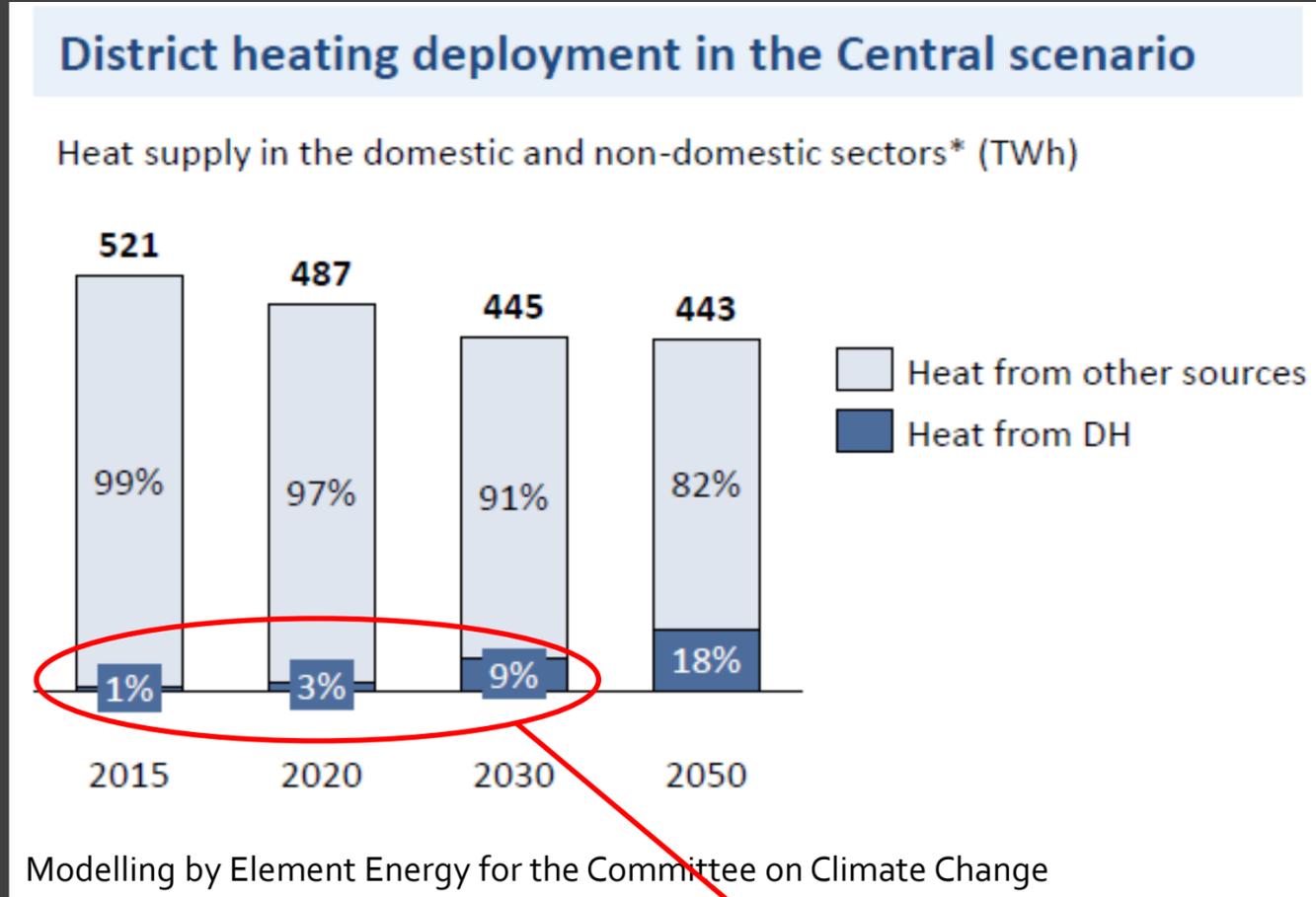
Indicative timeline for main scheme	
Delivery Partner Contract Award	July 2018
HNIP Scheme Launch	Autumn 2018
Application Training Workshops	Oct-Dec 2018
First Applications Received	Autumn/Winter 2018
First round of successful bidders announced	Spring 2019
Funding allocated to first batch of projects	Spring 2019
Ends (unless extended for 2 more years)	March 2023

Overview of **main scheme** available at <https://www.gov.uk/government/publications/heat-networks-investment-project-hnip-scheme-overview>

There is a great deal of momentum behind heat networks in the UK.

The next 2-3 years are the critical time for lift-off in the market.

Brexit unlikely to negatively impact this, but worth focusing on local jobs and economic impact, not just the energy story.



Tripling, then tripling again