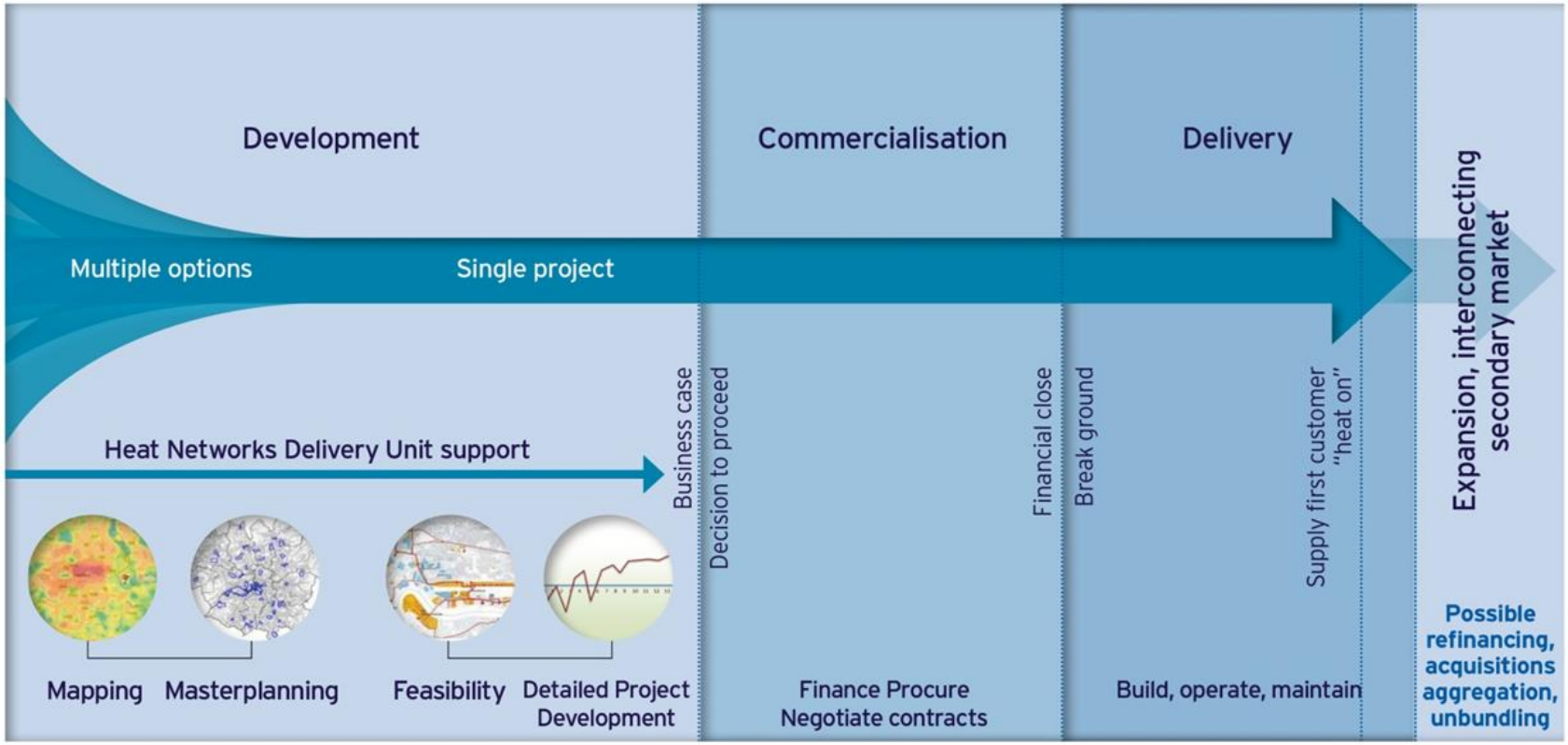
Heat Networks Investment Project

Chancellor's Statement on heat networks in November's Spending Review

*The government will provide over £300m of funding on **heat networks** over the next five years ….. leveraging around £2bn of private and local capital investment….. expected to lead to the construction of some 200 large heat networks in towns, cities and communities across England and Wales heating commercial offices, public sector buildings like hospitals and schools, as well as flats and houses by 2025*

Project scope – pipeline and build



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Aims – volume and type in the short term

1. Heat Networks Investment Project (HNIP) capital support will **increase the volume of heat networks built** by drawing in a significant volume of local and private investment, to deliver carbon savings for carbon budgets 4 & 5 and across the lifetime of the infrastructure asset.

2. HNIP will build capability with and empower local actors (heat network project sponsors) to **develop optimised heat networks that meet local needs**. HNIP is seeking to support heat networks that would not have been developed without Government support and networks with the following additional technical, contractual and financial future-proofed characteristics:
    - Will have explored a suitable range of technical options and are efficient heating and cooling systems that are technically future-proofed.
    - Are commercially future-proofed.
    - Will operate with no customer detriment in comparison to the counterfactual

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…and in the long term

3. By increasing the volume of deployment in the short term the HNIP will contribute, alongside investment in innovation and in development of the appropriate legislative framework, to creating the conditions required for the market to continue to grow sustainably in the 2020s. HNIP will contribute to the **transformation of the market** through:

   - Developing a sustained pipeline of heat network projects that provide a critical mass which allow the sector to benefit from economies of scale.

   - Raise awareness of this infrastructure opportunity with current and future investors.

HNIP measures of success

Actual carbon savings from HNIP-supported heat networks on the basis of initial heat source and efficiencies

Potential additional future carbon savings from HNIP-supported heat networks e.g. where CHP networks switch to lower carbon sources at the end of gas CHP lifecycle (circa 2030)

Scheme design

Who should be eligible to apply?

What commercial structures?

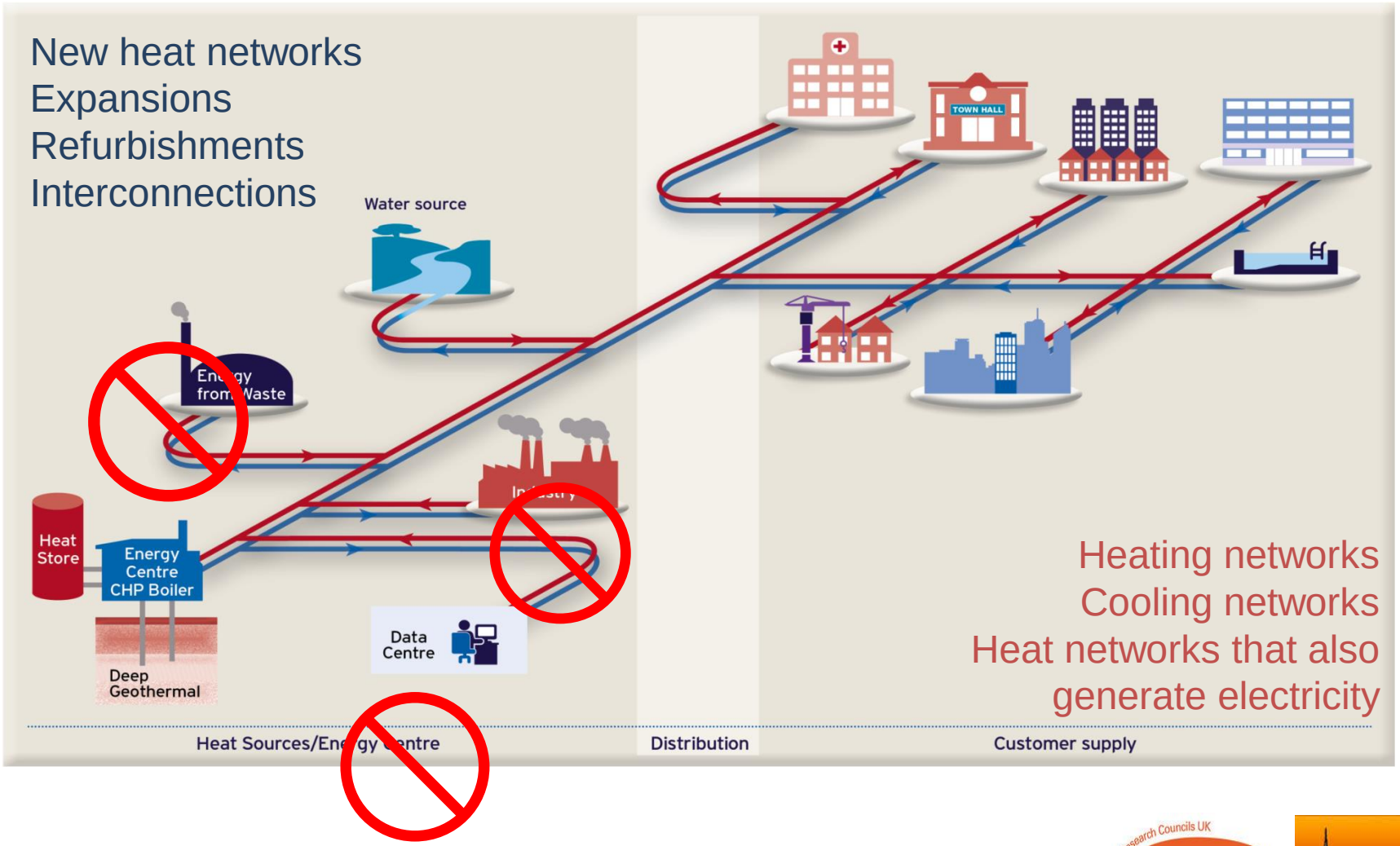
What kinds of heat networks?

How should funding rounds be run?

What decision-making criteria?

What funding mechanisms?

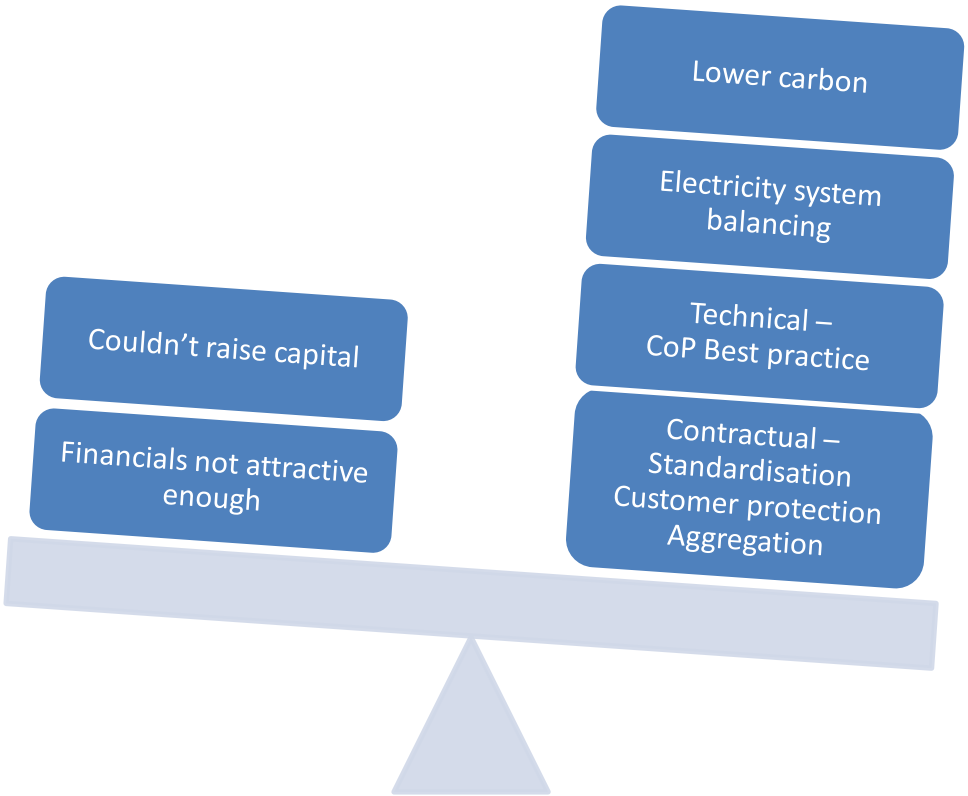
What kinds of heat networks?



Decision making criteria

Economic

Future-proofed



Shouldn't have gone ahead

Don't over reward

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Next steps

- Stakeholder engagement April-June
- HNIP launch in early Autumn 2016
- First payments for tranche 1 in March 2017

Discussion and questions

Tranche 1 funding mechanisms?

What kinds of heat networks should HNIP support?

What decision-making criteria?

Funding mechanisms for later tranches?

For discussion at your tables:

1. What kinds of heat networks should be supported?
2. Which funding mechanisms should be offered (eg grants, soft loans, central Government equity or guarantees)?
3. What decision making criteria should be used to assess capital applications?

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