



Department for
Business, Energy
& Industrial Strategy

Heat Network Efficiency Scheme (HNES) Demonstrator

Guidance for applicants



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1. Introduction

The Heat Network Efficiency Scheme (HNES) Demonstrator is a £4.175m grant scheme for FY21/22 that will open to applicants shortly, with a deadline for funding drawn down of 31st March 2022. It will provide funding to public, private and third sector applicants in England and Wales, to support improvements to existing heat network or communal heating projects that are operating sub-optimally and resulting in poor outcomes for operators and customers. The Department for Business, Energy and Industrial Strategy (BEIS) intends to launch a multi-year HNES Main Scheme in 2022/23 subject to further funding.

As of March 2018, it was estimated¹ that there are over 13,000 existing (operational) communal or district heating networks in England and Wales. The 2018 CMA market study on heat networks² found that although operational heat networks offer customers a cost-effective and efficient supply of heat compared to alternatives, some customers experience poorer outcomes in terms of price and service. Recent work by BEIS³ has indicated that some existing heat networks in England and Wales are operating sub-optimally leading to customer detriment.

Heat networks are an essential component of clean and cost-effective decarbonisation of UK heat, supporting net-zero goals. They can utilise otherwise wasted energy, provide grid balancing services in an increasingly electrified heat market, and offer a low carbon supply of heat at competitive prices to households and businesses. Large scale investment is essential to the development of this market and the HNES Demonstrator forms a key part of the Government's Heat Network Transformation Programme (HNTP) – this aims to continue to develop and grow the heat network market and to address some of the challenges of decarbonising the UK's heat sector.

Government capital support for heat networks has tended to focus on developing new projects, as growing heat network deployment is essential across all heat decarbonisation pathways. However, some existing networks will need support to ensure barriers to delivery (e.g., funding gaps, lack of specialist knowledge, poor targeting of improvements) are overcome, customers are experiencing appropriate outcomes, and to prevent poor market trust acting as a handbrake for sector growth. A lack of intervention may impact on the ability to develop the market at a rate required to meet decarbonisation ambitions and creates a strong incentive to support improvements to existing heat networks.

1 <https://www.gov.uk/government/publications/energy-trends-march-2018-special-feature-article-experimental-statistics-on-heat-networks>

2 [Heat Networks Market Study](#) (July 2018)

3 [Heat Networks Consumer Survey](#) (2017); Heat Network Optimisation Opportunities (HNOO) project (Jan 2020 – March 2021).

The HNES Demonstrator will deliver uplifts to performance of existing/operational networks through addressing funding and other barriers. The measures delivered by projects will improve outcomes for both network owners/operators (e.g., improved heat generation/delivery efficiency) and network customers (addressing areas of detriment), supporting short-term and sustained savings in fuel consumption and carbon emissions. These outcomes will also lay the groundwork for projects to optimise performance to enable more efficient and effective decarbonisation in future (for example through future/separate applications to the Green Heat Network Fund (GHNF)).

Projects can apply to the HNES Demonstrator for either revenue grant funding or capital grant funding:

- **Revenue grants** (HNES budget up to £0.375m) – grants to fund procurement or mobilisation of external support to carry out Optimisation Studies. These studies will assess heat network projects to identify causes of sub-optimal performance and recommend costed intervention or improvement measures.
- **Capital grants** (HNES budget up to £3.8m) – grants to part-fund the delivery (installation) of eligible intervention/improvement measures.

Section 2 of this document provides further details of eligible costs for revenue and capital grants.

1.1. The Guidance

This guidance document provides information about the HNES Demonstrator application process. It details how the scheme operates, the eligibility criteria, how applications are to be made and how they will be scored and assessed.

1.2. What are the Aims and Objectives of the HNES Scheme?

The HNES Demonstrator aims to deploy targeted funding into existing district heating and communal heating systems where outcomes are sub-optimal.

The HNES Demonstrator objectives are to:

- Achieve fuel and carbon savings in existing projects
- Improve customer outcomes in existing projects
- Increase the transparency and visibility of heat network performance
- Build an evidence base to inform heat network policy, helping to prepare the market for future regulation and standards.

1.3. How will applicants be assessed?

Applications to the HNES Demonstrator will be assessed and ranked against the following:

Capital grant funding applications

Assessment criteria	Description
Fuel savings (kWh / £ grant)	Applicants will outline the predicted or targeted annual network fuel savings (gas, electricity and/or other) associated with the measures or interventions that HNES funding will support, relative to the project baseline and grant funding request.
Carbon emissions savings (kg.CO2e / £ grant)	Applicants will outline the predicted or targeted annual carbon emissions savings (from reductions in the use of gas, electricity and/or other energy sources) associated with the measures or interventions that HNES funding will support, relative to project baseline and grant funding request.
Network system efficiency improvement (% change to network efficiency)	Applicants will outline the predicted or targeted network system efficiency improvement associated with the measures or interventions that HNES funding will support, relative to the project baseline.
Addressing customer detriment	Applicants will outline their predicted or targeted improvements from a range of defined indicators of customer detriment associated with the measures or interventions that HNES funding will support, relative to the project baseline. The list of customer detriment indicators that projects may target are: <ul style="list-style-type: none">• Targeted reductions in heat tariff• Targeted reductions in service interruptions• Targeted reduction in overheating of communal areas• Improved billing accuracy• Better provision of information to customers• Applicants are encouraged to target improvements to as many of these indicators as possible.

Assessment criteria	Description
Capital costs	<p>Applicants will submit application costs for the measures proposed to be delivered, alongside supporting evidence of how these costs have been derived.</p>
Project deliverability	<p>Applicants will outline their approach to procurement and delivery of the capital works, to demonstrate that they are deliverable within the timescales of the HNES Demonstrator.</p> <p>Funded projects will need to evidence completion of grant funded works (including for funding draw-down by non-Local Authority applicants) by 31st March 2022.</p>
Data availability and baselining	<p>Network baselining requirements set out the minimum data provision by applicants, as well as confirming the availability and quality of project data (see Section 3.1).</p> <p>Baselining data should provide an accurate and relatable annual consumption for the network. Ideally it should consider any adjustments (routine and non-routine) for weather and changes in user patterns.</p> <p>If applicants are not able to provide the minimum baselining requirements, they are encouraged to contact HNES to discuss their project.</p>

Revenue funding (Optimisation Study) applications

Assessment criteria	Description
Revenue costs	<p>Applicants will submit a budget cost for the Optimisation Study being applied for, as per the guidance within this document.</p>
Project deliverability	<p>Applicants will outline their approach to procurement and delivery of the Optimisation Study, to demonstrate that it is deliverable within the timescales of the HNES Demonstrator.</p>

Assessment criteria	Description
	Funded projects will need to evidence completion of grant funded works (including for funding draw-down by non-Local Authority applicants) by 31st March 2022.
Data availability and baselining	<p>Network baselining requirements set out the minimum data provision by applicants, as well as confirming the availability and quality of project data (see Section 3.1).</p> <p>Baselining data should provide an accurate and relatable annual consumption for the network. Ideally it should consider any adjustments (routine and non-routine) for weather and changes in user patterns.</p> <p>If applicants are not able to provide the minimum baselining requirements, they are encouraged to contact HNES to discuss their project.</p>

1.4. How does the HNES Demonstrator operate?

The HNES Demonstrator scheme is a revenue and capital grant scheme with funding to be deployed in FY21/22 with a deadline for funding drawn down of 31st March 2022.

The scheme is open to applicants from public, private and third sectors in England and Wales. It can provide:

- Up to (but not including) 50% of eligible project costs for capital grant applications.
- Up to 100% of eligible project costs for revenue grant applications.

The HNES Demonstrator will run a single application round. Applicants will be required to submit a completed application form along with supporting evidence. Once projects have completed and submitted their application form it will be assessed against the criteria described in this guidance.

There is no upper or lower limit for capital grant funding bids; however, each capital grant funding application to the HNES Demonstrator will be assessed on its own merits, and funding awards will be made subject to budget availability. If the HNES Demonstrator is oversubscribed (for either revenue grants, capital grants, or both) funding awards will be prioritised competitively based on the assessment criteria scoring.

Application assessment process

Once projects have completed an application form and submitted this (with relevant supporting evidence), it will be assessed and scored against the HNES Demonstrator criteria. A checklist of what documents are required is provided as part of this guidance – see Section 3.3.

The recommendations of the assessment process will then be submitted to the HNES Grant Approval Panel (GAP) for review and decisions on which applications are to be awarded funding. Applications are awarded funding on a competitive basis to maximise fuel savings, carbon emissions savings, addressing customer detriment and value for money.

Once funding awards have been confirmed by the GAP, funding agreements will be issued to applicants – these will confirm that grant funding will be used as intended at the time of the application being assessed and funds being allocated.

A condition of all funding awards is that applicants/projects will be required to fulfil the monthly Monitoring and Reporting requirements as set out in Section 7 of this guidance document on a standardised template. This is to enable monitoring and evaluation of the benefits and impacts of the HNES Demonstrator.

Applicants will also need to confirm at application that they have secured appropriate support for the HNES application, secured (and have in place) any required match funding and outline any other subsidies the project may be in receipt of (see Section 3).

2. HNES Demonstrator Eligibility Criteria

2.1. Who can apply?

The HNES Demonstrator is open to applicants in England and Wales that are responsible for operating or managing existing district heat networks or communal heating systems, under either public, private or third sector ownership/operation. Applicants will be the recipients of grant funding (where successful) and will be responsible for ensuring that grant funds are deployed in accordance with funding award. Applicants must be legal entities, with authority to sign-off investment decisions for the heat network they are responsible for. Individuals cannot apply to the HNES Demonstrator.

2.2. What projects will the HNES Demonstrator fund?

The HNES will support existing/operational district heating or communal heating networks that are delivering sub-optimal outcomes for network operators and/or customers.

For the purposes of the HNES Demonstrator, heat networks are systems in which heating, cooling or hot water is generated at a central source and supplied by an operator to multiple third-party customers through a pipe network serving either multiple buildings (district heating) or multiple occupants in a single building (communal heating).

Applicant projects can be made-up of different customer types (e.g., residential, commercial, or mixed), with no restrictions on the existing/operational primary heat generation plant (boiler, heat pump, CHP etc.). District cooling systems can be included within the scope of a project application, where improvements to these systems meet HNES Demonstrator objectives.

2.3. Capital grant funding

The HNES Demonstrator will fund capital measures across the following network categories where the measures directly contribute to achieving the HNES Demonstrator scheme objectives. There is no upper or lower limit for application costs; however, each application is assessed on its own merits including the extent to which grant funded works can be delivered within the timescales of the HNES Demonstrator.

Applicants can apply for up to, but not including, 50% of the total estimated eligible costs.

Category 1: Energy centre / plant room

Eligible measures will include, but not be limited to:

- Reconfiguration of pipework hydraulic arrangements
- Heat generation plant controls
- Distribution network controls
- Pump replacement or removal
- Pumping controls
- Reconfiguration of thermal storage hydraulic arrangement
- Thermal storage controls
- Insulation of pipework and/or other energy centre/plant room components.

A key measure that is not eligible within this category is funding of replacement primary plant, either a like for like heat generator replacement (e.g. replacing an existing gas boiler with a new gas boiler), or a primary generation technology switch (e.g. replacing a gas boiler with a heat pump).

Projects that wish to replace a fossil-fuel based heat generator with a low carbon heat generator should consider the GHNF as an option for funding and a route to delivery. It is envisaged that the HNES Demonstrator and the GHNF will be complementary schemes offering existing networks a two-stage pathway to low carbon operation: 1) HNES delivering performance improvements to enable efficient and effective future decarbonisation; 2) GHNF delivering the switch from fossil fuel generation to low carbon heat sources.

Category 2: Primary / secondary distribution network

Eligible measures will include, but not be limited to:

- Reconfiguration of pipework hydraulic arrangement
- Replacement of pipework
- Distribution pipework insulation (including laterals and risers)
- Distribution network controls
- HIU recommissioning or replacement
- Replacement of faulty HIU parts.

Category 3: Tertiary network

A tertiary system is defined as pipework and associated plant that is located behind the customer meter or Heat Interface Unit (HIU).

Eligible measures will include, but not be limited to:

- System balancing / flushing
- Tertiary system controls (e.g., TRV's, programmers).

Category 4: Metering

The HNES Demonstrator may fund installation of meters and metering equipment where this improves operator knowledge of network performance, enables reporting of project performance, and contributes to reducing customer detriment (e.g. through more accurate billing). The HNES Demonstrator will not fund metering where this is a requirement under the Heat Networks Metering and Billing Regulations⁴. Applicants will be required to confirm eligibility of metering costs (where applicable) against HNMBR requirements at application (e.g., a copy of the cost effectiveness assessment/tool).

It is expected that metering eligible for HNES Demonstrator funding will be limited to:

- Sub-metering;
- New customer level meters where a HNMBR cost-effectiveness assessment is negative.
- Smart solutions that interface between controls and metering including displays, and the ability to access displayed information on existing devices (operator or customers PC and mobile phone).

Funding exclusions

Further to above, the following are costs that are not eligible for HNES Demonstrator capital grant funding:

- Any capital costs already incurred prior to an HNES Demonstrator award having been made.
- Any capital costs unrelated to heat network infrastructure, e.g., improvements to building fabric.
- Any costs relating to engagement activities (e.g., stakeholder management).

⁴ <https://www.gov.uk/guidance/heat-networks>

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- Energy centre / plant room – costs for replacement of the primary heat generation source.
 - Tertiary systems – costs for buying or replacing heat emitters (e.g., radiators) within buildings or dwellings.
 - Metering – costs for metering that is required under the HNMBR.

2.4. Revenue grant funding

The HNES Demonstrator will fund up to 100% of the estimated eligible external costs of heat network Optimisation Studies (where ‘eligible external costs’ means the money paid by the applicant to third parties to deliver the heat network Optimisation Study).

Optimisation Studies will be delivered according to an outline specification and standardised deliverables/outputs provided by HNES including:

- Baselineing of network performance and KPI’s
- Data capture/analysis and site visit(s)
- Investigation of, and reporting on, network performance
- Development of a range of intervention measure packages for addressing areas of sub-optimal operation, including calculated impacts on KPI’s
- Cost and cost-effectiveness assessment of intervention measure packages
- Recommendations reporting.

The HNES Demonstrator will fund between £15,000 and £20,000 per Optimisation Study grant funding application, depending on the scale of each project for which the application is made.

Costs that are not eligible for HNES Demonstrator revenue grant funding include:

- Work already commissioned or incurred before this application
- Internal applicant staffing or secondment staff or charged agencies within applicant organisations, including for project management of the external support / Optimisation Studies.
- Construction, operation and maintenance of a heat network.

Please note this list is not exhaustive, and BEIS reserves the right to exclude additional activities or restrict eligible costs as it deems necessary, in its consideration of a funding application and potential award decision.

3. Applying to the HNES Demonstrator scheme

3.1. Application form

Applicants must submit an application form completed with information as per the categories described below. Applicants may submit more than one funding application, but each application should encompass a single district heating or communal heating project.

3.1.1. Operator and organisation details (including contacts)

Applicants will provide outline details/identifiers of the heat network or communal heating project for which funding is being sought, as well as confirmation of operator/sponsor contact details.

3.1.2. Network system description and details

Applicants will provide high level descriptions of the operating heat network or communal heating system, including primary plant, operational/controls philosophy, distribution network operation, customer interfaces and metering and billing overview. Non-mandatory supporting evidence suggestions are described below.

3.1.3. Outline of indicators of the network sub-optimal outcomes

Applicants will provide narrative descriptions of the indicators of sub-optimal outcomes being experienced (by network operator and/or customers). These could include low heat delivery efficiency, high heat delivery costs, service interruptions, high bypass flow etc. This information is not part of the application assessment/scoring but will support assessors in understanding the opportunities for improvements based on what measures the funding application is for.

3.1.4. Network data availability/quality, and baselining of performance data

Applicants will provide a narrative description of the metering and data capture systems currently employed, covering data availability and data quality.

A set of network baseline data will be provided as per requirements below:

Capital grant applications: Applicants are expected to have completed some level of investigation/calculation prior to application in order to quantify the impacts of efficiency improvement measures. Therefore, it is expected that the majority of the data baselining information in the application form is completed, where possible, including indication as to

whether this has been measured, calculated, or estimated. As a minimum the application should include:

- Heating / cooling source annual fuel consumption
- Power generation (where relevant)
- Pumping energy (energy centre)
- Annual residential heat demand
- Annual non-residential heat demand
- Measured network operating flow temperature (at energy centre)
- Measured network operating return temperature (at energy centre)
- Cost of delivered heat
- Carbon content of heat
- No. service interruptions (planned and unplanned in last 12-month period)
- Metering coverage

Revenue grant (Optimisation Study) applications: a minimum requirement in terms of baselining is to evidence the need for an Optimisation Study. This will require provision of information for three or more of the following:

- Annual fuel (gas, electricity, other) consumption
- Annual heat demand (residential and non-domestic)
- Overall network losses
- Cost of heat delivered
- Number of service interruptions in a recent 12-month period
- Details of customer detriment

Beyond the minimum requirements described above, the following data would enhance an Optimisation Study application but is not considered mandatory: pumping energy (energy centre), overall network loss, dwelling loss (where network includes residential elements), design and measured flow and return temperatures (at energy centre).

It is acknowledged that some heat networks applying for Optimisation Studies will not have the measuring and monitoring capabilities to provide some of this data. These schemes can still apply for funding, indicating where baselining has been estimated or calculated.

3.1.5. Application costs

Capital grant applications: Applicants will provide scheduled costs for the capital works being applied for, including the split between HNES grant funding, and match funding provided by the Applicant. Supporting evidence requirements are described below.

Revenue grant (Optimisation Study) applications: Applicants will indicate the Optimisation Study budget cost being applied for, including the split between HNES grant funding, and match funding provided by the Applicant (where relevant). Applicants should note that the expected budget range per Optimisation Study is between £15,000 and £20,000.

3.1.6. Targeted benefits (capital grant funding applications only)

Applicants will describe and quantify the predicted benefits being targeted by the measures for which grant funding is being sought. Supporting evidence requirements are described below.

3.1.7. Proposals for procurement and delivery of grant funded works

Applicants will provide narrative of the proposed approach to procuring and delivering the grant funded works. This information should also indicate mobilisation readiness of the applicant/supply chain to begin works once funding is awarded. Supporting evidence requirements are described below.

3.2. Application supporting evidence

In addition to submitting the completed application form, the applicant is required to provide supporting evidence. This evidence will enable application assessor understanding of the project (and project performance) beyond the application form content and enable assessment of project costs and deliverability. Supporting evidence is intended to be kept to a minimum – a summary is provided below.

Mandatory supporting evidence:

Category	Description
Costs	<p>Capital grant applications only</p> <p>Alongside providing a schedule of costs within the application form and the split between grant and match funding, applicants should submit supporting evidence to explain how the application costs have been derived.</p> <p>Evidence of supporting evidence could include:</p> <ul style="list-style-type: none">• Contractor or supply chain quotes• Quantity surveyor reports

Category	Description
	<ul style="list-style-type: none"> Technical consultant reports including cost validation (e.g., with quantity surveyor support, or based on quotes from previous work).
Targeted benefits	<p>Capital grant applications only</p> <p>Within the application form, applicants will provide a quantified set of targeted (predicted) benefits that the funded measures could deliver. Applicants should provide supporting evidence to the application as to how these targeted benefits have been derived. This should reflect the capital measures for which grant funding is being sought.</p> <p>Examples of supporting evidence could include:</p> <ul style="list-style-type: none"> Previous work by the applicant or procured by the applicant to define or quantify impacts of improvement measures (e.g., consultant or contractor report). Calculations developed by the applicant in support of their HNES funding application.
Deliverability Applicant confirmations	<p>Applicants should provide a signed letter of confirmation covering the following requirements:</p> <ul style="list-style-type: none"> Confirmation of applicant support for the works being applied for. Confirmation of match funding (where required). Confirmation of agreement to monitoring and reporting requirements (capital grant funding applications only). Confirmation (where relevant) of any other subsidies that have been awarded to, or are being sought by, the heat network project – this should include a summary of works, costs, match funding and timescales for implementation/delivery. <p>The authors of letters of support will differ depending on the type of applicant, but as a rule, the letter of support should be from a senior responsible officer with the authority / delegated authority to approve the delivery of the works for which funding is being applied for.</p>

Category	Description
Deliverability Programme and delivery	<p>Applicants should provide a clear summary programme of works covering the period of installation and (where required) commissioning of the measures being applied for. This should be in the form of a Gantt chart showing the critical path and milestones together with a brief narrative which should include:</p> <ul style="list-style-type: none"> • Consultants / contractor procured. • Construction mobilisation works. • Construction phase(s) with milestone payment date(s) for budgeting purposes. <p>Acronyms should be avoided or where used, explanations provided, so that a user unfamiliar with the project can clearly understand the milestones.</p> <p>Programmes of works should be provided as Excel based documents or as a PDF.</p>

Non-mandatory supporting evidence

Category	Description
System description(s) Drawings / information	<p>Layouts and schematics for the energy centre / plant room, and distribution network layouts (primary, secondary and tertiary) and high-level plant schedules should be provided (where available) to support narrative descriptions within the application form.</p> <p>Drawings and schedules should be provided as PDFs.</p>

3.3. Submitting the application

The HNES Demonstrator application window will open shortly. Application forms will be available shortly after this guidance document is published and can be requested by emailing hnes@beis.gov.uk.

Once a completed application form and supporting evidence documents have been submitted, and the application window closes, assessments will begin.

Applications to the HNES Demonstrator must be submitted to hnes@beis.gov.uk. The completed application form should be attached, with no structural changes, to the email. Accompanying supporting evidence should be zipped into a folder of no greater than 20Mb, with folder structures that correspond to the application form / supporting evidence. An application checklist is provided below.

	Revenue grant application	Capital grant application
Completed application form	Yes	Yes
Mandatory supporting evidence		
Evidence of capital costs	No	Yes
Targeted benefits evidence	No	Yes
Applicant confirmations	Yes	Yes
Deliverability	Yes	Yes
Optional supporting evidence		
Network drawings / information	If available	If available

When the application form and supporting evidence has been received, an email confirmation will be sent by the HNES Demonstrator administrator. We will endeavour to provide confirmation emails within 1 working day of receipt.

It is strongly recommended that applications are submitted as far in advance of the application deadline as possible to ensure that confirmation emails are obtained in the unlikely event that applications made are, for whatever reason, not received by the HNES Demonstrator administrator.

3.4. Application Assessment and funding

Overview from Applicant's perspective

An overview of intended assessment and award timescales once the application assessment period begins is provided below. This is subject to the volume of applications received.

Weeks	Description
Weeks 1-2	Application assessment period, including clarification period
Weeks 3-4	Review of assessments by GAP leading to decision on funding awards Drafting of grant notifications
Weeks 4-5	Confirmation to projects of successful / unsuccessful applications Issue of grant funding paperwork to successful non-Local Authority applicants, and feedback to unsuccessful applicants Approvals process for Local Authority applicants
Weeks 5-6	Issue of grant funding paperwork to successful Local Authority applicants

From an Applicant's perspective, the application is completed when the application form and accompanying supporting evidence are submitted to HNES. Over the fortnight following the start of application assessment, clarifications may be raised to which the Applicant must respond.

It is essential that the Applicant is available over this period to ensure full and timely responses to any clarifications can be provided.

If, on review of response(s) by the Applicant, it is assessed that the Applicant has failed to materially address issues relating to deliverability or scheme objectives, then on review by the Application Assessor, the application may be failed, and the Applicant notified during week 5. On notification the applicant will be provided with feedback, and, if applicable, suggestions of how the issue(s) might be resolved for future HNES applications (subject to further funding).

Immaterial issues that remain unresolved, or significant issues that are deemed resolvable, may be collated into Conditions Precedents that will be appended to the grant award.

Drawdown of funds will only be permitted if all Conditions Precedent have been met or if the applicant has received written (electronic or hardcopy) confirmation that outstanding Conditions Precedent can be fulfilled subsequent to receipt of funds (conditions subsequent).

Weeks 1-4 (inclusive) involve:

- Assessment of applications.

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- Preparation of Grant Approval Panel (GAP) papers.
 - Review of the papers by GAP members and decisions on awards.
 - Drafting of grant notifications.

It is possible that additional clarifications may be raised by the GAP members that were not raised by assessors. As such, while the level of clarifications would be expected to be low during this period, it is possible that key project team members may need to be available to respond to such clarifications if assessors are unable to adequately respond in the first instance.

During weeks 4 and 5 notifications will be sent to applicants. Applicants that receive a grant offer letter will be required to confirm agreement with any conditions set and reconfirm the point(s) at which drawdown of the award is anticipated to be made within 5 working days of receipt of the notification.

For Local Authority applicants:

- Cash drawdown for the entire grant can be made once signed grant paperwork has been received, or at the point all Conditions Precedents (if relevant) attached to the award for the stage applied for have been met.

For all other applicants:

- Cash drawdown, for part or all of the grant, can be made at the point the successful applicant is able to evidence spend (e.g., invoices/receipts, corresponding QS reports etc.), all conditions precedents for funding have been confirmed by HNES as having been met and the applicant can evidence payment to contractors up to the value of the grant requested.
- Evidence for spend can be in the form of invoices from contractors, quantitative surveyor reports which evidence milestones being met, and any other relevant documentation that clearly demonstrates payment for relevant work or services.
- BEIS will endeavour to remit funds within 15 working days of receipt of a remittance request, accompanying invoices (or relevant evidence) and evidence of cash payment to contractors.
- To better ensure that remittance is made without delay, if the invoice/relevant documentation does not clearly match the remittance requested, a cover note should be provided that clearly reconciles the evidence provided and the remittance request submitted.
- Final drawdown for grant funded works must be made by 31st March 2022.

BEIS may use the information from unsuccessful projects at the application stage to help inform future policies and application procedures.

What is being assessed

The areas listed below will be assessed based on information provided in submitted application forms and application supporting evidence:

- **Fuel savings (gas, electricity or other), carbon emissions savings and network efficiency improvements**

Funded projects will demonstrate savings against all three of these metrics, based on the application information provided and the mandatory supplementary information (targeted benefits).

- **Addressing customer detriment**

Funded projects will demonstrate targeting of one or more areas of customer detriment as listed in the application form. Projects will be scored higher the more areas of customer detriment are targeted for improvement.

- **Project deliverability (applicant confirmations, programme)**

Applicant confirmations are required with every funding application. Applications that have a clear and deliverable programme and can indicate high levels of readiness to begin delivery of works will be scored higher. Evidence of deliverability can include: identified/confirmed procurement route, engagement with supply chain (contractors and parts suppliers) and confirmation of delivery within HNES timescales.

- **Data availability/quality and baselining**

Applicants will provide a narrative description of the heat network data availability and data quality within the application form. Projects for which data availability and quality are high are more likely to deliver robust and accurate outcomes, including for monitoring and reporting requirements. Consequently, applications will be scored higher where data availability and quality are high.

Applicants will need to provide baselining data and metrics to indicate current network performance. It is intended that as much of the baselining information is completed as possible with each application – applications where provision of baselining information is high and analysis is robust will be scored higher.

- **Application costs**

Applicants will need to provide the mandatory supplementary information as defined in section 3.2. Application costs will be used alongside fuel savings and emissions savings to derive metrics of benefits relative to grant funding. Applications supported by robust cost evidence (e.g., supplier quotes) will score higher.

4. Applicant support

Support to, and communication with, Applicants will be provided by the HNES Demonstrator pre- and post- application submission as defined in the table below.

Pre-application submission	Receipt of, and response to, Applicant queries and questions. Receipt (and confirmation of receipt) of submitted application forms.
Post-application submission	Raising clarifications with Applicants as part of application assessment. Communicating funding decisions to Applicants. Issue of grant funding paperwork to Applicants, and receipt of signed copies. Receipt and processing of funded project monitoring and reporting outputs. Receipt and processing of non-Local Authority funded project evidence of spend (for grant draw-down).

4.1. When to engage

Following publishing of this guidance document, prospective Applicants should in the first instance review and familiarise themselves with the guidance content. If following this review prospective Applicants have any queries regarding the HNES Demonstrator or how to apply for this support, please email hnes@beis.gov.uk.

Prospective Applicants should email HNES to request an application form. The completed form should be submitted, with appropriate supporting information, to hnes@beis.gov.uk by the close of the HNES Demonstrator application window.

5. Subsidy control

The HNES Demonstrator has undertaken an assessment of how the scheme will comply with UK-EU Trade and Cooperation principles and has assessed that maximum support of:

- Up to but not including 50% of capital grant funding expenditure forecast; or
- Up to 100% of revenue grant funding expenditure forecast.

It will comply with the following principles:

- The support relates to a specific public policy objective – savings in primary fuel consumption / carbon emissions and improving customer outcomes in existing heat networks or communal heating schemes.
- The subsidy proposed is proportionate and limited to what is necessary.
- The subsidy will change the economic behaviour of the beneficiary by enabling them to invest where otherwise they would not have.
- The social benefits of all projects supported outweigh any negative social impacts associated with them.

6. Application outcome and grant drawdowns

6.1. When will an award outcome be received?

The HNES aims to provide an award letter or a failure notification letter within 5 weeks of the start of application assessments, subject to the volume of applications received.

6.2. What is the process for drawing down funds if successful?

Local Authority applicants may apply for drawdown of the full value of the revenue or capital grant ahead of need. Please note that this area is subject to approvals and may follow the process for funding draw down for Non-Local Authority applicants described below. Payment of grant funding will be paid as a single lump sum pursuant to Section 31 of the Local Government Act 2003 and will be made upon receipt by BEIS of a signed MoU and a signed grant claim form.

Non-Local Authority applicants may only apply for drawdown of funds in line with work and services rendered by contractors and after the cost has been defrayed by the applicant. Evidence will be required in the form of invoices or quantitative surveyor reports that equate to or exceed the grant value requested for drawdown, as well as evidence of cash having been remitted to contractors. The final funding drawdown date is 31st March 2022.

6.3. The MoU and reclamation of funds

The HNES Demonstrator will provide grant funding to the applicant following successful evaluation of the application and subsequent agreement to conditions of funding. Agreement will be completed by the signing of a memorandum of understanding (MoU) that will be issued alongside the award letter. The MoU will set out conditions that the applicant will need to adhere to and the circumstances where the grant may be reduced, withdrawn or repayment required. Repayment of grant funds will generally be required in circumstance of misuse or material revisions to the proposed scheme that make the scheme ineligible or that work against the HNES Demonstrator objectives.

7. Monitoring and Reporting requirements

7.1. Capital funded projects

Successful capital grant funded projects will be required to provide monthly updates as per the indicative information in the following table. A Monitoring and Reporting template will be provided once a funding award is confirmed. Guidance on content is provided below.

Item	Purpose	Format	Monitoring start / end
Project plan progress	To track funded project delivery against programme, including high level status of delivery, construction and/or commissioning.	Narrative	Start: first month end after funding award confirmed. End: once measures have been delivered.
Budget progress	To track spend to date against the funding award budget, including evidence of spend where required for funding draw-down purposes.	Narrative plus cost metrics	Start: once costs are incurred in delivery of grant funded measures. End: once measures have been delivered.
Key risks and issues	To track and manage/mitigate key risks and issues, including where these impact on delivery.	Narrative	Start: first month end after funding award confirmed. End: once delivery of grant funded measures is complete.

Item	Purpose	Format	Monitoring start / end
Project energy and carbon balance	<p>To monitor impact of delivered measures on network performance (relative to baseline). Monitoring data will depend on project circumstances but could include (but not be limited to):</p> <ul style="list-style-type: none"> • Network fuel consumption (kWh) • Distribution losses (kWh) • Thermal store charge/discharge • End customer demands (kWh) • Pumping energy (kWh) • Heat generation efficiency (%) • Carbon emissions of network (t.CO2) • Carbon content of heat (kg.CO2e/kWh). 	Quantified, including raw and processed data	<p>Start: first month end after funding award confirmed.</p> <p>End: 12 months after completion of delivery of measures (as verified by HNES).</p>

Item	Purpose	Format	Monitoring start / end
Project operational metrics	<p>To monitor impact of delivered measures on network operation relative to baseline system performance. Monitoring data will depend on project circumstances, but could include (but not limited to):</p> <ul style="list-style-type: none"> • Heat generator(s) operating hours (#/month) • Flow and return temperatures (deg C) • Service interruptions (#) • Cost of delivered heat (p/kWh) • HIU bypass flow (l/s) • Overheating – number of hours in month above comfort temperature or equivalent (#). • Potential reduction in heat tariff. • Reduction in service interruptions. • Reducing overheating of communal areas. • Improved billing accuracy. • Better provision of information. 	Quantified, including raw and processed data; narrative where relevant.	<p>Start: first month end after funding award confirmed.</p> <p>End: 12 months after completion of delivery of measures (as verified by HNES).</p>

7.2. Revenue funded projects (Optimisation Studies)

Successful revenue grant funded projects will be required to provide monthly updates as per the indicative information in the following table. A Monitoring and Reporting template

will be provided once a funding award is confirmed. Guidance on content is provided below.

Item	Purpose	Format	Monitoring start / end
Project plan progress	To track funded project delivery against programme.	Narrative	Start: first month end after funding award confirmed. End: once Optimisation Study is complete (received and signed off by HNES).
Budget progress	To track spend to date against the funding award budget, including evidence of spend where required for funding draw-down purposes.	Narrative plus cost metrics	Start: once costs are incurred in delivery of grant funded measures. End: once Optimisation Study is complete (received and signed off by HNES).
Key risks and issues	To track and manage/mitigate key risks and issues, including where these impact on delivery.	Narrative	Start: first month end after funding award confirmed. End: once Optimisation Study is complete (received and signed off by HNES).

8. Queries, complaints, and review process

8.1. Summary

This section sets out information for applicants about the basis on which applications are considered and what to do if an application is unsuccessful.

Applicants must meet the eligibility criteria set out in Section 2 and provide all the application and supporting information required depending on whether they are applying for capital or revenue grant funding.

The assessment process will be run as transparently and objectively as possible. Expert judgements will be made within an agreed framework and all assessments will be subject to internal quality assurance.

8.2. Applicants that do not meet the eligibility criteria

Applicants who fail to meet the eligibility criteria will be rejected. An explanation will be given as to why the application was rejected. The explanation, however, will not seek to fix any deficiencies in the application.

8.3. Eligible applicants are not guaranteed funding

The HNES Demonstrator has a limited budget for 21/22, so even if an applicant meets all of the eligibility criteria and scores well, it is not guaranteed an award of funding. HNES Demonstrator funding will be allocated on a competitive basis, and in line with the strategic objectives of the HNES Demonstrator.

The scores awarded to the applications by HNES assessors will be compared. The applications will then be ranked. Some may not be awarded funding because their ranking was lower relative to others (either because minimum application requirements have not been met, or because the funding budget has been spent). Applicants that are successful will be notified accordingly. Applicants that are unsuccessful will be notified, together with an explanation of why.

8.4. Comparability of applications

Every application is likely to contain commercially sensitive information, so it will not be possible to disclose scoring of applications relative to others. Instead, we will aim to draw out themes from successful and unsuccessful applications to inform a HNES Main Scheme subject to further funding) and help future applicants improve the quality of their applications. We may feed this into future revisions of the Application Guidance, webinars or other published means of disseminating lessons learned.

8.5. Reviewing decisions

A funding decision may be reviewed by BEIS if, following a decision on an application, there is strong evidence that there was a failure to follow the published assessment processes and that the failure to do so has had a materially adverse impact on the consideration of the application. If an applicant feels that this applies to their application, they are asked to please email hnes@beis.gov.uk to request a review.

HNES will consider the request and inform the applicant if it is felt that the decision is justified. If, on review, it is found that the applicant met the eligibility criteria when it was previously decided that it did not, or that it should have been awarded a higher score, the applicant can request that their unamended application be re-assessed. In this scenario, no new application information will be considered, and in no circumstance will a review guarantee an award of funding.

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