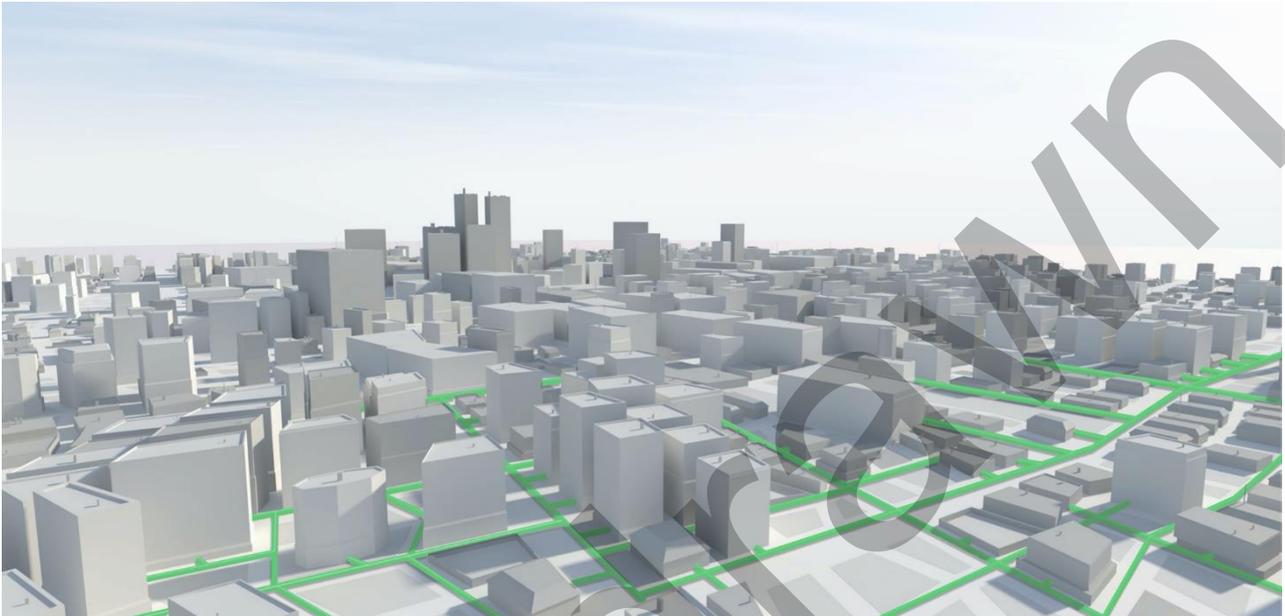




Department for
Business, Energy
& Industrial Strategy



Green Heat Network Fund

Transition Scheme Overview

Supporting the commercialisation
of low carbon heat network projects

Version 1.3

August 2021



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Introduction



The **Green Heat Network Fund (GHNF)** is capital grant fund open to the public and private sector in England that will capitalise on the progress and development made by the **Heat Networks Investment Project (HNIP)**, by supporting the development of low and zero carbon (LZC) heat networks (including the supply of cooling).

The GHNF will be launched by the Department of Business Energy and Industrial Strategy in April 2022 as part of the Government's Heat Network Transformation Programme, with the aim to continue to develop and grow the heat network market and to

address some of the challenges of decarbonising the UK's heat sector.

Heat Networks

Heat networks are vital to achieving a clean, cost effective and just transition to net-zero and deliver a wide variety of benefits to the environment, consumers, and the economy. 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 alike. Large scale investment is essential to the development of this market and we are committed to ensuring that projects of the highest quality are incentivised to progress.

The GHNF will help tackle some of the most prominent barriers to decarbonisation of heat networks. Increased deployment will help bring down the up-front capital costs of low carbon technology due to greater standardisation. The utilisation of low carbon technology will help bring down operating costs in the long term as well as upscaling the skills and knowledge required to operate them to the benefit of both the customer and network operators. The upscaling of the supply chain, skills, procurement and increasing the overall competition that will take place as a result of the GHNF are all crucial if the market is to become both self-sustaining and low carbon. The GHNF is therefore critical in order to lay the groundwork for a healthy thriving low carbon heat network industry that is well prepared for the future carbon budgets in the late 2020s and ready to grow even further in order to meet the carbon budgets in the 2030s.



The Aims and Objectives of the GHNF

Our vision for the GHNF scheme is to incentivise heat network market transition to low carbon heat sources via targeted financial support, that will help stimulate the increased deployment of low carbon technologies at scale.

The GHNF objectives are to:

- Achieve carbon savings and decreases in carbon intensity of heat supplied.
- Increase the total amount of low carbon heat utilisation in heat networks (both retrofitted and new heat networks).
- Help prepare the market for future 'low carbon' regulation and ensure compliance with existing regulations (such as the Heat Network (Metering and Billing) Regulations, Heat Network Market Framework and the Future Homes Standard).

The GHNF Transition Scheme

The Heat Networks Investment Project (HNIP) has its final year in 2021/22 and the GHNF launches its full scheme in April 2022. We recognise that it can take projects time to commercialise and we therefore want to help them be ready to apply for construction funding in the first year of the scheme.

The **GHNF Transition Scheme** was launched in June 2021 and opened for the first of two funding application rounds on the 5th of July 2021. The second application round opens on the 30th of August 2021.

This transition scheme will only provide grant funding for commercialisation and will draw from an additional sum of £10m that has been made available.

Projects applying for the GHNF Transition Scheme funding will still be required to submit the same information as required for full GHNF scheme applications; however, at this early stage, the process will be managed by BEIS – ahead of a delivery partner being appointed for the full scheme in early 2022.

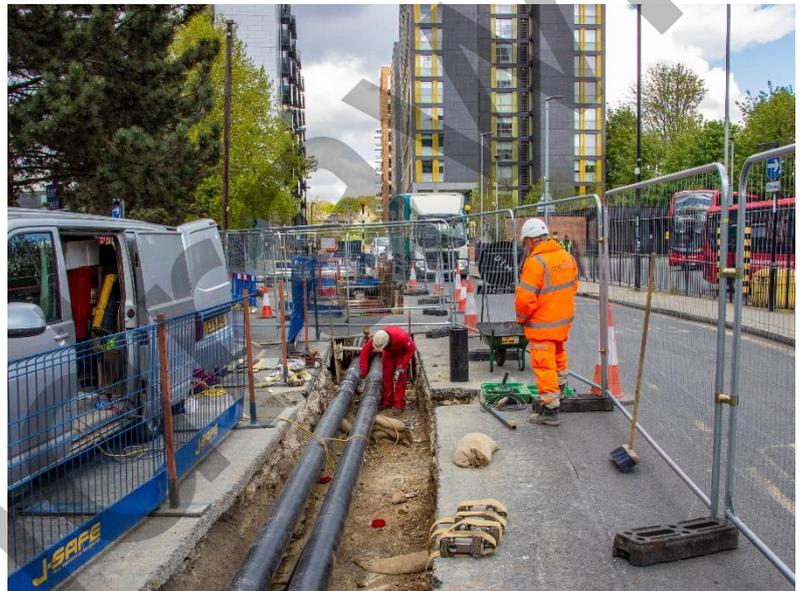


Image courtesy of CPC District Heating

Eligible Commercialisation Costs

The GHNF Transition Scheme will support the commercialisation costs for both new and existing heat networks that deliver low carbon heat at a volume of heat that is consistent with our strategic objectives for heat network market growth in England.

Operating on a principle-based approach for cost eligibility the GHNF will set out what it will **not** fund rather than specifying a list of what is eligible.

The overriding principle that governs eligibility for commercialisation costs for the GHNF, is that application costs are attributed directly to delivering network operation as per the low carbon design intent. Evidence of the low carbon design intent must be submitted as part of the GHNF application.

We anticipate that the majority of applications will be for projects that have already undertaken a techno-economic feasibility study and conducted off-taker engagement, potentially with heads of terms in place. An internally approved business case setting out how the project is expected to be procured and financed would also be expected at this stage. Clearly much work would still be ahead of the project before a final investment decision could be made.

Activities such as the following would be expected (but not limited to):

- Final contract negotiation for Energy Supply Agreements;
- Procurement of the heat network delivery, or procurement of the concession that will deliver the network depending on approach;
- Legal, technical, commercial and financial support throughout the procurement process;
- Planning requirements;
- Agreeing utility connections;
- Environmental Impact Assessment and other assessments as necessary for planning and/or licencing;
- Geological surveys and exploratory investigations
- Etc.

As the GHNf is a capital fund, applicants would need to apply at the point where they have a high enough degree of confidence that the project will go ahead and therefore that the Finance Director of the applicant's organisation is comfortable that expenses incurred relating to the project can be capitalised within the applicant's financial accounts.

Assessment Process

A key principle of the GHNf's transparent approach is that the applicant, on applying, will be able to self-assess whether the project does or does not meet the scheme's requirements.

The assessment process uses clearly defined gated metrics (see page 9) that include the carbon intensity of heat delivered, consumer detriment, the minimum annual heat energy demand and the applicant project's social IRR. Any project having satisfied these key requirements would be eligible for funding, subject to a further assessment by the GHNf team on the project's deliverability and a set of final adjustment metrics. Details of the criteria used are provided within the extensive guidance and documentation.

Image courtesy of CPV



Who Can Apply?

The GHNF Transition Scheme is open to all public and private sector applicants who are responsible for the development of heating and cooling networks in England, that:

- meet the initial GHNF gated metrics covering the carbon intensity of heat delivered, consumer detriment, the minimum annual heat energy demand and the scheme's social IRR;
- are able to provide all supporting documentation;
- are legal entities (such as companies or organisations), as individuals cannot apply to the fund.

Full Application Required

To be considered for commercialisation grant support, submissions must also include information pertinent to the project's construction phase at the same time. The GHNF Transition Scheme will only consider supporting commercialisation and, if successful, construction phase support is not guaranteed when the full GHNF scheme is open for applications from April 2022.

Core Gated Metrics

The GHNf will assess applicant projects using the following core metrics which all applicants must meet in order to be funded. All of the metrics listed below are calculated and appraised within the application form itself, once the applicant has entered all required inputs. Greater detail on each is provided within the guidance documentation. Please note that the criteria detailed below are indicative and therefore subject to confirmation in the Government's response to the GHNf Consultation, which is expected to be published in the autumn of 2021.

Metric	Minimum Score
Carbon gate	100gCO ₂ e/kWh thermal energy delivered
Customer detriment	Domestic and micro-businesses must not be offered a price of heat greater than a low carbon counterfactual for new buildings and a gas/oil counterfactual for existing buildings
Social IRR	Projects must demonstrate a Social IRR of 3.5% or greater over a 40-year period
Minimum demand	For urban networks, a minimum end customer demand of 2GWh/year. For rural networks, a minimum number of 100 dwellings connected
Maximum capex	Grant award requested up to but not including 50% of the combined total capex + commercialisation costs (with an upper limit of £1million for commercialisation)
Capped award	The total 15-year kWh of heat/cooling forecast to be delivered will not exceed 4.5 pence of grant per kWh delivered (subject to review by GHNf)
Non-heat/cooling cost inclusion	For projects including wider energy infrastructure in their application, the value of income generated/costs saved/wider subsidy obtained should be greater than or equal to the costs included.

Level of Support

As the GHNF Transition Scheme has a relatively short lifespan in the 2021/22 financial year, the funding available is on a first-come-first-served basis to applicants that meet the selection criteria.

It is intended to help build a pipeline of construction-ready projects for the financial year 2022/23 when the GHNF full scheme is due to launch. The GHNF will fund up to, but not including, 50 per-cent of a project's total combined commercialisation and capex costs.

We anticipate an upper limit of £1million for commercialisation support, subject to review. Each application is assessed on its own merits and any potential award will be subject to budget availability. Where the demand for funding in a round is oversubscribed, the GHNF investment committee will prioritise awards competitively based on the application's alignment to the schemes core metrics.

Timescales

The GHNF Transition Scheme launched in June 2021. Following the opening of the first funding round application on the 5th of July 2021, we hosted drop-in support workshops, where prospective applicants and their supply-chain partners were able to ask questions and receive guidance on the application forms. It is planned that a further drop-in workshop will be hosted during September 2021 to support prospective applicants for the second round.

GHNF Transition Scheme Funding Rounds

Transition Scheme Rounds	Application Opening Date	Final Submission Date for Inclusion in Round
Round 1	5 th July 2021	12 th August 2021 (12.00 noon)
Round 2	30 th August 2021	7 th October 2021 (12.00 noon)

Further Information

Should you or a colleague wish to join the GHNF mailing list and be kept up to date as to latest announcements, news and events – such as the workshops detailed above – please email the GHNF team via: ghnfcorrespondence@beis.gov.uk

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