

# Illustrative Example of How a Streamlined Route Would Operate: Clean Heat

## Explainer

*This document sets out an illustrative example of how a Streamlined Route (or 'Streamlined Subsidy Scheme' as they are referred to in the Subsidy Control Bill<sup>1</sup>) would operate for **Clean Heat**. It should be read alongside the 'Streamlined Subsidy Schemes: Objectives, Operation and Next Steps' policy statement, which describes the objectives of Streamlined Routes and how Government envisages them working.*

*Streamlined Routes may be used on a voluntary basis when awarding a subsidy<sup>2</sup>. Public authorities awarding financial assistance that is not considered a subsidy do not need to comply with the Subsidy Control regime, and therefore would not use this Streamlined Route.*

*Currently, as this example is purely illustrative, it only covers a single category - subsidies related to Heat Networks. If the Government chose to develop an actual Streamlined Route for Clean Heat, the scope would be broadened to include further categories, to facilitate other Clean Heat technologies and approaches.*

*A comprehensive principles assessment has not been completed at this stage. This will be conducted as part of development for each of the actual Streamlined Routes. The Government continues to develop Streamlined Routes policy, and this illustrative example is not determinative of any actual future Clean Heat Streamlined Route.*

## Introduction

1. Streamlined Routes are subsidy schemes that are pre-assessed by the Government as compliant with the requirements of the Subsidy Control regime. They provide all UK public authorities with a way to award subsidies that is even simpler than the baseline method of principle-by-principle assessment. Public authorities will only need to demonstrate that they meet the specific parameters for that Streamlined Route; this will ensure that they are able to deliver these subsidies with the minimum bureaucracy and maximum certainty.

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<sup>1</sup> See clause 10 of the Subsidy Control Bill.

<sup>2</sup> As defined in Chapter 2 of Part 1 of the Subsidy Control Bill.

2. Use of Streamlined Routes is entirely voluntary. A public authority can choose not to use a Streamlined Route and still award an individual subsidy, or develop their own scheme, after undertaking a principle-by-principle assessment.

## Purpose

3. This Streamlined Route is for subsidies relating to **Clean Heat**. It has been developed to facilitate the award of subsidies that will change the way we heat our homes and buildings, to help the UK reach its objective of reaching net zero carbon emissions by 2050.

## Use

4. This Streamlined Route can be used by any UK public authority to award eligible subsidies to enterprises for the categories of Clean Heat projects listed below:
  - **Category 1: Low Carbon Heat Network**, subsidies to enterprises that either undertake the development of a Low Carbon Heat Network or are else tasked with the installation, upgrade or maintenance of a Low Carbon Heat Network. Heat networks are a means of distributing energy via a network of pipes.
  - **Category 2:** *[As noted, an actual Streamlined Route would include additional categories related to Clean Heat.]*

## Guide

5. Annex A contains the terms of the Streamlined Route that public authorities must adhere to if awarding subsidies under it. It also sets out key definitions relevant to this Streamlined Route:
  - a. **Section 5** sets out key definitions relevant to this Streamlined Route.
  - b. **Section 6** sets out general conditions, which will apply to all Streamlined Routes.
  - c. **Section 7** sets out detail on the parameters of the Streamlined Route, explaining what subsidies can be awarded under it.

## **Annex A: Terms of the Illustrative Streamlined Subsidy Scheme**

### **1. Introduction**

- 1.1. The Secretary of State makes the following streamlined subsidy scheme (the Scheme) for the purposes of the Subsidy Control Act [2022] (the Act).
- 1.2. The Scheme comes into force on [a date to be confirmed].
- 1.3. The Scheme may be referred to as the Clean Heat Subsidy Scheme [2022]

### **2. Purpose**

- 2.1. The Scheme sets out parameters to allow subsidies to be given to support the commercialisation costs for both new and existing Heat Networks through the installation of energy efficient district heating and cooling systems.

### **3. Use**

- 3.1. The Scheme can be used by any UK public authority.

### **4. Compliance with the Subsidy Control Act**

- 4.1. The Secretary of State is of the view that the Scheme is consistent with the requirements of Chapters 1 and 2 of Part 2 of the Act.
- 4.2. The Secretary of State has considered the subsidy control principles and the energy and environmental principles in Chapter 1 of Part 2 of the Act and is of the view that the Scheme, and a subsidy given under the Scheme, is consistent with those principles.
- 4.3. The Secretary of State has considered the prohibitions and other requirements in Chapter 2 of Part 2 of the Act and is of the view that the Scheme does not provide for the giving of a subsidy that would be prohibited by, or in contravention of, that Chapter.
- 4.4. The Scheme has been laid in Parliament and published on the UK subsidy database.

## **5. Definitions**

- 5.1. In this Scheme:
- 5.2. “Abnormal profits” means profits in excess of a level that a rational investor would require to reflect the risk premium for investing in a market.
- 5.3. “Capital expenditure” means the expenditure related to the installation, upgrade or maintenance of infrastructure.
- 5.4. “Commercialisation costs” means the expenditure incurred advancing a project to final investment decision and could include but is not limited to planning permission, detailed design, final business case, procurement of design and build contractors.
- 5.5. “Customer facing capital costs” means capital costs associated with Customer connection.
- 5.6. “Feasibility activities” means those activities undertaken at a cost prior to a project commencing necessary to assess the feasibility of the project and can include but are not limited to various studies, concept designs and business cases.
- 5.7. “kWh” means kilowatt hour and is a measure of hourly energy use.
- 5.8. “Production plant” means the energy source of the Heat Network.

## **6. General conditions**

- 6.1. A public authority must, at a minimum, request that an enterprise supplies the following information when applying for a subsidy:
  - Name and size of the enterprise;
  - Description of the proposed subsidised activity, including location, start and end date of the activity; and
  - Project costs, before any allowable deductions, which must be supported by credible documentation.
- 6.2. A public authority must calculate the value of a subsidy before any deductions of tax, levy [or other charge] by calculating the gross cash amount (if the subsidy is provided in cash) or gross cash equivalent (if the subsidy is provided otherwise than in cash).

- 6.3. The gross cash amount and gross cash equivalent amount are to be determined  
in accordance with regulations made under section 82 of the Act as originally made.
- 6.4. A subsidy should not compensate for costs the beneficiary would have funded in the absence of any subsidy.
- 6.5. Public authorities must meet the transparency requirements set out in Chapter 3 of Part 2 of the Act and upload any subsidy awarded under the Scheme above £500,000 to the subsidy control database.

## **7. Specific conditions, eligibility and basis for the calculation of subsidy**

### Category 1: Heat Networks

#### **Category - Specific Definitions**

- 7.1. In this Scheme:
- 7.2. “Customer connection” means the thermal connection of Heat Networks’ customers either by direct (hydraulic) or indirect (heat exchange) means to a Heat Network.
- 7.3. “Distribution network” means the infrastructure that distributes thermal energy from the production plant.
- 7.4. “Heat Network” means an energy efficient district heating or cooling system that distributes thermal energy, via a network of pipes. The definition includes the heating or cooling production plant, the network (including related facilities) for distributing the heat or cooling and the cost of connecting customers.
- 7.5. “Low Carbon Heat Network” means a heat network that delivers thermal energy (heat/cooling) with an average annual carbon intensity of no more than 100 grams of carbon dioxide and equivalent emissions (CO<sub>2</sub>e) emitted per kWh of thermal energy delivered to customers.
- 7.6. “Low Carbon Sources” means a source of thermal energy that emits no more than 100 grams of carbon dioxide and equivalent emissions (CO<sub>2</sub>e) per kWh of thermal energy delivered to end customers.

- 7.6. A public authority may provide a subsidy to any enterprise for the installation, upgrade or maintenance of a low carbon Heat Network, providing it is compatible with the Scheme.
- 7.7. A public authority may provide a subsidy of up to [X]% of a heat network project's combined commercialisation costs and capital expenditure where the following requirements are met.
- 7.8. The subsidised Heat Network must deliver at least [X]% of its heat from low carbon sources.
- 7.9. The allowable costs are the heat network's distribution, generation and customer connection capital costs.
- 7.10. A public authority should not award a subsidy under the Scheme for a project that has already started. A project starts when the construction work on a new or existing Heat Network commences. [Feasibility activities that take place prior to this will therefore not be considered as starting a project.]
- 7.11. A public authority should not award a subsidy under the Scheme for any costs that have already been incurred prior to the subsidy being awarded.
- 7.12. A subsidised heat network project should not be permitted to make abnormal profits.
- 7.13. A competitive bidding process should be used [except in certain circumstances, which will be confirmed at a later date] to determine which firms are awarded subsidies.
- 7.14. A Heat Network project must be assessed on the value it provides versus a counterfactual low-carbon heating technology, to ensure subsidies do not limit the competitiveness of those technologies.

Category 2: [TBC]

*[As noted, an actual Streamlined Route would include additional categories related to Clean Heat.]*

## **8. Misuse of subsidy**

- 8.1. A public authority should ensure that any subsidy given under this Scheme is given subject to a condition allowing the authority to recover the whole or part of the

subsidy amount to the extent that the subsidy is used for a purpose other than the purpose for which it was given.

Withdrawn