
Heat networks: Financial & Commercial Optimisation

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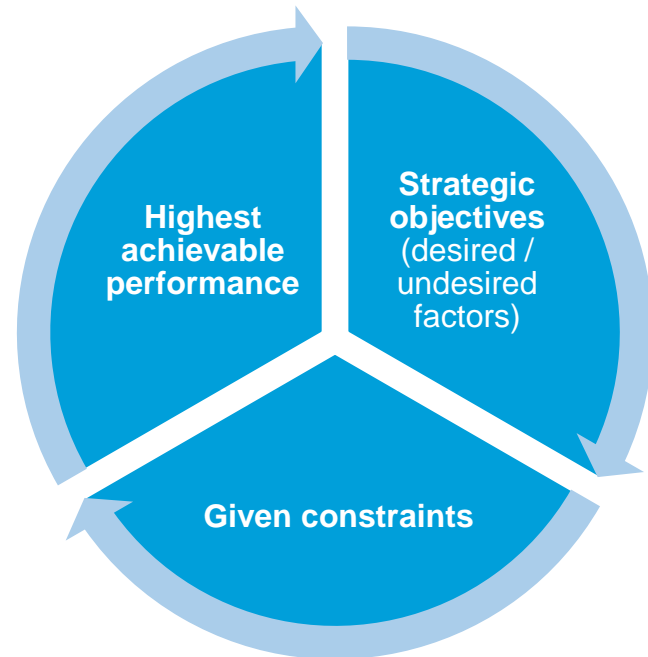
AGENDA

- What do we mean by ‘financial and commercial optimisation’?
- Commercial structure as the framework
- How to achieve it?
- Heat (and power) tariffs
- Funding sources / mix / structure
- Q&A

OPTIMISATION

What do we mean by ‘financial & commercial optimisation’?

Finding an alternative with the most cost effective or highest achievable performance under the given constraints, by maximizing desired factors and minimizing undesired ones.

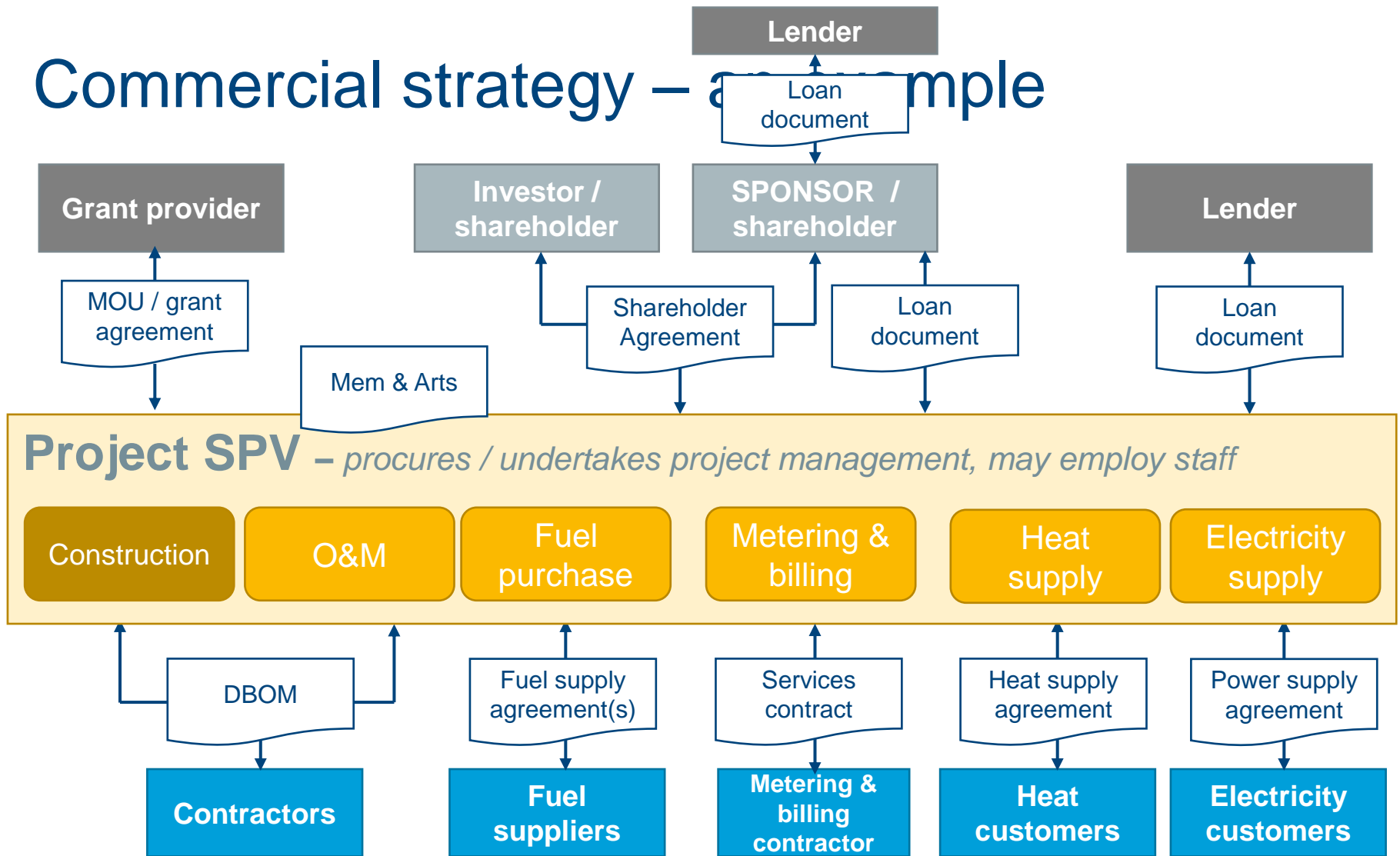


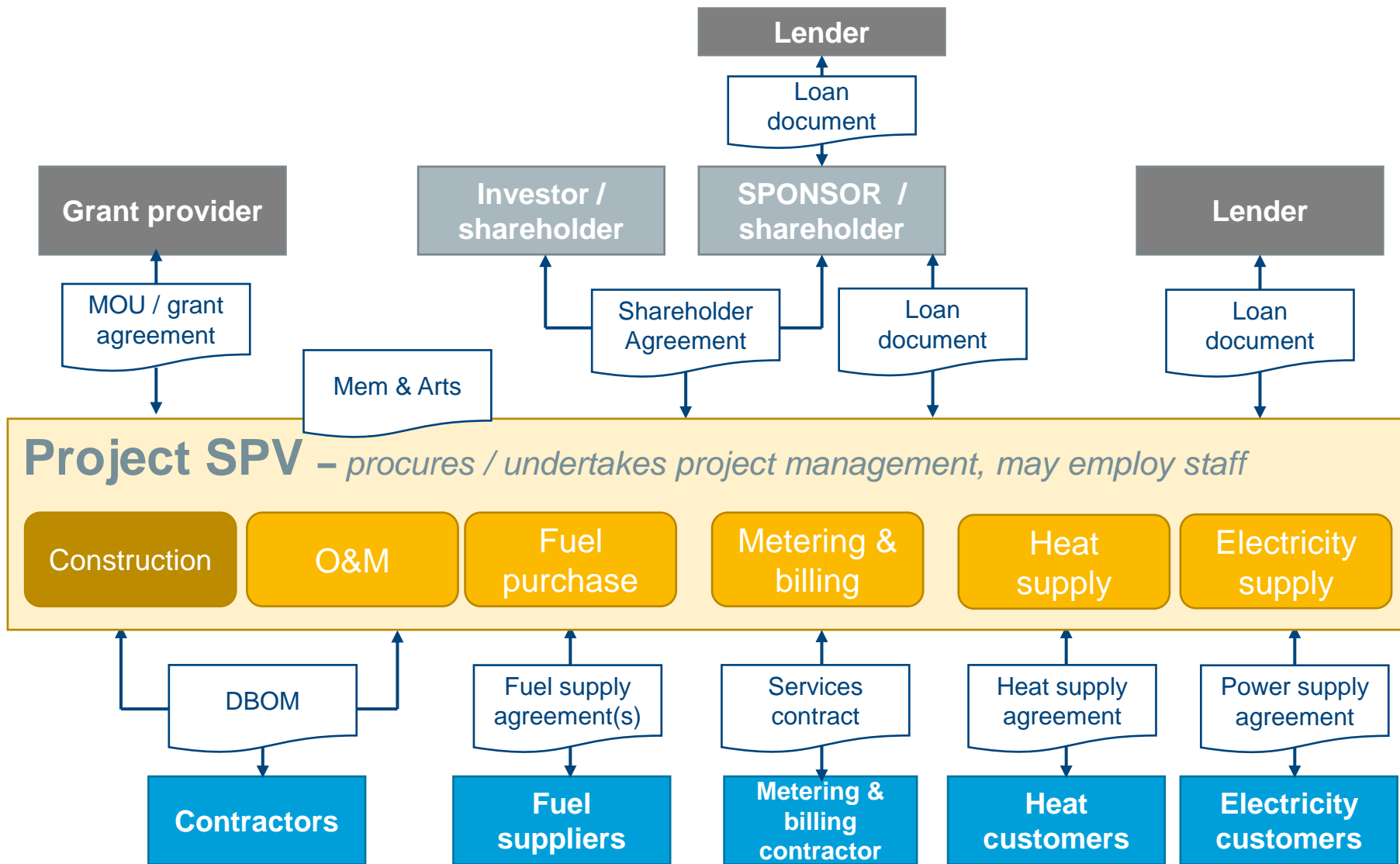
COMMERCIAL STRUCTURE

As the framework



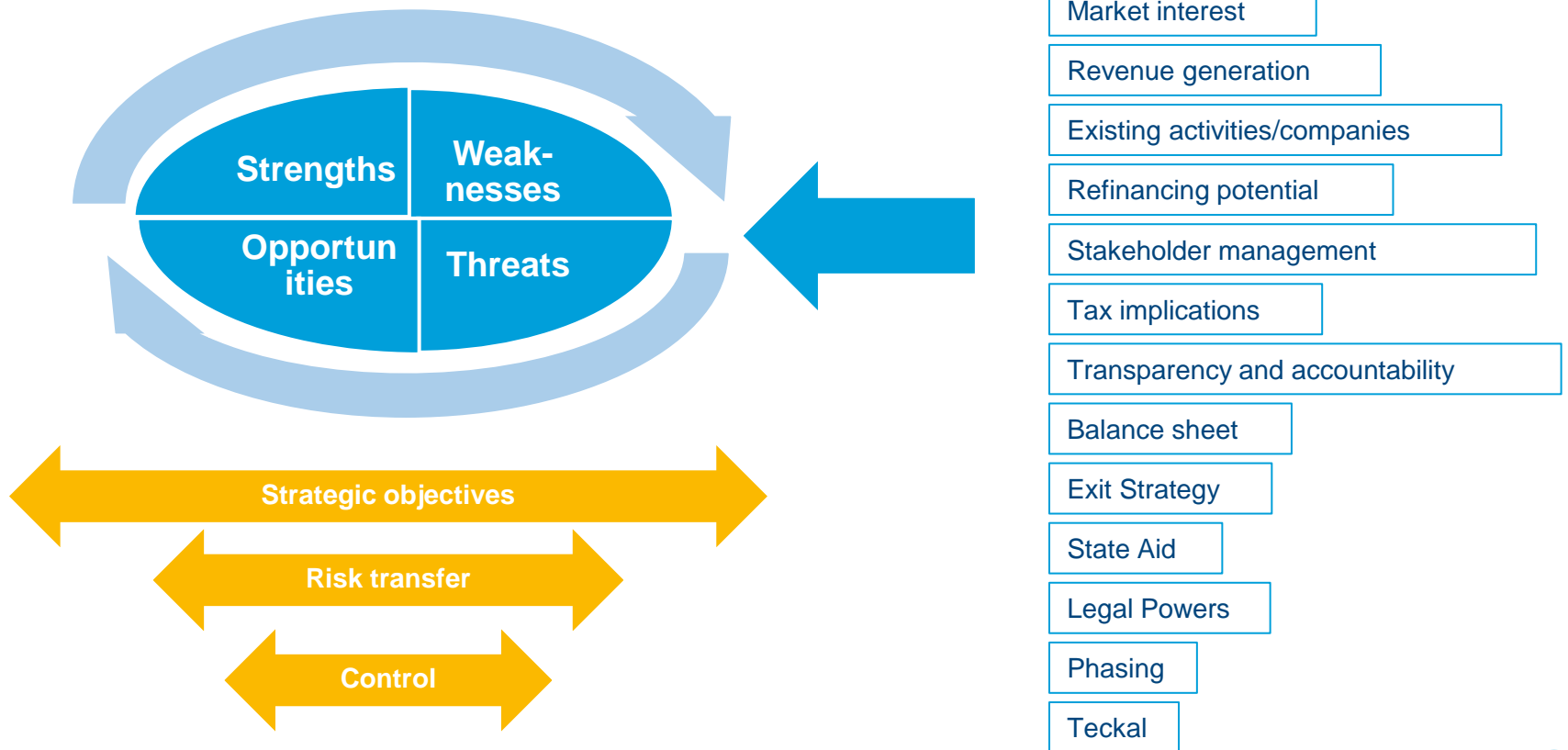
Commercial strategy – an example





HOW TO ACHIEVE IT?

A SWOT analysis is a useful tool....

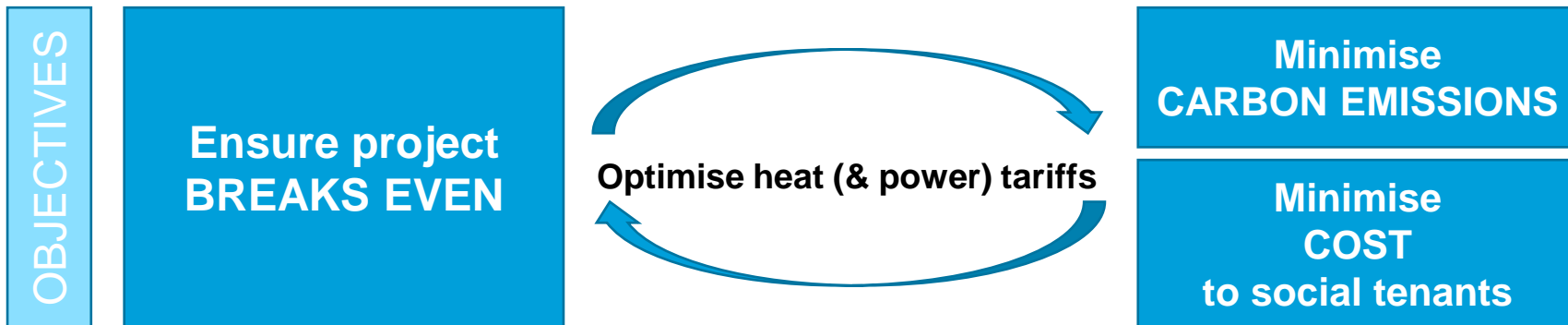


Optimisation of commercial structure



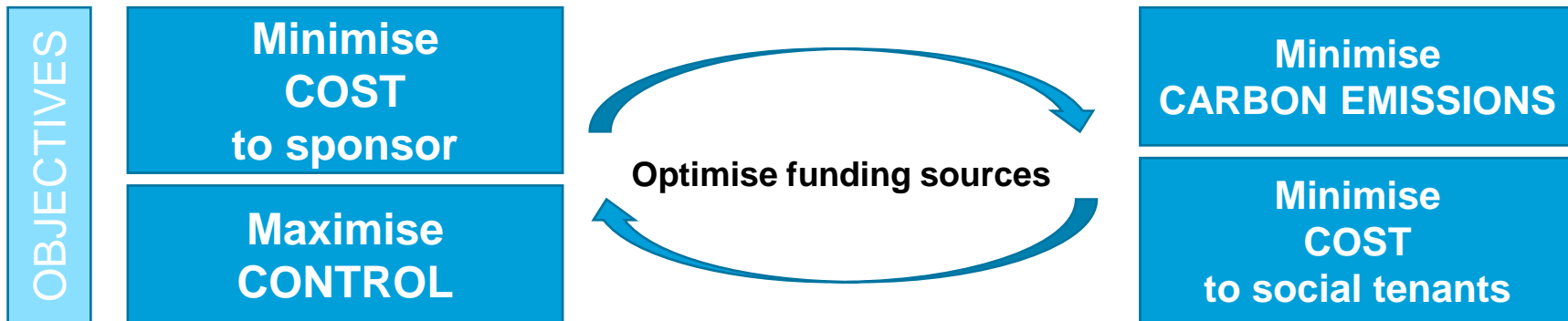
COMMERCIAL STRATEGY	Variables	Some considerations
	Special Purpose Vehicle (SPV)	When to set it up? As key party to contracts needs to be done up front.
	Joint venture partner(s)	Who is best to partner with? Will they be providing technical or other inputs?
	DBOM / D&B + O&M etc	DBOM or separate D&B and O&M – pros and cons of each
	Contracts / risk allocation	Billing & metering – can be lower cost but may lose key interface with customers?
	Customer engagement / billing & metering	Planning for exit or refinancing – useful to have suitable contracts in place up front
	Exit strategy / refinancing strategy	
	Network expansion	

Optimisation of heat (& power) tariffs



TARIFF STRATEGIES	Variables	Some considerations
	Customer specific tariffs	Can lower tariffs for social tenants (discount against market rates); but still need to manage all tariffs within context of market equivalent
	Variable / fixed split	
	Connection charges	Need to be careful not to load too much into fixed element – seen as non-transparent. Also need to consider what is reasonable to pass on to end consumer and what should be covered by landlord
	Indexation	
	Basis of charges £/kW? £/m2?	Indexation is critical to future values – link to existing commodity price eg gas? Or to actual running costs? Be careful of long term lock in
	Discount against market rates	
	Electricity – private wire	Complexities & costs of private wire – few larger customers more likely to be achievable than lots of smaller ones
	Bulk supply	

Optimisation of funding sources



FUNDING STRATEGIES	Options		Some considerations
	Capital offset	<ul style="list-style-type: none"> Connection charges Developer contribution Grant 	<ul style="list-style-type: none"> Start with seeking to reduce capex through value engineering but be sure this does not jeopardise quality of service or ability to reduce emissions Grants low cost but conditions attached; developer contributions may come with timing issues
Debt	<ul style="list-style-type: none"> Public sector – PWLB Bank loan Corporate bond Lease finance 	<ul style="list-style-type: none"> Loans – cost less if risk can be minimised, eg through good contract negotiation and suitable contract terms (eg on DBOM, fuel supply agreements, heat off take agreements etc) 	
Equity	<ul style="list-style-type: none"> From shareholders 	<ul style="list-style-type: none"> Equity investors – tend to be more expensive, may also involve some dilution of control. May want to retain control to ensure quality of service. 	