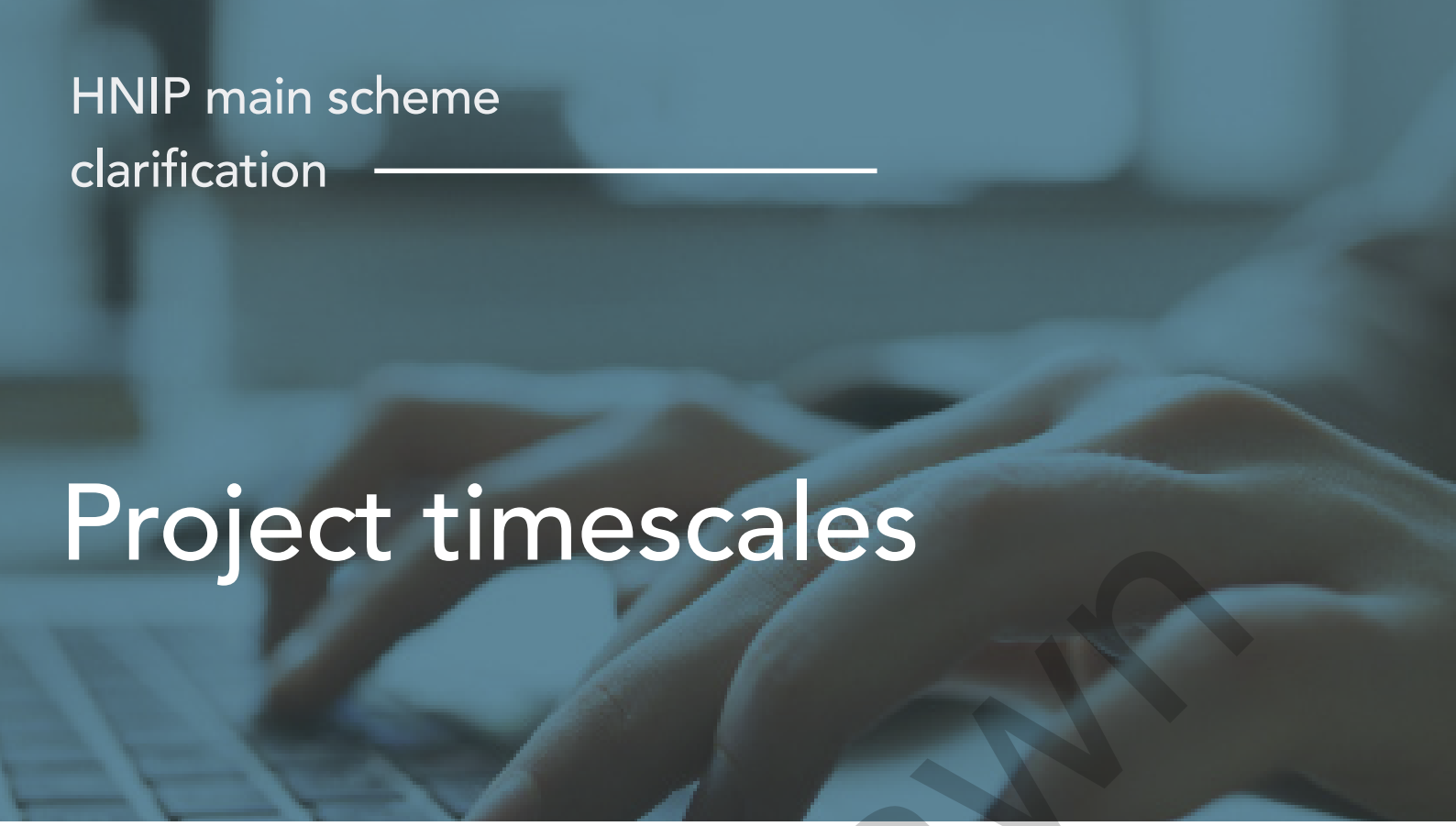
HEAT NETWORKS
INVESTMENT PROJECT

HNIP main scheme clarification

Project timescales

Triple Point
HEAT NETWORKS
INVESTMENT MANAGEMENT



HNIP main scheme clarification

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INTRODUCTION

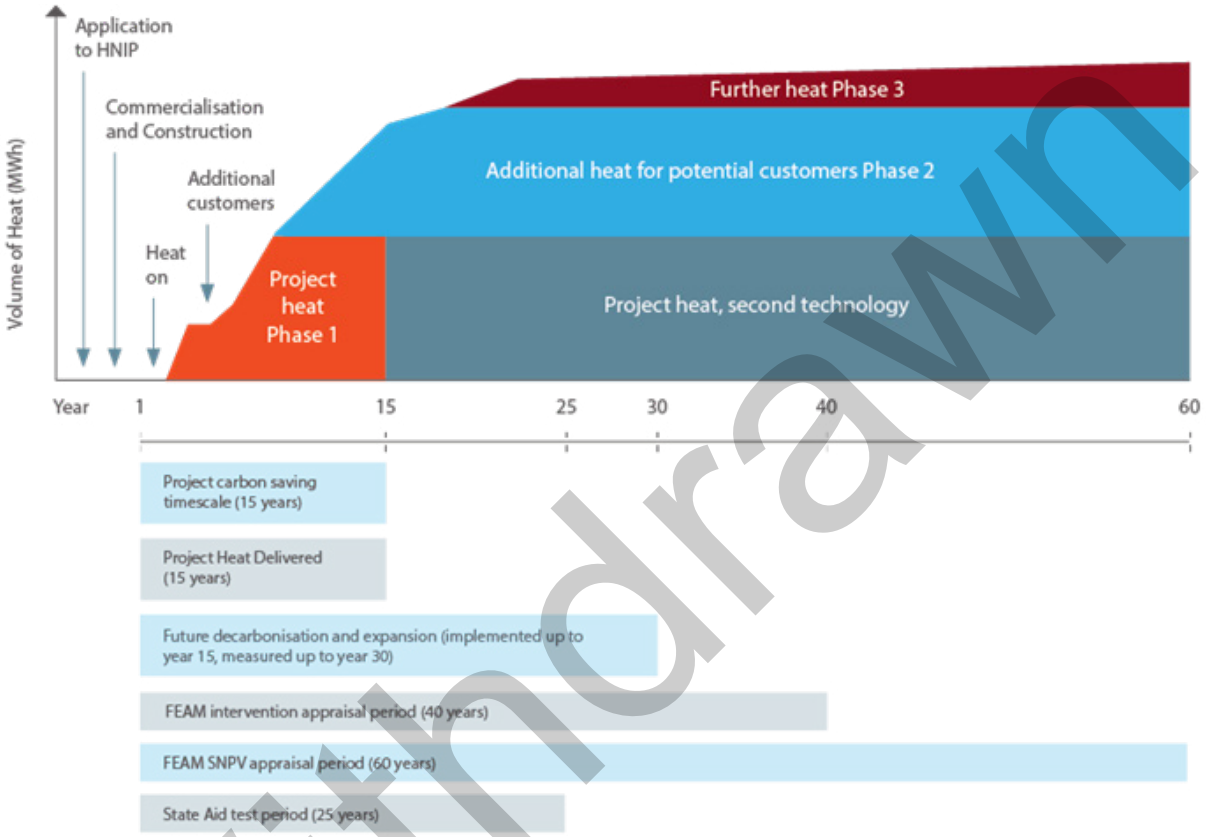
Applicants will determine appropriate timescales for various elements of their project including financing terms, asset life expectancies, contractual timeframes for concessions or heat supply / heat purchase agreements etc.

There are a number of assessment timescales applicants need to be aware of throughout the HNIP assessment. This short paper provides background to each of these timescales to improve understanding and help you as you work your way through the application form itself.

There are 6 key timescales that are important contributing factors to your overall project score, these are:

- Project carbon saving
- Project heat delivered
- Future decarbonisation and expansion
- FEAM intervention appraisal period
- FEAM Social Net Present Value appraisal period
- State aid test period

The below graphic illustrates how these timescales interact with key project milestones.



PROJECT CARBON SAVING

The project must result in a carbon saving when compared to appropriate counterfactual technologies for the project, over its first 15 years of operation. Projects will be assessed based on their predicted carbon savings when compared to a counterfactual heating system. The project carbon saving is calculated over the first 15 years of operation, based on the initial technology proposed. This is then divided by the gross grant equivalent to obtain a score.
This is indicated by the box marked A on Figure 2.

HEAT DELIVERED

To enable the TP Heat Networks model (the FEAM) to calculate the expected heat delivered the application form asks for the building loads to be connected to the network, and the dates when they are due to connect. This allows the calculation of the heat to be delivered over the first 15 years of the scheme. This is indicated by the box labelled A in Figure 2. The application form asks for information about the loads connected and the source of the data supplied. This enables the energy data to be sense-checked, applicants may be asked to confirm data provided and provide evidence of heat loads.

FUTURE DECARBONISATION AND EXPANSION

Future decarbonisation and expansion is the predicted carbon savings that the project is aiming to deliver over the longer term. Such savings could come about through extending the network to connect to more customers and/or a future switch to a different heat generating technology beyond the life of the first technology. Applicants will need to provide a likelihood of connection of future loads / switch to a new technology which will inform the weighting factor applied to the carbon savings associated with the change. The application form requires a forecast annual load for future years and allows the following three bands for certainty - Unlikely: Less Than 25%, Likely: Between 25% and 75%, and Highly likely: More than 75% As part of this assessment, we will expect to see projects providing robust evidence to demonstrate that there is reasonable confidence that these savings will occur.

This assessment only applies to new technologies that could be implemented or new customers that could be signed up within the first 15 years of operation of the scheme. The carbon savings associated with expansion of the scheme are represented by the boxes marked C and D in Figure 2. Box C includes the carbon saved from the additional loads (phase 2) up to the year 15. Box D identifies the savings from these additional loads after year 15, and up to the end of year 30 of operation. Additional project expansions or the use of lower carbon heat sources post year 15 are not included in the calculations.

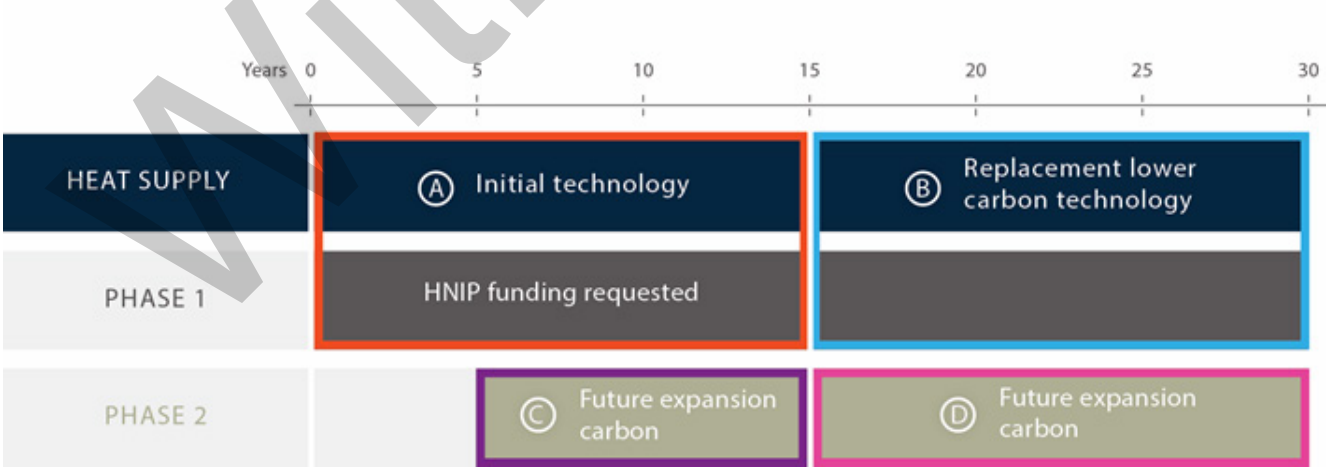


Figure 2: Approach to the calculation of future decarbonisation and expansion

FEAM INTERVENTION APPRAISAL PERIOD

For the purposes of demonstrating the impact of any awarded HNIP grant / loan, the pre and post award Internal Rate of Return (IRR) calculation within the applicant's financial model should assume an appraisal period of 40 years. The FEAM will use a 40 year appraisal period (consistent with the model submitted by the applicant), to assess the level and financial impact of any awarded HNIP grant or loan.

FEAM SOCIAL NET PRESENT VALUE APPRAISAL PERIOD

The timescale for social net present value appraisal will be 60 years, from the start of construction and this is the time period over which the Social Net Present Value (SNPV) calculation will be undertaken by TP Heat Networks. The SNPV calculation is a government economic calculation that will be undertaken by the TP Heat Networks. The applicant is not required to undertake its own SNPV calculation. Further detail on this test is provided in the Application Guidance. Applicants are not required to undertake a SNPV calculation within their model. This will be calculated based on inputs provided in the FEAM tabs.

A 60 year time period is applied because this approximates to the life of the longest lasting asset, being the pipe network. All time series inputs within the FEAM application form should be provided over the full 60 year time period.

STATE AID TEST PERIOD

Whilst it is for the applicant to determine the life of the network for their State aid assessment, TP Heat Networks will assume a life of 25 years for its State aid test. This aligns with the maximum loan term of 25 years. The state aid test provides an indication to the Triple Point Heat Networks Investment Committee, that Gross Grant Equivalent of the proposed HNIP support, of itself, is unlikely to breach the State Aid threshold. The threshold is established with reference to the capital value of the generation plant and capital value of the distribution network, with the distribution network value being adjusted for the profit generated by the distribution network. Where the test indicates a risk of exceeding the State Aid threshold, TP Heat Networks may request further assurance from the applicant that State Aid requirements will be met.