

#THEPERFECTSTORM

Welcome

The Perfect Storm

Impending regulation and the
energy crisis

SH ∞ SMITHS

#THEPERFECTSTORM

Your hosts

Connect with your hosts on LinkedIn by scanning the QR codes below.



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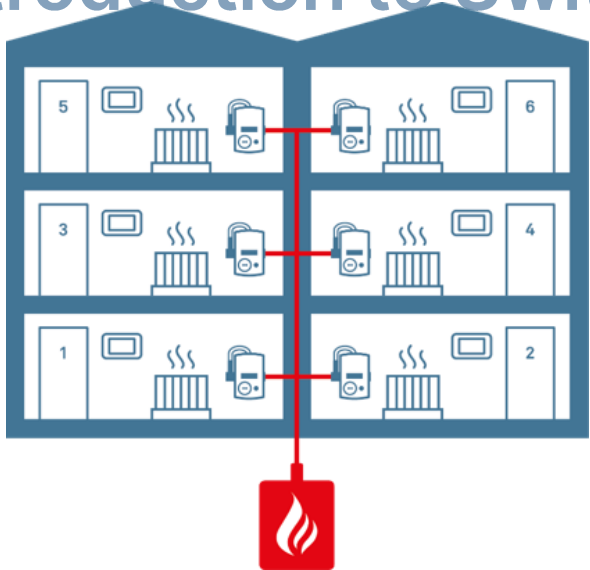


switch2

**The Perfect Storm:
Regulation, rising energy prices
and decarbonisation targets - the
impact on heat networks**

Ian Allan,
Head of Market Strategy

Introduction to Switch2



Smart & Sustainable Heat Network Solutions



Heat Networks – Cleaning Up Heat



Coal distributed by cart across towns and cities

1900



District heating delivers clean from coal

1960



Coal fire heat networks converted to gas

1980

Smog (from coal fires) causes serious health issues



North Sea Gas discovered – UK heat network development stops while European networks advance



Government supports district heating: Paris Agreement, Regulations & Sustainable strategy



2012

Renaissance of Heat Networks

Efforts to address air quality and decarbonisation - 2004

THE LONDON PLAN

THE SPATIAL DEVELOPMENT STRATEGY FOR GREATER LONDON



Target: 2050 zero carbon emissions



Scotland



Core Cities

The Road to the Regulation of Heat Networks



**Heat Network Regulations
Creation of the Heat Trust**

2014

2015

**CIBSE
CP1**



CMA Market Study Report

2017

2020

**BEIS HN Market
Framework**



**HEAT NETWORKS:
BUILDING A MARKET
FRAMEWORK**

Created on: 1 June 2020



OFGEM & Regulation

2022

2050

UK Net Zero Carbon



Heat
from HNs
2% to 20%
by 2050

Existing Heat Networks- A Problem to Solve

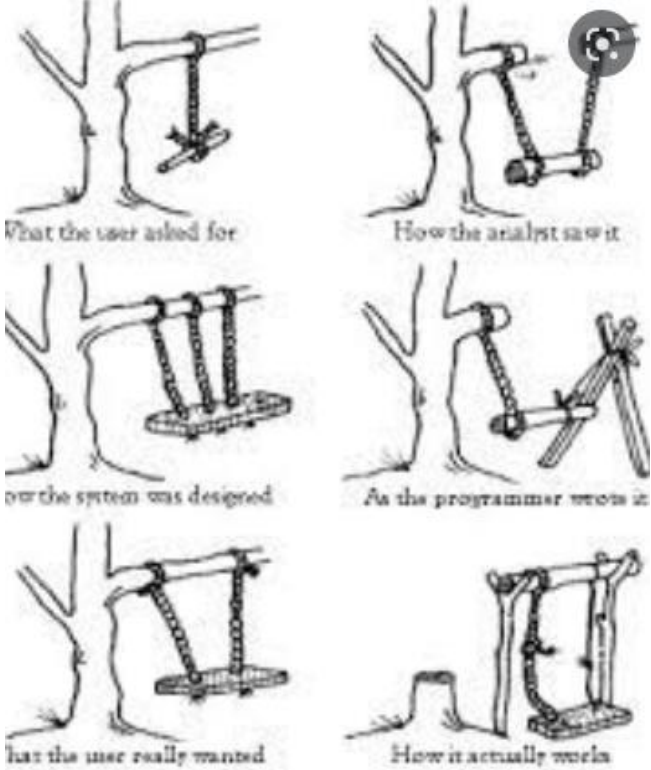
- Old HN generally built out to poor standards?
- Non compliant with new technical regulations



VS



New Heat Networks – Ambition and Reality Gap to Fix



Ambition in terms of cost, reliability & decarbonisation

Solutions

Problems



Supply chain inexperience



Poor design



Not maintained by specialists

Solutions



Better procurement



Governance



Heat network expertise

Existing HN need to be improved and operated efficiently

Energy Prices – The Perfect Storm

GAS
5X ↑

Issues

- Gas purchased on commercial contracts
- 1 year gas contracts
- Customer lack of access to government support

Opportunities

- ✓ Paybacks on improvement more attractive
- ✓ Operations and maintenance – you need specialists

Perfect Storm Webinar Series

Thursday 30th June
10am

What to do with existing
buildings

- How to fix problems
 - Funding
- Meeting carbon targets
- Protecting residents

Thursday 14th July
10am

How to approach new
build developments

- Design and build
 - ESCo
- New technology
- Managing costs





Thank you!

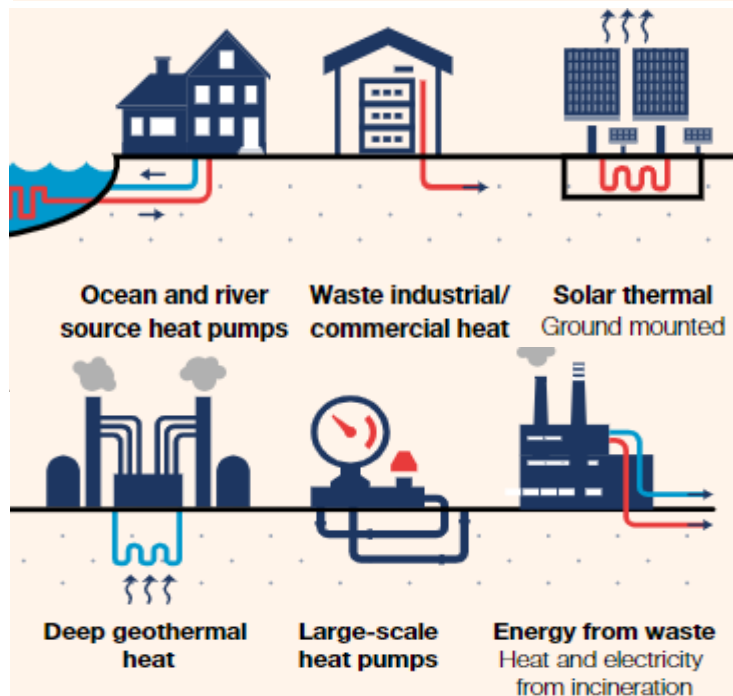
Heat networks update

Shoosmiths and Switch2 Energy

Arran Mornin – Head of Heat Network Policy (BEIS)

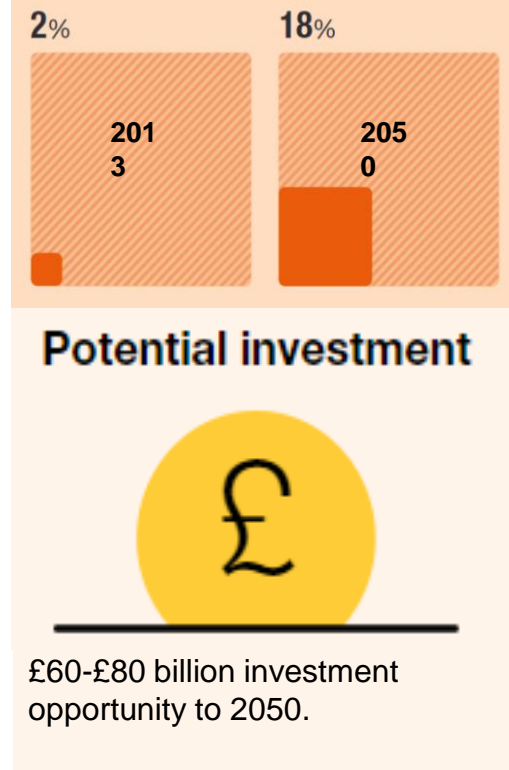
Why heat networks?

Taking advantage of natural and waste heat sources that individual solutions can not.



The role for Heat Networks

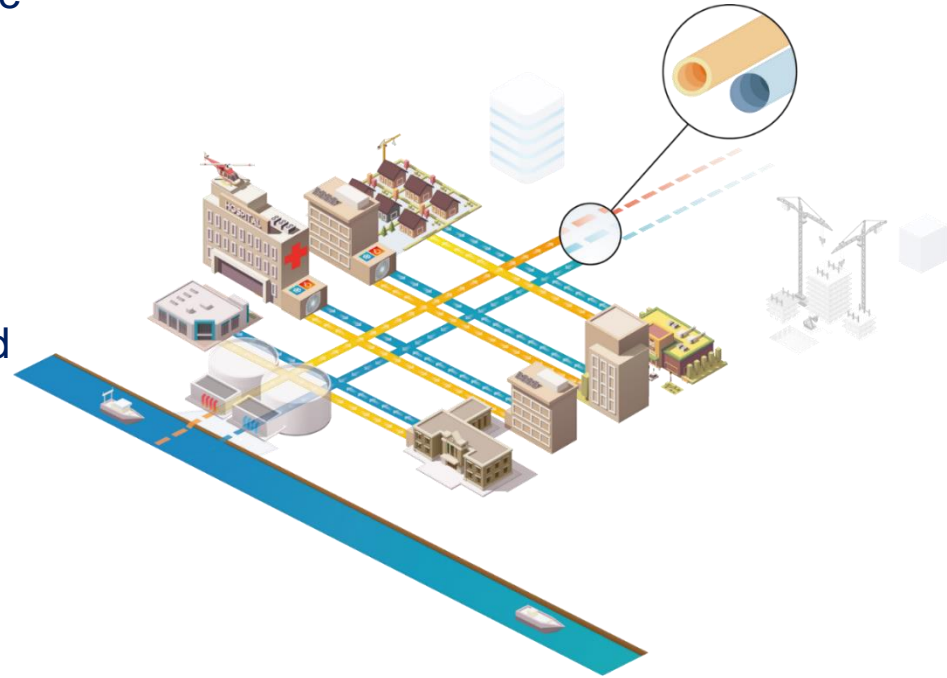
- Enabling lower costs for heat network customers
 - Accessing cheaper heat sources
 - Enabling a whole building energy approach
- Providing system benefits and lower costs for all consumers
- Adaptable to different future energy pathways
- Decarbonisation at scale



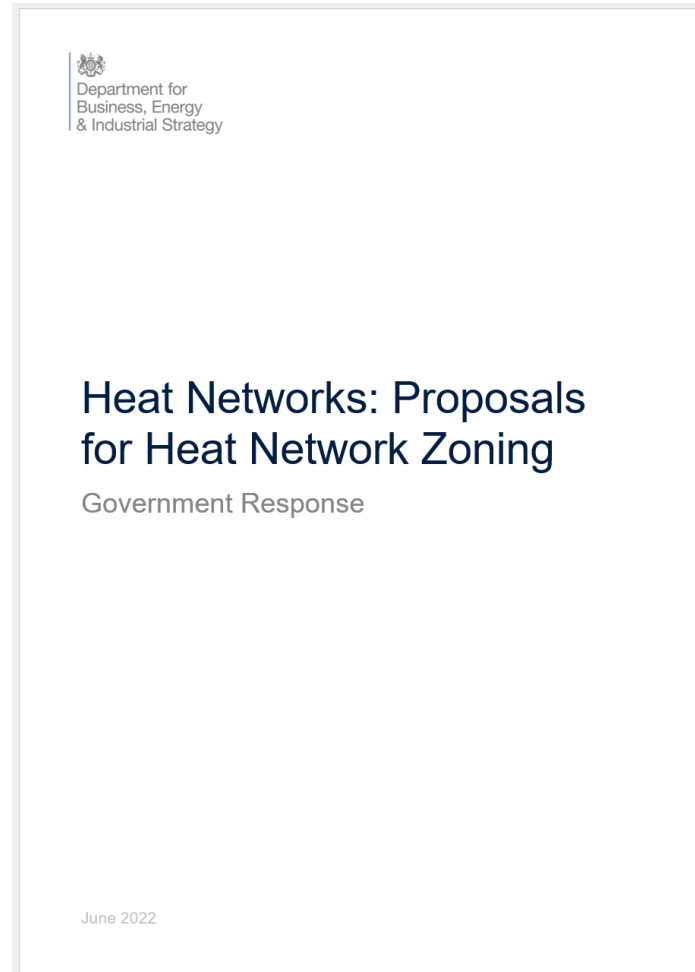
Growing the Heat Network Market

We are committed to continuing the growth of the UK heat network market and will transform the market over the next decade through:

- Delivering the **£288m Green Heat Networks Fund to accelerate decarbonisation**
- **Introducing heat network zoning** in England by 2025
- Introducing regulation to **improve consumer protection** and **limit emissions**
- **Improve performance of existing networks** through the Heat Networks Efficiency scheme
- Work with industry to **increase skills and capacity in the UK supply chain**



Heat network zoning publication

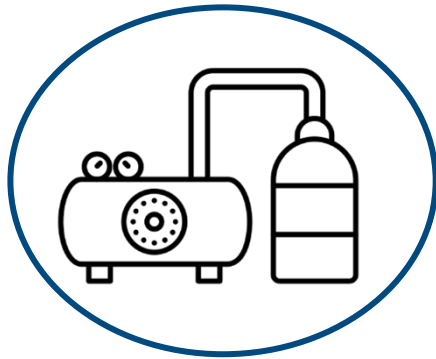



Department for
Business, Energy
& Industrial Strategy

Heat network zoning

- Heat network zoning in England, available by 2025 at the latest
- A standardised national methodology to identify potential heat network zones.
- Local government the power to act as or establish a local Zoning Coordinator to undertake certain zoning functions
- Powers for central government to designate zones to ensure sector development
- Within a heat network zone, specific buildings or groups of buildings will be required to connect
- A minimum carbon standard will be introduced for new networks in zones and new connections of existing heat networks in zones.
- The Heat Network Zoning Pilot Programme (HNZPP) is being conducted in 28 English cities and towns of varying sizes to test the methodology for identifying heat network zones.

Heat network regulation



Ofgem as statutory regulator:

- Consumer protection regulation
 - Pricing
 - Transparency
 - Quality of Service Standards
- Minimum technical standards
- Additional statutory powers for heat network development
- Decarbonisation
- Metering & Billing
- Step-in powers

Energy price rises & heat networks

What has government announced for energy consumers?

- A £15bn package of support
- A total of £1.5bn for the Household Support Fund that can be accessed through local authorities (England), available until next April
- Energy bill grant (£400) through domestic electricity bills (GB)
- £650 grant to those on Universal Credit, Tax Credits, Pension Credits and legacy benefits
- £300 to pensioner households and £150 to those receiving disability benefits
- Council tax rebate (£150) properties banded A-D (England)
- Expanding eligibility for the Warm Homes Discount and increased the rebate value to £150 each year (England + Wales)

What can companies do to hold down costs?

- Shop around – ensure that you are getting a range of quotes for energy provision, consider bundling purchases
- Exemptions –
 - VAT & Climate Change Levy exemptions for domestic supply
- Improve your systems – cost effective improvements can save money for you and the consumer

What is government doing for heat networks specifically?

- Spring statement announcement that Business Rates exemption for heat networks will be brought forward a year – criteria to be announced very shortly.
- We are working with the energy purchasing companies and the trade associations to unlock the best deals for consumers
- Joint guidance on current support and steps heat networks can take to reduce prices (circulated in March)
- Looking at the Landlord and Tenant Act with DLUHC on whether arrangements can be changed to allow longer-term purchasing
- Circulating guidance on efficiency improvements that can be made to systems (summer)
- Engaging with the sector to understand impacts on company finances

If you have concerns contact me at Arran.mornin@beis.gov.uk or the policy team at heat.networks@beis.gov.uk

Department for
Business, Energy
& Industrial Strategy



Presenting



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Decentralised energy - specialist services

- Experience and expertise needed to effectively deliver safe, efficient and reliable services.
- Transfer of responsibility and risk to a party best placed to manage it.
- Long term outsourcing of installation and/or operation and maintenance is commonplace.
- Need to ensure that you partner with a services provider with the required experience and covenant strength.

Contractual structure

- **Design & build**
 - Fixed price turnkey solution
 - Based on standard form agreement (e.g. JCT)
 - Limited negotiation around derogation to standard form

- **Concession agreement (“CA”)**
 - Long term operation and maintenance agreement, including metering and billing
 - Risk transfer to services provider with certain caveats

- **Supply agreements**
 - Direct between the services provider and the residents/occupiers
 - Standard T&Cs of services provider
 - Protections in the CA over charges and prices

Concession Agreement - key issues

- Service quality assurance
- Heat Network (Metering and Billing) Regulations compliance
- Debt management and risk
- Unoccupied units
- Handover and Handback
- Management and sufficiency of sinking fund
- Defects in energy system
- Change in Law risk - particularly an issue with net zero

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