



Contents

APPLICATION PROCESS	2
ELIGIBILITY	8
FUNDING	10
STATE AID.....	16
TIMELINE.....	17
ADMINISTRATION.....	18
Added 22/11/2016	19
Added 24/11/2016	22
Added 25/11/2016	23
Added 30/11/2016	24
Added 1/12/2016.....	24
Added 2/12/2016	25

APPLICATION PROCESS

1. Q: Is it possible to amend information initially provided in the pre-application form in the full application form? Or is the information in the pre-qualification form binding?

A: There are a number of questions from the pre-qualification form that applicants are asked to reconfirm at full application. However as some answers relate to eligibility, if these changed, your eligibility may potentially also be affected. In this case please contact Salix to discuss.

.....

2. Q: Can a PQQ application be submitted if not intending to submit a full application?

A: BEIS would not recommend submitting a pre-qualification application if projects do not intend to put in a full application since the pre-qualification questionnaire is a self-assessment to the full application. However if applicants are unsure what is needed for full application or are unsure if their project is eligible then the pre-qualification stage has been designed to help applicants identify whether they will be able to submit a full application.

.....

3. Q: Will partially completed applications be accepted?

A: BEIS expects all applicants to fully complete applications however if applicants are having difficulty meeting the deadline please contact Salix via email, hnip@salixfinance.co.uk.

.....

4. Q: Not everyone will manage to secure a finalised head of terms with anchor load and heat suppliers in the timescale. Will there be a middle ground or does BEIS expect Heads of Terms completed?

A: If applicants cannot provide Heads of terms, but can provide an alternative source of evidence, then please contact Salix. BEIS are looking for evidence (i.e. contracts) that anchor load customers underpinning the cash flow or financial model and business case will be contractually secured before construction. BEIS therefore needs to see evidence (i.e. Heads of Terms) that negotiations have progressed sufficiently and there is commitment from the anchor customers, including heat price and volume, at the time the HNIP application is submitted. This information is essential at application as it is used for scoring and cash flow modelling.

.....

5. Q: Do projects just need Heads of Terms with anchor load customers at the point of application?

A: Yes. See application guidance for definition of anchor load customers.

.....

6. Q: Applicants may not be able to share confidential designs with BEIS when still in bidding phase. Would technical specifications i.e. a letter from a technical consultant be acceptable?

A: If the heat network is being procured as something like ‘design build...’ then it is understood that a final design will not yet have been agreed upon. Applicants will therefore need to provide the design work that underpinned the procurement ITT and approved business case. Sufficient detail must be provided to that technical aspects of the heat network can be assessed, for example, compliance with the Code of Practice, HNIP rules on heat source etc. If applicants are unsure, please contact Salix as this will be reviewed on a case by case basis as it depends on the detail provided.

.....

7. Q: Is there somewhere on the input sheets where applicants can add comments and show that something is yet to be decided?

A: Yes.

.....

8. Q: Will users be able to see outputs from the shadow heat model?

A: No, this will be used by BEIS for internal assessment. Where substantive disparities are identified with applicant cash flow or financial models, clarifications will be sought from applicants.

.....

9. Q: In the shadow heat model it specifies calendar year but other models may be based on financial years. How should this be represented in the shadow heat model input sheet?

A: Information will need to be entered as calendar years, wherever possible

.....

10. Q: Would HNIP assessors be able to identify a scaled back project if an applicant put in a larger application with less certain elements.

A: No, HNIP assessors will not identify reduced scope projects. Applicants must submit an application for the project they have a signed off internal business case as this should have sufficient evidence and certainty of customers etc. It is understood that heat networks expand over time and one of the scoring criteria looks at longer term carbon savings from expansions (see diagram in the guidance), but even these later heat network phases require evidence at application.

.....

11. Q: BEIS wants to ensure that systems (heat networks) can be expanded and are flexible – does this mean by just technical means or also commercial, legal i.e. across the whole project. How will terms and conditions address requirements for future growth, long term expansion etc.

A: BEIS have published the [draft Heads of Terms](#) for the funding agreement. BEIS is planning to put conditions on applicants to require long term expansion or interconnection, but want to be sure that the projects have no technical or contractual impediment to future expansion.

.....

12. Q: Can applicants apply for the design and build funding separately or are design and build a joint tender?

A: No applicants cannot apply for design and build separately. Applicants can only apply for construction funding or commercialisation and construction funding.

.....

13. Q: If a scheme wishes to apply for a grant or loan to cover primary and secondary kit – does this need to be two separate applications, or would BEIS expect to see one application covering both elements?

A: No, not separate bids. All one bid as it is one project.

.....

14. Q: Minimum 75% CHP Heat is high so many applicants will go for the 50% combination of recovered, renewable and/or cogenerated heat - will BEIS be giving any guidance on the 50% combination of heat generated, eg a minimum renewable % or plant size?

A: This requirement is to be calculated as heat generated by the heat network over the period when the initial primary heat source(s) are operating at full capacity (MWh). This does not consider plant size (installed capacity – MW) and there is no minimum plant size for combinations of different heat sources. BEIS would like projects to have heat sources optimised as far as possible to maximise viability. BEIS recognise that there may be some challenges in meeting the 75% cogenerated heat minima. Please refer to the application guidance for further information

.....

15. Q: A question concerning the 50% rule relating to EfW. If renewable energy is below 50% does this meet the definition?

A: BEIS will consider heat generated from EfW as recovered heat. As long as heat supplied from EfW is above 50% heat generated by the heat network over the period when the initial primary heat source(s) are operating at full capacity then this meets the HNIP heat source requirements.

.....

16. Q: Why does BEIS have such specific requirements for the heat system energy source?

A: State aid can only be provided under GBER if heat networks meet the definition of “efficient” under the EU Energy Efficiency Directive.

.....

17. Q: If the heat network is a renewable system, would security of energy supply be taken into account in the scoring?

A: No. This is not scored. However reliability of the system would be relevant to the assessment of consumer impact.

.....

18. Q: A question relating to slide 22 (Full Application scoring) of the [HNIP workshop presentation](#), requiring clarity on the word limits of the longer-term carbon savings. Does the 1000 word limit apply to each metric point, so overall the limit is 2000?

A: Yes, the maximum word limit is 1,000 for each of the two criterion of: longer-term carbon savings, and quality of service. So overall the word limit would be 2000 words. Please endeavour to be succinct in your answers, use of bullet points is fully acceptable. Please also ensure all evidence is accurately referenced.

.....

19. Q: Optimism bias is common among new projects, so would there be any preference given to later stage projects?

A: All applications will be in the commercialisation phase (i.e. somewhere between an approved business case and financial close). BEIS will not accept applications that are only at heat mapping, energy masterplanning or feasibility stage. Optimism bias should therefore have been dealt with through the business case approval process and through commercialisation. BEIS will be assessing deliverability and scoring only those projects that are deliverable. Deliverability is not a scoring criteria.

Later stage projects that have already reached the end of commercialisation will be more likely to require funding from HNIP's first year budget where BEIS expect there to be less competition.

.....

20. Q: How will BEIS compare tri-generation projects with projects that just provide heat?

A: They will be assessed on the same basis as other applications in terms of deliverability and scoring.

.....

21. Q: Will BEIS be taking account of applicant's past scheme (heat network) performance e.g. in terms of quality of service, as part of evaluating an organisation's bid for a new scheme?

A: No, but this will be considered as part of design work for the main scheme. Only public sector organisations as sponsors or owners are eligible to apply in the pilot.

.....

22. Q: If projects are unsuccessful in the pilot round will this affect future applications to the main scheme?

A: No. Applications made as part of the planned main scheme will be judged purely on the evidence submitted as part of that application.

.....
23. Q: Are BEIS incentivising the right schemes (heat networks)? For example, how are BEIS incentivising campus based schemes to be more strategic and go outside the campus boundary?

A: Campus heat networks are eligible to apply if they meet all of HNIP's requirements. More strategic heat networks with evidence of future expansion are incentivised by the scoring criteria.

.....
24. Q: If the counterfactual is real (i.e. connecting existing buildings) and applicants know the price of the counterfactual - do applicants then have to provide a new equivalent capital cost?

A: It is understood that a different approach to counterfactuals will be needed for new build and existing buildings and therefore applicants are asked to create 'customer groups' of those customers that will have the same characteristics – counterfactual and heat (network) tariff.

For the assessment for the heat price criterion, where the counterfactual is an existing heat network or communal heating then yes, the known heat charges should be used as the counterfactual. Where customers in existing buildings had individual contracts or for new build, then counterfactual heat prices for customer groups will need to be estimated.

Regarding State Aid, Carbon saving and Social NPV, the counterfactual is broadly the same across the criterion. The counterfactual costs must be the new replacement standard conventional production plant that would be installed in the absence of the heat network (e.g. individual or communal gas boiler or a heat network production plant that does not meet HNIP technical standards).

.....
25. Q: Can there be greater clarification as to whether BEIS are scoring projects on **carbon** or **CO2 savings** since there is a big difference between the two.

A: BEIS will be assessing projects on GHG emission abatement, CO2e or carbon savings is used as a shorthand.

.....
26. Q: Is there a recommended methodology for assessing carbon savings?

A: Carbon savings will be calculated by BEIS using the values entered into the input sheet to enable a standard methodology to be used across all projects. For further information, please see the Application Guidance and input templates.

.....
27. Q: Does the quality of service apply to both domestic and non-domestic?

A: Yes.

.....
28. Q: How do applicants demonstrate projected quality of service, if the heat network will ultimately be run by an ESCO?

A: If projects are to be run by an ESCO, the consumer service levels stated in applications will need to be written into relevant contracts, and ultimately end user contracts. Applicants must be able to demonstrate that HNIP heat price and quality of service requirements will be part of the delivery partner procurement. Successful applicants will need to report on heat price and customer service metrics, even if this is being delivered by a third party, once the heat networks are operational as part of ongoing reporting requirements.

.....
29. Q: For scoring purposes, will BEIS be comparing each project against a benchmark or against each other?

A: Some of the quantitative scoring metrics will be relative in the pilot phase. Benchmarks will not be used. BEIS will use pilot data to ascertain whether benchmarks can be used in scoring for the main scheme.

.....
30. Q: Have BEIS received feedback on the resources required to complete the application form?

A: Application forms and input templates will be easier to populate for projects that are further through the project development timetable and closer to final investment decisions. BEIS anticipates that the Input templates may be the most difficult area to complete, particularly reaching conclusions on what to use as the counterfactual. It is anticipated that it would take 3-4 days to complete the input sheet (assuming an average size project of approx £10m capex). BEIS is running additional training workshops on the 21st and 22nd November to take more detailed questions on the input sheets.

.....
31. Q: If the application is for a public owned extension on a privately owned heat network who is responsible for the application and how will funding be scored?

A: Only public sector bodies can apply directly for capital in the pilot. The public sector sponsor would need to put in the application. Any on-investment to the private sector-led element of the project might count as non-fiscal spend depending on governance of the network and whether the capital would be on-invested as a loan or equity. See application guidance for more information.

.....
32. Q: If a public sector applicant is looking to on-invest into separate pipe infrastructure and generation companies, how should that be treated for application purposes?

A: This should be covered by a single application.

.....

33. Q: What is the definition of “no impediment to future expansion”? Does there need to be no constraints on the expansion at any time e.g. how would a constraint for expansion for first 5 years be considered?

A: Yes that is acceptable as long as there is no barrier to future expansion over the lifetime of the heat network.

.....

34. Q: What is BEIS’ definition of “useful heat”?

A: A definition of useful heat is not required for an HNIP application as BEIS will not be providing funding based on “useful heat” produced, like for RHI. In addition, there are no ineligible heat uses. BEIS are awarding funding to address funding gaps in heat network projects.

.....

35. Q: How many of the HNDU projects are at the stage of being able to apply for pilot funding?

A: This depends on progress on project development and resource available for bids and decision making. BEIS estimate that up to 60 could be in a position to apply. Around half this number has informally expressed an interest in applying.

.....

ELIGIBILITY

36. Q: Will new non-HNDU funding schemes be accepted if they meet all criteria?

A: Yes, BEIS are fully expecting projects to come from outside the HNDU pipeline. Applications will be judged on the quality of the evidence provided.

.....

37. Q: Why aren't BEIS supporting communal heating systems?

A: BEIS are looking to support strategic and large scale deployment of heat networks to meet government targets for carbon savings.

.....

38. Q: Would a community owned company be deemed as a private entity?

A: For classification as non-fiscal spend, an HNIP loan must go outside the public sector boundary and return i.e. through a loan or equity investment. A community-owned company is generally outside the public sector boundary, but classifications should be checked on a case by case basis.

.....

39. Q: Can there be a clarification on the definition of 'wholly publically owned' for replacement of internals (tertiary heating and hot water systems). Are housing blocks where there are leaseholders included?

A: Costs for upgraded tertiary systems in publicly-owned housing blocks where private individuals are leaseholders are eligible for HNIP support.

.....

40. Q: What's the reason for our position on eligibility of tertiary system costs? Why is it only wholly public sector owned domestic buildings?

A: There is a tight timetable to award funding. It is more challenging to secure agreements on tertiary system upgrades in buildings with mixed ownership. Therefore there are restrictions for the pilot phase, but BEIS will evaluate the impact of this type of funding support when designing eligibility for the main scheme.

.....

41. Q: Can I apply if the heat network does not supply domestic customers?

A: Yes. Eligible heat networks can provide heat to both, or either, domestic and non-domestic customers.

.....

42. Q: Are universities eligible to apply?

A: Yes, universities are eligible to apply for HNIP pilot funding.

.....

43. Q: Are private wire networks eligible and how are they are accounted for in the state aid calculations?

A: Where a private wire is being installed as an integral part of a heat network these costs would be eligible for support under HNIP. Eligible private wire costs will vary depending on the scheme and system ownership boundaries. For the purposes of the State aid calculation the capital costs associated with private wire would be included as part of distribution network costs. Any profits that arise from the sale of electricity should be apportioned in line with standard accounting principles to the energy centre and distribution network respectively. In line with the approach to apportioning heat revenues, when calculating the operating profit of the distribution network it is only those revenues that arise from the distribution of electricity to end consumers that should be apportioned to the distribution network. Further information on the State aid calculation can be found in Annex B of the HNIP guidance document'

.....

FUNDING

44. Q: If projects have acceptable IRRs calculated for project financing without HNIP support, and this has been agreed on by the organisation, will BEIS accept an application?

A: No. There is no funding gap

.....

45. Q: Does the input sheet do any calculations and give BEIS a calculated IRR?

A: No the input sheet will be used to create a separate shadow heat (financial) model for each application. This will be used to assess the robustness of the applicant's submitted cash flow or financial model and to assess the funding gap.

.....

46. Q: What if the project simply cannot go ahead without HNIP funding and so no (pre-HNIP support) IRR can be generated?

A: An IRR will still need to be generated using the cheapest forms of funding from elsewhere in order to develop an IRR, otherwise a funding gap cannot be determined.

.....

47. Q: In calculating the funding gap, does BEIS have a ceiling IRR?

A: The shadow heat (financial) model will be used to assess whether the real pre-tax equity IRRs with HNIP funding do not exceed a ceiling set by BEIS. This figure will not be published.

.....

48. Q: Will there be a standard assumption of what the private sector hurdle rate will be and if not how can this be evidenced? How will BEIS guard against artificially high hurdle rates?

A: BEIS does not have a standard assumption on hurdle rates as these will vary according to individual project sponsors. Applicants will need to provide evidence for each equity investor of their hurdle rate, e.g. evidence that discussion and agreement has taken place. One of the long term objectives of the HNIP program is to attract long term investors to provide capital for Heat Network Projects.

.....

49. Q: Some LAs do not routinely use IRRs and hurdle rates to make investment decisions. Instead they look at the funding gap and economic benefit of the project. Does this change what need to be provided?

A: No. BEIS expect projects to provide a cost model showing IRR before and after requested HNIP capital because this is how BEIS will be assessing the funding gap for HNIP support.

.....

50. Q: What kind of evidence would BEIS expect to show what an acceptable hurdle rate is for an applicant?

A: In terms of evidence of hurdle rates BEIS want to see that discussions have taken place in project boards, discussions with Financial Directors. Evidence might therefore be minutes from meetings or evidence from previous investment decisions.

.....

51. Q: What is the loan interest rate?

A: This will be 1% below the corresponding interest rate of an equivalent PWLB loan.

.....

52. Q: Will projects be able to set the loan rate applicants would like in our application?

A: No, the loan rate to the applicant will be set by reference to the daily fixing of the PWLB rates. However, if the applicant is on lending or investing the applicant can choose the terms at which it on-lends or invests in the underlying project. Please note one of the undertakings for any funding will be that BEIS has to provide its consent for on investment.

.....

53. Q: How is the proportion of funding split between fiscal and non-fiscal?

A: It is roughly a 60/40 split in favour of fiscal.

.....

54. Q: How will grants and loans be supplied under both fiscal/non-fiscal categories?

A: Applicants will need to define whether they require fiscal or non-fiscal capital. Applicants will need to be clear whether the commercial structure of the heat network is public or private sector controlled. All capital for public sector controlled heat networks is defined as fiscal and an HNIP grant or loan can be applied for. Where a public sector body wishes to on-invest in a private sector controlled heat network they then need to determine how they wish to invest. If an applicant wants to provide a grant, then they must apply for an HNIP grant. If the applicant wishes to on-invest through a loan or equity stake in a private sector heat network, they must apply for an HNIP loan. See P.11 of the full guidance document.

.....

55. Q: Does HNIP funding have to be spent in the same year it is awarded?

A: Applicants must state in which year they intend to spend the HNIP funding. Applicants can apply for capital to be spent before March 2018 or between April 2018-March 2019. Applicants will receive feedback on whether the application has been successful in February 2017, with funding agreements to be signed by March 2017. Funding allocated through the pilot must be spent in the fiscal year for which it is allocated and this schedule will be set out in the funding agreement. Please see the "Giving notice for draw down of funds for loans and grants" section on page 54 of the full guidance document for details on the process and timings for the drawing down of funds.

.....

56. Q: Can use of HNIP funding be frontloaded over the project lifetime to comply with the requirements to spend the money in certain years?

A: Yes, but BEIS cannot pay out more funding that is actually spent in a particular year.

.....

57. Q: Is there a cap on the amount of funding that can be received?

A: Yes. HNIP will only contribute a proportion of total eligible capital expenditure (capex); no more than the gross grant equivalent of the calculated funding gap where this is greater than £50,000 and where the HNIP ceiling IRR and State aid threshold (considering all other sources of State aid) is not exceeded. Applicants will be required to demonstrate at application where they anticipate the remaining funding will come from. Further information on this can be found in 'Funding requirements and limits' section of the pre-qualification application guidance.

.....

58. Q: Would BEIS scale down the funding from that requested if BEIS assessors don't agree with the funding gap identified by the applicant?

A: Yes, the funding offer will be based on the BEIS assessment of the funding gap, following relevant clarifications.

Where costs and revenues provided by applicants are in line with benchmarks and the cash flow or financial model provided is suitably robust the funding gap will be assessed.

Where BEIS assessment of the funding gap identifies that the HNIP ceiling IRR or State aid threshold has been exceeded, then the requested HNIP funding amount will need to be revised and remodelled.

Where this is not the case and applicants are successful then the funding offer will be based on the gross grant equivalent of BEIS assessment of the funding gap, following relevant clarifications.

.....

59. Q: What if applicants have already incurred quite large costs - do applicants need to include that in the model?

A: BEIS want to be sure that the totals calculated in the input templates are the same as the evidence given in the supporting documentation. However, if projects have already incurred costs, these costs will be ineligible for HNIP support.

.....

60. Q: Can projects claim back costs for completing the application form (such as consultant fees?)

A: BEIS will not be able to accept costs incurred before the point of application.

.....

61. Q: If there are delays in project delivery so that costs not incurred when expected, will funding be recovered by BEIS?

A: Applicants are expected to spend the funding provided by HNIP in the fiscal year for which it is allocated. Project accruals will be monitored after funding award and substantive deviations from cost profiling will need to be alerted to BEIS, for consideration on a case by case basis.

.....

62. Q: If a project is already at the design and build stage can it receive funding?

A: Yes, but only for an additional feature where there is a funding gap, not for costs already incurred. See Application Guidance for further details.

.....

63. Q: Does on-investment have to go into a Special Purpose Vehicle (SPV)?

A: No, but this is a common way for on-investment into heat network projects. This will depend on the project sponsors. The form of company created could be a normal Limited company or other such as a Community Interest Company. For further details see commercial structures in which HNIP funding can be invested and corresponding funding mechanisms section of the guidance P.11.

.....

64. Q: At what point does BEIS “score” spend when it is on-invested, e.g. if going to an SPV?

A: Funding needs to be spent in the fiscal year for which it is allocated irrespective of the final recipient / commercial entity. This does not mean passing the money to an SPV, but spending the money on construction. In terms of scoring within particular financial years, BEIS must see evidence of a signed funding agreement for that on-investment before the HNIP funding agreement can be signed.

.....

65. Q: Do projects have the option to roll-up the interest?

A: It is important to note that any Loan provided by HNIP will be to the Public Sector entity applicant. How the applicant chooses to on invest such a loan into their project will be decided by the applicant and as such the applicant may choose to allow the project to roll up interest if they provide a loan to it. However for any loan provided by BEIS interest will be current so the first interest payment will be 6 months after receiving the loan. Please note one of the undertakings for any funding will be that BEIS has to provide its consent for on investment.

.....

66. Q: Can applicants apply for both grant and loan?

A: No, applicants can apply for only a grant or a loan.

.....

67. Q: When do loans repayments start? Are there any limits to this e.g. if a project takes a very long time to build or if revenue streams do not come online as expected - can the loan repayments be delayed?

A: Principal repayments will be required once the project reaches completion, or starts delivering heat to its Anchor Load Customers, or after 5 years, whichever is earliest.

.....

68. Q: If applicants receive a grant can they on-invest via equity or a loan into a private sector heat network?

A: No. Where a public sector body wishes to on-invest in a private sector controlled heat network they then need to determine how they wish to invest. If an applicant wants to provide a grant, then they must apply for an HNIP grant. If the applicant wishes to on-invest through a loan or equity stake in a private sector heat network, they must apply for an HNIP loan. See Page.11 of the guidance.

.....

69. Q: What are the minimum consumer protections required for non-domestic customers?

A: Heat Trust equivalent standards are required, where appropriate, other than where there is a pre-agreed non-domestic contract.

.....

70. Q: Is the HNIP forcing people to join the Heat Trust or is BEIS happy with equivalent standards and with projects providing self-certification? In the guidance it suggests that membership of the Heat Trust is mandatory but this raises concerns about the costs that would be put on consumers.

A: The requirement is about the outcome – the service provided to customers – rather than the method of achieving that. However, in most cases the best way to ensure that the service standard is high enough, and that this can be evidenced, will be to join Heat Trust. Therefore BEIS strongly encourage HNIP applicants to demonstrate their membership of Heat Trust, or commitment to becoming a member of Heat Trust, to meet this criterion. In some circumstances - relating almost certainly to certain retrofit projects rather than new builds - the scheme may not fall within the scope of Heat Trust.

Where heat networks are ineligible to sign-up to Heat Trust or where for some other reason the applicant doesn't intend for the heat network to join Heat Trust, the applicant will need to state this, and demonstrate that they will be providing the same level of customer protection as Heat Trust. BEIS will consider each application on its own merits to assess whether the standards are appropriate and comparable to Heat Trust standards. Costs for compliance with the Heat Trust standard are eligible costs for HNIP support and should be included in project financial models.

.....

71. Q: If a heat network has a higher operating profit than expected, will funding be clawed back?

A: No, costs and benefits of projects will be assessed at the application stage in order to verify if they are reasonable. There are no claw back provisions if this changes once projects are in operation.

.....

72. Q: Will BEIS be assessing CAPEX costs provided against benchmarks?

A: Yes the capital cost benchmark template will require completion which will allow the assessment team to consider if the costs are reasonable

.....

73. Q: What happens if BEIS assess that proposed project costs are too high or too low?

A: This will affect the outputs of the shadow financial model and the projected funding gap for HNIP support. Disparities will be raised with the applicant and clarifications sought.

.....

74. Q: Some heat networks do not pass on the full costs of operating the scheme to the customers and therefore effectively “subsidise” the heat. Should projects be comparing the new network heat price with the cost that the current system operator incurs or should applicants be comparing to the price given to the heat actually sold to the customer?

A: The heat price scoring criteria is comparing the heat price to end users with and without the heat network; it does not look at cost. Where heat is currently subsidised, BEIS will require the subsidised heat price to be compared to new network heat price. It is important that heat prices are no more than the counterfactual for each customer group (other than where there is a pre-agreed non-domestic contract).

.....

75. Q: Does the counterfactual heat price need to be based on the Heat Trust price calculator for gas boilers?

A: Not necessarily - the counterfactual should be project specific and specific to each customer group identified by the HNIP applicant e.g. this could be gas boiler counterfactual using heat trust calculator, electric storage heater equivalent costs, current customer cost e.g. on a communal heating scheme, etc.)

.....

76. Q: A question on heat price. There is a balance between asking for more grant and lowering heat prices. Is there a target for heat price savings that should be used as a starting point?

A: No. BEIS do not have a specific target. It depends on each project and needs to be suitable for each project. Scoring will consider reductions in heat price for each customer group. Note asking for larger grants will reduce the scoring of short term carbon savings and economic benefit as these are divided by the amount of HNIP support.

.....
77. Q: Would HNIP support be better spent in supporting build as opposed to supporting capitalised costs such as consultancy fees?

A: The consultation responses confirmed that funding for commercialisation was a barrier to networks coming forward, so commercialisation costs that can be capitalised are eligible of support in the pilot phase.

.....

STATE AID

78. Q: The state aid design seems to be a mixture of several complicated approaches – is this really required? Why doesn't BEIS put all of the onus on the applicant?

A: The state aid is notified under article 46 of the general bloc exemption. Our responsibility is to make sure that BEIS aren't giving out aid that is higher than that threshold and to make sure that the ceiling defined by state aid is not breached. This is why there is a detailed level of information required so that BEIS have the minimum info in order to determine this. BEIS are as much as possible trying to build on the existing information that applicants already have in their business case.

Public sector applicants must also consider how they will put their money into the market place in a State aid compliant way.

.....

79. Q: It was stated in the workshop that depreciation was included in the operating profits for the calculation of potential funding re the network, but the guidance on page 64 suggests not. However, on page 65 it is a bit conflicting because it states that "inclusion of depreciation will...". Therefore are applicants allowed to include it or not?

A: Yes, depreciation charges (and costs of financing) should be included in calculation of the operating profit of the network.

The definition of operating profit provided on page 64 states that depreciation charges should be *excluded* from the calculation **if** they are covered by investment aid. However as depreciation charges (and costs of finance) are not covered by HNIP funding depreciation charges should be included in the calculation of operating profit of the network.

.....

80. Q: What is the definition of profit in the State Aid calculations and how is life length calculated.

A: Operating profit' means the difference between the discounted revenues and the discounted operating costs of the network over the relevant lifetime of the investment, where this difference is positive. The operating costs include costs such as personnel costs, materials, contracted services, communications, energy, maintenance, rent, administration,

depreciation charges and the costs of financing. Remember it is only the operating profit that is **attributable to the network** that should be factored into the calculation for allowable aid for the network. See pages 62-66 (Annex B) of the guidance for further information.

Investment lifetime or the 'relevant lifetime of the investment' is the project lifetime as defined by the applicant. This is the period over which revenues and costs have been modelled for the project in developing the business case and the subject of the HNIP application e.g. if the time horizon was 25yrs for the business case this same horizon should be used to model costs and revenues for the network. See diagram on page 14 of the guidance.

.....

81. Q: Is a grant and a loan the same in terms of state aid?

A: No the loan would be calculated as GGE (Gross Grant Equivalent). GGE is also used as the denominator for short term carbon and economic benefit scoring. For information on how to calculate GGE, see [European Commission guidance](#).

.....

82. Q: What is the discount factor?

A: Projects will use their own discount factor dependant on the returns required by their investors.

.....

83. Q: If projects receive funding from the capacity mechanism, can it be combined with HNIP support?

A: Applicants must choose to receive either capacity payments or HNIP support for the energy generation plant. However, HNIP support is permitted for the rest of the heat network infrastructure (eg works to access recoverable heat, pipes and secondary/tertiary systems) in addition to capacity payments for the generation plant.

TIMELINE

84. Q: Considering this is such a tight timeline would it be possible for projects to collectively ask for an extension?

A: BEIS appreciate that the timeline is quite short for this application window and are aware that some projects may still need to provide some evidence after the deadline if it is not available beforehand (eg a final report from a consultant, a final heat supply agreement). BEIS will review progress of applications closer to the deadline date.

.....

85. Q: Does the commercialisation phase need to complete by the end of February for funding to be accessed?

A: No. Applicants specify in which of the two years they will be spending money. Projects that complete commercialisation satisfactorily by February will be able to receive construction (design and build) funding for spend by March 2018. Projects that have not finished commercialisation by March 2017 will need to request money from both the budget to March 2018 and April 2018-March 2019.

.....

86. Q: If BEIS do not open the next tranche until late 2017 would it be better to apply now? Or will there be another opportunity to apply as part of the pilot scheme

A: BEIS plans to undertake only one pilot funding round. The expected opening of the main scheme will be in the latter half of 2017. However, BEIS is currently looking at a number of options, including a single, multiple and continuous funding windows.

.....

ADMINISTRATION

87. Q: It would be helpful for projects to be given a specific reference number for queries to the Salix portal – would this be possible?

A: Each project will be identified by the project name entered into the application website, please use this as a reference in all correspondence.

.....

88. Q: Will further workshops be held to explain the spread sheets in more detail?

A: BEIS will be running further workshops on the 21st and 22nd November to take more detailed questions on the input sheets

.....

89. Q: It would be helpful to have a clear one page A4 sheet summarising all the documents that HNIP expects to be sent back.

A: This is detailed in the full application guidance table 7.

.....

90. Q: Would it be possible for Salix to provide automated emails when something changes on the portal?

A: All registered applicants will receive an email notification of major changes or new information uploaded to the applicant website.

.....

91. Q: Will the templates for the main application be downloadable from the Salix website?

A: Yes, the templates can be found here <https://hnip.salixfinance.co.uk/information>

.....

92. Q: Are there any BEIS organised forums available where HNIP applicants can interact with each other and share information?

A: No. However, HNDU supported LAs have access to shared information on Huddle.

.....

93. Q: Does BEIS have an idea of how many successful applicants it might receive?

A: The informal expressions of interest process that was carried out before scheme opening indicated that around 35 applications may come forward in the pilot scheme

.....

94. Q: Why did BEIS decide on a pilot scheme instead of launching a full main scheme straight away?

A: In order to deliver successful funding schemes, it is good practice to test out scheme rules and application processes on a smaller scale in order to optimise delivery of the funding and maximise value for money for the taxpayer.

.....

95. Q: When will HNDU open the next funding round?

A: The Heat Networks Delivery Unit (HNDU) will open another funding round for Local Authorities in the New Year. The funding round will be a continuous application window with the aim being that Local Authorities can apply for the grant funding at any time. For further information on what costs are eligible and what is not included please refer to the 'HNDU Round 6: Overview – April 2016' <https://www.gov.uk/government/publications/heat-networks-funding-stream-application-and-guidance-pack>

Added 22/11/2016

Application process

1. Q: What costs should I use for the gas boiler. Can BEIS give me costs?

A: BEIS will not provide costs for an element of a network. Applicant should supply, with evidence

2. Q: What discount factor should be used for network costs?

A: Real 2015 prices, up to applicant on discount factor to apply, with evidence

3. Q: Do I include historical costs in the cost benchmarking input sheet? (eg earlier procurement costs)

A: Do not include if not capitalised as part of the heat network project. If capitalised, included with a note that the cost is already sunk in 'Other costs'.

4. Q: If my project is changing radiators to work with a lower temperature heat network, how should this be considered in the NPV analysis?

A: Costs for adapting in-building systems to work efficiently with the network should be included in DH-related costs.

5. Q: In the situation where a project sponsor is looking to offer a large discount for some customers (eg the vulnerable, for economic generation), how will this be viewed by BEIS?

A: A network should be designed to meet local conditions and requirements. A larger HNIP grant or loan may enable lower prices but will affect scoring for carbon and NPV as the quantum of HNIP funding is used as the denominator for scoring

6. Q: Will BEIS compare the calculated carbon (from input sheets) to the applicants own assessments?

A: Yes, applicants will be notified if significant differences are identified and further evidence may be sought

7. Q: On cost benchmarking sheets, how can applicants add in 2 different sized CHP plants, is it acceptable to sum these together in section A?

A: No, because we would like to review the costs of the CHP separately for each unit size. Please add the details for 1 size unit in section A and the second in Section D, ("Other Technology..."), with a comment added accordingly in column E. If the Section D already included details for other technology then please just complete the Section A of a second input sheet for the second gas CHP.

8. Q: If there are several energy centres, can the details for these be added together in Section G.

A: Yes, please add the costs and the floor area square metre figures for the separate energy centres in the respective cells and add a comment in column E that the figures include for X separate Energy Centres, it would be useful if the different sizes could be added in the comment.

9. Q. On cost benchmarking sheets, can applicants enter all contingency costs at the end?

A. BEIS would prefer contingency costs to be allocated to individual items.

10. Q. Where can applicants find information on the Green Book valuations of energy use and GHG emissions

A. Gov.uk at [Green Book supplementary guidance](#).

11. Q. If the applicant knows the forward gas price, should this be entered? (eg applicant has a long term gas supply contract)

A. BEIS would prefer for applicants to use the Green Book projections

12. Q. On cost benchmarking sheets, how should heat offtake be considered (eg buying heat from an industrial user)

A. Use section D, "Other technology not covered above". Include comments on where heat is being purchased.

13. Q. On cost benchmarking sheets, what happens if BEIS judges that costs are significantly different?

A. BEIS will check that costs are in a reasonable range. If significant variances are present, BEIS will seek further evidence from the applicant.

14. Q. On the shadow financial model, how should connection charges be handled if they are different for different buildings?

A. An average connection charge per year should be used.

15. Q. What CoPs are BEIS assuming for heat installations?

A. It is for applicants to supply CoPs. BEIS do not use generic assumptions as it depends on the installation.

State Aid

1. Q: For State Aid purposes on energy generation, how would you consider a new heat network taking heat from an existing energy from waste plant?

A: The counterfactual conventional production plant will depend on the particular circumstances of a project and so is ultimately for participants to define. You may find it useful to consult annex B (pg 59 – 60) of the HNIP guidance which sets out some illustrative examples of conventional production plants in a range of scenarios linked to the customer types included in a project (e.g. residential vs commercial units etc).

2. Q: For State Aid purposes on energy generation, how would you consider a new network using a biomass boiler and getting additional heat from an existing CHP?

A: The counterfactual conventional production plant will depend on the particular circumstances of a project and so is ultimately for participants to define. You may find it useful to consult annex B (pg 59 – 60) of the HNIP guidance which sets out some illustrative examples of conventional production plants in a range of scenarios linked to the customer types included in a project (e.g. residential vs commercial units etc).

3. Q: For State Aid purposes, what if the costs of modifying and connecting to an EfW plant are less than installation of conventional gas boilers?

A: If the cost of a conventional production plant is greater than the costs of the proposed production plant then there would be no allowable aid under Article 46 for the production plant. However, it may still be possible to get support for the distribution network. See annex B of the HNIP guidance for more information.

Administration

1. Q: How many pre-applications have been received?

A: 29

2. Q: Will BEIS consider publishing application forms and input templates as early as possible for the main scheme? Would have helped for applicants to use these templates from the beginning of project development to ensure that information is provided in the right ways.

A: Yes, that is the intention for the main scheme. Dates to be confirmed.

3. What application information will BEIS share with external organisations?

A: Information submitted will be used only in circumstances where this is absolutely necessary. For example to meet state aid transparency rules (for awards over 500,000 euros), to fulfil reporting requirements for the scheme or for scheme evaluation where information will be passed to an external body carrying out this work on behalf of BEIS. Under FOI/EIR there are exemptions for commercially sensitive information

Added 24/11/2016

Administration

Q. Will applicants receive feedback from the assessment process?

A. Yes, project specific feedback will be provided on each application irrespective of the BEIS assessment outcome.

Q: If my application is successful, a funding agreement has been signed before the end of March and the drawdown procedure (see [Draft Heads of Terms for the HNIP Funding Agreements](#)) has been followed, when can I expect my first payment from BEIS?

A: As set out in the [Draft Heads of Terms for the HNIP Funding Agreements](#), a Drawdown request should be submitted to Salix Finance (hnip@salixfinance.co.uk) at least 10 working days before the end of month “N” for funding to be drawn on or after the 10th working day of month “N+2”. Therefore, if this request was submitted on 14 April 2017 then funding could be drawn on or after 14 June 2017.

State Aid

Q. How should the cost of electricity supply be considered in a State Aid calculation?

A. Under Article 46 the state aid calculation is considered and calculated in two parts;

In order to calculate the operating profit of the network applicants will need to apportion the costs and revenues that relate to the distribution network and those that relate to the energy centre. The costs and revenues relating to the distribution of electricity should be apportioned to the energy centre and distribution network in line with standard accounting principles. Annex B of the [HNIP guidance](#) (pg 57 – 68) provides an example methodology which may be of use for applicants.

Q. For State Aid purposes on energy generation, how would you consider an existing heat network that is being extended but is using existing boilers?

A. If there is no production plant being installed in a project then only the calculation of allowable aid for the distribution network would be relevant.

Application process

Q. For carbon / NPV input sheet, how are NOX filters considered as part of GHG emissions calculations?

A. Applicants with projects that will fit air quality emissions filters to reduce emissions from generation equipment should provide additional information in column D of section 1.10 on the “Social NPV & Carbon – 1” worksheet. To account for the impact of reductions, BEIS requires information on the following for each generation technology:

1. the expected NOx (Nitrogen oxides - NOx expressed as NO₂) emissions factors for fuel combustion in kg / kWh fuel combustion - with filter equipment fitted
2. the expected Particulate Matter (<10 micrometers in diameter) emissions factors for fuel combustion in kg / kWh fuel combustion - with filter equipment fitted
3. the expected NOx (Nitrogen oxides - NOx expressed as NO₂) emissions factors for fuel combustion in kg / kWh fuel combustion - without filter equipment fitted

4. the expected Particulate Matter (<10 micrometers in diameter) emissions factors for fuel combustion in kg / kWh fuel combustion - without filter equipment fitted

Q. For carbon / NPV input sheet, how should applicants account for power in the counterfactual when installing gas CHP?

A. Applicants should fill out Section 2.2. on the “Social NPV & Carbon - 2” worksheet. This section asks applicants to indicate to BEIS how any power provided to residential customers/commercial customers/the grid under scenario 1 (the proposed heat network project) would be provided under scenario 2 (the counterfactual). If the counterfactual arrangements are more complicated than is allowed for in the drop-down options in column D then please provide details in column E (Applicant Notes to BEIS). For example if the power demands of residential customers under scenario 1 would be met from multiple sources under the counterfactual then please indicate the proportions from different sources that BEIS should assume.

Q. For heat price input sheet, what sort of evidence is required for counterfactual heat price?

A. BEIS would accept a statement on costs and will take a view on the likely cost of gas for different types and scales of consumption; however, if more evidence is provided (e.g. actual bills), the price will be assessed as more robust.

Q. For meeting the EED definition of % “efficient DH”, how should existing gas boilers that are to be incorporated into the new heat network be considered?

A. The “efficient DH” definition covers generation of heat from all heat sources across the whole network, irrespective of whether or not funding for the heat sources are part of the HNIP application.

Added 25/11/2016

General Input Template

Q. I have noticed that in the Cost Benchmarking Input Sheet Guidance Note 4 does not seem to be correct?

A. That’s correct, the note in Cell A6, should refer to “D156”.

Q. The totals in cells D145 and D156 in the Cost Benchmarking Input sheet do not appear to be correct.

A. That is correct, it does not include the subtotals in cells D56, D65 and D74. This has been corrected in the BEIS versions of the spreadsheet. Please just add the costs in the green input cells and the BEIS sheet will make the correction.

Added 30/11/2016

General Input Template

Q. The dropdowns re VAT in 5.0 and 5.1 are not working in the template spreadsheet so not possible to complete; means can't get rid of Error – Input Value Missing flag - please advise?

A. Please copy the appropriate VAT drop down answer from one of the sections where it is working and paste it into "Applicant Notes to BEIS" (along with any additional notes you wish to provide).

As a separate point to emphasise, please note that any costs provided in sections 5.0 and 5.1 should only be additional to those provided in previous sections on this worksheet. E.g. if the DNO connection costs (electricity) for a building under the counterfactual scenario have already been included in sections 3.3, 3.6 or 4.3 and 4.6 they should not be included here, in order to avoid double counting of costs. The same applies generally across this worksheet e.g. for any building using both electric heating and cooling under the counterfactual, we only want to capture the electricity ancillary and utility connection costs once across the sections on this worksheet.

Added 1/12/2016

Q. For State Aid purposes on energy generation, how would you consider a new heat network in a development in London that is above the threshold for considering gas CHP (as set out in the London Plan)?

A. The counterfactual conventional production plant should be a networked/communal gas boiler with CHP, unless it is clearly demonstrated / agreed with the planning authority that it is not applicable due to local circumstances. In any case, the appropriate 35% / 100% CO2 reduction target would still apply to the new development in the counterfactual.

Q. For shadow financial model, how should extensions be considered if they are being added to an existing 1st phase heat network?

A. Each extension should be represented in a different input sheet as it will be considered on a standalone basis.

Q. For heat price input sheet, how should residual life of generation sources be considered?

A. BEIS will accept a residual life methodology or "new for old" cost methodology. Explanations should be given, eg sometimes the standing charge covers plant costs.

Q. On the shadow financial model, what information should be provided if the blend of tariffs change over time, eg less public and more private sector load?

A. This can be accommodated in the input sheets. Add a comment to signal the change in customer balance. This should be apparent in the change in revenues over the life of the project in the applicants model.

Added 2/12/2016

Q. How should HNIP applicants apply the zero carbon and offsetting policy in the London Plan to the counterfactuals for State Aid assessments?

A. The counterfactual costs for State Aid assessments should include a suitable carbon offset payment for carbon emitted by the minimum London Plan-compliant heating solution for that site. (Similarly heat network costs for State Aid should include a suitable carbon offset payment, if appropriate) [This will vary depending on residential or commercial heat load, specific site characteristics (eg size) and the cost per tonne levied in different Boroughs.]