



Consultation response

April 2021

**Energy Saving Trust's response to the Scottish Government's consultation
on the Low Carbon Infrastructure Transition Programme (LCITP)**



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1. Please provide views on the impact of LCITP support to date, in particular on the three stages of support provided. Please explain your views.

The Scottish Government's District Heating Loan Fund (DHLF) is administered by Energy Saving Trust and is designed to help address the financial and technical barriers to district heating projects with loan funding focused on financing capital measures. Since the launch of the LCITP in 2015 the low interest lending available through the DHLF coupled with grant funding available through the LCITP has played a vital role in mitigating the initial investment risk for heat network developers. Our experience of the LCITP is primarily as a result of this important interaction between these two support programmes (i.e. DHLF and LCITP), and our response therefore focusses specifically on LCITP's role in supporting the development and delivery of district heating projects.

Energy Saving Trust's views on the impact of LCITP support are consistent with those outlined in the consultation document and, as noted in the paragraph above we believe that the grant funding available through the LCITP combined with the low interest lending available through the DHLF has played a vital role in mitigating the initial financial risk for heat network developers. Heat networks require a degree of funding certainty at the outset as it often takes time to connect up potential customers and heat loads which in turn will generate revenues from heat sales. At this stage of market transformation in Scotland when district heating is still perceived as high a risk for mainstream lenders, grant funding (both development and capital) available via the LCITP together with low interest, longer term lending remains vital.

2. How should the LCITP successor programme best reflect enhanced policy ambitions set out in the 2020 Climate Change Plan Update and the draft heat in Buildings Strategy? Please explain your views.

One of the key ways that we think the LCITP programme could evolve to reflect the enhanced policy ambitions set out in the 2020 Climate Change Plan Update and the draft Heat in Buildings Strategy would be with the introduction of match grant funding for upgrading and decarbonising existing heat networks. This would help to overcome some of the existing issues with inefficient 'legacy' schemes helping to minimise heat losses and provide better outcomes for customers. Debt finance alone does not usually provide a sufficient incentive for operators to upgrade and decarbonise their networks.

3. Do you agree with the barriers outlined above? Please explain your views.

Yes, Energy Saving Trust agrees with the barriers outlined in the consultation document. If these are not tackled they could inhibit the installation of good quality heat networks which will in turn impact on heat network customers.

4. Are there additional barriers to low and zero carbon heat project delivery? Please explain your views.

We think that the consultation document has captured the majority of the barriers to low and zero carbon heat project delivery. As noted in our response to question 2 above debt finance alone does not usually provide a sufficient incentive for operators to upgrade and decarbonise their district heating networks and this is an important barrier to the implementation upgrade and decarbonisation of existing networks.

We welcome the recognition of barriers related to skills and welcome the Scottish Government's plans for developing heat network skills that were outlined in the parallel consultation on skills requirements for energy efficiency, zero emissions and low carbon heating systems, microgeneration and heat networks for homes. We would like to emphasise the importance of wider 'softer' skills such as stakeholder engagement and customer focus – good stakeholder and consumer communication will be essential for ensuring good consumer outcomes.

We look forward to continuing to work with the Scottish Government through the Sustainable Energy Supply Chain Programme to help ensure that the district heating supply chain can meet expected growth in demand for the skills necessary to design, install, commission, and maintain heat networks.

5. What role should the new programme play in addressing challenges and barriers? Please explain your views.

As noted in our response to question 2 above we think that there is scope for the new programme to play a role in addressing the barrier created by the fact that debt finance alone does not usually provide a sufficient incentive for operators to upgrade and decarbonise their district heating networks. Specifically, we think there is scope for the introduction of match grant funding for upgrading and decarbonising existing heat networks. This would help to overcome some of the existing issues with inefficient 'legacy' schemes helping to minimise heat losses and provide better outcomes for customers. It is also important to invest in 'replicable' projects which will help to build scale and confidence in the sector.

6. Do you agree with the priorities outlined above? Please explain your views.

Yes, Energy Saving Trust agrees with the priorities outlined in the consultation document.

We welcome the commitment provided in this part of the consultation that "*The future programme will deliver outcomes-based infrastructure investment and will complement the up-scaled support provided through our existing domestic, business, community and public sector programmes as detailed in the draft Heat in Buildings Strategy*". On behalf

of the Scottish Government, Energy Saving Trust leads the delivery of the Community and Renewable Energy Scheme (CARES) which under the current contract is planned to run to March 2025. CARES provides both advice and funding to support the development of community and locally owned energy projects, with a focus on supporting community groups and third sector organisations. We note that there appear to be some potential overlaps between the priorities identified for LCITP and those of the CARES. We therefore believe there needs to be clarity of scope in relation to which projects CARES should lead on and which projects LCITP should lead on. Our understanding is that CARES is the main support scheme for the development of community renewable energy projects and that funding for capital work can be via CARES or other funds (including LCITP) with support from CARES to help those community groups apply for funding. We would welcome the opportunity to discuss in more detail how these programmes best align.

7. Are there further specific gaps in project support that should be filled? Please explain your views.

No response.

8. What types of pre-capital support would help to support low and zero carbon heat projects? Please explain your views.

Support should be provided for detailed project feasibility work including options appraisals to ensure that investment is provided for the best technology choice. It is also important to ensure that projects are financially viable and will not impact adversely on heat customers. (i.e., by increasing their heating bills and damaging security of supply).

9. Do you support the widening of the scope of the Heat Network Partnership to cover other low and zero carbon heat projects? Please explain your views.

We support the widening of scope to cover other low and zero carbon heat projects as it is vital to take a holistic view of which technologies should be employed in particular circumstances to achieve best results in terms of carbon savings and customer outcomes.

10. How can the programme best support delivery of LHEES from 2023? Please explain your views.

No response.

11. How can the programme best support place based integrated partnership delivery? Please explain your views.

No response.

12. What types of financial mechanism would help to support low and zero carbon heat projects? Please explain your views.

We believe that low and zero carbon heat projects need grant support at development stage to ensure that the best technology is being deployed and that it is designed properly. Once projects become investment ready then a blend of grant and low interest flexible lending should be made available to ensure project build out. In the case of heat networks they should be treated in the same way as other utility providers in relation to wayleave rights and any existing or future tax relief on billing.

13. Please provide evidence of how capital funding can be deployed to help attract private sector finance and accelerate the delivery of low carbon technologies.

DHLF support has helped to ‘de-risk’ projects and allow additional lending to be secured both at the outset and also post project commissioning. The fact that DHLF support is ‘unsecured’ allows other lenders to take security on project assets (which is usually a pre-requisite for additional more mainstream lending).

14. Please provide your views on timings of competitive funding rounds

It is important to be flexible and allow projects to apply at various points in the financial year – so various funding rounds should be permitted with the possibility for projects to re-apply with more robust applications if initial applications have been unsuccessful.