



Triple Point
HEAT NETWORKS
INVESTMENT MANAGEMENT

SOMS heat contract templates Guidance document (Jan 23)



- As part of the Heat Networks Investment Project, Triple Point Investment Management were appointed by BEIS to draft a number of template contracts for use by anyone in the sector developing a district heating scheme
- The objective was to produce a set of documents that would help reduce transaction costs for developers of projects (and other stakeholders) and help raise standards across the industry
- We created a suite of templates that should serve as a useful starting point for drafting of a number of key agreements present in many projects
- Under the Green Heat Network Fund programme, we have updated the template documents to reflect changes such as Brexit, some tidying and some industry feedback
- The suite of contracts can be found at: <https://tp-heatnetworks.org/heat-contract-templates>

A set of contract template heat contracts covering:

- delivery of district heating infrastructure;
- operation and maintenance of that infrastructure;
- connection and adoption to heat networks;
- energy off-take;
- lease of energy centre/plant room and easement for pipes; and
- use of heat pipes (unbundled pipe business)

Note: the suite of contracts does not cover project ownership or partnership models

Two approaches to district heating procurement have been assumed (from a sponsor perspective):

- A. Works packages:** A project sponsor (such a local authority) establishes its own energy company which outsources works packages for delivery of infrastructure, and its operation and maintenance and other business services; and
- B. Concession:** a project sponsor (perhaps a local authority or a developer undertaking a regeneration scheme) fully outsources the business of heat supply (granting a concession), including delivery of infrastructure (although delivery of infrastructure can be addressed in a number of ways).

The concessionaire itself under model B might have sufficient resources in-house or might choose to use elements of delivery model A

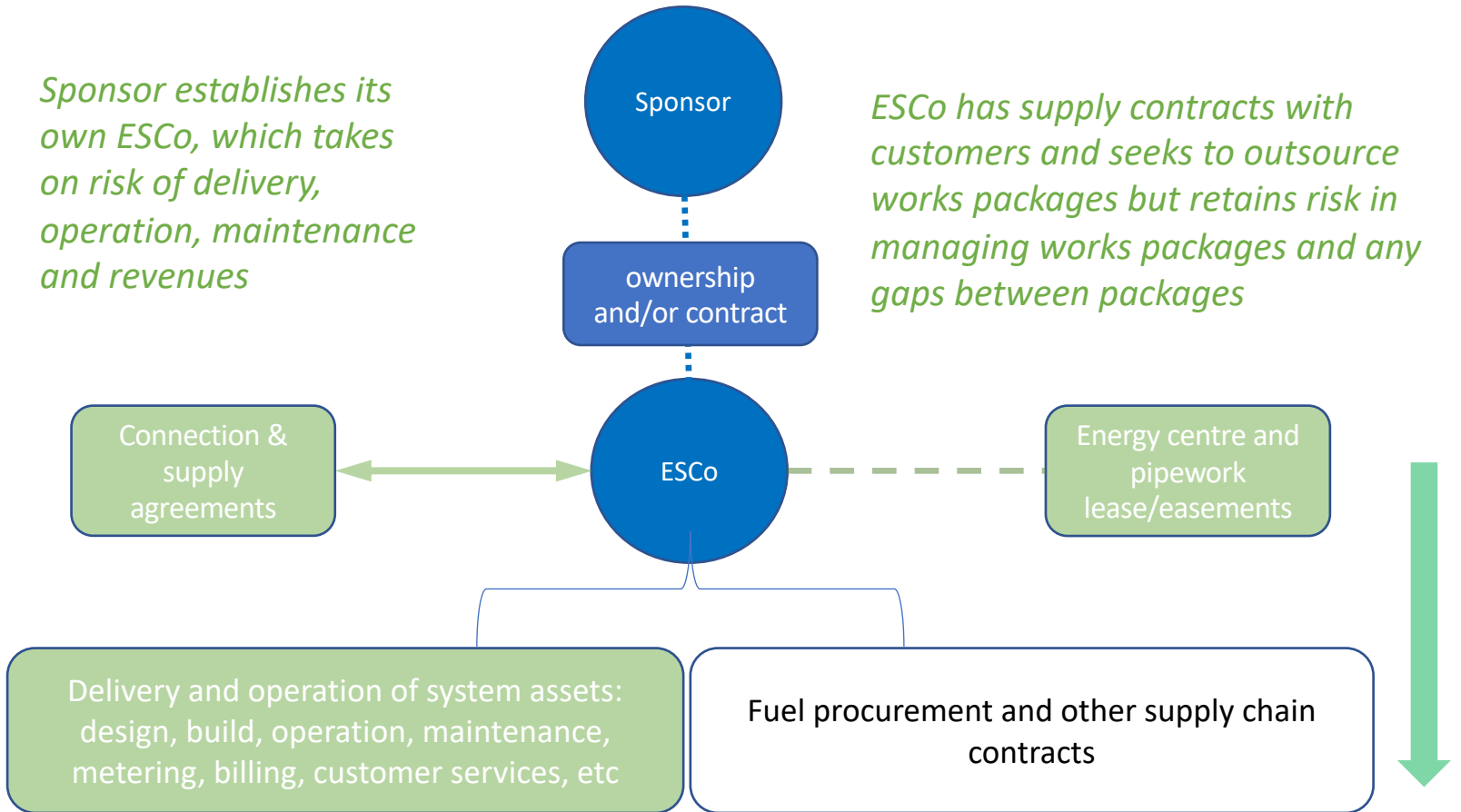
[NB other approaches are possible but a number of the contract templates developed will be useful irrespective of the approach taken]

Models A and B are illustrated in the next 2 diagrams

Delivery model A: set up own ESCo and procure works packages

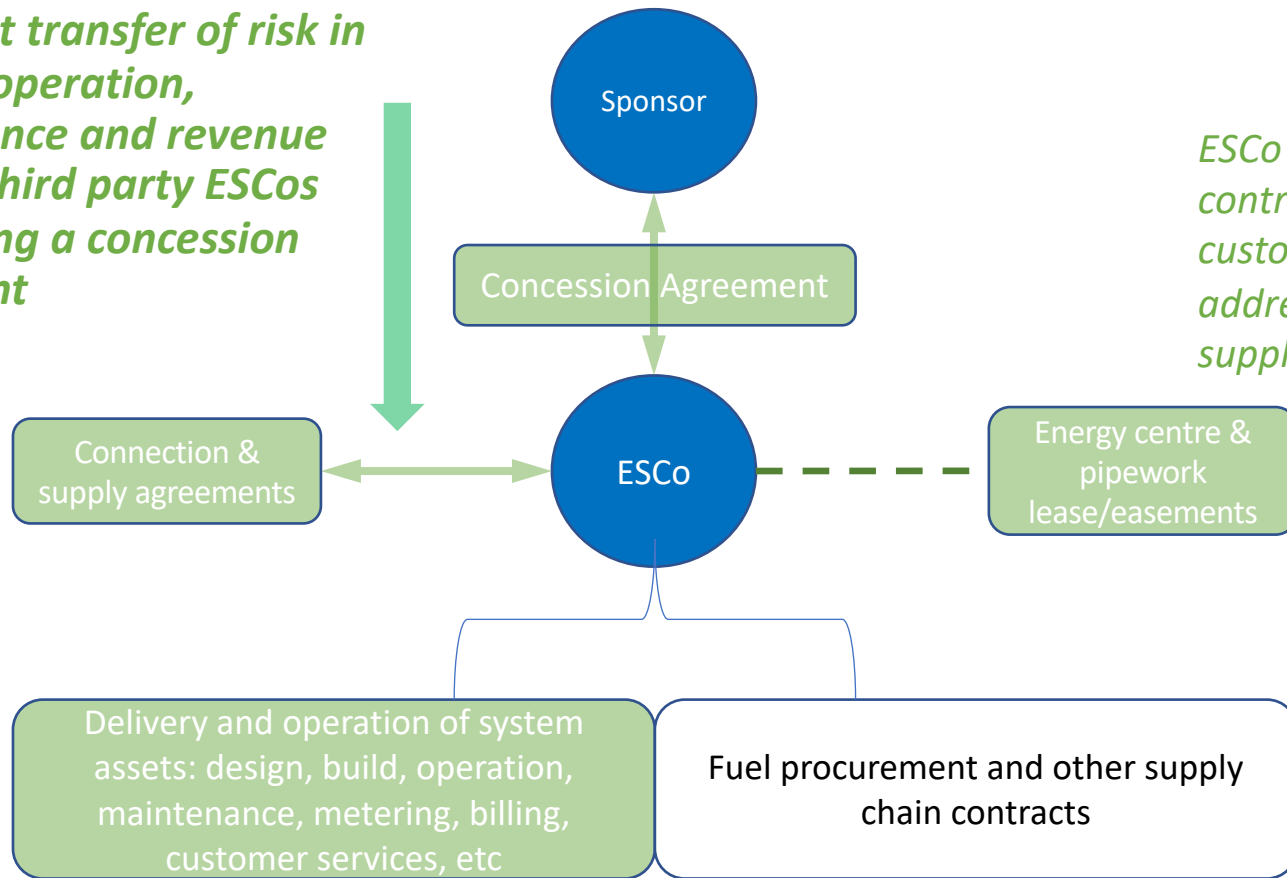
Sponsor establishes its own ESCo, which takes on risk of delivery, operation, maintenance and revenues

ESCo has supply contracts with customers and seeks to outsource works packages but retains risk in managing works packages and any gaps between packages

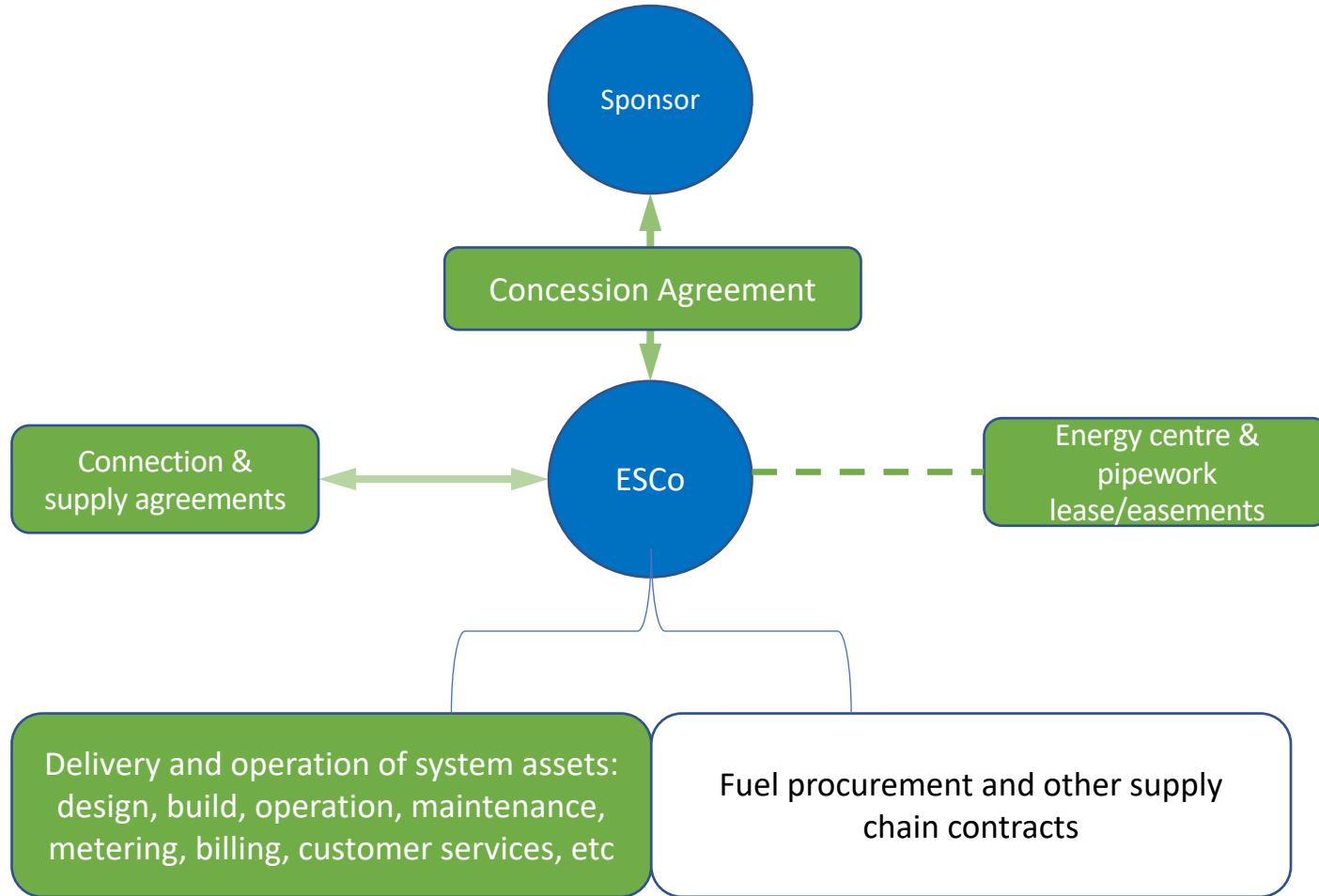


Sponsor seeks to achieve a significant transfer of risk in delivery, operation, maintenance and revenue risk to a third party ESCOs by granting a concession agreement

ESCO has supply contracts with customers and addresses its own supply chain



SOMS contract templates (in green)



Two key approaches to procuring district heating infrastructure have been assumed (from an ESCo perspective):

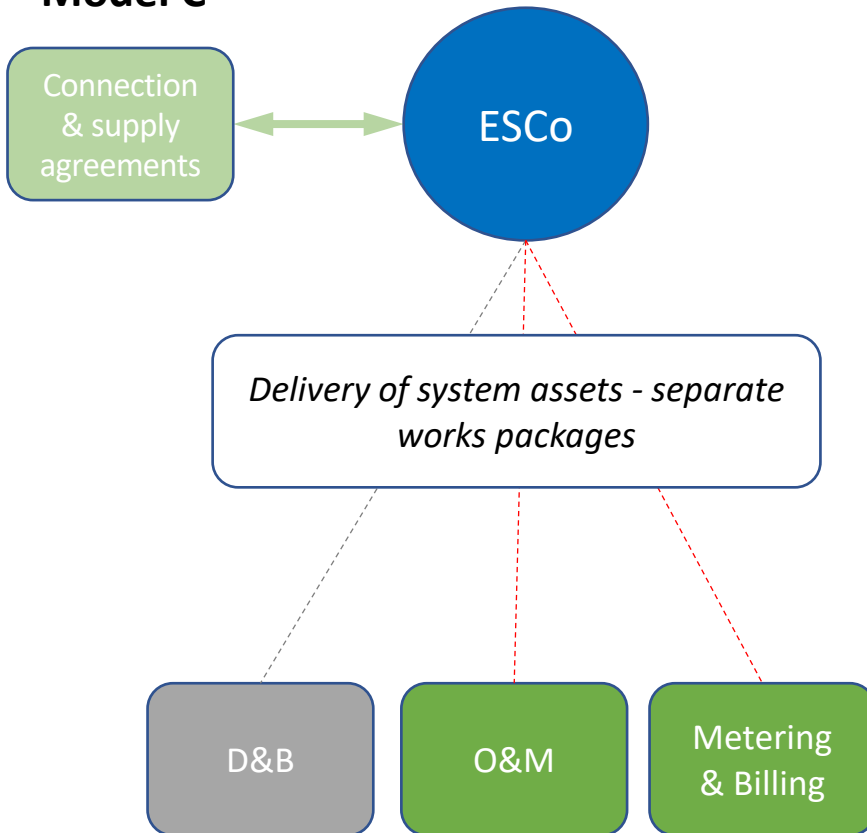
- C. Separate works packages:** ESCo outsources separate works packages for delivery of infrastructure and its operation and maintenance (and, potentially, other business services)
- D. Integrated works contract:** ESCo outsources, under a single contract, the delivery of infrastructure and its operation and maintenance (and, potentially, other business services)

[NB other approaches are possible]

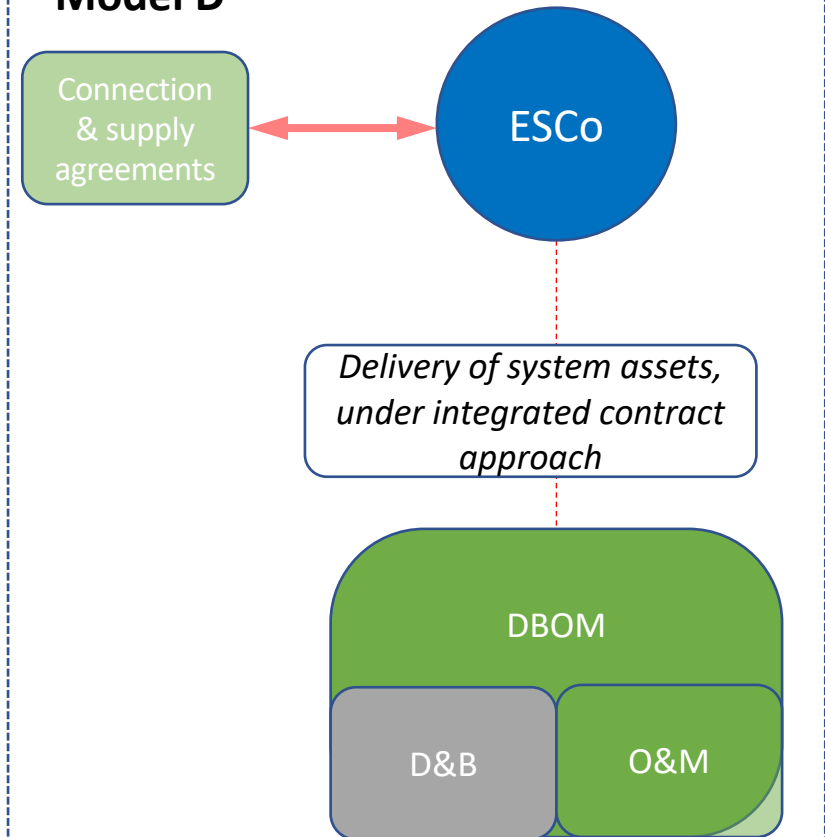
Models C and D are illustrated in the next 2 diagrams

2 models: ESCo procuring network

Model C

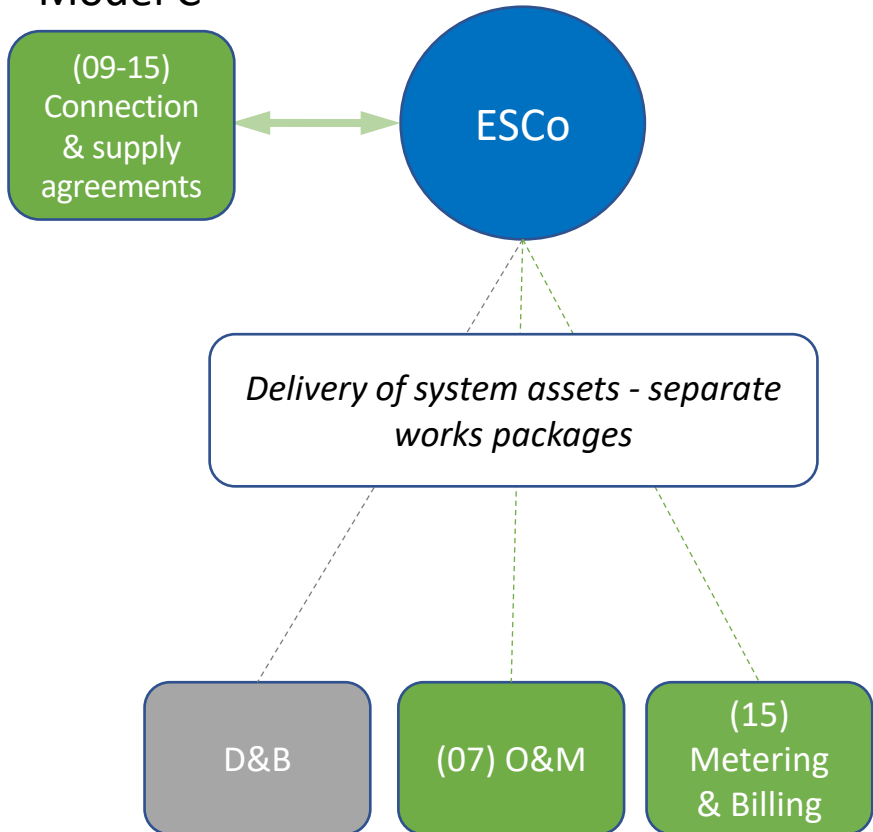


Model D

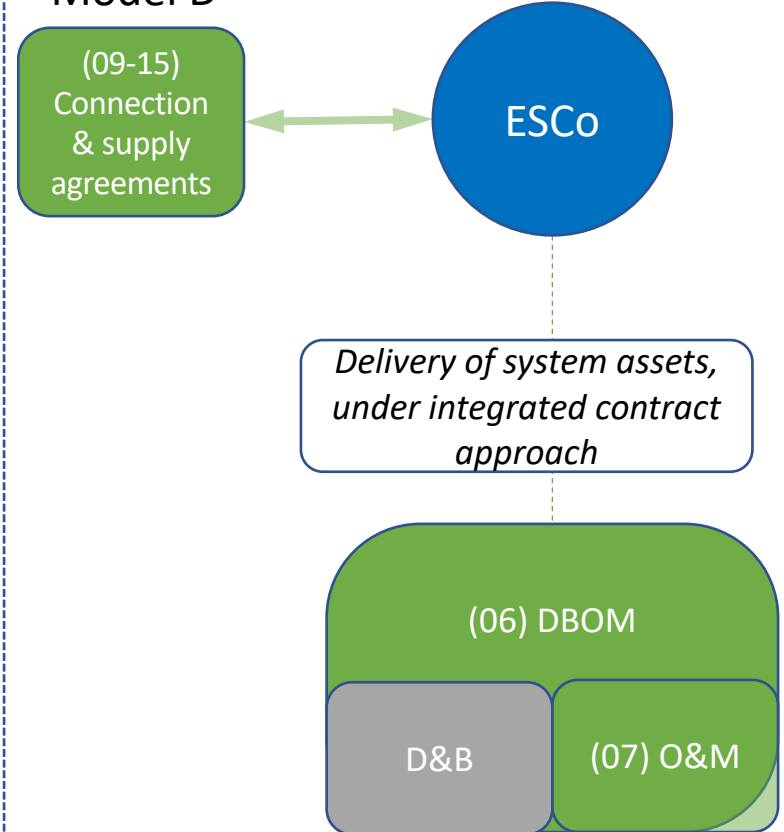


SOMS contract templates (in red)

Model C



Model D



Complex connections

- Sometimes, a master developer of a large property development requires the ESCo network to extend connections to multiple buildings, built over time (potentially, over multiple phases) and the parties recognise that those buildings may be built out by different plot/building developers and/or subsequently owned by different building owners
- In that situation, a framework agreement can:
 - enable separate building connections;
 - give parties visibility of the agreements for supply that customers will need to enter into;
 - address transfer of ownership and/or risk in certain parts of networks built out at the development (adoption)
- This is captured in the template Framework Supply Agreement

Framework Supply Agreement

- The template Framework Supply Agreement, Connection Agreement and Adoption Agreement work together
- The Framework Supply Agreement also serves as an umbrella for a suite of template heat supply agreements that are used for individual buildings or customers (including customers within a building let to a number of tenants)
- Simpler connections will not need the umbrella Framework Supply Agreement and can use the relevant lower level agreement shown in the next diagram

Lower level supply agreements

- The Framework Supply Agreement may serve as the umbrella over a suite of lower level supply agreements
- Each of the lower level supply agreements can also be used for less complex connection-supply arrangements
- Each is designed for use in a particular customer scenario – eg:
 - building connection & supply
 - bulk heat supply
 - landlord heat supply
 - commercial heat supply
 - residential heat supply

The connection, adoption and supply agreement templates and how they fit together is illustrated in the next diagram

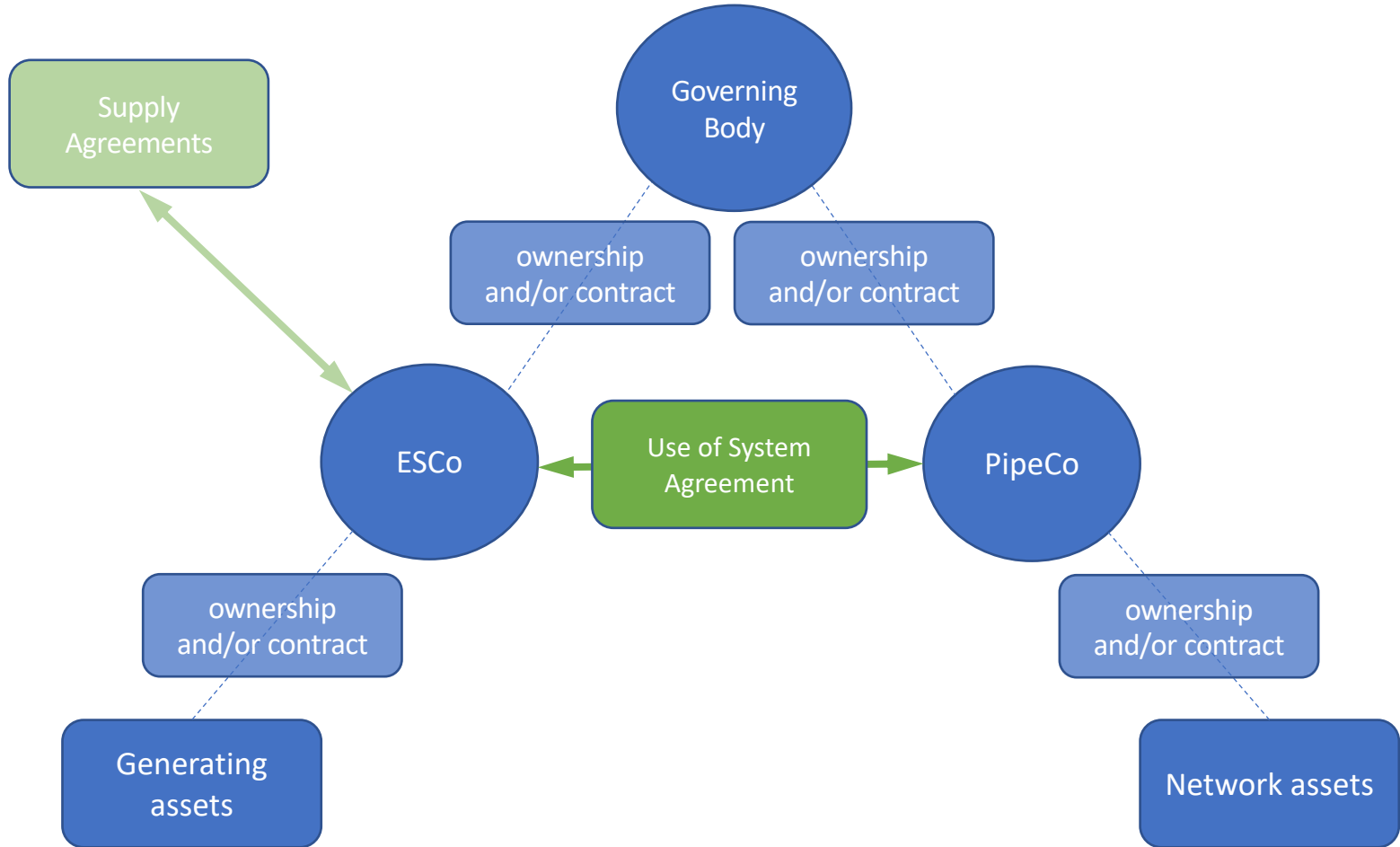


Use of system agreement

- Most UK district heating schemes operate have a single entity that owns/operating all heat production plant and main distribution network and acts as heat supplier to customers too
- Regulated electricity and gas markets have the activities of production, distribution and supply separated (or “unbundled”). This separation facilitates competition in production and supply over regulated geographic monopoly networks. Government is currently looking at potential regulatory models for district heating
- There are many ways unbundling could, *in principle*, apply. A small number of projects in the UK already have, or are developing with, some degree of unbundling but there is no consistent approach yet emerging.
- One approach is to establish a “pipes” business, separate from production and supply. Our template “use of system agreement” is for use in this scenario. However, it will only serve as a starting point for development of the documentation actually needed for a particular unbundled project. It will need more tailoring and development for use with a project than the other templates in the SOMS suite.

A use of system agreement structure is illustrated in the next diagram

Unbundled pipes business



Each template agreement:

- starts with its own guidance note; and
- comprises full legal drafting, with a combination of:
 - footnotes;
 - embedded drafting notes; and
 - square-bracketed options

Across the suite of templates, a common base template has been used for consistency of structure, approach and terminology

“Plain English” has been used for the template Residential Supply Agreement

General points:

- Whilst the contract suite is focused on heat, they may be used for cooling. In addition, optional wording has been included to accommodate electricity networks and supply
- Given the limited scope for distribution or supply of electricity for domestic consumption without committing a criminal offence (unless licensed under the Electricity Act or falling within an exemption), electricity supply has not been provided for in the documents dealing with domestic supply
- The contract suite has been drafted anticipating either public or private sector use but public sector bodies should take into consideration any public accounting impacts when entering into any agreements

Points to note:

- Each template agreement will require tailoring to fit the specific commercial structure and risk allocation of the particular project and parties although we anticipate the Residential Supply Agreement will generally require least and the other supply agreements will generally require a more
- All will require populating with technical details (eg around network design) and commercial details (pricing, in particular)
- Key drivers of structuring (and risk allocation) tend to include: where demand risk lies; how the project is being funded and how overall scheme governance and sustainability are going to be incorporated
- A view will need to be taken on which templates – or parts of templates – to use to fit that structure and to deliver an appropriate risk allocation from top to bottom in the chosen project structure
- The templates are provided for information only and we exclude all liability, to the maximum extent permitted by law for any reliance placed on them
- Anyone using these templates should use competent professionals to advise them and to help undertake the required tailoring

For information on possible future revision of the documents please contact:

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