



Low Carbon Infrastructure Transition Programme

Scottish Low Carbon Heat Funding Invitation

1.1 Scope

This will target a minimum of £30 million of support for projects that demonstrate innovative and low carbon ways of heating buildings.

This fair and open funding invitation has been designed to accelerate the delivery of large scale innovative low carbon heat infrastructure projects that support the ambitions for Scotland to achieve net zero emissions by 2045.

Projects must be of a scale and must be based in Scotland. This support will provide financial assistance for up to 50% of the total eligible capital costs of a project up to a maximum of £10 million per project, where capital costs covers financial costs associated with the build and installation of an exemplar project (i.e. purchasing of physical assets). The successful projects will be innovative, demonstrating economic, social and low carbon benefits for Scotland and be replicable.

This financial support has been designed to encourage innovation of technology, design and business models. The financial support focuses on low carbon heat generation solutions and measures which will support the decarbonisation of heat in Scotland. As a result this will contribute to Scotland's carbon reduction ambitions.

1.2 Policy Context

The Scottish Government has an ambition to decarbonise heat by 50% by 2032 and 50% of energy consumed to be renewable by 2030. The Scottish Government has amended its Climate Change Bill to set new targets for emission reduction so that by 2040 greenhouse emissions are 90% lower and by 2045 are net zero. To achieve this, emissions from heating our homes and buildings will need to be near-zero and emissions from industry will need to be reduced, wherever feasible.

Currently 5.9% of non-electrical heat demand is met from renewable sources. At present 79% of households use mains gas as their primary heating fuel, with the remainder using electric (11%); heating oil (6%) and other fuels such as biomass.

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For non-domestic buildings approximately 50% use electric as their main source of heat.

For industry in Scotland the demand for heat varies widely across sectors and production lines in relation to specific processes, but there are many essential requirements for heat which could be met from renewable or recovered (or a combination of the two) sources, as well as many opportunities to utilise 'excess' heat flows either on-site or off-site.

The UK Government currently runs the Renewable Heat Incentive through Ofgem. The Renewable Heat Incentive (RHI) is a UK Government scheme set up to encourage uptake of renewable heat technologies amongst householders, communities and businesses through financial incentives. It is the first of its kind in the world and the UK Government expects the RHI to contribute towards the 2020 ambition of 12% of heating coming from renewable sources. The scheme is due to close in March 2021, with Tariff Guarantees for projects available until January 2021.

Reducing Scotland's energy demand is a key component of the energy transition. Smarter energy systems, combined with more energy efficient homes with more knowledgeable consumers who have greater control their energy, will be large factors in achieving a net zero economy.

Energy Efficient Scotland is the Scottish Government's 20 year programme, containing a set of actions aimed at making Scotland's existing buildings near zero carbon in a way that is socially and economically sustainable. By the end of the programme, Energy Efficient Scotland will have transformed the energy efficiency and heating of Scotland's buildings: making our existing homes, shops, offices, schools and hospitals more comfortable and easier to heat.

It is therefore important that the energy efficiency of all buildings that will benefit from low carbon heat proposal are considered as part of the technical assessment for project and then implemented as necessary.

In order to decarbonise heat across Scotland it is recognised that a range of technology solutions will be deployed depending on building, location and requirements of the end user. As such this call is technology neutral.

2.1 Funding Invitation Priority Themes

In light of the ongoing challenges in addressing heat decarbonisation this invitation has been designed to target projects that deliver for decarbonisation of heat specifically. The funding invitation invites projects that deliver low carbon heat generation solutions to apply for capital support to deliver their project. Please note that in this context of this invitation heat generated by natural gas is not considered renewable.

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In order to decarbonise heat across Scotland it is recognised that a range of technology solutions will be deployed depending on building, location and requirements of the end user. As such this call is technology neutral. As such, all applications relating to low carbon heat will be considered however we are keen to encourage applications that fall in to the following three themes:

Theme 1 – Renewable Heat for Rural Off Gas Grid areas

Efficient and effective ways of delivering community and place based low carbon heat solutions are encouraged. Applications for single properties will not meet the requirements of this infrastructure call.

Domestic and commercial properties in rural off gas grid areas are often older and constructed using traditional materials/methods that can be difficult to treat with energy efficiency measures. Applications that provide innovative and replicable low carbon heat solutions for clusters of properties of this type will be encouraged.

The only restrictions on technology or generating solutions is that they reduce carbon and are identified as the optimal solution as part of an independent options appraisal. We would encourage applicants to consider that the falling carbon intensity of electricity generated in Scotland means that the electrification of heat, including heat pump technologies, have the potential to play a key role in the decarbonisation of heat in buildings.

Theme 2 –Heat and Industry

Generating heat from renewable sources has the potential to make a significant contribution to the decarbonisation of our commercial and industrial sectors. Engagement with Scotland's industrial sector has also highlighted the potential to improve the efficiency of processes by recovering waste heat to be reused within the same facility for heating or cooling, or by another end-user. IHRSP There is also the potential to utilise waste streams more efficiently and integrate them as a source of useful heat in existing or expanded processing activity.

Implementation of low carbon industrial heat solutions is often constrained by short term investment horizons and competing investment pressures. This theme aims to encourage delivery of industrial heat projects that demonstrate the viability of innovative solutions and encourage replication across the industrial and commercial sectors.

Projects that encourage re-use of heat "over the fence" to adjacent commercial and/or domestic premises on a place based approach are also be encouraged, particularly innovative business models that demonstrate how heat be distributed in this way on a replicable commercial basis

Theme 3 – Renewable Heat for Urban Areas

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A significant proportion of buildings, estates and areas of Scotland's urban landscape in both cities and towns use carbon intensive fossil fuels for the purposes of space heating for buildings.

These higher carbon systems have an adverse effect on carbon emissions and air quality. Applications for transferring urban communities to renewable heat sources will be considered as part of this invitation. However applications for single domestic properties will not meet the requirements of this infrastructure call.

This theme is not be restricted to only existing developments, applications that support the delivery of innovative low carbon heat solutions to new build residential, commercial and mixed use developments are encouraged.

3.1 Purpose of Low Carbon Infrastructure Transition Programme

Launched in March 2015, the LCITP is a working partnership between the Scottish Government, Scottish Enterprise, Highlands & Islands Enterprise, Scottish Futures Trust and sector specialists. A range of support mechanisms including project development, expert advice and financial support (where applicable) is available through the LCITP to support the delivery of substantive private, public and community low-carbon projects across Scotland.

The programme aims to stimulate commercial interest and investment and maximise Scotland's vast potential in the low carbon sector whilst contributing to the positive progress of the Scottish Government in reducing Scotland's greenhouse gas emissions.

The Low Carbon Infrastructure Transition Programme is supported by the European Regional Development Fund (ERDF) which is an outcomes and results-driven infrastructure investment programme. It is designed to ensure that investment results in defined impacts for communities. The 2014-2020 ERDF strategy and programmes

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are designed around Strategic Interventions. These are large scale programmes of work which will be managed by Lead Partners – organisations that have a demonstrated capacity to manage Strategic Interventions and comply with the audit responsibilities for the funds.

3.2 Eligibility Criteria

Applications are welcome from renewable or recovered heat projects that will be delivered in Scotland, with a project location, proof of technology concept and an end user for output identified and secured at time of submitting an Application

The project proposal submitted should demonstrate an ability to meet the following criteria:

Mandatory criteria that must be demonstrated by project

- Ability to demonstrate a contribution to delivery of ambitions to decarbonise Scotland's heat ;
- the potential to deliver a significant reduction of greenhouse gas emissions (MtCO₂e) and energy consumption;
- the ability to secure other sources of funding/finance that make a minimum of 50% contribution towards the cost of the final CAPEX delivery costs of the project;
- the potential to have a positive and significant social and economic impact on Scotland;
- provides a clear plan for (1) energy demand reduction for the buildings to be serviced; (2) energy productivity to improve and/or emissions intensity to fall.
- sets out clearly the requirement for and value added from LCITP support;
- can be fully commissioned by 31 March 2022, where 'commissioned' means the completion of such procedures and tests in order to demonstrate that the generating station is capable of commercial operation;

Desirable criteria that have potential to be demonstrated by projects:

- an innovative approach to cross sector collaboration and/or partnership to ensure successful project delivery;
- demonstrate a potential for replication and an intended route to commercialisation should demonstration provide successful or a plan for integration into business as usual
- explores the potential for community investment or ownership;
- demonstrates clear plans for community and consumer engagement;
- considers how the technology will address consumer needs of the future energy system and deliver benefits to end users; and
- demonstrates discussion with relevant local partners that are involved in the development of Local Heat and Energy Efficiency Strategies or other energy planning processes.

4.1 Timeline for Capital Support

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In order to support the process of fair and open competition the key process dates are set out below and are applicable to all applicants.

Publication of Invitation	September 2019
Workshops	September 2019
Deadline for receipt of final Capital Application	25 October 2019
Evaluation panel	w/c 4 November 2019
Notification of Initial Outcome	By end of November 2019
Independent Due Diligence	During December 2019
Conclusion of due diligence and funding offer.	From January 2020
Conclusion of final Grant Offers	February 2020
Formal Review Panels x4	March 2020 – March 2022
Project Operational	31 March 2022

- Final Application Forms for Capital Support must be completed and submitted to lcitp@gov.scot no later than **17:00 on 25 October 2019**. No exception to submission dates can be negotiated.
- Applicants will be advised on outcomes within 4 weeks of the closing date for the application Projects that are recommended for approval will then be subject to further due diligence by an external contractor (following clarification of any outstanding queries/requests for further information raised during the review process)
- Subject to a positive outcome of the due diligence stage and approval by LCITP a formal offer of funding will be issued by the Scottish Government.

Appendix One - Application and Assessment Process

Capital Support funding where projects can demonstrate that they have a project has a completed investment case demonstrating readiness for capital support and a clear funding gap

Purpose: to support capital costs to accelerate projects that are ready to begin procurement and construction activity. Eligible capital costs are:

- financial costs incurred for the purchase of physical assets;
- costs of project build, installation and construction;
- costs of project commissioning;
- Non reclaimable VAT for eligible capital costs;

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- Staff costs where staff members are contracted to work 100% on the capital Project.

This financial support cannot cover:

- projects or technologies at research and development stage or any research and development related activities;
- established generation technologies in Scotland such as large scale onshore wind, large scale biomass, solar PV or conventional gas fired CHP supported technologies;
developing technologies such as off shore wind and marine; or transport only technologies as this call is focused on the decarbonisation of heat.

Value: up to £10 million capital which must be match funded by the project. The financial support represents a funding contribution of up to £10 million per project, where the requested contribution represents a maximum of 50% of total eligible project capital cost.

It is important to note that funding contribution intervention levels will be reviewed in relation to previous public support offered to the applicant or project type to support the Programmes intention to support the low carbon transition to a commercial position.

Type of Funds: Repayable Assistance.

Enabling Support: projects may be considered for enabling support on a project by project basis.

Eligible enabling costs include external consultancy costs, such as legal, detailed design, financial advice, and project management to support the capital delivery of the project.

Final Capital Application Deadline: 25 October 2019

In addition to the completed application forms the following mandatory documents are required:

- A detailed business case,
- full financial model (XL format), heads of terms to confirm match funding, and
- any legal agreements to support energy end use.
- completed a full technology options appraisal that highlights evidence for the choice of the preferred technology explored at business case
- Previous feasibility, design work or proof of concept work that relate to the project;

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- Proposed project programme
- Current risk register
- Confirmation of senior level sign off confirming project commitment from lead partner
- Letters of intent, or equivalent from the party providing match funding
- System schematic diagram notated with annual energy and material flows
- Equality policy for the lead partner
- Lead Partners most recent published accounts

Delivery deadline : projects must be commissioned by 31 March 2022.

Although it should be noted that if the project is anticipating RHI support then the deadline for completion will advance to 31 March 2021 in line with the current planned close of the programme.

Interested projects are invited to submit an Application Form for assessment which covers the key eligibility criteria. In addition, copies of the following documents should also be submitted with the Final Application Form at the time of submission:

- Documentation evidencing the project partnership and planned delivery vehicle;
- Confirmation of match funding
- Documentation relating to the confirmation of project site location;
- A detailed delivery programme for anticipated activity;
- Detail of delivery team including identified Project Manager and CV's of key personnel
- Confirmation of the Procurement Route selected and associated timelines;
- A risk register identifying the risks to delivery of the programme; and
- Proposed Monitoring and Evaluation approach – i.e. how outcomes/benefits will be captured and recorded?
- Any additional information available that supports the project proposal.

Only projects that meet all the eligibility criteria for this financial support as detailed at paragraph 3.2 and can provide the required supporting information will be considered.

Evaluation Criteria

The LCITP Assessment Panel, including external technical advisers where appropriate, will assess and evaluate all Applications received against the eligibility criteria listed above. The sections of the form where a ✓ is highlighted in the Assessed column on the right hand side indicates where an assessment and will be given.

Independent Technical and Financial experts may be appointed to support the evaluation process as appropriate. Potential conflicts of interests will be fully explored before appointment confirmed.

Quality of evidence provided	Scoring Methodology for Quality Criteria
Unacceptable	Inadequate response. Fails to demonstrate an ability to meet the requirement.
Poor	Response is generally poor. The response addresses some elements of the requirement but contains insufficient/limited detail or explanation to demonstrate how the requirement will be fulfilled.
Satisfactory	Response is relevant and acceptable. The response addresses a broad understanding of the requirement but may lack details on how the requirement will be fulfilled in certain areas.
Good	Response is relevant and good. The response is sufficiently detailed to demonstrate a good understanding and provides details on how the requirements will be fulfilled.
Excellent	Response is completely relevant and excellent overall. The response is comprehensive, unambiguous and demonstrates a thorough understanding of the requirement and provides details of how the requirement will be met in full.

Project must achieve a minimum score of 50% at evaluation panel to be considered for support.

Feedback will be provided to all applicants and an **appeal process** can be started whereby indication of an appeal request is received in writing within 7 days from written receipt of outcome.

LCITP reserve the right to recommend alternative, more appropriate, sources of public funding support to projects as part of this feedback.