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# The Potential and Costs of District Heating Networks – DECC 2009

## Principal Barriers

- **High upfront capital costs**
- **UK project costs 20% above EU levels**
- **Private research indicates it is much higher**

Source: *The Potential and Costs of District Heating Networks*. DECC 2009

<http://webarchive.nationalarchives.gov.uk/20121205174605/http://decc.gov.uk/assets/decc/what%20we%20do/uk%20energy%20supply/energy%20mix/distributed%20energy%20heat/1467-potential-costs-district-heating-network.pdf>

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THE POTENTIAL AND COSTS OF DISTRICT HEATING NETWORKS

A report to the  
Department of Energy and Climate Change

April 2009

THE POTENTIAL AND COSTS OF DISTRICT HEATING NETWORKS



# Research on Barriers to District Heating

## Principal Barriers

- **Paying for high upfront capital costs**
- **Obtaining money for feasibility/viability work**
- **Obtaining resources for legal advice**
  
- **Lack of knowledge**
- **Up-skilling internal procurement dept on district heating**
- **Identifying and selecting suitably qualified consultants**
- **Correctly interpreting consultant reports**
- **Lack of generally accepted contract mechanisms**
  
- **Procurement exercises costly – up to £250,000**

## All procurement related issues

**Source: *Research into the barriers to the deployment of district heating networks in suitable locations. DECC 2013***

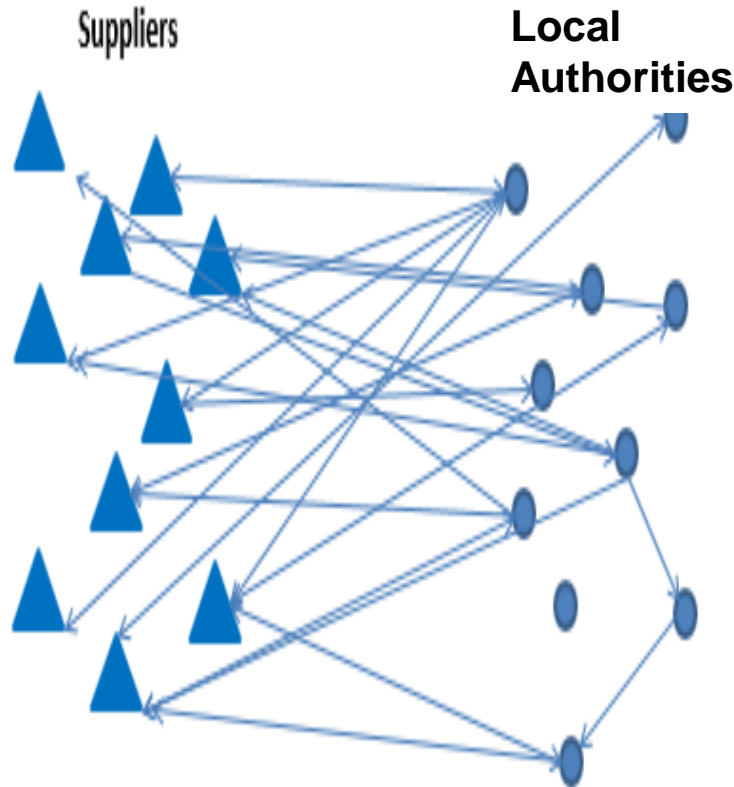
## Research into barriers to deployment of district heating networks

Research study by BRE, University of Edinburgh and the Centre for Sustainable Energy for the Department of Energy & Climate Change

26 March 2013

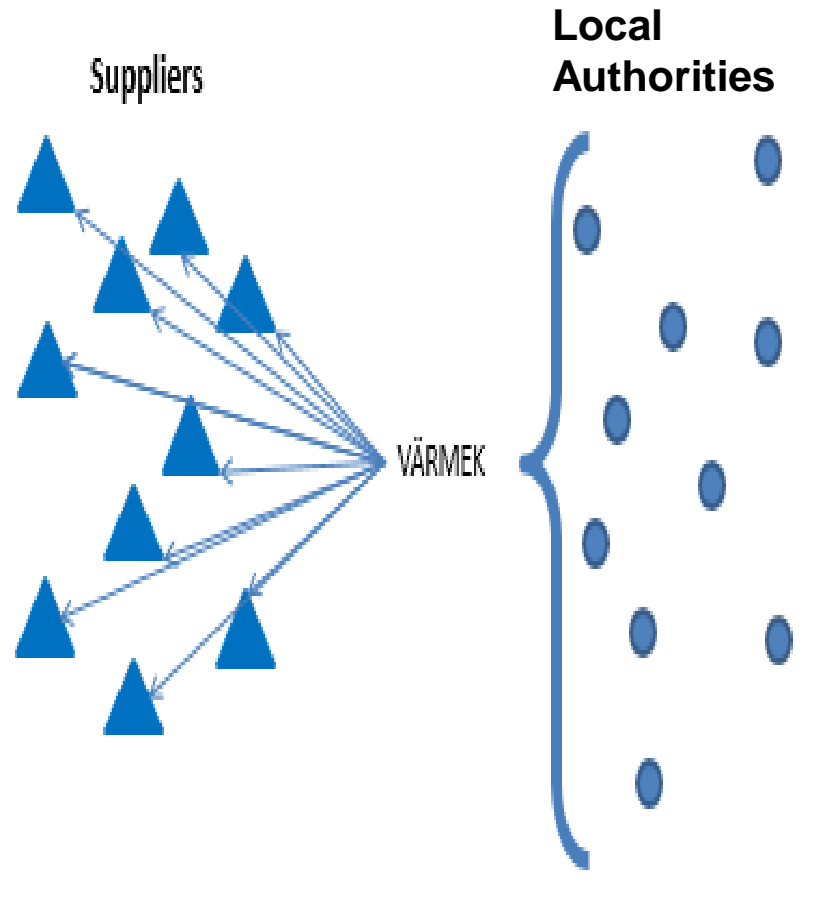


# Current UK Market Structure



- LAs conduct one-to-one procurement**
- Procurement officers are generalists**
- Lack DH market specific knowledge**
- Lack DH technology specific knowledge**
- Bespoke specifications – rare or one off's**
- Preference for packaged contracts**
- Small, immature, developing market**
  
- Complex market for suppliers**
- Must engage with multiple stakeholders**
- Costly and time consuming**
- Lack of contractual standardisation**
- Acts as entry barrier for new suppliers**

# VÄRMEK Market Structure



- **Svenska Värmeverkens Ekonomiska Förening (Swedish District Heating procurement coop)**
- **Established by the Swedish State with £1m loan**
- **Member owned, non profit procurement coop.**
- **Negotiates framework contracts with suppliers according to the Swedish procurement law.**
- **142 members buy technology through the framework contracts.**
- **Worth more than £50m per annum**
- **Procurement by VÄRMEK for members**
- **50% of all procurement in Swedish DH market**  
*Note: UK six times larger than Sweden by population*

# District Energy Procurement Agency

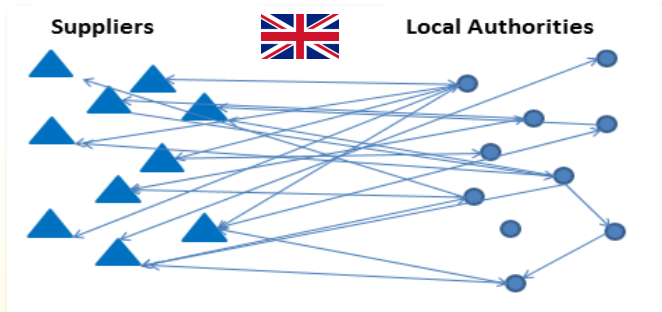
- **A municipally-owned procurement cooperative**
- **Modelled on Värmek and in collaboration with Värmek**
- **Will make use of Värmek's experience and expertise**
- **Incubated by Manchester City council - has a pedigree of leading on large scale collaboratives**
- **Specialising in procurement of district energy goods & services**
- **Undertakes two activities:**
  - **procure OJEU compliant frameworks of relevant goods & services**
  - **undertakes procurement on behalf of members**
- **Able to act on behalf of members as ownership structure allows vires to pass from local authority to DEPA**

# **District Energy Procurement Agency**

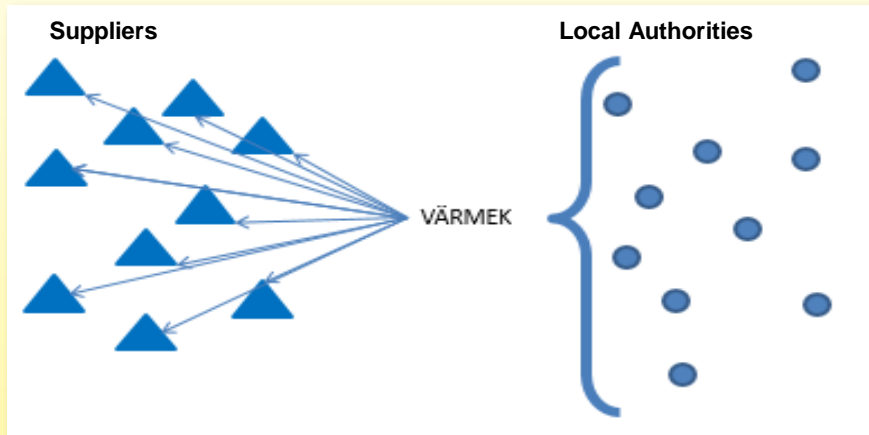
- **Develops specialist procurement expertise & market knowledge**
- **Downward pressure on prices**
- **Upward pressure on terms (longer warranties etc)**
- **Drives towards greater contractual standardisation**
- **Drives product improvements**
- **Work with HNDU to improve quality of project pipeline**
- **Work with investors - projects meet due diligence requirements**
- **Potential to aggregate projects to achieve investor thresholds**
  
- **£100,000 grant for DECC for initial development**
- **Appointed legal advisers**
- **Engagement with potential members**

# District Energy Procurement Agency (DEPA)

## Current Market Structure



## Future Market Structure



## Key Benefits

### SHORT TERM

- Reducing prices for technologies
- Reducing procurement costs
- Simplifying procurement processes
- Facilitating access and exchange of competence and best practice
- Increasing access to suppliers

### LONGER TERM

- Boosting the pace of growth in the market, i.e. volumes
- Driving standardisation
- Motivating suppliers to invest in organisations, service centres and local production