

Business Models for District Energy Projects

DH Vanguard Event - Leeds
24th January 2018

Ruth Rule

Agenda

1. Success Factors
2. Short list analysis
3. Asset Separation
4. Legal Structures
5. HMT Green Book

Success Factors

What are the required outputs?



Identifying and assessing the long list

Tips

- Reflect on the technical solution
- Recognise that the long list is a continuum
- Develop a long list specific to your project
- Engage with your stakeholders
- Record your analysis of short listing accurately
- Develop an evidence base to support decisions
- Don't be afraid to change and leave options open at this stage
- Be realistic

Public



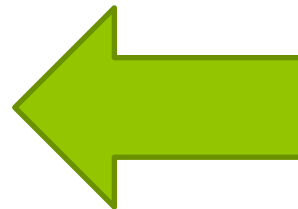
Private

Option	Description
1	Status Quo (do nothing)
2	Entirely public sector funded operated and owned, delivered only using in-house resources
3	Entirely public sector funded operated and owned, delivered under a series of contracts for various aspect of the scheme
4	Fully public sector owned delivery vehicle with private sector delivery partner
5	Public private sector partnership with joint development, delivery and financing responsibilities
6	Private sector led development and delivery with finance from public sector
7	Private sector led development and delivery with public sector commitment in elements of the project.
8	Full private sector development, delivery and financing

Short list analysis

SWOT Analysis

Key to determining the most appropriate option for the project is to understand the additional value that each of the options can provide to all project stakeholders.



Strategic objectives

Risk transfer potential

Market interest

Revenue generation

Investment required

Existing activities/companies

Divestment potential

Stakeholder management

Tax implications

Transparency and accountability

Balance sheet

Exit Strategy

State Aid

Legal Powers

Phasing

Teckal

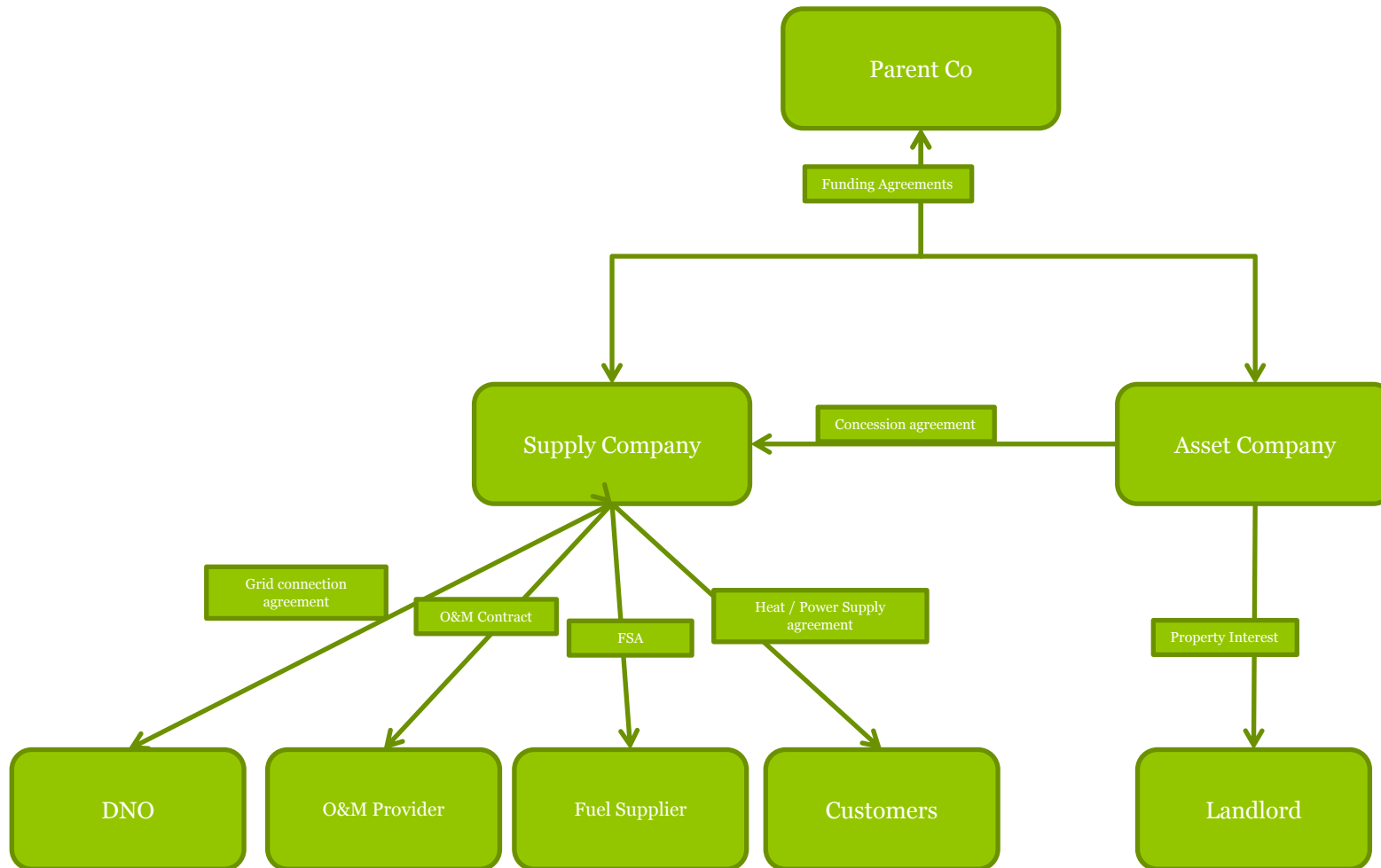
Asset Separation

Asset separation potential

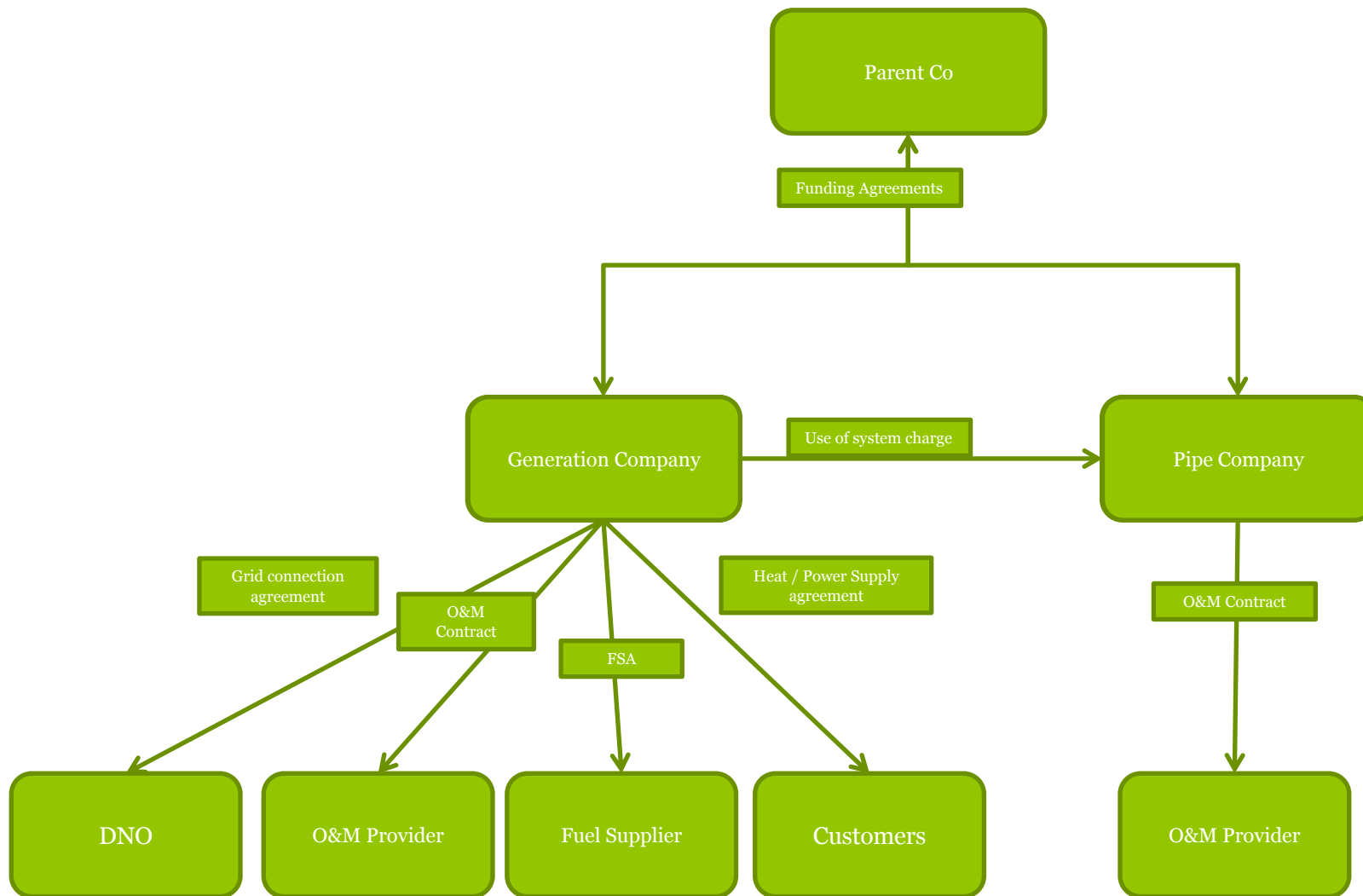
Issues to consider:

- Is there a need to separate assets?
- What is the desired outcome?
- Does the project have sufficient scale?
- What is the impact on the risk allocation?
- How will revenues and costs be allocated?

SupplyCo – Asset Co



PipeCo



Legal Structures

UK Company Structures

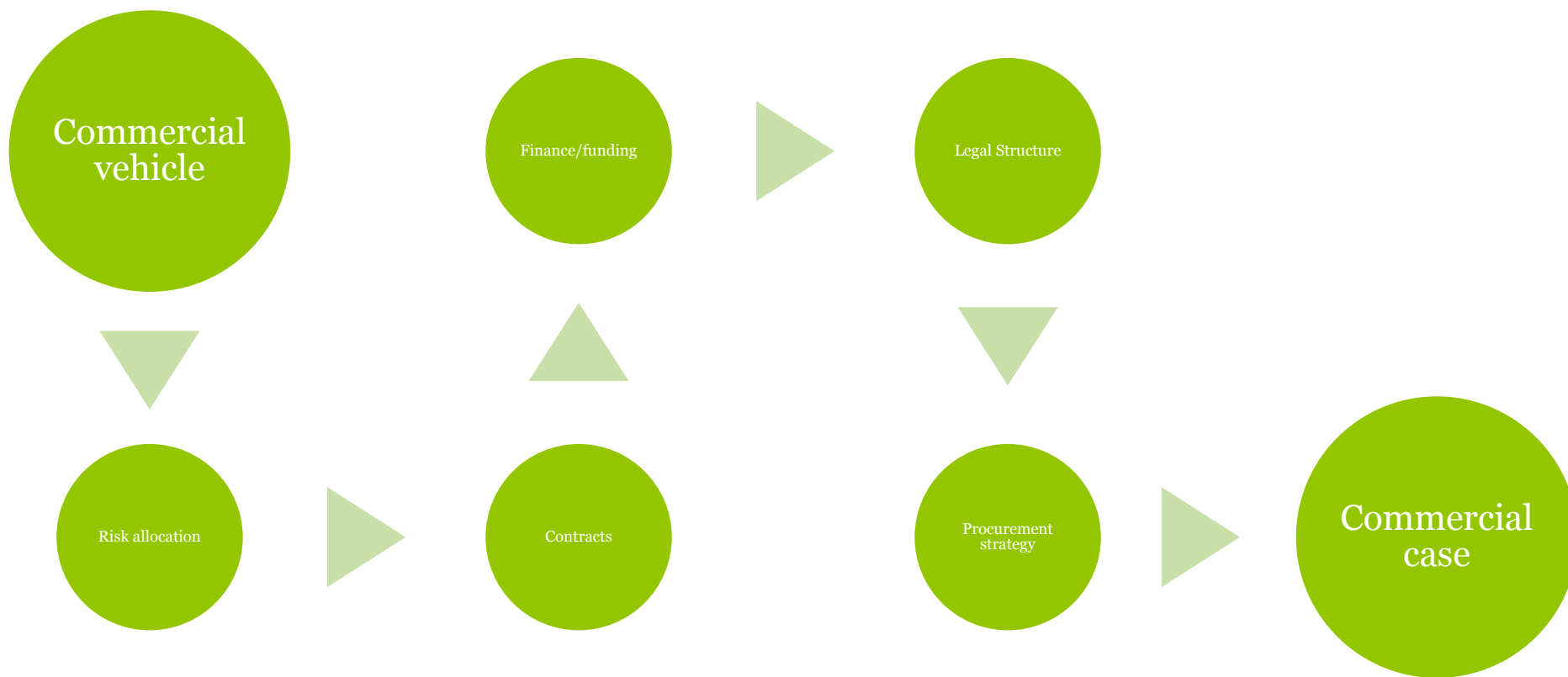
Description/Commentary	
Company limited by guarantee (“CLG”)	Primarily used for non-profit organisations, does not usually have share capital or shareholders but members who act as guarantors. CLGs are commonly used in the public sector. A CLG is more suitable to a body that is not designed to be a wealth creator for the members, but rather a vehicle to manage specific activity. A CLG would not facilitate any future disposal of LDA’s interests to the private sector. A CLG is liable to pay tax. Should the CLG be dissolved any surplus could be distributed to the members in proportion with their interests.
Company limited by shares (CLS”)	A private company limited by shares, has shareholders with limited liability. CLSs are easily understood structures and backed by the Companies Act. A CLS can trade, raise finance and invest in or be sold to third party investors. A CLS is liable to taxation and should the CLS be dissolved any surplus would be distributed to the shareholders in proportion with their interests.
Limited Partnership (“LP”)	A form of partnership in which in addition to one or more general partners, there are one or more limited partners. Only one partner is required to be a general partner. Limited Partners have limited liability, meaning they are liable only for debts incurred by the firm to the extent of their registered investment and have no management authority. They are paid a return on their investment (as defined in the partnership agreement).
Limited Liability Partnership (LLP”)	A partnership in which all partners have limited liability. Tax transparency of the LLP (with each partner being taxed on its interest in the LLP rather than the LLP being taxed in its own right). This is generally advantageous to public sector partners who are not subject to corporation tax. On dissolution of the LLP any surplus would be distributed to the partners in proportion with their interests. LLPs are a relatively new legal form and their suitability as a vehicle able to facilitate a transfer of ownership from the public to the private sectors has not been fully tested in the market.
Community Interest Company (“CIC”)	Introduced in 2005 designed for social enterprises to use their profits and assets for the public good. Includes provisions such as an asset lock which would mitigate against any future disposal to the private sector and consequent realisation of the public sector’s investment.



HMT Green Book

Commercial Case

The commercial case



Questions / Discussion

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