

Please find our response to the Authorisation Conditions (AC) consultation below.

Section A, Condition 12: Operational Arrangements and Material Assets

Whilst we understand the intent of the AC, the AC as stated could conflict with, or be frustrated by, the structures used for the financing of heat networks.

Investors do not wish to lose their investment

- The loss of Authorisation through revocation by Ofgem should also permit investors to either:
 - run a process for the given investor to exit their investment position, the transaction for which will include financial structuring measures;
 - regain authorisation through remedial measures.

Financing structures frequently contain security over assets

- Almost all networks funded by the private sector (and possibly the public sector too) will contain security over assets given in favour of the investor (debt or equity), and they will have the first call on the assets / step in rights for the shares of the company owning the assets.
- Any regulation which interferes with the funding of heat networks in a way that increases investors risk will add a risk premium to the cost of capital or may stop investment entirely.

Applying for Ofgem clearance to use financing structures ('Permitted Security Interest' definition (c)) will slow down / complicate the financing of heat networks and the growth of the industry.

- Ofgem should publish a list of 'permitted' financing structures (which are those being used by the industry today, or expected to be used in the future) to clarify what is permitted, and to cut down the volume of requests to Ofgem for permission.

- Clarity should be provided on item (d) of the definition of Permitted Security Interest' to clarify if any financing structure is permitted, because many will not allow compliance with AC A.12

This is an incredibly delicate area for the future of investment into heat networks and we suggest that much more work is done by Ofgem to understand how heat networks are financed before implementing this AC.

It would be helpful to understand why Ofgem feel this AC should not be applicable to Local Authority owned heat networks – we cannot see the distinction, and feel they should be held to the same standards.