



This blog reflects on the discussion held at the July 2023 Place-Based Impact Investing (PBII) Forum asset owner event.

Asset owners, professional trustees and independent advisers joined Ken Hunnisett, Head of Public Sector at *Triple Point* and Cantor Mocke, Head of Market Growth, Heat Networks at the *Department for Energy Security and Net Zero* to discuss successfully decarbonising heating and cooling systems.

Sponsored by *Triple Point*

By Rachel Lewis

The heat beneath our streets: unleashing the investment potential of district heating

Could heat networks be the next, great institutional asset class?



Given the UK's complicated built environment and our changing climate, the challenge of how we heat and cool our homes and workplaces affect most aspects of daily life. As such, it is a complex challenge, often unfronted, on the UK's journey to meet 2050 net-zero targets. However, changes in the district heating market present an exciting opportunity for investors. They have the potential to transform the heating and cooling industry from a challenging investment space to one which could legitimately provide financial return, a path to

carbon neutrality and place-based benefits – setting a precedent for other investment areas with similarly challenging reputations.

Not dissimilar to the *National Grid* in its distribution of electricity, district heating transfers low-carbon heat from a centralised point to buildings through a system of interconnected pipes, often underground. Scalability is perhaps its most prominent feature and it is a technology which is feasible for a variety of scenarios. For example, it can be just as reliably established in 'campus-type' networks such as universities and hospitals as flats and houses. Given the growing interest and research, it

is not surprising it is an area seeing growing levels of government interest and policy interventions.

A change in attitude

During our Place-Based Impacting Investing Forum online asset owner event on 20 July, Ken Hunnisett of *Triple Point* attributed his 'step-change' in attitude towards district heating to an overarching prioritisation of 'place first' in *Triple Point's* impact investing strategy. Referencing the collaborative [white paper](#) from the [Impact Investing Institute](#), [The Good Economy and Pensions for Purpose](#), he highlighted the possible benefits of scaling up

institutional investment, for example in the case of district heating, in the place-based investment field. By making place the focal point, he argues financial, environmental and social benefit invariably follow.

Ken and Cantor Mocke discussed the transformation of district heating's reputation into a viable and attractive investment opportunity. While the government has been working on it as a policy area since 2013, investors were initially wary due to the lack of regulation and heat demand assurance. However, with the 2021 appointment of *Ofgem* as the national regulator and a consultation on the creation of heat network zones in our towns and cities



already in train, the government is levelling the playing field with other utility services and reducing the risk factor for investors.

Among certain challenges the industry is required to overcome, Cantor also noted the poor construction of a small proportion of district heating networks (of which there are around 14,000 in the UK) which hampered the industry's ability to take-off in the investment space. Now, by investing in the technical skills needed to establish the networks and providing government grants to optimise legacy systems, they have been able to negate most of the issues.

As a result, the conversation surrounding district heating, as evidenced by this event, has begun to change in its favour.

All-round benefits?

The speakers also described the significant traction achieved by removing barriers in the negotiation and contract building processes with partners. Here too, the Government has significantly invested in professionalised, templated contract sets, standardised due diligence and a consistent approach to business modelling. By improving transparency around procurement of services and driving out cost and time, more bidders have been attracted, drawn-out conversations avoided and, in turn, prices have been brought down.

Lastly, Cantor explained how district heating is a mature technology which has been well-proven in

Europe and across the globe. In 14 European countries, district heating already provides 10% of demand and in nine European countries that figure exceeds 25%. Consequently, it has well-established use-cases in international markets, creating a precedent for the UK. Framing it on a national scale, Cantor said 85% of the 50 million buildings in the UK use gas heating and, looking ahead, 80% of the UK homes which will exist in 2050 are already built. While retrofitting low-carbon heating solutions in a cost-effective manner will require plenty of research and some non-negotiable innovation, Cantor shared the view expressed by the *Climate Change Committee* in estimating district heating will deliver 20% of demand, demonstrating its pace of growth and trajectory as an important resource.

Looking ahead

Overall, Ken and Cantor interestingly positioned low and zero carbon district heating as its own asset class which benefits from life-long durability and long-term, index linked revenues. Likewise, it is inextricable from other social benefits, with the infrastructure linking to local authority housing, social housing, gyms and swimming pools – all opportunities to bring tangible benefit to place and community. Equally, the implementation of district heating systems indirectly enables community engagement and long-term green job creation, further establishing it as a positive source of place-based impact.

The takeaway from the discussion is the transformation of district heating and the opportunities it can deliver for financial returns and social and environmental benefits at real scale. The Heat Network Industry Council forecast that the sector will require £80bn of private and institutional capital by 2050 if it's to fulfil its potential.

It is set to be an exciting opportunity which investors are likely to be drawn to; creating a notable precedent demonstrating that other solutions and products may also become investable asset classes. ●



 [Click here to read the synopsis and watch the recording of the event.](#)

● **Rachel Lewis is Event Coordinator at Pensions for Purpose.**

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