

District Heating Update – Investment Plans

Date: 13th March 2024

Report of: Director of Communities, Housing and Environment

Report to: Executive Board

Will the decision be open for call in? Yes No

Does the report contain confidential or exempt information? Yes No

Brief summary

The Leeds PIPES district heating network is now well established across Leeds following three main phases of work with the most recent phase now largely completed. Customers continue to connect regularly to the network and there has been a rapid increase in the number of prospective customers the council are working with for future connections.

In July 2023 Executive Board approved the recommendation to apply to the Green Heat Network Fund for the next phases of network extension focusing on two areas: Wellington Street and South Bank.

The council's applications have been successful and as such, this report seeks decisions from Executive Board to commence the next steps for progressing both schemes.

The report also provides an update on the policy context which is developing around Heat Networks in the UK.

Recommendations

Executive Board is requested to:

- a) Approve entering into Grant Funding Agreements with the Green Heat Network Fund (GHNF) for both Wellington Street and South Bank schemes, noting that spend will be subject to the further approvals outlined below.
- b) Provide authority to inject £1.15m of commercialisation funding from the Green Heat Network Fund into the capital programme, to support the development of the Wellington Street and South Bank schemes, and give authority to spend of the same amount, noting that this is 100% grant funding.
- c) Provide authority to award, including authority to procure, a contract for technical, commercial, and financial consultancy support to AECOM Ltd, to support the South Bank scheme, noting the justification outlined in this report and in Appendix 3 – Procurement Strategy.

- d) Provide authority to procure a legal contractor to support the South Bank scheme, in line with the procurement approach outlined in Appendix 3.
- e) Delegate the contract award decisions for the legal procurement to the Director for Communities, Housing and Environment.
- f) Provide authority to award a contract to Vital Energi Utilities Ltd for the design and build of the Wellington Street extension.
- g) Noting the contents of Confidential Appendix 1, give authority to spend of £6,755m from the capital programme, funded by £2.561m of GHNF grant and £4.194m of borrowing, noting a decision on how the borrowing is funded will be taken by the S151 Officer.
- h) Note that an extension to Whitehall Road will be deferred, pending signed agreements being received from prospective customers on Whitehall Road, and further approval from Executive Board.
- i) Note that a further Executive Board report will be brought specifically on the South Bank scheme in due course, when sufficient work has been undertaken on the scheme to present the Board with a robust business case, to enable further investment decisions.
- j) Provide authority to inject a maximum of £2,750,000 into the capital programme, funded with 100% grant funding from GHNF, and give authority to spend of this same amount, for early construction works on the South Bank scheme in the Clarence Road area of the city.

What is this report about?

- 1 The Leeds PIPES district heating network has continued to grow over the past year in scale, customer numbers, and reputation. The project team have identified two extension opportunities and grant funding to unlock them from the Green Heat Network Fund (GHNF); these opportunities being Wellington Street, the new main business district in the city centre, and South Bank.
- 2 Following Executive Board approval in July 2023, applications were submitted in September 2023 to the GHNF and in January 2024 it was confirmed our applications had been successful for both schemes.
- 3 Following on from this success, this report seeks to:
 - a) provide Executive Board members with a progress update on the schemes,
 - b) identify the next steps,
 - c) outline the decisions that need to be taken to allow this to happen, and
 - d) provide a forecast of the financial impact of the extensions.
- 4 In addition, the report will discuss the options the council are exploring with regards to the future commercial structure of the scheme, which is being done to ensure the network can continue to expand in a way which best mitigates risk to council finances whilst still being able to spread the benefits of low carbon, affordable, reliable heating to buildings and residents in the city.
- 5 The report also provides an update on policy context for district heating, including key forthcoming legislation affecting Leeds PIPES, particularly Heat Network Zoning and Heat Network Regulation.

What impact will this proposal have?

- 6 The Leeds PIPES district heating network continues to be a strategic priority for the council, with investment into the network approved at Executive Board meetings in 2017, 2019, 2020,

and most recently in February 2022. Phase 1 was completed during 2019, with Phase 2 completing in 2020, and Phase 3 is nearing completion. The Recycling and Energy Recovery Facility (RERF) now provides low carbon heat to c1900 council tenants in Multi-Storey Flats (MSFs), and 26 non-domestic buildings including commercial customers and the council's own buildings in the Civic Quarter of the city.

- 7 The PIPES network offers a cheaper, reliable, low carbon alternative for heating compared to conventional gas and newer forms of heating such as heat pumps which rely on electricity. The appeal of the offer is demonstrated by the significant pipeline of connection activity planned over the next two years, with the council in varying stages of commercial negotiations with numerous public and private sites close to the existing network. With District Heating Zoning policy due to be implemented within the next two years, this demand is likely to increase rapidly.
- 8 The network used approximately 16% (26GWh) of the heat available from the RERF in the 22/23 financial year, demonstrating a significant amount of growth potential. For 23/24 we are forecasting usage of 19% (30GWh).
- 9 We continue to identify opportunities to grow the network strategically in this context and to improve its financial viability, which the business cases in regard to Wellington Street and the South Bank will seek to achieve. The next section of the report will examine each extension in turn, outlining progress made thus far, and next steps for delivery/approval.
- 10 Equality impact assessments have been completed at various stages throughout the development of the DHN. A new equality, diversity, cohesion and integration screening report specific to the contents of this report can be found at Appendix 2.

Wellington Street

- 11 A cluster of potential customers has emerged in the Wellington Street area of the city. As such, there is sufficient heat demand to justify an extension with the support of grant funding and additional borrowing. On this basis an application has been made to GHNF for an extension in this area of the city.
- 12 Phase 3 works undertaken over the past year have seen pipework installed from the existing spine network by the Town Hall, along Westgate and halfway down Little Queen Street. In parallel to this construction work, the council has engaged with several landowners in the area and had positive conversations regarding a connection. These landowners have formed the basis of the business case submitted with our GHNF application for grant funding to deliver the work.
- 13 The works would bring the network from Little Queen Street, down and across Wellington Street, and onto Whitehall Road. Based on the landowners with which we have engaged connecting to the network, it is estimated that this extension will contribute over 12GWh of demand per annum by 2028.
- 14 These works would form Phase 4 of the project, as each new allocation of government funding commences a new phase of work.
- 15 GHNF offer two types of funding: Commercialisation and Construction. Commercialisation funding is to be used to develop the project to a stage that confidence can be given that it is a commercially viable project to construct. Construction covers only the true cost of the physical works. Commercialisation can include activity such as commercial negotiation with customers and heat providers; procurement activity; land agreements; pipework routing, and; energy centre design.
- 16 For Wellington Street, commercialisation funding totals £150k and will be spent on four items:
 - Legal fees for negotiation of Connection and Supply Agreement and for land negotiation of a site for the pumping station (£50k);

- Design fees for a pumping station to be constructed as part of the scheme (£30k);
- A study on future expansion of the network beyond Whitehall Road, including a potential bridge at Globe Road (£40k), and;
- Council staff time during commercialisation stage (£30k).

- 17 Expanding the network will also open up a significant number of future opportunities in an area that is densely populated with mid-to-large scale commercial buildings, with main pipework routes being strategically oversized to allow for this future growth. Heat Network Zoning policy being introduced in 2025 will see buildings mandated to connect to heat networks, with strong cases required for exemptions from the policy, and as such our current business case is seen as a conservative projection. The policy is covered in more detail in Appendix 4.
- 18 The GHNf provides match funding rather than full funding for heat network schemes. Our successful application to GHNf will mean we receive £4m of grant funding for an estimated £10.21m scheme for which additional prudential borrowing will be required of £6.21m. This is the cost for the full scope of the extension to Whitehall Road.
- 19 The baseline option for borrowing is the Public Works Loan Board (PWLb), however the council have been exploring borrowing from the UK Infrastructure Bank (UKIB) to fund its contribution to the works. Discussions have taken place over 2023 between UKIB, the PIPES project team, and officers from the Council's finance team, to understand the UKIB offer. The baseline offer is 40 basis points (0.4%) better than PWLB, but the council is exploring several options including the possibility of sculpting the repayment profile based on when revenues are likely to be achieved from new customer connections, as well as interest-only repayments during the early years. These options could offer improvements to financial pressures in the early years.
- 20 However, due to the complexity and variability of the funding options, the report does not recommend at this time how the scheme is best funded, and it is recommended that the S151 Officer will determine this at the point the project is ready to draw-down the match funding. The business case outlined in Confidential Appendix 1 has been developed based on PWLB loans as the council's default position. This report recommends that the Wellington Street extension is split into two approvals: one approval sought by this report for the extension to Wellington Street incorporating three customer connections (Phase 4a) and one approval for the extending of the network further to Whitehall Road (Phase 4b). This second approval will be dependent on the securing of a signed Connection and Supply Agreement by Wellington Place or other prospective customers in the area which improves the business case, which are currently not in place. Once this is secured an update will be brought to Executive Board to seek this approval.
- 21 This approach is recommended as it mitigates the risk of the council investing in the extension to the network, and not securing a customer to offset that investment. Currently, there is greater certainty associated with the first phase of work connecting three customers.
- 22 The financial impact of these works and connections have been modelled and are shown in detail in confidential appendix 1. The business case highlighted here shows that the additional investment relating to Phase 4a will result in a more positive long-term business case for the network and supports the £4.194m of borrowing required to deliver it.
- 23 These works will be awarded to Vital Energi Utilities Ltd under our existing operation and maintenance contract arrangements, which allows works such as this to be awarded as 'Additional Works'. Detailed design will commence in April 2024 with construction starting on site in Autumn 2024, and completing in Spring 2025.

South Bank

- 24 In parallel to the continued expansion of the main Leeds PIPES network to the north of the river, the council has identified the opportunity for a new heat network in the South Bank of the city.

- 25 A number of feasibility studies have been undertaken on this opportunity, part-funded by the Heat Network Delivery Unit (HNDU). The most recent two studies have been led by AECOM Ltd (the contractor engaged by the Council to lead the technical workstreams), covering Techno-Economic Feasibility in 2022, and Detailed Project Development (DPD) in 2023 into early 2024.
- 26 The studies have identified potential customers on the network, their estimated heat demands, pipework routing, and options for heat sources to feed the network, and associated energy centres. The currently proposed route would be larger in scale and complexity than either Phase 2 or 3, connecting East-West from Clarence Road as far as Sweet Street.
- 27 The intention of the project is to interconnect the South Bank extension of the network with the main Leeds PIPES network, currently to the north of the river. There are several options for this interconnection that are currently being assessed for viability. The benefit of this interconnection is that should one low carbon heat source go offline and fail to supply heat, such as the RERF, the additional low carbon heat sources added through the South Bank project may be able to step in to supply not only the South Bank sites, but the entire Leeds PIPES network. This would further reduce carbon emissions from the network, by reducing gas consumption from use of back up boilers when heat from the RERF is unavailable.
- 28 Elements of the DPD were fast-tracked ahead of programme to feed into a GHNF application for the project in September 2023.
- 29 The DPD is nearing completion and based on the current modelling undertaken by AECOM Ltd, the South Bank scheme has the following metrics:

Pipework length	6.625km
CAPEX Total	£61.7m
CAPEX Phase 1 (2025-2027)	£51.0m
CAPEX Phase 2 (2029-2030)	£10.7m
Volume of heat delivered – Phase 1	19GWh
Volume of heat delivered – Phase 1 & 2	60GWh
CO2 Reduction over 40 years	25,765 tonnes
Internal Rate of Return *	7.33%
Net Present Value*	£17.5m

*40 years, real, pre-tax, pre-financing, post-grant

- 30 As above we currently anticipate the cost of the South Bank extension to be in the region of £61.7m. The successful GHNF application secured £24m of funding and as such for construction works to proceed, there will be £37m+ of funding to be provided by the council via other means including borrowing. It should be noted that in line with the above table, the capital expenditure for the project is spread over a number of years.
- 31 For South Bank, we have received the maximum £1m of commercialisation funding.
- 32 It is the council's intention to utilise this £1m to further develop the project prior to any decisions being taken on match funding for the council. The £1m of commercialisation funding is at zero cost to the council, and will largely be used to procure support to further develop the technical, financial, commercial, and legal workstreams of the project, prior to construction commencing. The council's approach for these procurements is detailed in Appendix 3 – Procurement Strategy. However, in summary it will entail:

- 33 The direct award of work to AECOM Ltd to lead the technical, financial, and commercial workstreams.
- 34 An open tender exercise to appoint a contractor to lead the legal workstream.
- 35 Outside of the consultancy and legal support required to be procured, the project will require a contractor to design, build, operate and maintain the network. The council has received procurement advice for the project, and due to the value of works involved in South Bank, the works will require an open tender exercise to be undertaken specifically for this work in South Bank.
- 36 Within the South Bank scheme, the council has identified a section of pipework install which will need to be completed in 2024. This is to tie in with a Highways scheme planned for the Clarence Road section of the city, as well as a private landowner's programme of works on land which pipework will be installed through. The maximum cost of this work is forecast to be £2.75m. The funder has confirmed that the council could access this as early construction funding, at 100% grant funding, with no council match funding obligation. Approval is sought for this amount to be injected into the capital scheme.
- 37 As referenced in relation to Wellington Street, the council is exploring UK Infrastructure Bank (UKIB) borrowing to fund these expansions to the network. Whilst there are benefits to this funding outlined at paragraph 19, there is still a borrowing obligation on the council that will be built into our business case.
- 38 For the South Bank scheme, there is the requirement for a significant investment on another scale to Wellington Street, in addition to the Green Heat Network Fund grant, and as such, the council are considering alternative development models to bring this scheme forward to delivery. These are summarised at a high level below:
- 39
- a) Baseline scenario: Council retain whole ownership of the network and are responsible for any funding beyond grant funding that can be provided for its expansion.
 - b) Option 1: Joint Venture. Council enter into partnership with an investment partner, with joint responsibility for development and operation of the existing Leeds PIPES network, including future expansions, with the partner investing capital but the council retaining a controlling stake.
 - c) Option 2: Joint Venture/Private Sector Delivery of future works only. Private sector take on responsibility for delivery of any future expansion of the project, funding the network and owning the assets.
 - d) Option 3: Private Sector Delivery plus control of existing. Council sells a controlling stake in Leeds PIPES and private sector take on responsibility for owning and operating the existing PIPES network, in addition to funding and owning future assets.
- 40 A market testing exercise will be undertaken in 2024 to further develop the council's understanding the pros and cons of each option, as well as the market's appetite for them.
- 41 A further report will be taken to Executive Board in due course on the South Bank scheme which provides an updated business case, based on which a recommendation can be made to proceed or not with the construction of the scheme. The report will detail progress made with commercialisation of the scheme including design of route, commercial negotiations with heat offtakers and heat providers, and commercial structuring of the scheme in line with the options discussed above.
- 42 If the recommendation is to proceed with construction, the report will also recommend that approval is given for procurement to commence to allow the network to be built.

43 Commercialisation activity funded by GHNF is expected to complete in early 2025, with construction of the network starting in late 2025.

Review of forthcoming legislation

44 Updates have been brought to Executive Board in November 2022 and July 2023 on progress made thus far on Heat Network Zoning and Heat Network Regulation policy from central government. This is the most significant policy commitment from government in relation to heat networks in many years.

45 The council is working closely with central government on the development of these policies, and our work in this regard is outlined in more detail at Appendix 4 – Policy Update.

How does this proposal impact the three pillars of the Best City Ambition?

Health and Wellbeing

Inclusive Growth

Zero Carbon

46 The Leeds PIPES DHN uses very low carbon heat from the RERF for c95% of the heat supplied to customers so achieves significant savings against other heating fuels, particularly where it replaces gas, but also when it is used in place of low carbon alternatives such as air source heat pumps.

47 The South Bank extension will add further low/zero carbon heat sources to the network, reducing the carbon factor of the network and delivering an even lower carbon heat supply to customers. It is the intention of the council to continue to identify further opportunities to connect low/zero carbon heat sources to the network.

48 As the network grows, it becomes more efficient with improved steam to hot water conversion efficiencies and lower losses throughout the network. This will significantly decarbonise heat for all connected customers, with customers replacing gas boilers typically reducing heating and hot water emissions by c80%. Removing gas boilers from dense urban areas also has a positive impact on background air quality, with a positive impact on health.

49 As Leeds PIPES uses so little gas with the bulk of the heat from the RERF, the network is less exposed to energy market price volatility. This allows us to avoid the rapid escalation in heating costs that we have seen over the last 18 months pushing thousands more people into fuel poverty. This helps our customers to afford to heat their homes and businesses, improving health and wellbeing and supporting inclusive growth. The reliance on gas boilers will reduce further as we add low/zero carbon heat sources to the network.

50 The project also creates or secures significant numbers of short-term construction jobs when extensions are built or customers connected and now has a dedicated team of engineers to service and maintain the network. The South Bank extension is one of significant scale and encompasses energy centre construction as well as the pipework extension itself, which will ensure a larger number of jobs are required to complete the work than a smaller scale extension.

51 The Best City Ambition is the council's vision for the future of Leeds, outlining our mission to tackle poverty and inequality, and improve quality of life for Leeds residents. Paragraphs 46-50 demonstrate how closely aligned the Leeds PIPES project is with these ambitions.

What consultation and engagement has taken place?

Wards affected:

Have ward members been consulted?

Yes

No

- 52 Executive Board are regularly updated on the progress of the project and this report is a continuation of this.
- 53 The Executive Member for Climate, Energy, Environment and Green Spaces is regularly updated on the PIPES programme and is supportive of the continued development of the network.
- 54 The project team have presented at the Climate Emergency Advisory Committee on the progress of the scheme and proposed next steps. The Committee will continue to be engaged as the project progresses.

What are the resource implications?

- 55 The total investment required for the entire Phase 4 extension and early project and investigative work for South Bank as outlined in this report is £14.175 This is made up of:

Item	Amount	Comments
	£000's	
Phase 4a Yorkshire Post extension	6,755	Requiring Borrowing of £4.194m
Phase 4b Whitehall Road	3,520	To be subject to a separate Exec Board Report before proceeding
Commercialisation funding for Phase 4	150	100% grant funded
Commercialisation funding for South Bank	1,000	100% grant funded
South Bank early construction	2,750	100% grant funded
Total investment Required	14,175	

- 56 This report is concerned with works in relation to Phase 4a only which would cost £6.755m funded by grant income of £2.561m and a borrowing requirement of £4.194m.
- 57 The baseline option for borrowing is PWLB, but the council is exploring UK Infrastructure Bank (UKIB) borrowing as an alternative.
- 58 The UKIB offer will continue to be explored by the council in greater detail and ultimately, it is proposed that a decision would be taken by the S151 Officer in due course on whether PWLB or UKIB borrowing is the best option for the council.
- 59 The recommendation to invest c£6.755m in Phase 4a of the scheme relating to the construction of the Wellington Street extension is based on the detailed financial case outlined at Confidential Appendix 1. The business case behind previous investment in Leeds PIPES was predicated on growth to continually improve the business case, and this latest extension will open up further opportunities to connect buildings outside of those included in the updated business case. The extension to Whitehall Road being subject to commitment being gained from prospective customers in the area, provides additional protection for the council.
- 60 Before proceeding with the extension to Whitehall Road a further report will be submitted to Executive Board updating on the customer supply contracts, supported by updated modelling to show the financial impact on the business case.
- 61 The financial modelling shown in Confidential Appendix 1, show an overall positive gain for the project from the Phase 4 extension. However, there are short term financial pressures created by the extension

- 62 The initial 5 year financial impact of Phase 4a on the general fund will be marginal and will be built into the Medium Term Financial Strategy update. Over the 40-year life of the scheme the net gain is c £5.84m and the net present value increases by £1.75m over the same period. The council will continue to work up options to mitigate the short-term impact of the project.
- 63 With Heat Network Zoning policy being introduced within the next two years, buildings can be mandated to connect to networks in close proximity and as such extensions to the network mean we can spread the benefits of district heating to a much larger number of customers with government policy to back it up.
- 64 The South Bank scheme is the most significant extension to the network since the initial phase in 2018, and as such carries with it a level of financial risk that needs to be managed. The recommendation of this report is to inject £1m of Commercialisation funding into the project which is 100% grant funded. Commercialisation will see greater certainty achieved with regard to customers who will connect to the network, and heat sources we will enter into contract with to supply heat into the network, as well as confirming that land is available and suitable for the required energy centre(s) to be constructed.
- 65 On this basis, a further report will be taken to Executive Board in due course outlining progress made on the development of the South Bank project, seeking further decisions in relation to investment and commercial structuring of the scheme.
- 66 As noted at paragraph 36, within the South Bank scheme, the council has identified a section of pipework install which will need to be completed in 2024, on Clarence Road. GHNf have confirmed that the council can access this as early construction funding with no council funding obligation, and as such it's recommended that this work proceeds this year to avoid conflicts with planned Highways improvement works. The council benefit from the Renewable Heat Incentive scheme via their Heat Sales Agreement with Veolia, the operator of the RERF. The business case for the project is predicated on RHI payments being received until 2038, at which point the current policy is that the scheme ends.
- 67 Schemes registered for RHI are exempt from business rates, and this is reflected in the business case, whilst the business case makes assumptions on RHI income based on current known RHI tariffs.
- 68 The efficiency of heat recovery from the RERF is represented by a Z factor, which indicates the number of units of heat that can be recovered for each unit of electricity generation lost. The higher the value, the more efficient the network is operating. The figure is calculated each year by Veolia in the summer. The latest figure calculated in summer 2023 is 6.13, up from 5.3 in the previous year, a positive sign of the improved efficiency of the RERF.

What are the key risks and how are they being managed?

- 69 There is a risk that in parallel to Wellington Street construction works, negotiations with customers stall or are ended without agreement, resulting in fewer than anticipated customers connecting to the network and impacting the financial forecasts outlined in this report. This risk is being mitigated through regular discussions with potential customers which are currently positive as outlined in more detail in confidential appendix 1. In addition, the recommendation of this report to only proceed with the Whitehall Road element of the scheme once more certainty is gained on customers in this area connecting, reduces this risk.
- 70 As referenced in Appendix 4 and earlier in the report at paragraph 17, Heat Network Zoning adds another layer of resilience to investment decisions taken, as buildings can now be mandated at a government legislation level to connect to networks which they are in close proximity to. This will significantly increase the number of buildings we anticipate will connect to the network over the next five-ten years.

- 71 The impact of DHN works on highways networks across the city is closely monitored throughout all phases of work. The multi-disciplinary council project team and Vital Energi work closely to carefully plan and manage works to minimise disruption to the highways network, key stakeholders and city events.
- 72 A key risk which has emerged in relation to the Highways workstream, is routing of the network to take it from Wellington Street to Whitehall Road. There are only two routes which are on adopted highway, both of which are challenging. Northern Street is congested with services under the highway, as well as a Northern Powergrid service tunnel. Thirsk Row is a significant distance along Wellington Street, and acts as a key north/west route near to the station.
- 73 The council are exploring various options including the above routes and private land holdings that could provide the solution.
- 74 The key risk of the South Bank scheme is the level of investment required for construction could be significant enough to not receive council approval. This is mitigated in two ways: exploring of alternative borrowing (UKIB) or commercial structure options (private investment/part private ownership); and through only at this stage of the project utilising 100% grant funding, to bring the scheme to a greater level of development and certainty before any decisions are taken with a direct borrowing impact on the council.
- 75 A further risk on the South Bank is any potential clawback of the £2.75m of grant funding relating to the works at Clarence Road should the further development at South Bank be deemed not financially viable and therefore not proceed any further.
- 76 A key risk associated with Phase 4a of the scheme is the financial risk of increased borrowing for the council, the S151 Officer will be kept regularly updated on the development of the schemes. As noted in this report's recommendations, the S151 Officer will take the final decision in relation to the type of borrowing the council proceeds with.

What are the legal implications?

- 77 The information contained within confidential Appendix 1 to this report is designated as exempt from publication in accordance with paragraph 10.4(3) of the Access to Information Rules and Schedule 12A(3) of the Local Government Act 1972 on the grounds that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information). The confidential appendix includes commercially sensitive information regarding pricing structures for customers, and considerations of the impact of different options for revising tariffs on both customers and the council. Disclosure of this information could seriously harm the council's negotiating position when discussing heat sales with potential customers. Therefore, it is considered that the public interest in maintaining the content of confidential appendix 1 as exempt, outweighs the public interest in disclosing the information.
- 78 As outlined in paragraph 39, the council are exploring alternative models for the delivery of the South Bank and the large-scale development that will be required to capitalise on the opportunity presented by Heat Network Zoning.
- 79 The potential restructuring of the Leeds PIPES project will require extensive consultation, market testing, and procurement activity, with legal advice being critical to the route taken. In addition, the South Bank extension will have wider legal implications, for example for the construction of the energy centre if this requires land to be purchased for this purpose. A legal firm will be appointed to support the project and internal legal support will be sought where required to steer the project team through these complex issues.

Options, timescales and measuring success

What other options were considered?

- 80 Two other options have been considered for the Phase 4 Wellington Street extension. One option is to not proceed with the extension at all. This option is discounted, as demonstrated by Confidential Appendix 1, the growth of the network via this extension will improve the financial position of the project and therefore the council.
- 81 The other option considered was to proceed with the entirety of the Wellington Street extension to Whitehall Road, prior to securing a signed Connection and Supply Agreement from the customer at Wellington Place. This option has been discounted, as discounting it reduces the council's risk in extending the network without certainty on the customers that would connect; reduces the up front borrowing ask of the council until that certainty is gained; and, still secures a significant extension to the network to an area where we do have a greater degree of certainty (to the Old Yorkshire Post site) This will form Phase 4a of the project.
- 82 The other option considered for South Bank, is to not accept the funding from GHNF. At this stage, as no commitment is being given to construction of the network, or to any borrowing from the council, this option is discounted as accepting 100% grant funding for the commercialisation of the project is low risk.

How will success be measured?

- 83 Success for the Wellington Street scheme will be measured by realising new DHN connections via the expanded route of the project, and increasing the heat demand on the network, achieving the financial outputs detailed in Confidential Appendix 1.
- 84 The addition of new customers will reduce carbon emissions in the city and contribute to the ambition of achieving net zero by 2030. This growth will also further raise the profile of the DHN, demonstrating to potential customers that connecting to the network can deliver a range of benefits.
- 85 Success for the South Bank scheme will at this stage be measured by the commercialisation of the project, which brings it to a position from which a further decision can be taken by Executive Board on whether to proceed with the construction of the network.

What is the timetable and who will be responsible for implementation?

- 86 The timetable for the works included in this report are currently forecast as outlined at paragraph 87. It should be noted that the programme is subject to discussions with and approvals from the Highways service.
- 87 Wellington Street:
- Contract award – March 2024
 - Design and procurement activity – Completing July 2024
 - Construction – August 2024-April 2025
- 88 South Bank
- Commercialisation period – up to summer 2025
 - Executive Board report outlining position of project and seeking approval for further funding – Autumn 2024
 - Construction – late 2025 to mid-2027

Appendices

- Confidential appendix 1 – commercially sensitive financial details to support the recommendations of this report. Designated as being exempt from publication under the provisions of Access to Information Procedure Rule 10.4(3)

- Appendix 2 – EDCI screening
- Appendix 3 – Procurement Strategy
- Appendix 4 – Policy Update

Background papers

- None