

Report of Sustainable Energy and Air Quality Team

Report to Director of Resources and Housing

Date: 21st December 2018

Subject: Indicative heat price and connection offer to Caddick/Moda for the SOYO development

Are specific electoral wards affected? If yes, name(s) of ward(s): Burmantofts and Richmond Hill	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: 10.4.3 Appendix number: 1	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Summary of main issues

1. The council has been in negotiation with Caddick for several years regarding connecting their SOYO development in quarry hill to Leeds PIPES.
2. An opportunity has arisen to provide a discount on the connection, using invest to save principles, in order to connect blocks D E&F. This provides long-term benefits to tenants and long-term revenues for Leeds PIPES, as well as helping to significantly reduce carbon emissions from the SOYO development.
3. To assist with Caddick's internal decision making it is recommended to provide an indicative heat price and indicative connection offer as set out in confidential appendix 1.
4. Prior to a firm offer being made to Caddick, the project team will seek a formal decision through the standard invest to save route.

Recommendations

1. To take a Significant Operational Decision to provide an indicative heat price and indicative connection offer to Caddick/Moda as detailed in confidential appendix 1.

2. To conclude detailed design and negotiate full legal agreements and seek formal approval of the invest to save business case prior to making a binding commercial offer to Caddick/Moda.

1. Purpose of this report

- 1.1 To seek delegated authority to provide an indicative heat price and indicative finance package to Caddick/Moda to support their internal decision making re connecting to Leeds PIPES.

2. Background information

- 2.1 The July 2017 Executive Board made a series of decisions relating to the Leeds district heating network (DHN), now called Leeds PIPES, which led to the appointment of Vital Energi to design, build and operate the network.
- 2.2 The DHN is now nearing completion with heat due to be available from April 2019.
- 2.3 The business case agreed by Executive Board, and subsequently by the Leaders of Labour, Conservatives and Lib Dems groups, was based upon a drive to connect additional customers to the network.
- 2.4 The project team, supported by Vital on technical issues and Enervate on commercial issues is now engaged with a growing number of potential customers.
- 2.5 The project team now need a decision in order to progress the project, in line with this authority granted to Executive Board:

6.7 Delegate authority to the Director of Resources and Housing to enter into all other documentation and take all other decisions required for the delivery of the project and approve operational decisions relating to the district heating scheme.

3. Main issues

- 3.1 The Council has engaged in ongoing discussions with Caddick for several years, related to their SOYO development in Quarry Hill. This has already led to a successful agreement to route the DHN within the perimeter of their site. We are now structuring a deal to connect blocks E&F and potentially block D to the DHN.
- 3.2 Caddick have outline planning permission for the whole site and recently secured detailed planning approval for blocks E&F. These blocks are closest to the Playhouse and will be developed by Moda Living into 515 luxury PRS apartments, which Moda will then own and manage.
- 3.3 Planning permission has been granted on the basis that these are heated predominantly by communal gas boilers, with a small CHP unit contributing to EN1 and EN2 requirements. The blocks have been designed to enable retrofit to the DHN via a bulk heat supply and a tee has been installed as part of the first phase construction, at a cost of £24,164.09. Recent discussions with Caddick, Moda, Vital and planning officers have confirmed that it is preferable, and allowable within planning approvals, to install a direct connection to DH during the initial construction phase and remove the need for gas boilers or CHP entirely.
- 3.4 Caddick recently approached the council regarding plans for block D, closest to the College of Music. This is designed to contain c100 apartments for private sale. However, Caddick are struggling to make the development financially viable with a wet heating system, which ultimately benefits residents and assists the city to reduce CO₂ emissions.
- 3.5 The council, working with Enervate and Vital, have therefore had initial discussions with Caddick and Moda, regarding a potential deal to everyone's advantage. In

outline, this would involve Caddick/Moda committing to connect all 610 apartments to the DHN, with the Leeds PIPES team being responsible for ongoing O&M including metering and billing within the blocks, right up to the HIUs within residents' apartments. In return for this long-term arrangement, the council would provide a discounted connection cost to enable all blocks to connect.

- 3.6 Caddick and Moda are both interested and have requested that we provide a budget cost for connection and an indicative heat price for tenants. It is clearly understood by all parties that this is a budget estimate and a binding offer is subject to detailed design and negotiation of legal agreements.
- 3.7 Vital Energi have undertaken an initial design and Enervate have undertaken commercial modelling with the results presented in confidential appendix 1.
- 3.8 This deal would have multiple benefits to the council:
 - 3.8.1 Connecting a total of 610 flats adds another significant heat load to the network of c1.8 GWh, around 1/5th of the Housing Leeds requirement.
 - 3.8.2 Supply to individual HIUs rather than a bulk supply provides a higher revenue stream to Leeds PIPES.
 - 3.8.3 Early sign up from Caddick will provide a good case study to help persuade other developers to connect, particularly if Neighbour sign up to the alternative bulk heat model.
- 3.9 Once Caddick accept the outline budget proposal, we, with the support of Vital and Enervate, will work closely with Caddick to:
 - 3.9.1 Complete detailed design and agree final specifications for work that Caddick will lead;
 - 3.9.2 Agree precise divisions of O&M responsibilities for all aspects of the system;
 - 3.9.3 Agree HoTs covering connection, construction and heat sales;
 - 3.9.4 Negotiate full legal agreements for the connection, ongoing development management and sales to the residents.

4. Corporate considerations

4.1 Consultation and engagement

- 4.1.1 The decision to proceed with construction of the Leeds PIPES DHN was subject to extensive consultation and engagement. As part of this consultation, the project team presented a series of scenarios to the Leaders of the Labour, Conservative and Lib Dems groups clearly showing that it was essential to connect additional customers to the network to secure the long-term viability of the network. This proposal is therefore in line with this consultation, so no new broad political engagement is required.
- 4.1.2 The project team has more recently engaged with the Deputy Leader and Executive Member for Resources and Sustainability who has supported the proposal to offer subsidised connections to those customers who would otherwise not be able to afford to connect.
- 4.1.3 In addition, legal, finance and governance colleagues have been consulted regarding this proposal and provided their advice.

4.2 Equality and diversity / cohesion and integration

4.2.1 An equality impact assessment was completed as to support the July 2017 Executive Board report.

4.2.2 This assessment concluded that the DHN will have a positive impact on equality as it will support the compassionate city equality objective by reducing fuel poverty, helping to increase life expectancy, improves mental health and wellbeing and reduces health inequalities. This position has not changed.

4.3 Council policies and best council plan

4.3.1 The district heating project and installation of external wall insulation will help Leeds to achieve the following Best Council Plan 2018/19 – 2020/21 priorities of:

4.3.1.1 Promoting a low carbon economy

4.3.1.2 Tackling fuel poverty

4.3.1.3 Providing housing of the right quality

4.3.1.4 Targeting work to tackle poverty in priority neighbourhoods.

4.4 Resources and value for money

4.4.1 Construction of the spine DHN was approved on the basis that the council would attract additional customers to the network.

4.4.2 The proposed discounted connection for Caddick would help to secure a major new connection, in line with the council's intention.

4.4.3 Confidential appendix 1 clearly shows that once the cost of borrowing has been factored in, this connection still improves the business case.

4.4.4 Finance colleagues have therefore advised that this proposal should be considered as an invest to save project. Prior to a firm offer being made to Caddick, the project team will seek a formal decision through the standard invest to save route.

4.5 Legal implications, access to information, and call-in

4.5.1 This offer is a budget offer only and subject to detailed design and development of legal agreements so is not legally binding.

4.5.2 Prior to making a firm offer to Caddick, the detailed design will be completed and quantified by Vital and legal agreements will be negotiated with Caddick committing them to the project terms. A further Significant Operational Decision will be sought to provide appropriate authority to borrow the capital required and inject into the capital programme.

4.5.3 The decision is not open to call-in.

4.6 Risk management

4.6.1 The commercial decisions are complex with a number of variables and related risks, which the project team has been addressing by using conservative assumptions within the model. The principle risks, with their mitigations are:

No.	Risk	Mitigation
1	Gas price volatility – heat prices are pegged to gas prices, so a decrease in gas prices would reduce income.	To mitigate risks 1&2, the council has stress tested the scenarios with lower figures and the connection remains beneficial, in all but the most pessimistic scenario.
2	Volume – as we have not started trading, volumes are informed estimates.	
3	Costs of alternative heat source – should the RERF fail to deliver heat, we are liable to provide heat to customers from gas, which is significantly more expensive than RERF heat.	The council has robust contracts in place with both Veolia (RERF) and Vital (Leeds PIPES) to ensure that RERF heat is available wherever possible and gas backup is always available. Short term supply of gas makes little impact on the financial model and a sensible percentage of gas use has been assumed in the model.

4.6.2 Additional risks related to the specific commercial deal with Caddick are detailed in the confidential appendix 1.

5. Conclusions

- 5.1 The project team have modelled the benefits to the project and set these out in confidential appendix 1. It is clear that this proposed discounted connection provides long-term benefits to both the Leeds PIPES project and Caddick/Moda.
- 5.2 The proposed offer is subject to detailed design and legal negotiations. Prior to making a binding offer, the project team will complete design and legals and seek authority to make a firm commercial offer to Caddick/Moda, based on an invest to save business case.

6. Recommendations

- 6.1 To take a Significant Operational Decision to provide an indicative heat price and indicative connection offer to Caddick/Moda as detailed in confidential appendix 1.
- 6.2 To conclude detailed design and negotiate full legal agreements and seek formal approval of the invest to save business case prior to making a binding commercial offer to Caddick/Moda.

7. Background documents¹

- 7.1 None

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.