

Report of Sustainable Energy and Air Quality Team

Report to Director of Resources and Housing

Date: 02 January 2019

Subject: Indicative heat price and connection offer to Engie Regeneration for Exemplar Health Care Ltd

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 approached by Engie re connecting a care home under development in Cross Green to Leeds PIPES.
2. To help persuade Engie to connect, the project team have identified an opportunity to offer a discount on the connection, using invest to save principles. This provides long-term benefits to residents and long-term revenues for Leeds PIPES, as well as helping to significantly reduce carbon emissions from the development.
3. To assist with Engie'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 Engie, the project team will seek a formal decision through the standard invest to save route.

Recommendations

1. The Director of Resources & Housing is asked to:
2. Give approval to provide an indicative heat price and indicative connection offer to Engie as detailed in confidential appendix 1.

3. 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 Engie.

1. Purpose of this report

- 1.1 To seek delegated authority to provide an indicative heat price and indicative finance package to Engie 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 by 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 In early October, the project team were alerted by Planning to a 30 bed care home, shortly due to commence construction very close to the DHN in Cross Green. Engie Regeneration are acting as technical lead for Exemplar Health Care Ltd and the project team has been working with them and the sustainability consultant, Queensbury Design to demonstrate how the DHN can help meet low carbon requirements of policy EN1 and EN2.
- 3.2 Exemplar Health plan to retain and manage the building and due to the relatively high and stable heat demand in the care home sector, they were planning to use communal gas boilers. Heat and domestic hot water is required for the 30 ensuite bedrooms, common areas, 3 small shared kitchenettes, 3 shared bathrooms, a catering kitchen and a laundry. Heating and hot water costs for residents will be included within their care package so Exemplar are interested in a bulk heat supply from the DHN only.
- 3.3 They have requested that we provide a budget cost for connection and an indicative heat price. 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.
- 3.4 Vital Energi have undertaken an initial design based on the installation and commissioning of a twin plate 355kW plate heat exchanger plus all pipework to connect to the district heating main. Enervate have undertaken commercial modelling with the results presented in confidential appendix 1.
- 3.5 This connection would have multiple benefits to the council:
 - 3.5.1 Connecting the care home adds c0.5 GWh of demand, contributing to our overall target.

- 3.5.2 We do not currently have any other similar customers, so the early connection of Exemplar Health Care will provide a good case study to help demonstrate the value to similar customers.
- 3.6 Once Engie accept the outline budget proposal, we, with the support of Vital and Enervate, will work closely with Engie to:
 - 3.6.1 Complete detailed design;
 - 3.6.2 Agree HoTs covering connection, construction and heat sales;
 - 3.6.3 Negotiate full legal agreements for the connection, ongoing development management and ongoing heat sales.

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 discounted 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 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, improve mental health and wellbeing and reduce health inequalities.
- 4.2.3 This position has not changed. Further, it is clear that by connecting into a care home, some of the more vulnerable people in Leeds can be provided with lower cost, resilient and low carbon heating.

4.3 Council policies and best council plan

- 4.3.1 The district heating project 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

4.4 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 this care home would help to ensure that they connect, 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 Engie, 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 The council has considered commercially sensitive information in developing the budget offer to Engie and so to protect both Engie's interests and the council's ability to negotiate with future customers it is important that this information remains confidential. Therefore, in accordance with Access to Information rule 10.4.3 the council has prepared confidential appendix 1 as the public interest in holding information back exceeds the public benefit of disclosing this information.
- 4.5.2 This offer is a budget offer only and subject to detailed design and development of legal agreements so is not legally binding.
- 4.5.3 Prior to making a firm offer to Engie, the detailed design will be completed and quantified by Vital and legal agreements will be negotiated with Engie 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.
- 4.5.4 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	The council has robust contracts in place with both Veolia (RERF) and Vital (Leeds PIPES) to ensure that RERF heat is available wherever

	heat to customers from gas, which is significantly more expensive than RERF heat.	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.
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4.6.2 Additional risks related to the specific commercial deal with Engie 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 the Engie care home.

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 Engie, based on an invest to save business case.

6. Recommendations

6.1 The Director of Resources & Housing is asked to:

6.2 Give approval to provide an indicative heat price and indicative connection offer to Engie as detailed in confidential appendix 1.

6.3 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 Engie.

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.