

# Leeds Pipes DHN Customer Connection Agreements

Date: 23rd June 2021

Report of: Senior Project Manager, Sustainable Energy and Air Quality

Report to: Chief Officer Sustainable Energy and Air Quality

Will the decision be open for call in?  Yes  No

Does the report contain confidential or exempt information?  Yes  No

## What is this report about?

### Including how it contributes to the city's and council's ambitions

- The council's flagship Leeds PIPES District Heating Network (DHN) is operational and has been supplying heat generated at the Recycling and Energy Recovery Facility (RERF) since September 2019 to the initial customers connected to the network.
- This report seeks authority to enter into commercial Heat Supply Agreements (HSA) or Heads of Terms (HoTs) with a number of additional customers that are due to connect to the network during 2021.
- These new commercial agreements will increase the number of customers connected to the DHN, which will see a significant increase in the volume of heat supplied. All customers help improve the commercial position of the network, which was always designed to need growth to break even.
- The increased demand on the network will provide a positive contribution to the council's climate emergency ambition of supporting the city to become net zero by 2030 by supplying low carbon heat to customers as opposed to using traditional gas boilers.
- Given the infancy of the network this is a significant opportunity for the network to deliver benefits aligned to city and council ambitions and will raise the profile of Leeds PIPES.

## Recommendations

- a) The Chief Officer Sustainable Energy and Air Quality is requested to note the contents of this report and,
  - i. Provide authority to enter into a Heat Sale Agreement with Global Banking School Ltd to supply heat to St George House;
  - ii. Provide authority to enter into Heads of Terms with Secretary of State for Work and Pensions regarding the connection of Quarry House to the DHN, and provide authority to enter into the subsequent Heat Sales Agreement with Secretary of State for Work and Pensions on conclusion of their legal review; and
  - iii. Provide authority to enter into Heat Sales Agreements with Leeds Beckett University, Trinity Academy Leeds (East Leeds Free School), and Leeds Teaching Hospitals NHS Trust (St James' Hospital Becket Wing) to connect these customers to the DHN

following the conclusion of commercial discussions and legal review of the HSA terms.

### **Why is the proposal being put forward?**

- 1 The Leeds PIPES DHN has been successfully supplying low carbon heat generated at the RERF to the initial customers connected to the network since September 2019. Phase 1 and Phase 2 of the network are complete and the network is positioned to be able to supply heat to a range of new customers.
- 2 The council has been in discussions for several years with potential customers across the city who have expressed an interest in connecting. The DHN project team have been successful in supporting a number of partners across the city with bids to the Public Sector Decarbonation Scheme (PSDS), who have received grant funding to enable a connection to the DHN.
- 3 This has led to agreement being reached to connect and supply heat to the following buildings in 2021:
  - Quarry House
  - Leeds Beckett University's Portland Way energy centre
  - St James' Hospital Beckett Wing
  - the new East Leeds Free School and
  - St George House.
- 4 These customers will see the network supply over 8GWh of heat per year, which in addition to the existing customers and the council's own buildings that are connecting in 2021 will see the network increase its heat sales to c.25GWh per year.
- 5 Individual commercial agreements are at different stages of negotiation with each customer. These are summarised below with further commercial details being provided in the confidential appendix 1.

#### Global Banking School Ltd - St George House

Connection to St George House formed part of the council's Phase 2 extension proposals with the connection costs being funded by the council. The DHN has replaced aging gas boilers and the connection will add c.235MWh of heat demand annually to the network.

St George House is now leased to Global Banking School Ltd who were supportive of leasing the building with a DHN connection installed. Global Banking Solution Ltd have signed a HSA, which now requires the council to countersign.

#### Secretary of State for Work and Pensions - Quarry House

Discussions have been ongoing regarding a connection to Quarry House for several years and following a successful PSDS bid, the Secretary of State for Work and Pensions has agreed a connection. The building will be a significant customer for the DHN increasing demand on the network by over 5GWh per year.

A HoT agreement has been reached, which sets out the main commercial terms relating to the supply of heat. The Secretary of State for Work and Pensions has signed HoTs, which now require countersigning by the council. It is expected that the subsequent HSA will be agreed in June, which will then be entered into by both parties to formalise the commercial terms.

#### Leeds Teaching Hospital NHS Trust - St James' Hospital Becket Wing

A connection to St James Hospital is taking place following a successful PSDS bid that secured the NHS Trust funds to carry out a range of carbon reduction measures with a DHN connection

being central to this. The DHN connection will replace an existing steam plate that is fed by gas CHP plant, and will require at least 1GWh of heat per year from the DHN.

Leeds Teaching Hospitals NHS Trust are comfortable with entering into a HSA without a prior HoT agreement, and it is anticipated that the HSA will be signed in July 2021.

#### Leeds Beckett University – Portland Way

A PSDS grant has ensured a connection to the new Creative Arts buildings on Portland Way following discussions over the last few years. The connection will supply heat to support a new CHP system installed on site and will supply an anticipated 1.5GWh of heat per year.

Leeds Beckett University are comfortable with entering into a HSA without a prior HoT agreement, and it is anticipated that the HSA will be signed in June or July 2021.

#### Trinity Academy Leeds - East Leeds Free School

The council are bringing forward a new school including a sports block close to the Stoney Rock flats, which will open in September 2021 offering 1,200 secondary school placements. The DHN will supply c.620MWh of heat per year to the school. A 60 placement Special Educational Needs (SEN) school is also to be developed close to the school, which will open in 2022 and will also receive a DHN connection.

A HSA is being finalised with Trinity Academy Leeds, with no HoTs required, and is anticipated to be signed in July 2021.

### **What impact will this proposal have?**

#### **Wards affected:**

Have ward members been consulted?

Yes

No

- 6 Approval of the recommendations to enter into HoTs and HSA with the various customers will ensure that the council is able to secure a significant number of new customers for the Leeds PIPES network. This is a significant milestone for the project as it will result in a substantial increase in the volume of heat being sold to customers across Leeds and help support the business case for the network.
- 7 It will see prominent buildings in the city connect to the network, which will further raise the profile of the network in Leeds, regionally and nationally.
- 8 Through receiving a connection each of the customers will see a reduction in their overall energy costs across the term of the heat supply. They will also realise a significant reduction in their carbon emissions.
- 9 Equality impact assessment have been completed at various stages throughout the development of the DHN, with the last one being to support the July 2020 Executive Board report. 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.

### **What consultation and engagement has taken place?**

- 10 The decision to proceed with the construction of Phase 1 and Phase 2 of the Leeds PIPES DHN was subject to extensive consultation and engagement with elected members and senior officers, which provided a range of scenarios setting out the positive impact of connecting new customers to the network.

- 11 Consultation has taken place with PACS regarding the appropriateness of the HoTs and HSA to ensure the documents are suitable agreements for the council to enter into.
- 12 The DHN project delivery team have developed the individual commercial proposals with support from Vital Energi Ltd and Enervate, a company specialising in the decentralised energy market, to ensure commercial terms are suitably positioned within the market.

### **What are the resource implications?**

- 13 Construction of the DHN was approved on the basis that the council would attract additional customers to the network.
- 14 The proposed commercial connections help to support the business case for the DHN in line with the council intention.
- 15 There are no capital costs associated with each of the connections. Each connection has secured funding through the PSDS to cover the cost of the connection.
- 16 Each connection will generate revenue for the council based on the commercial terms that have been reached, details of which are included within the confidential appendix 1.

### **What are the legal implications?**

- 17 The HoT agreements are legally non-binding agreements that demonstrate a commitment from both parties to enter into a HSA based on similar commercial terms.
- 18 The HSAs are legally binding commitments. The councils PACS team have supported with the development of HSAs to ensure the council has the necessary protection and have provided comment on individual customer agreements where amendments have been considered material.
- 19 HSAs are individual to each customer having been discussed and agreed by both parties. However there are a number of areas within each that are worthy of note, which are set out below. Where there is an obligation on the council, these obligations are backed off under the Operation and Maintenance contract with Vital Energi.
  - a) The council shall provide metering and billing services with a preference being for customers to be invoiced monthly for the heat that they have used along with a standing charge;
  - b) The council shall operate and maintain the installed heat assets (e.g. plate heat exchanger, pumps) with the customer responsible for the operation and maintenance of their secondary system within the building.
  - c) The council is responsible for restoring any loss in heat supply:
    - i. Within 3 hours where there is a serious risk to health & safety or there is catastrophic loss of heat, or where there is major damage to a property.
    - ii. Within 72 hours where faults have a serious impact on the comfort of the customer, where there is an impact on heat delivery, or where there is damage to a property.
    - iii. Within 4 weeks where other repairs are required to a Customers connection.
  - d) Where heat on the network is interrupted and the contingency arrangements at the energy centre cannot be maintained, the council shall provide temporary containerised boilers to ensure supply.

- e) Flow temperatures to the customer are maintained within agreed parameters (for example 85 – 95 degC) with customers also required to return heat within agreed parameters.
- f) Where the council has paid the connection cost, the customer shall remain liable for the cost through the term of the agreement, with the cost diminishing on an annual basis.

20 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 appendix contains detailed pricing information underpinning the Council’s heat sales which if disclosed could damage the commercial interests of the Council. Disclosure of this information would 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.

21 The decisions in this report are Significant Operational Decisions and are therefore not subject to call-in.

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

22 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 in relation to each of the supply arrangements, 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 connections remains beneficial.
2	Volume – as we have not started supplying customers, 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.

**Does this proposal support the council’s three Key Pillars?**

- Inclusive Growth       Health and Wellbeing       Climate Emergency

23 The Leeds PIPES DHN is a major strategic priority for the city and supplying heat to new customers as proposed directly support the council’s three Key Pillars:

- a) The network will provide lower cost heating to the new connections, helping to improve competitiveness and reduce fuel costs for each customer.
- b) The network reduces reliance on gas boilers in dense urban areas, helping to improve air quality and improving health.

- c) The network directly reduces CO2 emissions from heating, which is otherwise difficult and expensive to improve, helping the city to achieve net zero ambitions.

## Options, timescales and measuring success

### What other options were considered?

- 24 The council has invested significantly in the development of the Leeds PIPES DHN on the basis that it will allow new customers to connect to the network in order to build a city-wide network. The DHN provides potential customers with a viable, long term, low carbon heat source, which can be seen as more favourable than alternative sources of heat.
- 25 In agreeing to connect to the network customers have reviewed the costs associated counterfactual heat sources and the DHN has demonstrated that it provides both financial and carbon savings to each customer, and as such has been seen as their preferred option.

### How will success be measured?

- 26 Success will be measured by realising a significant increase in the volume of heat supplied to the new customers once connected. An additional 8 GWh of heat will be supplied to these customers, which will be an excellent achievement given the infancy of the network.
- 27 Connection to these key partners will help reduce carbon emissions in the city and contribute to the ambition of achieving net zero by 2020.
- 28 These early adopters will also further raise the profile of the DHN demonstrating to potential customers that connecting to the network can deliver a range of benefits.

### What is the timetable for implementation?

- 29 Each of the proposed commercial agreements has its timetable for implementation, however they all result in connections taking place during 2021. The anticipated timetable for the council entering into each agreement is set out below:

Customer	Commercial Agreement	Anticipated Implementation Date
Global Banking Solution Ltd	HSA	Immediately following decision
Secretary of State for Work and Pensions	HoT	Immediately following decision
Secretary of State for Work and Pensions	HSA	June / July 2021
Leeds Beckett University	HSA	June / July 2021
Trinity Academy Leeds	HSA	July 2021
Leeds Teaching Hospitals NHS Trust	HSA	July 2021

## Appendices

- 30 Confidential Appendix 1 and Confidential Appendix 1a -1e.

## **Background papers**

31 N/A