

OVERVIEW & SCRUTINY COMMITTEE

CHAIRMAN: Cllr Mike Haines

DATE: 5 March 2018

REPORT OF: Simon Thornley
Business Manager Strategic Place

SUBJECT: Energy Services Company Update

PART I

RECOMMENDATION

That Members note this report and the actions taken as contained in section 3.

1. PURPOSE

To provide Members with an update on progress with the Energy Services Company (Dextco) and linked Exeter Energy Network Project.

2. BACKGROUND

Members will recall approving support for the formation of an Energy Services Company at Full Council in September 2016. Its main purpose being to help deliver more efficient heat and power in Devon, through sustainable energy projects which provide environmentally friendly energy to homes and businesses.

The company, Dextco, was established in December 2016 and founding members and shareholders comprise Devon County Council (DCC), Exeter City Council (ECC), Royal Devon and Exeter NHS Foundation Trust (RD&E), University of Exeter (UoE) and Teignbridge District Council (TDC).

The first project the company is backing is the Exeter Energy Network scheme which will refurbish the energy centre at the RD&E Wonford site and deliver a network to take heat from the hospital to the city centre. The core heat network itself is 6.5 km long and provides a total of 21 GWh through low temperature hot water to commercial heat users along the Heavitree corridor into the city centre. It will serve the Civic Centre and other public and private sector DH ready buildings here.

Heat networks (also called district heating or DH) and combined heat and power (CHP) enable heat generated at a central point to be distributed to a number of buildings. Co-generation uses the heat produced as a by-product of electricity generation; this heat is usually lost at large power stations.

3. MAIN IMPLICATIONS

Procurement

Progress with the project has been steady on all fronts. Preparation for the procurement process is well advanced and has included comprehensive market assessment that has helped to define the broad specification, among other tasks a Market Engagement Day (including a site tour) was held at the University on 5th July 2017.

Much was learnt from the feedback from industry representatives, including valuable knowledge gained on the structure of the joint venture, the technical solution and pointers on the procurement process from an industry standpoint. There has been further soft market testing since the market engagement day and two market questionnaires have been sent out to a range of participants in the energy industry.

The project specification is designed to be outcome – driven, with the key outcomes being delivery of heat at a competitive price, resilience, return on investment to the joint venture company shareholders and potential for expansion / development.

On-going preparation of a suite of contract documents has been a major priority of the group since last autumn. These include network easements, gas purchase, electricity supply, heat connection and heat supply agreements, amongst others, which will be provided to potential bidders at the procurement launch. Dextco is also planning to undertake a route condition survey to check on utilities alignment in order to help reduce the risks in the heat network installation.

Management

Management of the project is undertaken by the Dextco Board which provides governance and direction for the project. It normally meets every four weeks, regular agenda items include a project manager's report and review of key risks on the risk register. Teignbridge along with other partner authorities is represented at director level. A Project Group provides support to the Board and meets fortnightly, with input from procured technical, financial and legal advisors when required.

Delivery of the procurement process will be greatly assisted by a favourable outcome from a Heat Network Delivery Unit (HNDU) Round 7 funding application, to be known before Easter that would support costs associated with heat network procurement, including ground survey work. HNDU funding requires a 33% match from partners.

A bid may also be made to the government's Heat Network Investment Project (capital investment programme) which will be open for applications in autumn 2018.

Teignbridge and other shareholders have provided £98,000 (total £392k) to fund external procurement costs during the process towards appointing a private sector partner next year. This finance delivers a range of essential tasks across technical, financial and legal fields as identified in the project Business Plan by a team of specialist advisors.

TEIGNBRIDGE DISTRICT COUNCIL

Subject to a successful procurement of a private sector energy partner there is a commitment in principle from Teignbridge and other shareholders to invest up to £177,000 each into the joint venture company as a share of the required public sector equity stake. The balance of funding will be a combination of private sector equity, debt finance and HNIP funding. (Subject to a successful application)

4. GROUPS CONSULTED

None

5. TIME-SCALE

Although original estimated timescales have been exceeded, in many ways this has been unavoidable given the complexity of the technical specification required and path breaking nature of the work itself.

The position now is that procurement of a private sector partner will take place from July 2018 and following the various procedural requirements associated with the process appoint a partner during autumn 2019. Scheme delivery will therefore commence from 2020/21.

6. CONCLUSION

It will be necessary to report back to members on the procurement process outcomes and specific details for Teignbridge partner investment in the joint venture when known.

Simon Thornley
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Wards affected	
Contact for more information	Trevor Shaw Senior Planning Officer 01626 215703 trevor.shaw@teignbridge.gov.uk
Background Papers (For Part I reports only)	Energy Services Company and District Heating Procurement, Report to Council, 26 th Sept 2006
Key Decision	N
In Forward Plan	N
In O&S Work Programme	N
Appendices attached:	N