

Corporate Policy and Strategy Committee

10am, Tuesday 21 January 2014

Energy Services Companies

Item number	7.1
Report number	
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Executive summary

Energy Services Companies

Summary

A number of local authorities are now using Energy Services Companies (ESCOs) as a means of delivering their energy programmes and meeting carbon targets. These models provide a range of services aiming to address energy efficiency, increase the use of renewables and reduce carbon emissions and in doing so create a number of socio-economic benefits.

The Council is considering the ESCO model at city wide level, however there are a number of specific energy projects underway proposing the use of an ESCO due to be completed in April 2014. Any plans for a more strategic ESCO will take this work into account to avoid any duplication or potential conflict.

A project team has been established to ensure co-ordination of all activity in this area and to oversee further work on a city wide approach.

Recommendations

It is recommended that the Committee note the progress on ESCOs and that further progress reports will be submitted.

Measures of success

Measures of success will be progress towards energy and carbon targets and viable energy services structures in place.

Financial impact

There is further consultancy work to be commissioned which can be contained within existing budgets.

Equalities impact

There are no adverse equalities impacts arising from this report.

Sustainability impact

The development of potential ESCOs will assist the Council in meeting its carbon and energy targets and wider sustainability targets under Sustainable Edinburgh 2020.

Consultation and engagement

A key element of this work will be the need to engage with a range of stakeholders and potential partners to ensure all options are fully explored and developed.

Background reading / external references

Report on ESCOs to the Carbon Climate and Sustainability Member Officer Working Group November 2013.

Energy Services Companies

1. Background

- 1.1 A report was submitted to the CCS¹ Member Officer Working Group on 20 November 2013 providing an update on progress on Energy Services Companies (ESCOs) projects and related activities. The report was approved by the Working Group. Council approved a motion on 12 December asking for further progress reports to be submitted to Committee with the next update to the Corporate Policy and Strategy Committee in January 2014.
- 1.2 This report provides a brief analysis of ESCOs and outlines progress in Edinburgh to date.

2. Main report

- 2.1 An ESCO is a company that develops, installs and arranges financing for energy projects and related services over a long term timescale. It acts as project developer and assumes the technical and performance risk associated with any project. A number of local authorities and other public sector agencies are developing ESCOs to deliver energy efficiency, energy savings and low carbon solutions including district heating. In essence, these new companies seek to ensure more local energy generation for end users with cheaper energy as a consequence.
- 2.2 There is no fixed definition of an ESCO and no set criteria to differentiate between options. In general however, there are three categories: private sector owned, joint public/private ventures or public sector owned ESCOs. This latter category also includes community owned schemes. A number of current UK schemes are variations of the public/private sector arrangement.
- 2.3 The legal structure can vary considerably. Issues such as risk, contractual arrangements and factoring in the cost of infrastructure versus income should be assessed. Any ESCO model should consider how heat supply and power regulations will be addressed, particularly if district heating schemes are part of the service or if there is supply to social housing. Any potential users of the power and heat will need to be identified to determine income levels, with the local authority deciding how best to use any profit share.
- 2.4 Operating an ESCO can also include asset management, fuel supply, energy trading, metering and billing services, general contract management,

¹ Carbon Climate and Sustainability

maintenance, repairs and customer relations. ESCOs can therefore entail a number of legal, procurement and financial issues.

- 2.5 However, there are also significant benefits. These include economies of scale, leveraging in other financial investment, and building up the expertise and management of strategic energy initiatives. At the European level, cities with ESCOs such as Munich and Berlin generate millions of Euros in direct revenue. These schemes are also now expanding by investing in energy projects in other cities and towns.

Current Council Activity

- 2.6 Discussion on a number of strategic energy projects has proposed ESCOs as a means of delivery. There are two key projects currently underway. This includes developments at the BioQuarter and a proposal from a consortium of Housing Associations.

BioQuarter

- 2.7 The BioQuarter development to the south east of the city entails large scale district heating as a means of providing heat and power for the development. Development partners include Scottish Enterprise, Lothian Health, University of Edinburgh and the Council. All partners have agreed to commission feasibility work to assess the potential for district heating and the role of an ESCO.
- 2.8 A workshop will be held on the 10 January 2014 with social landlords (including the Council) to assess housing loads and linkages with any scheme.
- 2.9 An interim report is due from Rambolls/Brodies which will cover the first phase of the work including heat mapping, technical modelling and some options appraisal. This is due at the end of January 2014. The full report is due at the end of April and will include detailed recommendations from the feasibility study as to the options for an ESCO for the Bioquarter development.

Housing

- 2.10 The second key area of work is a proposal for a national ESCO with eight Housing Associations (HAs). This would be led by Castle Rock Edinvar. Based on social enterprise principles, this ESCO would supply and generate low carbon energy to a large number of social housing tenants. This model would also potentially develop district heating schemes.
- 2.11 In addition, the HAs have had discussions with officers to explore how the Council could support the ESCO within the city and potentially become an investor at a later stage.
- 2.12 The Council has submitted an application to the Energy Savings Trust for Warm Homes funding for work entitled 'ESCO and Edinburgh Local Generation Partnership Opportunities'. Complementing the HA business case, Council officers in Housing and Regeneration have developed the scope for this work which includes:
- heat and/or energy provision to new and existing tenants;

- scope the opportunity for the ESCO to deliver district heating schemes;
- energy generation opportunities from the housing estate, including renewable energy, and low carbon distribution; and
- Edinburgh as a case study for the ESCO working with a local authority.

2.13 A decision on the Warm Homes funding application is expected by the end of January 2014.

2.14 It is anticipated that the more detailed business plan will be available in March.

Next Steps

2.15 The work on the two projects described above has been initiated by external partners. There are also synergies between the two projects that need further investigation particularly to explore the opportunities for social housing. Given the emerging importance of the work, a project team has been established to co-ordinate activity across different projects. This team comprises representatives from housing, energy, property, finance, procurement, legal, economic development and corporate policy.

2.16 It is proposed that a further progress report be submitted to Committee in April 2014, when the feasibility work on both the BioQuarter and HA proposals have concluded.

3. Recommendations

3.1 It is recommended that Committee note the progress towards the development of ESCOs and that a further progress report will be submitted to Committee in April.

Greg Ward

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Links

Council pledges

[P50](#) Meet greenhouse gas targets, including the national target of 42% by 2020

Council Outcomes
Single Outcome
Agreement

[CO16](#) Well-housed – People live in a good quality home that is affordable and meets their needs in a well managed neighbourhood

[CO18](#) Green - We reduce the local environmental impact of our consumption and production

[SO4](#) Edinburgh's communities are safer and have improved physical and social fabric

Appendices