

Transport and Environment Committee

10.00am, Tuesday, 3 June 2014

Council Energy Services Company – referral from the Economy Committee

Item number	7.19
Report number	
Wards	All

Executive summary

The Economy Committee on 22 May 2014 agreed to note a report on the Council Energy Services Company, which aims to deliver a range of energy initiatives to address energy efficiency. The Committee also agreed to refer the report to the Transport and Environment and Finance and Resources Committees for information.

Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

Terms of Referral

Council Energy Services Company

Terms of referral

- 1.1 On 22 May 2014 the Economy Committee considered a report on the range of services provided by the Energy Services Companies (ESCOs) that aimed to address energy efficiency and reduce carbon emissions. A number of local authorities were now considering the ESCO model as a way of delivering their strategic energy programmes and meeting carbon targets.
- 1.2 The Council was developing its draft Sustainable Energy Action Plan (SEAP) which would set out how the Council would meet its 42% reduction in carbon emissions across the City. Reports on ESCO had already been submitted to the Council's Member Officer Working Group, outlining a number of issues including role, governance and activities.
- 1.3 The Economy Committee agreed:
 - 1) To note the report.
 - 2) To provide feedback on the proposal including the development of an initial first phase of the project.
 - 3) To refer the report to the Transport and Environment and Finance and Resources Committees for information.

For Decision/Action

- 2.1 The Transport and Environment Committee is asked to note the report.

Background reading / external references

Economy Committee 22 May 2014.

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Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

Economy Committee

2pm, Thursday, 22 May 2014

Council Energy Services Company

Item number	7.2
Report number	
Executive/routine	
Wards	

Executive summary

Energy Services Companies (ESCOs) provide a range of energy services that aim to address energy efficiency and reduce carbon emissions. A number of local authorities are now considering the ESCO model as a way of delivering their strategic energy programmes and meeting carbon targets.

The Council is currently considering an option for a city wide strategic ESCO options that would deliver a range of energy initiatives and projects. Further work to develop the structure is being carried out.

Links

Coalition pledges	P28 P50 P53
Council outcomes	CO7 CO8 CO9
Single Outcome Agreement	SO1

Council Energy Services Company

Recommendations

- 1.1 It is recommended that members note the contents of this report and provide feedback on the proposal including the development of an initial first phase of the project.

Background

- 2.1 Energy Services Companies (ESCOs) provide a range of energy services that aim to address energy efficiency and reduce carbon emissions. A number of local authorities are now considering the ESCO model as a way of delivering their strategic energy programmes and meeting carbon targets.
- 2.2 The Council is developing its draft Sustainable Energy Action Plan (SEAP) which will set out how the Council will meet its 42% reduction in carbon emissions across the city.
- 2.3 Reports on an ESCO have already been submitted to the Council's Member Officer Working Group outlining a number of issues including role, governance and activities. These have also summarised a number of examples from elsewhere in the UK and in Europe highlighting the benefits of an ESCO including savings on energy budgets and potential revenue generation. The Working Group has supported the recommendations from these reports and the proposal to evaluate a Council ESCO.

Main report

- 3.1 This report highlights work to date on developing the options for a Council ESCO. A number of meetings have been held with relevant Council officers including finance, legal, procurement, corporate property and policy and economic development.
- 3.2 A presentation to Council officers from a partner from Brodies provided a very useful overview of some of the issues affecting an ESCO. This partner had written a publication called "Making ESCO's work" for the London Energy Partnership, considered to be one of the best publications providing information on ESCO models, ownership and governance.
- 3.3 Two key issues were the activities to be undertaken by the ESCO and the potential structure.

3.4 Given that the Council is launching its consultation on the Sustainable Energy Action Plan, there was a consensus that an ESCO could become the delivery model for that programme of work. This provides a clear rationale and strategic context for an ESCO as well as the energy objectives and targets.

Council ESCO

3.5 It is proposed that the Council evaluate a city wide ESCO which can oversee a range of energy projects but also have flexibility to partner with other public and private organisations.

3.6 In terms of activities, the Edinburgh ESCO would have four objectives:

- delivering affordable energy initiatives (with a particular focus on alleviating fuel poverty and reducing energy bills);
- income generation;
- reducing carbon emissions as per the SEAP targets; and
- creating wider benefits for the community.

3.7 In doing so, key outcomes could include - energy efficiency savings, maximising benefits for domestic and business consumers, creating economic development opportunities, championing projects and effectively engaging partners to deliver and leveraging in investment for projects and linkages with the co-operative council agenda.

3.8 A strategic ESCO could also provide benefits for Edinburgh with the ESCO set up in a way that could establish joint venture initiatives, develop community interest companies and other social enterprise projects within the core of its business. This would support the Edinburgh ESCO objectives of carbon reduction, energy efficiency, cost saving and revenue generation, economic growth, inward investment and fundamentally providing resilient energy provision to communities.

3.9 The proposal is for a wholly owned Council ESCO which could potentially have a number of special purpose vehicles set up to deliver on specific energy projects. These could include energy efficiency schemes for domestic and non domestic properties including the public sector, district heating, CHP and renewables. The impact of these exemplar projects would be significant and could be progressed rapidly to demonstrate real momentum behind the SEAP. This would help catalyse further projects with the ESCO.

3.10 Finally, the specific benefits for a strategic Edinburgh ESCO the benefits could include:

- a means of delivering the SEAP;
- ability to address complex energy infrastructure issues;
- potential economic benefits of new jobs, skills and support;
- direct links to Council key programmes e.g BOLD;
- meeting strategic carbon targets and policy objectives;
- complying with increasing energy legislation;

- tapping into existing expertise in the city and creating partnerships for delivery; and
 - optimising the use of Council assets.
- 3.11 Consultation with the Edinburgh Business Forum has indicated support for an ESCO model as has initial discussions with some members of the Edinburgh Sustainable Development Partnership. The next stage is to develop a full options appraisal with a detailed business case including all risks and benefits. Resources from finance, legal and procurement has been identified and work will progress to complete this by the end of the year.

A Phased approach

- 3.12 One option is a phased approach. The development of an ESCO represents a resource challenge for the Council and there is still the need to find dedicated budget to finance this in the short term. The capacity of such an overarching operation will also take time to grow. There will also be an element of learning required and a need to raise the profile of the new organisation.
- 3.13 A phased approach would entail selecting one or two important projects that the Council and its partners want to take forward in the short term. This would allow the newco to evolve into a fully fledged ESCO.
- 3.14 It is therefore proposed that in the short term, the ESCO take forward a property retro fitting programme in partnership with the London RE:Fit Initiative. This programme allows procurement compliant retrofitting of public sector buildings. The savings incurred from retro fitting are impressive, with energy costs of up to 20% being saved in some cases. The ESCO would charge a fee for the management of this programme.
- 3.16 There is an opportunity to link this to a potential resource from the Scottish Government. This is for retrofitting public property across the Scottish Cities and would allow the recruitment for one year of a specialist team. In addition, it is anticipated that some Council staff are seconded to the assist with the running of this programme.
- 3.17 In parallel the ESCO would also start to link up with other partners to offer consultancy and support in the short term. This would be in areas like the development of district heating schemes, solar farm developments and electric charging posts.

Governance

- 3.18 A starting point will be to draw together a board of directors to oversee the direction of the ESCO and to consider the long term business plan. This could include external directors as well as elected members. To align with Council policy, elected members would act as Chair and Vice Chair. The ESCO would be governed by Council's corporate governance guidelines

Proposed Outline Timeframe

3.19 The following proposed timetable is suggested

- August 2014 - approval from Council
- September – interviews for the Board of Governors
- October – launch

3.20 Further work will be carried out to develop these proposals further and submit a report to Corporate Policy and Strategy Committee in August.

Measures of success

4.1 Measures of success will be verifiable reductions in carbon emissions and progress towards energy targets.

Financial impact

5.1 There may be financial impacts arising from this work if detailed consultancy input is needed.

Risk, policy, compliance and governance impact

6.1 All risks will be identified as part of further work to develop an options appraisal for the ESCO. The ESCO may provide a further means of compliance with the Climate Change (Scotland) Act 2009.

Equalities impact

7.1 There are no adverse equalities impact arising from this report.

Sustainability impact

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

Consultation and engagement

9.1 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

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