

Finance and Resources Committee

10.00am, Thursday, 25 January 2024

Heat networks delivery model

Executive/routine
Wards

Routine
All

1. Recommendations

- 1.1 It is recommended that Finance and Resources Committee notes:
 - 1.1.1 A full options appraisal for delivery routes for the proposed Granton heat network has been carried out and concluded a concession model as the preferred route;
 - 1.1.2 That following approval to enter into a contract to deliver pre-development services for the Granton Heat Network to Vattenfall Heat UK Ltd on a concession basis, the project team will work over the next 12 months to develop a viable Final Business Case which will be reported back to Finance and Resources Committee; and
 - 1.1.3 The ongoing work to identify a preferred delivery models for supporting the future roll-out of other heat networks in Edinburgh, with the outcome being reported to Policy and Sustainability Committee later this year.

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Heat networks delivery model

2. Executive Summary

- 2.1 This report responds to the request from Committee on 21 November 2023 for a short report on how fast progress can be made on implementing heat network delivery options across the city to ensure that there are no negative implications for the Granton redevelopment project.

3. Background

- 3.1 On 21 November 2023, Finance and Resources Committee considered a [report](#) on the award of a contract for pre-development services for the proposed heat network serving Granton Waterfront. Committee approved the award of a contract to Vattenfall Heat UK Ltd on a concession basis.
- 3.2 Committee further agreed “to expedite options for delivery models of the Energy Services Company (ESCO) to facilitate this as quickly as possible, including progressing an option for a joint venture” and requested “a short report to Committee in January on how fast progress can be made on considering these issues to ensure that there are no negative implications for the Granton redevelopment project”.
- 3.3 The Edinburgh Local Heat and Energy Efficiency Strategy (LHEES), along with a Delivery Plan, was [considered](#) by Policy and Sustainability Committee on 15 December 2023. The Edinburgh LHEES designates prospective Heat Network Zones (areas that are deemed to have the greatest potential for heat networks) within Edinburgh, and the Delivery Plan sets out actions to support the delivery of heat networks in Edinburgh.
- 3.4 Energy for Edinburgh (EFE) was incorporated as a private limited company on 8 November 2016. It has no employees and no assets besides a nominal amount of cash.¹ To date, the company has not delivered any projects. On 22 August 2023, an [options appraisal](#) on the future of EFE was presented to Policy and Sustainability Committee. The appraisal concluded that using EFE had limited added value in

¹ This excludes the £200,000 allocated to Energy for Edinburgh in the 2022/23 Council revenue budget as this sum has not been transferred to the company.

delivering projects at that time, and that while there could be a role in progressing future heat network projects in Edinburgh, utilising it for this purpose would need to be benchmarked against other options.

4. Main report

- 4.1 The concession model for Granton was identified as the preferred route to delivery based on a full options appraisal. The output of this appraisal is set out in paragraphs 4.1 to 4.20 of the [Granton Waterfront Heat Network Outline Business Case](#).
- 4.2 The options appraisal concluded that based on the size, scale and complexity of the network, and the risks around managing the timescales to meet the first connections along with securing enough heat demand to ensure its viability, it was determined that the preferred route to delivering the heat network is a concession model. This would see the Council enter into a 40-year design, build, operate, finance, and maintain concession agreement with a private sector concessionaire.
- 4.3 The benefits of the concession model include engaging with a partner who has a proven track record in managing networks and who, through their technical and commercial capabilities, will create an efficient low carbon solution that will seek to connect to as many customers as possible. There is scope for major risk transfer including overall delivery, timing and demand risk from the Council to the private sector. The Council will retain control over key aspects including price controls and capped returns. Finally, no or very limited Council funding is required (except potentially Scottish Government grant funding) in the delivery of the network and there may be access to a wider range of private investment. Overall, these benefits will result in an efficient, well operated heat network which in turn will result in reduced heat tariffs to customers (including Council tenants) when compared with an alternative low carbon counterfactual solution.
- 4.4 Whilst a joint venture utilising EFE was considered as part of this delivery model options appraisal for the Granton heat network, this was ruled out for the reasons explained above. The appraisal concluded that the Council has no experience of delivering a heat network of this size or scale, or running a licensed energy company which suggested it would be prudent to procure delivery from a private sector partner with expertise and capabilities in this area.
- 4.5 Following approval to deliver the Granton heat network on a concession basis and to enter into a contract with Vattenfall Heat UK Ltd, the Council and Vattenfall have begun carrying out pre-development work. This stage will be carried out over the next 12 months and if viable, will culminate in a Final Business Case that will seek approval from Finance and Resources Committee to enter into a concession agreement which will be for a maximum term of 40 years and will contract Vattenfall to construct, finance, operate, manage and maintain the Network through distributing and selling heat to customers of the network which will include Council tenants, public and private sector partners within Granton or the surrounding areas.

- 4.6 As noted, the Edinburgh LHEES identifies prospective Heat Network Zones in Edinburgh. The Delivery Plan sets out various short-to medium-term actions around supporting the roll-out of heat networks within Edinburgh. These include:
- 4.6.1 Identifying a preferred model for supporting the roll-out of future Council-led heat networks in Edinburgh; and
 - 4.6.2 Developing a business case looking at the scope for EFE to deliver heat network projects on a joint venture approach, to include exploration of embedding cooperative principles and community wealth building.
- 4.7 Further work is required to properly appraise the different potential models, and the role of EFE and the community within each. This is a highly complex area requiring specialised legal and commercial expertise. In November 2023, the Council made an application to the Heat Network Support Unit for funding to carry out an assessment of potential delivery models; a decision on the application is pending. Should funding be secured, it is envisaged that this work could be carried out during Q1-Q2 2024. The outcomes would form the basis of a report to Policy and Sustainability Committee seeking a decision on the preferred corporate model, having due regard to considerations (such as risk appetite), later in the year.

5. Next Steps

- 5.1 Following Committee consideration of this report, officers will:
- 5.1.1 Continue to progress development of the Granton heat network with Vattenfall Heat UK Ltd on a concession basis; and
 - 5.1.2 Bring a report to a future Policy and Sustainability Committee seeking a decision on a preferred corporate model for supporting the future roll-out of other heat networks in Edinburgh (including consideration of the role of EFE and of the community).

6. Financial impact

- 6.1 The cost of appraising the preferred delivery model for heat networks in Edinburgh is estimated at approximately £24,000. The Council has made a bid for 90% of these costs to the Heat Network Support Unit, with the remainder proposed to be met from the Council's ring-fenced LHEES budget. Should the bid be unsuccessful, officers will consider other means of funding this work.

7. Equality and Poverty Impact

- 7.1 The Granton heat network is expected to provide customers, including Council tenants reduced heat tariffs compared with an alternative low carbon counterfactual solution. Through this and a fabric first approach to Council-led housing delivery,

tenants will live in well insulated, energy efficient homes which will support those facing fuel poverty.

8. Climate and Nature Emergency Implications

- 8.1 The exploration of different delivery models for heat networks in Edinburgh will not set new targets; it sits within the Edinburgh LHEES which, likewise, does not set new targets – rather it reflects existing national targets around heat decarbonisation. However, the Edinburgh LHEES sets out pathways and interventions that will help meet these targets. This includes work to determine the best delivery model for heat networks and present the findings of this work to Committee for a decision on a corporate model that will in turn facilitate work to support the roll-out of heat networks across Edinburgh.
- 8.2 The Granton heat network is expected to achieve carbon emissions savings of approximately 170,000 tonnes over a 40-year period when compared to a gas boiler counterfactual.

9. Risk, policy, compliance, governance and community impact

- 9.1 The Edinburgh LHEES and Delivery Plan have been prepared to fulfil the Council's statutory duties under The Local Heat and Energy Efficiency Strategies (Scotland) Order 2022. The outputs from the Edinburgh LHEES will also help the Council fulfil its statutory duties under the Heat Networks (Scotland) Act 2021.
- 9.2 In the hierarchy of Council strategies and policies, the Edinburgh LHEES sits beneath the [2030 Climate Strategy: Delivering a Net Zero, Climate Ready Edinburgh](#). The 2030 Climate Strategy sets overall ambitions for the decarbonisation of Edinburgh, whereas the Edinburgh LHEES sets out pathways and actions concerning the decarbonisation of Edinburgh's building stock specifically. The Edinburgh LHEES also overlaps with other Council strategies such as the [Council Emissions Reduction Plan](#) and the [Housing Revenue Account Capital Programme](#).

10. Background reading/external references

- 10.1 [Award of Contract for Pre-Development Services for the Proposed Granton Heat Network](#) - Finance and Resources Committee, 21 November 2023.
- 10.2 [Edinburgh Local Heat and Energy Efficiency Strategy and Delivery Plan](#) - Policy and Sustainability Committee, 15 December 2023.

11. Appendices

None.